Fundsmith SICAV

Société d'Investissement à Capital Variable

Annual Report and Audited Financial Statements
for the year ended 31 December 2022

R.C.S. Luxembourg B164404

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Directors' Report

The Board of Directors is pleased to provide you with its annual report for the year ended 31 December 2022.

The Board is responsible for the overall management and control of the Fundsmith SICAV (the "SICAV") in accordance with its articles of association. The Board is further responsible for the implementation of each Sub-Fund's investment objective and policies as well as for oversight of the administration and operation of each Sub-Fund. The Board shall have the broadest powers to act in any circumstances on behalf of the SICAV, subject to the powers reserved by law to its Shareholders. The Board delegated certain authorities to the Management Company in accordance with the SICAV's articles of association, the Prospectus and applicable law. The Management Company is responsible, subject to the overall supervision of the Board, for the provision of investment management services, administrative services and marketing services to the SICAV.

The Directors are also responsible for preparing the annual report and financial statements in accordance with applicable laws and regulations. The Directors consider that the annual report and financial statements provide a fair, balanced and understandable assessment of the SICAV's position and performance and provides all necessary information for Shareholders.

The Board of Directors has adopted the ALFI Code of Conduct (the "Code") which sets out principles of good governance. The Board of Directors considers that the SICAV has been in compliance with the Principles of the Code in all material aspects throughout the financial year.

To date the SICAV has the following active Sub-Funds:

Fundsmith SICAV – Fundsmith Equity Fund – launched on 28 October 2011

Fundsmith SICAV – Fundsmith Sustainable Equity Fund – launched on 1 March 2021

There is no evidence that the going concern assumption made by the Board of Directors when preparing the financial statements of the SICAV is inappropriate.

Paul Mainwaring

Director
Date: 28 February 2023

Investment Manager's Report

Fundsmith Equity Fund

Dear Fellow Investor,

The table below shows the performance figures for the last calendar year and the cumulative and annualised performance of the Fundsmith Equity Fund (the "Sub-Fund") – a Sub-Fund of the Fundsmith SICAV ("Fund" or "SICAV") and various comparators. Please note the differing start dates for the various share classes, noted below the table.

% Total Return	1 Jan to 31 Dec 2022	Inception to 31 Dec 2022 Cumulative	Inception to 31 Dec 2022 Annualised	Sortino Ratio[5]
Fundsmith Equity Fund EUR T Class[1]	-17.3	+398.2	+15.5	0.87
MSCI World Index EUR[2]	-12.8	+251.9	+11.9	0.61
European Bonds[3]	-32.3	+42.4	+3.2	
Cash[4]	-0.0	-1.4	-0.1	
Fundsmith Equity Fund CHF I Class[1]	-21.1	+253.0	+12.5	
MSCI World Index CHF[2]	-16.8	+163.4	+9.4	
Fundsmith Equity Fund USD I Class[1]	-21.9	+200.2	+11.9	
MSCI World Index USD[2]	-18.1	+117.4	+8.2	
Fundsmith Equity Fund GBP I Class[1]	-12.6	+251.2	+15.5	
MSCI World Index GBP[2]	-7.8	+157.6	+11.5	

[1] Accumulation Shares, net of fees, priced at 13:00 CET, launch dates, EUR T: 2 November 2011, CHF I: 5 April 2012, USD I: 13 March 2013, GBP I: 15 April 2014, source: Bloomberg. N.B. Prior to March 2019, performance relates to Fundsmith Equity Fund Feeder
[2] MSCI World Index priced at close of business US time, source: Bloomberg
[3] Bloomberg/EFFAS Bond Indices Euro Government 10 years, source: Bloomberg
[4] EUR interest rate, source: Bloomberg
[5] Sortino ratio is since inception on 2 November 2011 to 31 December 2022, 3.5% risk free rate, source: Financial Express Analytics.
The Sub-Fund is not managed with reference to any benchmark, the above comparators are provided for information purposes only.

Given we do not hedge currency exposure, the main difference in performance between the currency share classes is the relative currency movements in the year. The relative performance compared to the MSCI World Index is therefore similar for each share class and shows the Sub-Fund underperformed in 2022. However the share classes shown in the table have healthily outperformed since their inception.

Whilst a period of underperformance against the index is never welcome it is nonetheless inevitable. We have consistently warned that no investment strategy will outperform in every reporting period and every type of market condition. So, as much as we may not like it, we can expect some periods of underperformance.

Investment Manager's Report (continued)

Fundsmith Equity Fund (continued)

Underperforming the MSCI World Index is one issue, registering a fall in value is another. In 2022 unless you restricted your equity investments to the energy sector you were almost certain to have experienced a drop in value:

Performance of S&P 500 Sectors in 2022	
Energy	+59%
Utilities	-1%
Consumer Staples	-3%
Health Care	-4%
Industrials	-7%
Materials	-14%
Banks	-22%
Software & Services	-27%
Real Estate	-28%
Consumer Discretionary	-38%
Communication Services	-40%

Source: Bloomberg, USD

Why has this happened? We have exited a long period of 'easy money': a period of large fiscal deficits, where government spending significantly exceeds revenues, and low interest rates.

We can probably trace the era of low interest rates back to the so-called Greenspan Put which became evident in the 1990s as low interest rates were utilised as the palliative in periods of market volatility such as the Asian Crisis of 1997 and the Russian default and LTCM collapse in 1998.

As the new millennium arrived so did new crises which seemed to warrant even easier money.

It started with the Dotcom meltdown in 2000 and was followed by the Credit Crunch of 2008-2009 which started in the US housing market and quickly became a full-blown international banking crisis. These increasingly severe events seemed to call for even more extreme measures in terms of both fiscal policy and interest rates: Quantitative Easing ('QE'), so-called 'printing money' in which central banks created money to purchase assets, starting with government debt but eventually ranging into corporate debt and equities. As an aside, quite how it aided the economy of either Japan or Switzerland for their central banks to buy international equities is beyond my grasp. This was combined with low, no (Zero Interest Rate Policy – ZIRP) or even negative interest rates (NIRP). These measures have collectively christened with the generic term 'easy money'.

Attempts to suppress volatility will only exacerbate it in the long term. If you count the current events, we have now had three economic and financial crises this century and it is still in its first quarter. This would seem to illustrate that attempts to expunge volatility from the financial system are actually producing the opposite of the desired effect. They breach the rule for what you should do if you find yourself in a hole.

This is hardly surprising given that the central banks were aiming at the wrong targets. Central banks were attempting to maintain a benign level of consumer price inflation but ignored asset price inflation caused by their actions. Some also adopted employment targets that were not or should not be part of their remit.

One of the problems of easy money is that it leads to bad capital allocation or investment decisions which are exposed as the tide goes out.

We saw this in Japan in the late 1980's in a bull market when the Emperor's garden was valued more than the state of California and the Tokyo Stock Exchange was on a P/E of about 100. The aftermath has been prolonged and worsened by a penchant for not admitting failure. So-called zombie companies that should have been allowed to fail have been propped up with continued funding and allowed to survive. Sending good money after bad is never a recipe for success. However, before we leap to the conclusion that this is in any way a uniquely Japanese trait let us bear in mind that other than Lehman no other major company was allowed to go bust in 2008, despite it being the largest financial crisis for 75 years.

Investment Manager's Report (continued)

Fundsmith Equity Fund (continued)

Japan's bubble was followed by the Dotcom era in which money could be raised for an idea. The resulting meltdown was painful and especially for investors who had bought a business plan rather than a business. It is worth bearing in mind that real businesses survived and prospered. Amazon's stock declined by about 95% during the Dotcom bust. It has since risen about 600 fold to its peak.

Then we had the credit boom and bust when the easy money sucked people into 'investing' in homes, rather than simply living in them, and 'investing' in credit products which had been structured to look like triple A credits when they were really triple Z. You can't improve the quality or liquidity of an asset by putting it into a structure.

The other problem with the policy of easy money was that it had to end eventually, but not before it had one last hurrah.

There were half-hearted attempts to reverse QE in particular by lowering central banks' bond purchases but when the stock market unsurprisingly reacted badly in the so-called 'taper tantrum' in 2013, these were abandoned.

Then in 2020 came the pandemic and central banks reacted to this by enacting that good old saying 'To a man with a hammer, everything looks like a nail'. They decided that they should double down with their new toy, QE, which seemed to work so well in the Credit Crisis without any nasty side effects, well none that had yet become apparent, and apply an almighty stimulus. This was applied when there was no problem with demand or the banking system. It was just that people were locked up in their homes and unable to spend on bricks & mortar shopping, travel and entertainment and the global supply chain was malfunctioning, leaving consumers with pent-up savings waiting to be spent.

What happened next may be an example of Sod's Corollary to Murphy's Law:

- Murphy's Law: What can go wrong will go wrong.
- Sod's Corollary: Murphy was an optimist.

Sod's Corollary gave us the February 2022 Russian invasion of Ukraine which affected the prices of oil, gas and other minerals, such as nickel, and cereals following the central banks' stimulus.

The net result of the further stimulus and this invasion has been an upsurge in inflation and as a consequence a rapid and painful end to easy money.

This final round of easy money post the pandemic led to all the usual poor investments which people make when they are led to assume that money is endlessly available and costs zero to borrow or raise. We can see the unwinding of these unwise investments, for example, in the collapse of FTX, the cryptocurrency 'exchange' (sic) and the meltdown in the share prices of those tech companies with no profits, cash flows or even revenues.

It is inevitable that when interest rates rise, as they have now to combat inflation, longer-dated bonds fall more than short-dated ones, and so it is with equities with more highly rated shares – which are discounting earnings or cash flow further into the future – suffering more in the downturn than lowly rated or so-called value stocks. This effect can be seen in the bottom five detractors from the Sub-Fund's performance in 2022:

Stock	Attribution
Meta Platforms	-2.7%
PayPal	-2.4%
Microsoft	-1.9%
IDEXX	-1.5%
Amazon	-1.4%

Source: Northern Trust

Four of the five stocks are in what might loosely be termed the Technology sector (although Meta is actually in the MSCI Communication Services sector and MSCI has Amazon as a Consumer Discretionary stock) and at least two – PayPal and IDEXX – started the period with valuations which were particularly vulnerable to the effect of rising rates.

Investment Manager's Report (continued)

Fundsmith Equity Fund (continued)

In some cases these share price falls have become more pronounced because of events surrounding the business. Meta has its well-publicised problems with the regulatory and competition authorities and has announced a large spend on developing the so-called metaverse which it changed its name from Facebook to reflect. PayPal seems intent on snatching defeat from the jaws of victory. It has taken a leading position in online payments and parlayed that into a lamentable share price performance. The elements in this would appear to be a disregard for engagement with the customers newly acquired during the pandemic and no obvious attention to or control of costs. This is hardly surprising given the attention devoted to pursuing some clearly over-priced acquisitions. That is what happens when management start to conclude that investments do not need to earn an adequate return.

We are not aware of any major fundamental problems with either IDEXX or Microsoft.

Our highly valued and technology holdings did not fare as poorly as some of the companies which had significant market values but no profits, cash flows or in some cases even revenues. Here is a table which shows those companies in November 2021, roughly the peak of the market:

As at 19 November 2021	Zero Revenues	<$100m Revenues	Negative Net Income	Negative Free Cash Flow
Market Cap >$1 billion	92	576	1,561	2,606
Market Cap >$5 billion	9	42	412	662
Market Cap >$10 billion	2	7	204	331

Source: Fundsmith Research/Bloomberg

This may seem cold comfort and to quote an old adage, 'When the police raid the bawdy house even the nice girls get arrested'. But looking back to the example of Amazon over the Dotcom meltdown and its aftermath, it is a lot more comforting to own businesses which are performing well fundamentally when the share price goes down than to be found playing Greater Fool Theory in the shares of a company with no cash flows, profits or even revenues.

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

Stock	Attribution
Novo Nordisk	+1.6%
Philip Morris	+0.6%
PepsiCo	+0.4%
Mettler-Toledo	+0.2%
ADP	+0.1%

Source: Northern Trust

If one word had to be used to describe last year's winners it would be 'defensive'. Two of them are fast-moving consumer goods companies and one is a drug company. However, it is worth pointing out that ADP is actually in the MSCI Technology sector.

Which brings me to another point. You may have read that the Fundsmith Equity Fund is becoming a 'Tech fund' based upon recent purchases: 'Terry Smith tech-buying spree continues with Apple purchase', *Interactive Investor*, November 2022.

Here is the MSCI sector breakdown of the portfolio:

As at 31 December 2022	%
Consumer Staples	35.5
Health Care	25.2
Technology	19.3
Consumer Discretionary	8.8
Communication Services	3.8
Industrials	1.5
Cash	6.0

Source: Fundsmith Research/MSCI GICS® Categories

Investment Manager's Report (continued)

Fundsmith Equity Fund (continued)

19.3% of the portfolio is defined as Technology by MSCI. This compares with 22% on 31 December 2014. I can't see a 'spree'. I am not that keen on relying upon sector classifications to define a business and you may note that 3.8% is in the Communication Services sector. As these are Alphabet (the former Google) and Meta, I regard them as technology stocks and Amazon is classified as a Consumer Discretionary stock, although how this fits Amazon Web Services is difficult to see. But similarly it is worth noting that a number of stocks which are in the MSCI Technology sector and are, or were until recently, in our portfolio are not in my view primarily technology companies but rather they use technology to deliver differing services, namely:

- ADP – payroll, employee insurance and HR.
- Amadeus – airline and hotel reservations and operations.
- Intuit – tax and accounting services.
- PayPal – payment processing.
- Visa – payment processing.

Moreover, commentators tend to take an all or nothing approach to reporting our holdings – as in the reference to Apple already noted – without any mention of the size of the holding, which is hardly surprising as this is only disclosed semi-annually. But to put this in context, our combined holdings of Alphabet, Amazon, Apple, Adobe and Meta amount to just 8.6% of the portfolio, compared to our holding in Microsoft of 7.6%.

I would therefore suggest that the Sub-Fund's exposure to technology is a lot more subtle and nuanced, as well as smaller and more widely spread than the headlines sometimes suggest.

However, as well as the lower valuations caused by higher rates, technology stocks are facing some fundamental headwinds. A slowdown in the growth of tech spending is hardly surprising after the massive growth caused by digitalisation during the pandemic. Moreover, the cyclicality of tech spending and online advertising is probably about to become evident as the economy slows and maybe falls into recession. It may be greater than in the past simply because tech spending has become a much larger proportion of overall corporate and personal spending. However, there may be a silver lining in this cloud (no pun intended) as this pressure on revenue growth may cause some of the tech companies we invest in to stop behaving as though money is free and halt some of the less promising projects outside their core business, such as:

- Alphabet – Its hugely loss-making 'Other Bets'. Lightning does not strike twice. It has a good core online search and advertising business.
- Amazon – It has already withdrawn from food delivery and technical education in India (who knew?). It has a highly successful ecommerce and cloud computing business on which to focus.
- Meta – Stopping or cutting spending on the metaverse? Without that spend we would own a leading communications and digital advertising business on a single-figure Price/Earnings ratio (P/E).

We continue to apply 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 and most important of these – whether we own good companies – by giving you the following table which shows what Fundsmith Equity Fund 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 and the S&P 500. This shows you how the portfolio compares with the major indices and how it has evolved over time.

Investment Manager's Report (continued)

Fundsmith Equity Fund (continued)

Year ended	Fundsmith Equity Fund Feeder/SICAV Portfolio								S&P 500	FTSE 100
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2022**	**2022**
ROCE	26%	27%	28%	29%	29%	25%	28%	32%	18%	16%
Gross Margin	61%	62%	63%	65%	66%	65%	63%	63%	45%	42%
Operating Margin	25%	26%	26%	28%	27%	23%	26%	27%	18%	18%
Cash Conversion	98%	99%	102%	95%	97%	101%	96%	88%	88%	66%
Interest Cover	16x	17x	17x	17x	16x	16x	23x	20x	10x	11x

Source: Fundsmith LLP/Bloomberg
ROCE, Gross margin, Operating Margin and Cash Conversion are the weighted mean of the underlying companies invested in by the Fundsmith Equity Fund Feeder/SICAV and mean for the FTSE 1011 and S&P 500 Indices. The FTSE 100 and S&P 500 numbers exclude financial stocks. Interest Cover is median. 2015-2019 ratios are based on last reported fiscal year accounts as of 31 December and for 2020-2022 are Trailing Twelve Months and as defined by Bloomberg.
Cash Conversion compares Free Cash Flow per Share with Net Income per Share.

In 2022 returns on capital and profit margins were significantly higher in the portfolio companies than in 2020 and 2021. Gross margins were steady. Importantly all of these metrics remain significantly better than the companies in the main indices (which include our companies). Moreover, if you own shares in companies during a period of inflation it is better to own those with high returns and gross margins.

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 2022? The weighted average free cash flow (the cash the companies generate after paying for everything except the dividend, and our preferred measure) fell by -1% in 2022. This is the lowest growth rate we have recorded to date in our portfolio and probably says far more about the levelling off in demand in some sectors post the pandemic surge and macro-economic conditions than it does about the long-term growth potential of the businesses. You may recall that the free cash flow for our companies surged 19% in 2021, significantly above the more normal 9% growth in 2019 and 5% in 2020. Moreover, the free cash flow of the S&P 500 fell by 4% last year. Frankly if -1% worries you it may be wise not to read next year's letter.

Cash conversion remains depressed for our portfolio companies but is currently based upon some unusually volatile conditions caused by the pandemic's disruption to supply chains leading to stockouts and subsequent hoarding of stocks by some companies. Cash flow is an acid test of a business but it is also a more volatile measure than profits which are based on accrual accounting and spread some cash flows between periods. We will have to wait a year or two before something approaching normality is restored and we can gauge how well our companies are doing on this measure.

The average year of foundation of our portfolio companies at the year-end was 1922. They are just over a century old collectively.

The second leg of our strategy is about valuation. The weighted average free cash flow ('FCF') yield (the free cash flow generated as a percentage of the market value) of the portfolio at the outset of the year was 2.7% and ended it at 3.1%.

The year-end median FCF yield on the S&P 500 was 3.4%, roughly in line with our portfolio. This is one benefit of the fall in share prices over the period.

Our portfolio consists of companies that are fundamentally a lot better than the average of those in either index and are valued slightly higher than the average S&P 500 company.

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 portfolio turnover of 0.4% during the period. It is perhaps more helpful to know that we spent a total of just 0.015% (1.5 basis point) of the Sub-Fund's average value over the year on voluntary dealing (which excludes dealing costs associated with subscriptions and redemptions as these are involuntary). We sold our stakes in Johnson & Johnson, Starbucks, Kone, Intuit and PayPal and purchased stakes in Mettler-Toledo, Adobe, Otis and Apple. This seems a lot of names for what is not a lot of turnover as in some cases the size of the holding sold or bought was small. We have held eight of our portfolio companies since inception in 2011.

Investment Manager's Report (continued)

Fundsmith Equity Fund (continued)

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 Sub-Fund. The OCF for 2022 for the T Class Accumulation shares was 1.09% (I Class shares 0.94%). 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 2022 this amounted to a TCI of 1.10% (I Class shares 0.95%), including all costs of dealing for flows into and out of the Sub-Fund, not just our voluntary dealing. We are pleased that our TCI is just 0.01% (1 basis point) 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 Sub-Fund tabled at the beginning of this letter is after charging all fees which should surely be the main focus.

In the past we have written about activism and our engagement with companies' management, and this year I want to draw this together with a couple of examples.

Last year I wrote about Unilever and attracted a virtual tsunami of comment for my remarks about Unilever, purpose and Hellmann's mayonnaise. Events soon overtook this commentary insofar as Nelson Peltz's Trian Partners announced that it had bought a stake in Unilever and he was invited to join the board. We are asked to suspend disbelief that this was in no way linked to the subsequent announcement that Alan Jope will be leaving the CEO role. This explanation sounds like it was lifted from the script of *Miracle on 34th Street*.

As I have previously pointed out, our Sub-Fund has held Unilever shares since inception and was about the 12th largest shareholder when these events happened. Yet for the first eight years of our existence as a shareholder we did not hear from Unilever. The first contact was when we were asked to vote in favour of moving the headquarters and listing to the Netherlands. As I remarked at the time, it is not a good way to manage relationships to ignore people until you need their support.

Once contact had been established with Unilever we then tried to make some points about what we saw as problems with the performance of the business and the focus of the management, which were duly ignored. This is a business making a return on capital in the mid to low teens, below the market average, where you could measure annual growth if you could only count to three, and which missed every target it set out when it summarily rejected the Kraft Heinz bid approach. So it's not like there weren't some questions to answer. Then came the near-death experience with the abortive GSK Consumer bid.

I don't know how long Trian held its stake before Mr Peltz was invited to join the board or how big that stake was, but I would guess that they held it for far fewer months than we have held it in terms of years. We have no objection to Mr Peltz's involvement. He at least seems to have the sense to become involved in good businesses which need some improvement, whereas some activists pick on poor businesses and all they can hope to achieve is a better-run bad business. Where we have seen him involved in companies we have owned we have sometimes agreed with and admired his contribution – as in the operational improvements which accompanied his time at Procter & Gamble – and sometimes not – as when he promoted the idea of splitting PepsiCo into separate drinks and snacks businesses.

What I find questionable is that companies mouth platitudes about wanting to attract long-term shareholders yet based on our experience, we tend to get ignored, whereas an activist who has held shares for fewer months than we have held in years gets invited to board meetings.

One example may just represent an outlier. But what about PayPal? We had held PayPal shares since it was spun out from eBay in 2015. We tried to engage with PayPal as we identified, seemingly long before the management, that their lack of engagement with new customers was a problem as was cost control and that their acquisitions were value destroying. In particular, we pointed out that the value destroying acquisitions might be avoided if the management remuneration incentives included some measure of return on capital. A representative of the board kindly told us they would think about that.

Investment Manager's Report (continued)

Fundsmith Equity Fund (continued)

Whilst they were allegedly thinking about it Elliott Management bought a stake which led to them being given a board seat and an information sharing agreement.

Please don't misunderstand the criticism I am levelling here. I am not envious. I do not want a seat on the board of Unilever, PayPal or any other listed company. Nor do I want an information sharing agreement. I think our research has been able to identify the problems of PayPal and Unilever better than the management and without any need for access to any unpublished information. In some cases you can determine more from what information is not disclosed. Take Unilever's acquisition record as an example.

Here's a chart covering Unilever's acquisitions in just its Beauty & Wellbeing division over the past eight years.

Unilever Beauty & Wellbeing Acquisitions

Year	Company	Description	Cost	Comments on Performance in Report & Accounts					
				2016	2017	2018	2019	2020	2021
2015	Dermalogica	Professional grade skin care	N/A	✓	✓	✓	✓	✓	✓
	Murad	Prestige skin care	N/A	✓	✗	✓	✗	✗	✗
	Kate Somerville	Prestige skin care	N/A	✗	✓	✓	✗	✗	✗
	REN Skincare	Prestige personal care, skin care	N/A	✗	✗	✓	✗	✗	✓
	Camay	Soap	N/A	✓	✗	✗	✗	✗	✗
	Zest	Soap	N/A	✓	✗	✗	✗	✗	✗
2016	Dollar Shave Club	Subscription shave	N/A	✓	✓	✓	✗	✗	✓
	Indulekha & Vayodha	Indian hair oil	€45m		✗	✗	✗	✗	✗
	Blueair	Premium air purifiers	N/A	✓	✓	✓	✓	✓	✓
2017	Living Proof	Prestige US hair care	N/A		✓	✓	✓	✗	✓
	Carver Korea	Skincare	€2.27bn		✓	✓	✓	✗	✗
	Hourglass	Luxury colour cosmetics	N/A			✓	✓	✗	✓
	Sundial Brands	Shea Moisture brand	N/A			✗	✓	✗	✓
	Schmidt's Naturals	US natural deodorant	N/A			✓	✓	✗	✗
2018	Quala	LatAm beauty, personal care and home care	N/A				✗	✗	✗
	Equilibra	Italian natural skin and hair care	N/A				✗	✗	✗
2019	Garancia	French derma-cosmetics	N/A					✗	✗
	Tatcha	US Skin care/classical Kyoto rituals	N/A					✗	✗
	Olly	Vitamins, minerals & supplements (VMS)	N/A					✗	✓
	Lenor	Japanese premium skin care	N/A					✗	✗
2020	Vwash	Indian intimate hygiene	N/A						✗
	Liquid I.V	US electrolyte drinks	N/A						✓
	SmartyPants	US VMS	N/A						✓
2021	Welly Health	Playful bandages	N/A						
	Onnit Labs	US holistic wellness and lifestyle	N/A						
	Paula's Choice	US prestige skincare	€1.83bn						
2022	Nutrafol	Baldness	N/A						

Source: Fundsmith Research

A few points are noteworthy:

1. Considering this is Unilever's smallest division outside of ice cream they have been very active. Of course they might say that they are trying to build a wellbeing and beauty business by acquisition, but then all the more reason why we shareholders should know how they are performing.

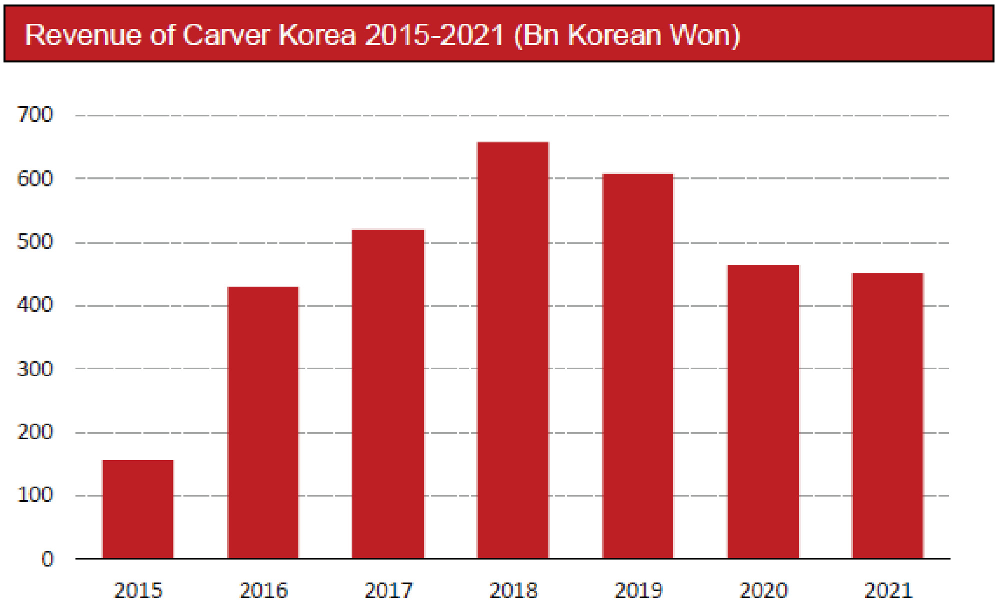
2. Yet we were only told the cost in just three out of 27 acquisitions. Whilst I am sure Unilever complied with their disclosure obligations, is there some reason why we shareholders can't know how much of our money they spent? (If anyone is thinking of responding 'commercial sensitivity' could you please have the courtesy to check that I don't have a mouthful of liquid before you say that?). We are aware from press speculation that Dollar Shave Club cost c.USD 1 billion and it has sunk without trace.

3. The coloured table shows which of these acquisitions were mentioned in subsequent annual reports. It is clearly a minority – only 10 in 2021 and in some years like 2020, just two. We have not heard about the Carver Korea acquisition which cost EUR 2.3 billion since 2019 (spoiler alert: purchased from Bain Capital and Goldman Sachs). Now call me cynical if you want but I doubt that mention was omitted because they were all performing embarrassingly well.

Investment Manager's Report (continued)

Fundsmith Equity Fund (continued)

4. You can find sources of information other than the company. This chart of Carver Korea's sales revenue from Statista says it all:



Source: Statista.com

Shouldn't we have some idea how Unilever and its management have performed before they are allowed to do any more acquisitions? Unilever's low return on capital might be a clue.

We do not need an information sharing agreement to reach an obvious conclusion. What I am complaining about is the bipolar response some companies have to long-standing shareholders versus newly arrived 'activists'.

As an investor you might reasonably query why if we had identified the problems at PayPal and Unilever we didn't just sell the shares and avoid any underperformance. One reason is that we try to be long-term shareholders and when we hold shares in what we consider to be a good business, which we think is underperforming its potential, we like to see if we can help to correct that. After all, it's easier to change the management than to change the business. However, when we are continually ignored there is another even easier option to sell the shares which we turn to when all other remedies fail.

Returning for a moment to Mayonnaisegate, amongst the outpouring of comments last year were a number of apologists for Unilever who were at pains to point out that the Hellmann's brand has been growing revenues well and this was proof that 'purpose' works. Of course there is no control in that experiment; we don't know how well it would have grown without the ~~virtue signalling~~ 'purpose'. It also confuses correlation with cause and effect. There may be a positive correlation between stork sightings and births but that doesn't prove that one causes the other. Maybe Hellmann's would be growing as fast or even faster without its 'purpose'.

To further illustrate the point, this year we are moving on to soap. When I last checked it was for washing. However, apparently that is not the purpose of Lux, the Unilever brand, which apparently is all about 'Inspiring women to rise above everyday sexist judgements and express their beauty and femininity unapologetically'. I am not making this up; you can read it here:

https://www.unilever.com/brands/personal-care/lux/

I will leave you to draw your own conclusions about the utility of this.

One other topic which I want to cover this year is share-based compensation and especially its removal from non-GAAP (Generally Accepted Accounting Principles) profit figures.

Investment Manager's Report (continued)

Fundsmith Equity Fund (continued)

Share-based compensation has become an increasingly prominent part of some companies' expenses in recent years, especially among companies in the Technology sector. If we take for example the 75 companies in the S&P Dow Jones Technology Select Sector Index, share-based compensation expense expressed as a percentage of revenue has gone from an average of 2.2% in 2011 to 4.1% in 2021. This may not seem like much of an increase, but keep in mind that during this period revenue for this set of companies had almost quintupled on average.

There is nothing wrong per se with compensating employees with shares. In fact, there is a legitimate reason for doing so: it may help to align the interests of employees with those of shareholders. I want to focus on how share-based compensation is accounted for or, more accurately, how it is not accounted for in companies' non-GAAP earnings figures.

Among the 75 companies in the Technology Select Sector Index mentioned above, 45 of them remove share-based compensation from non-GAAP versions of their earnings per share, operating income, or both – in plain English they remove the amount of the debit for share-based compensation which boosts their profits. That is about USD 26 billion of expenses that have been adjusted out in reporting the 2021 profits in the non-GAAP results of these 45 companies. This amounts to about an average of USD 600 million of share-based compensation for each company which is excluded or added back in reaching their non-GAAP earnings. You will find it as no surprise that all of the companies in the index whose share-based compensation represents greater than 5% of revenue remove share-based compensation from non-GAAP measures.

What are the justifications for removing share-based compensation from measures of income and earnings? A common excuse that companies give for adjusting profits so that the debit for share-based compensation is removed is because it is a non-cash expense. This argument makes no sense. Plenty of income statement items are partially or entirely non-cash. Depreciation is non-cash, but it still reflects the very real cost associated with a company's long-lived assets (although many of the same people who adjust out share-based compensation and many others try to get analysts to focus on EBITDA in order to ignore the inconvenient depreciation and amortisation cost). Deferred income taxes are non-cash but are nevertheless recorded in the P&L account. Parts of revenue can be non-cash as well, but we certainly don't see many companies removing them from their results. As long as accrual accounting is the standard, the 'non-cash' argument simply does not pass muster. If you want to review cash items, then look at the cash flow statement, not an adjusted P&L account.

Other reasons given for excluding share-based compensation include the fact that the calculation of the expense may use valuation methodologies that depend on assumptions and that the values of the securities given to employees as compensation may fluctuate and are outside a company's control.

It is true that the expense associated with stock options provided as compensation is calculated using option pricing models, which rely on assumptions for the risk-free interest rate and share price volatility. But other items on a GAAP income statement make significant use of assumptions and estimates as well. Depreciation expense is calculated based on the estimated useful lives of assets, for example.

It is also true that the share price will fluctuate and is outside of a company's control, but so are many other factors relevant to a company's operations which can be in the income statement, such as commodity prices which may affect input costs and the value of hedges. The lack of control does not justify their removal from important financial metrics.

Yet another reason proffered for excluding share-based compensation is that it results in double-counting because the shares paid to employees are reflected as both an expense item in the income statement and in the share count that is used as the denominator for per share measures such as EPS.

First of all, it is important to note that this argument applies only to per share metrics such as earnings per share, and hence, it provides no excuse for excluding share-based compensation from measures of gross margin or operating income, which many companies do.

Secondly, by their nature, financial statements have a degree of inter-relation. Many items on the income statement flow back into other parts of the income statement through the balance sheet. If you increase the cash expenses of a company, there will be less cash and/or more debt on the balance sheet. This will in turn affect the income statement by increasing interest expense and/or reducing interest income. Similarly, an increase in share-based compensation expenses will have a secondary impact on the balance sheet in the number of shares outstanding.

Investment Manager's Report (continued)

Fundsmith Equity Fund (continued)

We now arrive at a fourth, and perhaps the most nefarious excuse given by companies for removing share-based compensation from their non-GAAP metrics: everybody else does it. This does not make it correct nor is it true. Indeed, it may very well be that the companies that do not adjust their profit numbers from GAAP are put at a disadvantage.

Take the example of Microsoft and Intuit. Microsoft shares are currently being valued at a P/E ratio of 25.0 times the consensus EPS estimate for the fiscal year ending June 2023. Meanwhile, Intuit is being valued at 28.4 times the non-GAAP consensus estimate for the fiscal year ending July 2023. Many investors and analysts may accept that Intuit is trading at a higher multiple given expectations of greater growth potential. However, Intuit removes share-based compensation from their non-GAAP EPS whereas Microsoft does not. Given that Intuit's GAAP EPS guidance for the year ending 31 July 2023 is USD 6.92 – USD 7.22, its non-GAAP guidance is USD 13.59 – USD 13.89, and the consensus estimate for 2023 EPS is at USD 13.69, it seems clear that most sell-side analysts are accepting the company's non-GAAP adjustments, which includes the removal of some USD 1.8 billion of share-based compensation, in their estimates. If we include the impact of share-based compensation in Intuit's 2023 EPS to make a more apples-to-apples comparison with Microsoft based upon GAAP EPS, Intuit's 2023 EPS would be closer to USD 9, meaning that the shares would be trading at a multiple of about 43 times. I think investors and analysts may find a premium of 14% for Intuit over Microsoft (28.4 times versus 25.0 times) to be reasonable. I'm not so sure they are fully aware that Intuit shares are actually trading at a premium of 73% if share-based compensation is treated in the same manner between the two companies.

Many investors and analysts, including us, look to cash flow metrics more than accrual profits. Unfortunately, share-based compensation may cause distortions in cash flow metrics as well, even when they follow GAAP. Under GAAP, share-based compensation is added back in the cash flow from operating activities, which in turn is used in the computation of free cash flow.

Some researchers and commentators argue that share-based compensation should be reclassified from the operating activities section to the financing activities section of a cash flow statement for analytical purposes. We agree. After all, the decision to fund compensation to employees with shares rather than cash is a financing decision rather than one pertaining to the operations of a company. As such, a measure of cash flow from operating activities that does not benefit from adding back share-based compensation is likely more reflective of the ongoing cash generation of a company.

If we apply this concept to the case of Intuit, it would imply that the company is not in fact trading at a trailing twelve-month free cash flow yield of 3.5% as it seems. Removing USD 1.5 billion of share-based compensation from the USD 4.1 billion of operating cash flow reported in the cash flow statement would leave Intuit's free cash flow yield much lower, at 2.2%. This example gives a sense of the magnitude of distortion that the accounting for share-based compensation could inflict on free cash flow yields.

However, I suspect the most pernicious effect of adjusting profits to exclude the cost of share-based compensation occurs when the management start to believe their own shtick and mis-allocate capital based upon it. Too often management fail to mention expected returns on capital deployed when they make acquisitions and instead rely on statements about earnings dilution or accretion. We have just been living through an era where interest rates were close to zero. Statements about earnings dilution or accretion from an acquisition versus the alternative of interest income forgone on the cash do not reflect anything useful. In a period of such low rates the only acquisitions which could be dilutive are those where the money was literally shredded. Amazingly there are some of those too.

Once people start relying upon this spurious measure of whether an acquisition represents value based upon earnings dilution or accretion and combine this with using earnings adjusted by adding back the significant cost of share-based compensation, they can make some gross errors. We suspect this may be part of the reason for Intuit's acquisition of the online marketing platform Mailchimp in 2021 for USD 12 billion, half of it in cash. This represented 12 times Mailchimp's revenues (not its profits, its sales). As a result Intuit's return on capital has fallen from 28% in 2020 to just 11% in 2022 but no doubt it is not dilutive to EPS adjusted by adding back share-based compensation. The Intuit CEO described the Mailchimp acquisition as 'an absolute game changer'. Shareholders must hope he is right and in the way that he meant it.

We have coined a phrase at Fundsmith for this practice of relying upon earnings adjusted to take out the cost of share-based compensation and other real and persistent expenses (such as restructuring costs that keep recurring). Instead of the usual phrase of 'fully diluted earnings per share' being earnings per share diluted by all the shares which a company has agreed to issue through options and so on, we refer to these heavily adjusted EPS measures as 'fully deluded earnings per share'.

Investment Manager's Report (continued)

Fundsmith Equity Fund (continued)

Last year in this letter I said I thought we were probably in for an uncomfortably bumpy ride in terms of valuations. We have no idea when the current period of inflation and central bank interest rate rises which caused this prediction to come true will end. It is sometimes said that central bank policy is always either too lax or too tight, it is never exactly right. We need not discuss whether it has been too lax in the past. Presumably at some point it will become too tight and quite probably tip the major economies into recession. This holds few fears for us. Our companies should demonstrate a relatively resilient fundamental performance in such circumstances, and the only type of market which ends in a recession is a bear market.

What we are clear about is that we continue to own a portfolio of good companies. Where the end of the easy money era has exposed any doubts, and there are always doubts, we have acted upon them and/or aired them in this letter.

Our companies are more lowly rated than they were a year ago, now being rated roughly in line with the market. This does not make them cheap and there is no guarantee that they will not become more lowly rated, but our focus is on their fundamental performance, as it should be, because in the long term that will determine the outcome for us as investors.

I will leave you this year with a quote from Winston Churchill: 'If you are going through hell, keep going'. At Fundsmith we intend to.

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

Yours sincerely,

Terry Smith

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Sources: Fundsmith LLP & Bloomberg unless otherwise stated.

Data is as at 31 December 2022 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.

P/E ratios and Free Cash Flow Yields are based on trailing twelve month data and as at 31 December 2022 unless otherwise stated. Percentage change is not calculated if the TTM period contains a net loss.

Investment Manager's Report (continued)

Fundsmith Equity Fund (continued)

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The figures stated in the report are historical and not necessarily indicative of future performance.

Investment Manager's Report

Fundsmith Sustainable Equity Fund

Dear Fellow Investor,

The table below shows performance figures for the last calendar year and the cumulative and annualised performance of the Fundsmith Sustainable Equity Fund – a "Sub Fund" of the Fundsmith Sicav ('Fund' or 'Sicav') since inception on 1 March 2021 and various comparators.

% Total Return	1 Jan to 31 Dec 2022	Inception to 31 Dec 2022 Cumulative	Annualised	Sortino Ratio[5]
Fundsmith Sustainable Equity Fund EUR T Class[1]	-14.7	+7.5	+4.0	-0.01
MSCI World Index EUR[2]	-12.8	+11.7	+6.2	0.14
European Bonds[3]	-32.3	-33.6	-20.0	
Cash[4]	-0.0	-0.5	-0.3	
Fundsmith Sustainable Equity Fund CHF I Class[1]	-18.6	-3.5	-1.9	
MSCI World Index CHF[2]	-16.8	+0.4	+0.2	
Fundsmith Sustainable Equity Fund USD I Class[1]	-19.4	-4.5	-2.5	
MSCI World Index USD[2]	-18.1	-1.8	-1.0	
Fundsmith Sustainable Equity Fund GBP I Class[1]	-9.8	+10.6	+5.7	
MSCI World Index GBP[2]	-7.8	+14.1	+7.5	

[1] Accumulation Shares, net of fees, priced at 13:00 CET, source: Bloomberg
[2] MSCI World Index priced at close of business US time, source: Bloomberg
[3] Bloomberg/EFFAS Bond Indices Euro Government 10 years, source: Bloomberg
[4] EUR interest rate, source: Bloomberg
[5] Sortino ratio is since inception to 31 December 2022, 3.5% risk free rate, source: Financial Express Analytics
The Sub-Fund is not managed with reference to any benchmark, the above comparators are provided for information purposes only.

Given we do not hedge currency exposure, the main difference in performance between the currency share classes is the relative currency movements in the year. The relative performance compared to the MSCI World Index is therefore similar for each share class and shows the Sub-Fund underperformed in 2022.

Whilst a period of underperformance against the index is never welcome it is nonetheless inevitable. We have consistently warned that no investment strategy will outperform in every reporting period and every type of market condition. So, as much as we may not like it, we can expect some periods of underperformance.

Investment Manager's Report (continued)

Fundsmith Sustainable Equity Fund (continued)

Underperforming the MSCI World Index is one issue, registering a fall in value is another. In 2022 unless you restricted your equity investments to the energy sector you were almost certain to have experienced a drop in value:

Performance of S&P 500 Sectors in 2022	
Energy	+59%
Utilities	-1%
Consumer Staples	-3%
Health Care	-4%
Industrials	-7%
Materials	-14%
Banks	-22%
Software & Services	-27%
Real Estate	-28%
Consumer Discretionary	-38%
Communication Services	-40%

Source: Bloomberg, USD

Why has this happened? We have exited a long period of 'easy money': a period of large fiscal deficits, where government spending significantly exceeds revenues, and low interest rates.

We can probably trace the era of low interest rates back to the so-called Greenspan Put which became evident in the 1990s as low interest rates were utilised as the palliative in periods of market volatility such as the Asian Crisis of 1997 and the Russian default and LTCM collapse in 1998.

As the new millennium arrived so did new crises which seemed to warrant even easier money.

It started with the Dotcom meltdown in 2000 and was followed by the Credit Crunch of 2008-2009 which started in the US housing market and quickly became a full-blown international banking crisis. These increasingly severe events seemed to call for even more extreme measures in terms of both fiscal policy and interest rates: Quantitative Easing ('QE'), so-called 'printing money' in which central banks created money to purchase assets, starting with government debt but eventually ranging into corporate debt and equities. As an aside, quite how it aided the economy of either Japan or Switzerland for their central banks to buy international equities is beyond my grasp. This was combined with low, no (Zero Interest Rate Policy – ZIRP) or even negative interest rates (NIRP). These measures I have collectively christened with the generic term 'easy money'.

Attempts to suppress volatility will only exacerbate it in the long term. If you count the current events, we have now had three economic and financial crises this century and it is still in its first quarter. This would seem to illustrate that attempts to expunge volatility from the financial system are actually producing the opposite of the desired effect. They breach the rule for what you should do if you find yourself in a hole.

This is hardly surprising given that the central banks were aiming at the wrong targets. Central banks were attempting to maintain a benign level of consumer price inflation but ignored asset price inflation caused by their actions. Some also adopted employment targets that were not or should not be part of their remit.

One of the problems of easy money is that it leads to bad capital allocation or investment decisions which are exposed as the tide goes out.

We saw this in Japan in the late 1980's in a bull market when the Emperor's garden was valued more than the state of California and the Tokyo Stock Exchange was on a P/E of about 100. The aftermath has been prolonged and worsened by a penchant for not admitting failure. So-called zombie companies that should have been allowed to fail have been propped up with continued funding and allowed to survive. Sending good money after bad is never a recipe for success. However, before we leap to the conclusion that this is in any way a uniquely Japanese trait let us bear in mind that other than Lehman no other major company was allowed to go bust in 2008, despite it being the largest financial crisis for 75 years.

Investment Manager's Report (continued)

Fundsmith Sustainable Equity Fund (continued)

Japan's bubble was followed by the Dotcom era in which money could be raised for an idea. The resulting meltdown was painful and especially for investors who had bought a business plan rather than a business. It is worth bearing in mind that real businesses survived and prospered. Amazon's stock declined by about 95% during the Dotcom bust. It has since risen about 600 fold to its peak.

Then we had the credit boom and bust when the easy money sucked people into 'investing' in homes, rather than simply living in them, and 'investing' in credit products which had been structured to look like triple A credits when they were really triple Z. You can't improve the quality or liquidity of an asset by putting it into a structure.

The other problem with the policy of easy money was that it had to end eventually, but not before it had one last hurrah.

There were half-hearted attempts to reverse QE in particular by lowering central banks' bond purchases but when the stock market unsurprisingly reacted badly in the so-called 'taper tantrum' in 2013, these were abandoned.

Then in 2020 came the pandemic and central banks reacted to this by enacting that good old saying 'To a man with a hammer, everything looks like a nail'. They decided that they should double down with their new toy, QE, which seemed to work so well in the Credit Crisis without any nasty side effects, well none that had yet become apparent, and apply an almighty stimulus. This was applied when there was no problem with demand or the banking system. It was just that people were locked up in their homes and unable to spend on bricks & mortar shopping, travel and entertainment and the global supply chain was malfunctioning, leaving consumers with pent-up savings waiting to be spent.

What happened next may be an example of Sod's Corollary to Murphy's Law:

- Murphy's Law: What can go wrong will go wrong.
- Sod's Corollary: Murphy was an optimist.

Sod's Corollary gave us the February 2022 Russian invasion of Ukraine which affected the prices of oil, gas and other minerals, such as nickel, and cereals following the central banks' stimulus.

The net result of the further stimulus and this invasion has been an upsurge in inflation and as a consequence a rapid and painful end to easy money.

This final round of easy money post the pandemic led to all the usual poor investments which people make when they are led to assume that money is endlessly available and costs zero to borrow or raise. We can see the unwinding of these unwise investments, for example, in the collapse of FTX, the cryptocurrency 'exchange' (sic) and the meltdown in the share prices of those tech companies with no profits, cash flows or even revenues.

It is inevitable that when interest rates rise, as they have now to combat inflation, longer-dated bonds fall more than short-dated ones, and so it is with equities with more highly rated shares – which are discounting earnings or cash flow further into the future – suffering more in the downturn than lowly rated or so-called value stocks. This effect can be seen in the bottom five detractors from the Sub-Fund's performance in 2022:

Stock	**Attribution**
Intuit	-1.6%
Zoetis	-1.6%
PayPal	-1.5%
Alphabet	-1.3%
IDEXX	-1.2%

Source: Northern Trust

Three of the five stocks are in what might loosely be termed the Technology sector and at least two – PayPal and IDEXX – started the period with valuations which were particularly vulnerable to the effect of rising rates.

Investment Manager’s Report (continued)

Fundsmith Sustainable Equity Fund (continued)

In some cases these share price falls have become more pronounced because of events surrounding the business. For instance PayPal seems intent on snatching defeat from the jaws of victory. It has taken a leading position in online payments and parlayed that into a lamentable share price performance. The elements in this would appear to be a disregard for engagement with the customers newly acquired during the pandemic and no obvious attention to or control of costs. This is hardly surprising given the attention devoted to pursuing some clearly over-priced acquisitions. That is what happens when management start to conclude that investments do not need to earn an adequate return.

We are not aware of any major fundamental problems with either IDEXX or Zoetis.

Our highly valued and technology holdings did not fare as poorly as some of the companies which had significant market values but no profits, cash flows or in some cases even revenues. Here is a table which shows those companies in November 2021, roughly the peak of the market:

As at 19 November 2021	**Zero Revenues**	**<$100m Revenues**	**Negative Net Income**	**Negative Free Cash Flow**
Market Cap >$1 billion	92	576	1,561	2,606
Market Cap >$5 billion	9	42	412	662
Market Cap >$10 billion	2	7	204	331

Source: Fundsmith Research/Bloomberg

This may seem cold comfort and to quote an old adage, ‘When the police raid the bawdy house even the nice girls get arrested’. But looking back to the example of Amazon over the Dotcom meltdown and its aftermath, it is a lot more comforting to own businesses which are performing well fundamentally when the share price goes down than to be found playing Greater Fool Theory in the shares of a company with no cash flows, profits or even revenues.

For the year the top five contributors to the Sub-Fund’s performance were:

Stock	
Novo Nordisk	+1.4%
PepsiCo	+0.4%
Johnson & Johnson	+0.4%
Mettler-Toledo	+0.3%
ADP	+0.2%

Source: Northern Trust

If one word had to be used to describe last year’s winners it would be ‘defensive’. Two of them are fast-moving consumer goods companies, one is a drug company, and one combines drugs, medical equipment and OTC medicines and personal care products. However, it is worth pointing out that ADP is actually in the MSCI Technology sector.

Here is the MSCI sector breakdown of the portfolio:

As at 31 December 2022	**%**
Health Care	34.0
Consumer Staples	31.8
Technology	18.9
Consumer Discretionary	4.7
Communication Services	2.7
Industrials	1.3
Cash	6.7

Source: Fundsmith Research/MSCI GICS® Categories

Investment Manager's Report (continued)

Fundsmith Sustainable Equity Fund (continued)

18.9% of the portfolio is defined as Technology by MSCI. This compares with 26.1% on 31.03.21. I am not that keen on relying upon sector classifications to define a business and you may note that 2.7% is in the Communication Services sector. As this is Alphabet I regard it as a technology stock. But similarly it is worth noting that a number of stocks which are in the MSCI Technology sector and are, or were until recently, in our portfolio are not in my view primarily technology companies but rather they use technology to deliver differing services, namely:

- ADP – payroll, employee insurance and HR.
- Amadeus – airline and hotel reservations and operations.
- Intuit – tax and accounting services.
- PayPal – payment processing.
- Visa – payment processing.

I would therefore suggest that the Sub-Fund's exposure to technology is a lot more subtle and nuanced, as well as smaller and more widely spread than the headlines sometimes suggest.

However, as well as the lower valuations caused by higher rates, technology stocks are facing some fundamental headwinds. A slowdown in the growth of tech spending is hardly surprising after the massive growth caused by digitalisation during the pandemic. Moreover, the cyclicality of tech spending and online advertising is probably about to become evident as the economy slows and maybe falls into recession. It may be greater than in the past simply because tech spending has become a much larger proportion of overall corporate and personal spending. However, there may be a silver lining in this cloud (no pun intended) as this pressure on revenue growth may cause some of the tech companies we invest in to stop behaving as though money is free and halt some of the less promising projects outside their core business, such as Alphabet's hugely loss-making 'Other Bets' division. Lightning does not strike twice. It has a good core online search and advertising business.

We continue to apply a simple four step investment strategy:

- Buy good companies
- ESG screen
- 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 and most important of these – whether we own good companies – by giving you the following table which shows what Fundsmith Sustainable Equity Fund 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 and the S&P 500. This shows you how the portfolio compares with the major indices and how it has evolved over time.

	Fundsmith Sustainable Equity Fund SICAV Portfolio		**S&P 500**	**FTSE 100**
Year ended	**2021**	**2022**	**2022**	**2022**
ROCE	28%	31%	18%	16%
Gross Margin	61%	61%	45%	42%
Operating Margin	25%	26%	18%	18%
Cash Conversion	97%	88%	88%	66%
Interest Cover	20x	19x	10x	11x

Source: Fundsmith LLP/Bloomberg.
ROCE, Gross margin, Operating Margin and Cash Conversion are the weighted mean of the underlying companies invested in by the Fundsmith Sustainable Equity Fund SICAV and mean for the FTSE 100 and S&P 500 Indices. The FTSE 100 and S&P 500 numbers exclude financial stocks. Interest Cover is median.
2021-2022 ratios are Trailing Twelve Months and as defined by Bloomberg.
Cash Conversion compares Free Cash Flow per Share with Net Income per Share.

Investment Manager's Report (continued)

Fundsmith Sustainable Equity Fund (continued)

In 2022 returns on capital and profit margins were significantly higher in the portfolio companies than in 2021. Gross margins were steady. Importantly all of these metrics remain significantly better than the companies in the main indices (which include our companies). Moreover, if you own shares in companies during a period of inflation it is better to own those with high returns and gross margins.

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 2022? The weighted average free cash flow (the cash the companies generate after paying for everything except the dividend, and our preferred measure) was unchanged in 2022. This is the lowest growth rate we have recorded to date in our global equity portfolios and probably says far more about the levelling off in demand in some sectors post the pandemic surge and macro-economic conditions than it does about the long-term growth potential of the businesses. Free cash flow for our companies rose 13% in 2021. Moreover, the free cash flow of the S&P 500 fell by 4% last year. Frankly, if 0% growth worries you it may be wise not to read next year's letter.

Cash conversion remains depressed for our portfolio companies but is currently based upon some unusually volatile conditions caused by the pandemic's disruption to supply chains leading to stockouts and subsequent hoarding of stocks by some companies. Cash flow is an acid test of a business but it is also a more volatile measure than profits which are based on accrual accounting and spread some cash flows between periods. We will have to wait a year or two before something approaching normality is restored and we can gauge how well our companies are doing on this measure.

The average year of foundation of our portfolio companies at the year-end was 1930. They are a little under a century old collectively.

The second leg of our strategy is to employ a negative sector-based sustainability screen, excluding companies operating in sectors with excessive ESG risk (aerospace and defence, brewers, distillers and vintners, casinos and gaming, gas and electric utilities, metals and mining, oil, gas and consumable fuels, pornography and tobacco). We then assess company sustainability in the widest sense, evaluating a business's handling of ESG risks and opportunities and their policies and practices covering research and development, new product innovation, dividend payments and the adequacy and productivity of capital investment.

One of the key metrics we use to assess ESG risk is RepRisk's RepRisk Index ('RRI'), which provides a measure of a company's current reputational risk exposure based on recent controversies. We use the RRI scores in two different ways: first to capture any coverage relating to the companies in the Fund's investable universe we may have missed in our routine research, and second as a proxy for the absolute negative impacts a company has, particularly on society. While environmental impacts are relatively easy to measure (e.g. greenhouse gas emissions), and therefore assess, aggregate and scrutinise both absolutely and relatively between companies, impacts on society are often qualitative and much harder to objectively assess, compare or aggregate. Hence, we use the RRI as a proxy for evaluating these negative impacts. Although it isn't perfect, it gives us a framework to assess and compare non-quantitative impacts between the companies in our investable universe.

At the end of December 2022, the weighted average RepRisk Index for our portfolio was 27.4, significantly lower than the 30.7 it was at the start of the year and also slightly lower than the MSCI World's weighted average of 27.9, which implies our portfolio has lower exposure to ESG risks than the MSCI World.

The decrease in the portfolio's RepRisk Index was a consequence of meaningful decreases in a few holdings' individual RepRisk Index scores during the year. ADP's RRI fell from 15 at the end of 2021 to 0 at the end of 2022, while Amadeus and McCormick saw decreases from 24 and 20 to 8 and 11 respectively. The RRI decreases in all three companies reflected the fact that they were not involved in any controversies in 2022.

Investment Manager's Report (continued)

Fundsmith Sustainable Equity Fund (continued)

IDEXX saw a significant RRI increase over the last year, rising from 0 in December 2021 to 21 in December 2022. IDEXX's RRI rose by 46 in July, following the filing of a class action lawsuit in Northern California against the company. The lawsuit accused IDEXX of abusing its market power since 2018 by tying veterinary practices across the US to long-term, exclusive contracts. The class action alleges that such contracts have resulted in higher prices for consumers, albeit without presenting any evidence to reinforce this. Thus, we do not perceive this to be evidence of a significant, negative impact resulting from the company's activities. IDEXX had not seen any negative press coverage, before this event, since 2013. The notably large increase in RRI is primarily a result of the novelty of the news story, something that RepRisk factors into its methodology, rather than the severity of the risk.

At the end of 2022, the four companies with the highest RepRisk Index scores were:

Stock	RepRisk
Alphabet	62
Microsoft	61
Johnson & Johnson	53
Procter & Gamble	51

Source: RepRisk

Alphabet moved from second to first while Microsoft has replaced Starbucks, which has since been sold (more to follow), in second place. Alphabet and Microsoft's high RRI scores reflect their very large, public and consumer facing nature. Rather than representing real and significant negative impacts, their high RRI scores reflect the increased press coverage they receive. This is especially true at the moment as both companies face accusations of abusing their market positions from anti-competition regulators around the world and claims that they are failing to treat customer data the way that various regulatory regimes would like.

We expect the companies in which we invest to effectively manage this regulatory risk and do not currently think that either of these two companies are excessively abusing their market positions. One of the reasons that Microsoft and Alphabet are such attractive companies to invest in is because of their dominant positions in their respective markets.

At the end of 2022, the four companies with the lowest RepRisk Index scores were:

Stock	RepRisk
Waters Corp	0
ADP	0
Amadeus	8
Estée Lauder	9

Source: RepRisk

Waters and ADP remain on the list from 2021, with IDEXX dropping off for the reason cited above. The new additions are Amadeus and Estée Lauder, businesses which operate airline booking software and sell cosmetics respectively.

During 2022, we sold Starbucks from the portfolio. This was in part due to concerns regarding its ability to sustain a high return on capital as its relations with its US workforce became increasingly strained as some stores attempted to unionise and the company attempted to stop them.

Over the last two years, 6,500 Starbucks workers at 250 corporate-owned stores in the United States have voted to unionise with the Workers United Union, starting with a store in Buffalo, New York in 2020. These were the first Starbucks workers to unionise since some inconsistent efforts in the 1980s.

Since Starbucks was founded in 1971, it has prided itself on the working environment and benefits it provided to employees, referred to as "partners". Starbucks founder and current interim CEO, Howard Schultz, has always emphasised that the "employee experience matters" and that the Starbucks brand was built first with employees, not consumers. He believed that the best way to exceed customer expectations was to hire and train great people; while competitors may be able to replicate Starbucks' product, they can't replicate its staff and experience.

Investment Manager's Report (continued)

Fundsmith Sustainable Equity Fund (continued)

Non-unionised employees at Starbucks currently earn $17 per hour with benefits, compared to an effective national minimum wage in the US of $11.80. The benefits offered by the company include stock options and discounted stock saving plans, health care cover for those who work at least 20 hours a week, and entitlement, whether part or full-time, to 100% tuition cover for a first-time bachelor's degree through an online programme at Arizona State University.

Through having well incentivised, and consequently productive and highly motivated customer-focused staff, Starbucks was able to charge more than competitors and still have customers choose to buy its products, leading to more than 60% market share in most countries. US stores could consistently produce gross margins above 70% and operating margins above 25% largely due to the productivity of staff. These high profit margins reduce the time it takes a US franchisee to earn their initial investment back to 3 years, including Starbuck's 15% royalty.

One of the reasons we initially liked Starbucks' business was that their strong brand, highly incentivised workforce and low staff turnover would in combination work to ensure that margins and store returns remained high, in turn leading to consistent demand from franchisees to open new stores and increase Starbucks' sales. A virtuous circle.

However, the increasingly strained relations between management and employees as stores began to unionise changed this. Not only does it signal a less than happy workforce, which is one of the reasons Howard Schultz was forced to return for the 3rd time as CEO, but also makes it more difficult and expensive for the company to provide employees with benefits, one of the key components to the business's historic success.

For example, Starbucks recently announced a new student loan repayment tool and a savings account program for US employees, which is not available to union members. This is partly an attempt to discourage union membership, but also reflects the increased difficulties of giving benefits to unionised employees as the company must first bargain with the union. The bargaining process is not only time consuming but also expensive, reducing the ability of Starbucks to offer unionised employees the same quantity and quality of benefits as those who aren't unionised. This is one of the reasons that unionised employees earn $2 less per hour than their unaffiliated colleagues.

The complications of dealing with a unionising workforce is not only bad for the Starbucks brand, see the numerous accusations of union-busting behaviour by the National Labour Relations Board (NLRB), but also signal that the company will find it significantly more difficult to give benefits to all employees in the future. Considering this, we sold our position in the company.

The third leg of our strategy is about valuation. The weighted average free cash flow ('FCF') yield (the free cash flow generated as a percentage of the market value) of the portfolio at the outset of the year was 2.7% and ended it at 3.1%.

The year-end median FCF yield on the S&P 500 was 3.4%, roughly in line with our portfolio. This is one benefit of the fall in share prices over the period.

Our portfolio consists of companies that are fundamentally a lot better than the average of those in either index and are valued slightly higher than the average S&P 500 company.

Turning to the fourth 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 portfolio turnover of -0.7% during the period. It is perhaps more helpful to know that we spent a total of just 0.002% (less than a basis point) of the Fund's average value over the year on voluntary dealing (which excludes dealing costs associated with subscriptions and redemptions as these are involuntary). We sold our stakes in Colgate-Palmolive, Starbucks, Kone, Intuit and PayPal and purchased stakes in Mettler-Toledo, Adobe and Otis. This seems a lot of names for what is not a lot of turnover as in some cases the size of the holding sold or bought was small. We have held 18 of our portfolio companies since inception in 2021.

Investment Manager's Report (continued)

Fundsmith Sustainable Equity Fund (continued)

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 2022 for the T Class Accumulation shares was 1.08% (I Class shares 0.94%). 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 2022 this amounted to a TCI of 1.13% (I Class shares 0.99%), including all costs of dealing for flows into and out of the Sub-Fund, not just our voluntary dealing. We are pleased that our TCI is just 0.05% (5 basis points) 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 letter is after charging all fees which should surely be the main focus.

In the past we have written about activism and our engagement with companies' management, and this year I want to draw this together with a couple of examples.

Last year I wrote about Unilever and attracted a virtual tsunami of comment for my remarks about Unilever, purpose and Hellmann's mayonnaise. Events soon overtook this commentary insofar as Nelson Peltz's Trian Partners announced that it had bought a stake in Unilever and he was invited to join the board. We are asked to suspend disbelief that this was in no way linked to the subsequent announcement that Alan Jope will be leaving the CEO role. This explanation sounds like it was lifted from the script of Miracle on 34th Street.

As I have previously pointed out, our Sub-Fund has held Unilever shares since inception and we were about the 12th largest shareholder when these events happened. Yet for the first eight years of our existence as a shareholder we did not hear from Unilever. The first contact was when we were asked to vote in favour of moving the headquarters and listing to the Netherlands. As I remarked at the time, it is not a good way to manage relationships to ignore people until you need their support.

Once contact had been established with Unilever we then tried to make some points about what we saw as problems with the performance of the business and the focus of the management, which were duly ignored. This is a business making a return on capital in the mid to low teens, below the market average, where you could measure annual growth if you could only count to three, and which missed every target it set out when it summarily rejected the Kraft Heinz bid approach. So it's not like there weren't some questions to answer. Then came the near-death experience with the abortive GSK Consumer bid.

I don't know how long Trian held its stake before Mr Peltz was invited to join the board or how big that stake was, but I would guess that they held it for far fewer months than we have held it in terms of years. We have no objection to Mr Peltz's involvement. He at least seems to have the sense to become involved in good businesses which need some improvement, whereas some activists pick on poor businesses and all they can hope to achieve is a better-run bad business. Where we have seen him involved in companies we have owned we have sometimes agreed with and admired his contribution – as in the operational improvements which accompanied his time at Procter & Gamble – and sometimes not – as when he promoted the idea of splitting PepsiCo into separate drinks and snacks businesses.

What I find questionable is that companies mouth platitudes about wanting to attract long-term shareholders yet based on our experience, we tend to get ignored, whereas an activist who has held shares for fewer months than we have held in years gets invited to board meetings.

One example may just represent an outlier. But what about PayPal? We had held PayPal shares since it was spun out from eBay in 2015. We tried to engage with PayPal as we identified, seemingly long before the management, that their lack of engagement with new customers was a problem as was cost control and that their acquisitions were value destroying. In particular, we pointed out that the value destroying acquisitions might be avoided if the management remuneration incentives included some measure of return on capital. A representative of the board kindly told us they would think about that.

Investment Manager's Report (continued)

Fundsmith Sustainable Equity Fund (continued)

Whilst they were allegedly thinking about it Elliott Management bought a stake which led to them being given a board seat and an information sharing agreement.

Please don't misunderstand the criticism I am levelling here. I am not envious. I do not want a seat on the board of Unilever, PayPal or any other listed company. Nor do I want an information sharing agreement. I think our research has been able to identify the problems of PayPal and Unilever better than the management and without any need for access to any unpublished information. In some cases you can determine more from what information is not disclosed. Take Unilever's acquisition record as an example.

Here's a chart covering Unilever's acquisitions in just its Beauty & Wellbeing division over the past eight years.

Unilever Beauty & Wellbeing Acquisitions

Year	Company	Description	Cost	Comments on Performance in Report & Accounts					
				2016	2017	2018	2019	2020	2021
2015	Dermalogica	Professional grade skin care	N/A	✓	✓	✓	✓	✓	✓
	Murad	Prestige skin care	N/A	✓	✗	✓	✗	✗	✗
	Kate Somerville	Prestige skin care	N/A	✗	✓	✓	✗	✗	✗
	REN Skincare	Prestige personal care, skin care	N/A	✗	✗	✓	✗	✗	✓
	Camay	Soap	N/A	✓	✗	✗	✗	✗	✗
	Zest	Soap	N/A	✓	✗	✗	✗	✗	✗
2016	Dollar Shave Club	Subscription shave	N/A	✓	✓	✓	✗	✗	✓
	Indulekha & Vayodha	Indian hair oil	€45m		✗	✗	✗	✗	✗
	Blueair	Premium air purifiers	N/A	✓	✓	✓	✓	✓	✓
2017	Living Proof	Prestige US hair care	N/A		✓	✓	✓	✗	✓
	Carver Korea	Skincare	€2.27bn		✓	✓	✓	✗	✗
	Hourglass	Luxury colour cosmetics	N/A			✓	✓	✗	✓
	Sundial Brands	Shea Moisture brand	N/A			✗	✓	✗	✓
	Schmidt's Naturals	US natural deodorant	N/A			✓	✓	✗	✗
2018	Quala	LatAm beauty, personal care and home care	N/A				✗	✗	✗
	Equilibra	Italian natural skin and hair care	N/A				✗	✗	✗
2019	Garancia	French derma-cosmetics	N/A					✗	✗
	Tatcha	US Skin care/classical Kyoto rituals	N/A					✗	✗
	Olly	Vitamins, minerals & supplements (VMS)	N/A					✗	✓
	Lenor	Japanese premium skin care	N/A					✗	✗
2020	Vwash	Indian intimate hygiene	N/A						✗
	Liquid I.V	US electrolyte drinks	N/A						✓
	SmartyPants	US VMS	N/A						✓
2021	Welly Health	Playful bandages	N/A						
	Onnit Labs	US holistic wellness and lifestyle	N/A						
	Paula's Choice	US prestige skincare	€1.83bn						
2022	Nutrafol	Baldness	N/A						

Source: Fundsmith Research

A few points are noteworthy:

1. Considering this is Unilever's smallest division outside of ice cream they have been very active. Of course they might say that they are trying to build a wellbeing and beauty business by acquisition, but then all the more reason why we shareholders should know how they are performing.

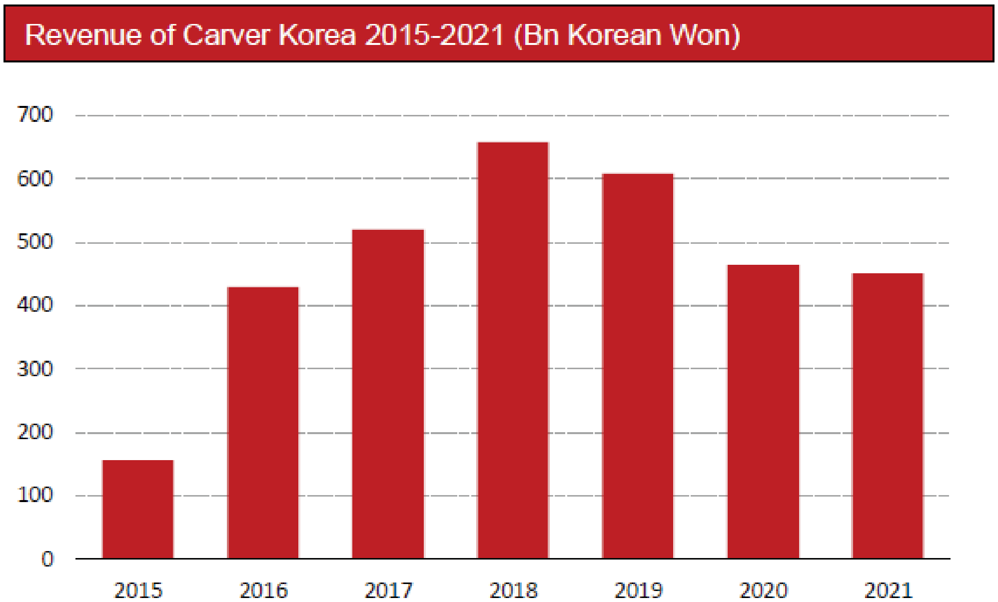
2. Yet we were only told the cost in just three out of 27 acquisitions. Whilst I am sure Unilever complied with their disclosure obligations, is there some reason why we shareholders can't know how much of our money they spent? (If anyone is thinking of responding 'commercial sensitivity' could you please have the courtesy to check that I don't have a mouthful of liquid before you say that?). We are aware from press speculation that Dollar Shave Club cost c.USD 1 billion and it has sunk without trace.

3. The coloured table shows which of these acquisitions were mentioned in subsequent annual reports. It is clearly a minority – only 10 in 2021 and in some years like 2020, just two. We have not heard about the Carver Korea acquisition which cost EUR 2.3 billion since 2019 (spoiler alert: purchased from Bain Capital and Goldman Sachs). Now call me cynical if you want but I doubt that mention was omitted because they were all performing embarrassingly well.

Investment Manager's Report (continued)

Fundsmith Sustainable Equity Fund (continued)

4. You can find sources of information other than the company. This chart of Carver Korea's sales revenue from Statista says it all:



Source: Statista.com

Shouldn't we have some idea how Unilever and its management have performed before they are allowed to do any more acquisitions? Unilever's low return on capital might be a clue.

We do not need an information sharing agreement to reach an obvious conclusion. What I am complaining about is the bipolar response some companies have to long-standing shareholders versus newly arrived 'activists'.

As an investor you might reasonably query why if we had identified the problems at PayPal and Unilever we didn't just sell the shares and avoid any underperformance. One reason is that we try to be long-term shareholders and when we hold shares in what we consider to be a good business, which we think is underperforming its potential, we like to see if we can help to correct that. After all, it's easier to change the management than to change the business. However, when we are continually ignored there is another even easier option to sell the shares which we turn to when all other remedies fail.

Returning for a moment to Mayonnaisegate, amongst the outpouring of comments last year were a number of apologists for Unilever who were at pains to point out that the Hellmann's brand has been growing revenues well and this was proof that 'purpose' works. Of course there is no control in that experiment; we don't know how well it would have grown without the ~~virtue signalling~~ 'purpose'. It also confuses correlation with cause and effect. There may be a positive correlation between stork sightings and births but that doesn't prove that one causes the other. Maybe Hellmann's would be growing as fast or even faster without its 'purpose'.

To further illustrate the point, this year we are moving on to soap. When I last checked it was for washing. However, apparently that is not the purpose of Lux, the Unilever brand, which apparently is all about 'Inspiring women to rise above everyday sexist judgements and express their beauty and femininity unapologetically'. I am not making this up; you can read it here:

https://www.unilever.com/brands/personal-care/lux/

I will leave you to draw your own conclusions about the utility of this.

One other topic which I want to cover this year is share-based compensation and especially its removal from non-GAAP (Generally Accepted Accounting Principles) profit figures.

Investment Manager's Report (continued)

Fundsmith Sustainable Equity Fund (continued)

Share-based compensation has become an increasingly prominent part of some companies' expenses in recent years, especially among companies in the Technology sector. If we take for example the 75 companies in the S&P Dow Jones Technology Select Sector Index, share-based compensation expense expressed as a percentage of revenue has gone from an average of 2.2% in 2011 to 4.1% in 2021. This may not seem like much of an increase, but keep in mind that during this period revenue for this set of companies had almost quintupled on average.

There is nothing wrong per se with compensating employees with shares. In fact, there is a legitimate reason for doing so: it may help to align the interests of employees with those of shareholders. I want to focus on how share-based compensation is accounted for or, more accurately, how it is not accounted for in companies' non-GAAP earnings figures.

Among the 75 companies in the Technology Select Sector Index mentioned above, 45 of them remove share-based compensation from non-GAAP versions of their earnings per share, operating income, or both – in plain English they remove the amount of the debit for share-based compensation which boosts their profits. That is about USD 26 billion of expenses that have been adjusted out in reporting the 2021 profits in the non-GAAP results of these 45 companies. This amounts to about an average of USD 600 million of share-based compensation for each company which is excluded or added back in reaching their non-GAAP earnings. You will find it as no surprise that all of the companies in the index whose share-based compensation represents greater than 5% of revenue remove share-based compensation from non-GAAP measures.

What are the justifications for removing share-based compensation from measures of income and earnings? A common excuse that companies give for adjusting profits so that the debit for share-based compensation is removed is because it is a non-cash expense. This argument makes no sense. Plenty of income statement items are partially or entirely non-cash. Depreciation is non-cash, but it still reflects the very real cost associated with a company's long-lived assets (although many of the same people who adjust out share-based compensation and many others try to get analysts to focus on EBITDA in order to ignore the inconvenient depreciation and amortisation cost). Deferred income taxes are non-cash but are nevertheless recorded in the P&L account. Parts of revenue can be non-cash as well, but we certainly don't see many companies removing them from their results. As long as accrual accounting is the standard, the 'non-cash' argument simply does not pass muster. If you want to review cash items, then look at the cash flow statement, not an adjusted P&L account.

Other reasons given for excluding share-based compensation include the fact that the calculation of the expense may use valuation methodologies that depend on assumptions and that the values of the securities given to employees as compensation may fluctuate and are outside a company's control.

It is true that the expense associated with stock options provided as compensation is calculated using option pricing models, which rely on assumptions for the risk-free interest rate and share price volatility. But other items on a GAAP income statement make significant use of assumptions and estimates as well. Depreciation expense is calculated based on the estimated useful lives of assets, for example.

It is also true that the share price will fluctuate and is outside of a company's control, but so are many other factors relevant to a company's operations which can be in the income statement, such as commodity prices which may affect input costs and the value of hedges. The lack of control does not justify their removal from important financial metrics.

Yet another reason proffered for excluding share-based compensation is that it results in double-counting because the shares paid to employees are reflected as both an expense item in the income statement and in the share count that is used as the denominator for per share measures such as EPS.

First of all, it is important to note that this argument applies only to per share metrics such as earnings per share, and hence, it provides no excuse for excluding share-based compensation from measures of gross margin or operating income, which many companies do.

Secondly, by their nature, financial statements have a degree of inter-relation. Many items on the income statement flow back into other parts of the income statement through the balance sheet. If you increase the cash expenses of a company, there will be less cash and/or more debt on the balance sheet. This will in turn affect the income statement by increasing interest expense and/or reducing interest income. Similarly, an increase in share-based compensation expenses will have a secondary impact on the balance sheet in the number of shares outstanding.

Investment Manager's Report (continued)

Fundsmith Sustainable Equity Fund (continued)

We now arrive at a fourth, and perhaps the most nefarious excuse given by companies for removing share-based compensation from their non-GAAP metrics: everybody else does it. This does not make it correct nor is it true. Indeed, it may very well be that the companies that do not adjust their profit numbers from GAAP are put at a disadvantage.

Take the example of Microsoft and Intuit. Microsoft shares are currently being valued at a P/E ratio of 25.0 times the consensus EPS estimate for the fiscal year ending June 2023. Meanwhile, Intuit is being valued at 28.4 times the non-GAAP consensus estimate for the fiscal year ending July 2023. Many investors and analysts may accept that Intuit is trading at a higher multiple given expectations of greater growth potential. However, Intuit removes share-based compensation from their non-GAAP EPS whereas Microsoft does not. Given that Intuit's GAAP EPS guidance for the year ending 31 July 2023 is USD 6.92 – USD 7.22, its non-GAAP guidance is USD 13.59 – USD 13.89, and the consensus estimate for 2023 EPS is at USD 13.69, it seems clear that most sell-side analysts are accepting the company's non-GAAP adjustments, which includes the removal of some USD 1.8 billion of share-based compensation, in their estimates. If we include the impact of share-based compensation in Intuit's 2023 EPS to make a more apples-to-apples comparison with Microsoft based upon GAAP EPS, Intuit's 2023 EPS would be closer to USD 9, meaning that the shares would be trading at a multiple of about 43 times. I think investors and analysts may find a premium of 14% for Intuit over Microsoft (28.4 times versus 25.0 times) to be reasonable. I'm not so sure they are fully aware that Intuit shares are actually trading at a premium of 73% if share-based compensation is treated in the same manner between the two companies.

Many investors and analysts, including us, look to cash flow metrics more than accrual profits. Unfortunately, share-based compensation may cause distortions in cash flow metrics as well, even when they follow GAAP. Under GAAP, share-based compensation is added back in the cash flow from operating activities, which in turn is used in the computation of free cash flow.

Some researchers and commentators argue that share-based compensation should be reclassified from the operating activities section to the financing activities section of a cash flow statement for analytical purposes. We agree. After all, the decision to fund compensation to employees with shares rather than cash is a financing decision rather than one pertaining to the operations of a company. As such, a measure of cash flow from operating activities that does not benefit from adding back share-based compensation is likely more reflective of the ongoing cash generation of a company.

If we apply this concept to the case of Intuit, it would imply that the company is not in fact trading at a trailing twelve-month free cash flow yield of 3.5% as it seems. Removing USD 1.5 billion of share-based compensation from the USD 4.1 billion of operating cash flow reported in the cash flow statement would leave Intuit's free cash flow yield much lower, at 2.2%. This example gives a sense of the magnitude of distortion that the accounting for share-based compensation could inflict on free cash flow yields.

However, I suspect the most pernicious effect of adjusting profits to exclude the cost of share-based compensation occurs when the management start to believe their own shtick and mis-allocate capital based upon it. Too often management fail to mention expected returns on capital deployed when they make acquisitions and instead rely on statements about earnings dilution or accretion. We have just been living through an era where interest rates were close to zero. Statements about earnings dilution or accretion from an acquisition versus the alternative of interest income forgone on the cash do not reflect anything useful. In a period of such low rates the only acquisitions which could be dilutive are those where the money was literally shredded. Amazingly there are some of those too.

Once people start relying upon this spurious measure of whether an acquisition represents value based upon earnings dilution or accretion and combine this with using earnings adjusted by adding back the significant cost of share-based compensation, they can make some gross errors. We suspect this may be part of the reason for Intuit's acquisition of the online marketing platform Mailchimp in 2021 for USD 12 billion, half of it in cash. This represented 12 times Mailchimp's revenues (not its profits, its sales). As a result Intuit's return on capital has fallen from 28% in 2020 to just 11% in 2022 but no doubt it is not dilutive to EPS adjusted by adding back share-based compensation. The Intuit CEO described the Mailchimp acquisition as 'an absolute game changer'. Shareholders must hope he is right and in the way that he meant it.

We have coined a phrase at Fundsmith for this practice of relying upon earnings adjusted to take out the cost of share-based compensation and other real and persistent expenses (such as restructuring costs that keep recurring). Instead of the usual phrase of 'fully diluted earnings per share' being earnings per share diluted by all the shares which a company has agreed to issue through options and so on, we refer to these heavily adjusted EPS measures as 'fully deluded earnings per share'.

Investment Manager's Report (continued)

Fundsmith Sustainable Equity Fund (continued)

Last year in this letter I said I thought we were probably in for an uncomfortably bumpy ride in terms of valuations. We have no idea when the current period of inflation and central bank interest rate rises which caused this prediction to come true will end. It is sometimes said that central bank policy is always either too lax or too tight, it is never exactly right. We need not discuss whether it has been too lax in the past. Presumably at some point it will become too tight and quite probably tip the major economies into recession. This holds few fears for us. Our companies should demonstrate a relatively resilient fundamental performance in such circumstances, and the only type of market which ends in a recession is a bear market.

What we are clear about is that we continue to own a portfolio of good companies. Where the end of the easy money era has exposed any doubts, and there are always doubts, we have acted upon them and/or aired them in this letter.

Our companies are more lowly rated than they were a year ago, now being rated roughly in line with the market. This does not make them cheap and there is no guarantee that they will not become more lowly rated, but our focus is on their fundamental performance, as it should be, because in the long term that will determine the outcome for us as investors.

I will leave you this year with a quote from Winston Churchill: 'If you are going through hell, keep going'. At Fundsmith we intend to.

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

Yours sincerely,

Terry Smith

Disclaimer: A Key Information Document and an English language prospectus for the Fundsmith Sustainable Equity Fund (Sicav) are available via the Fundsmith website or on request and investors should consult these documents before purchasing shares in the fund. Past performance is not necessarily a guide to future performance. The value of investments and the income from them may fall as well as rise and be affected by changes in exchange rates, and you may not get back the amount of your original investment. Fundsmith LLP does not offer investment advice or make any recommendations regarding the suitability of its product. This document is communicated by Fundsmith LLP which is authorised and regulated by the Financial Conduct Authority.

FundRock Management Company S.A. is a management company of undertakings for collective investment in transferable securities ("UCITS") within the meaning of the UCITS Directive and is authorised to offer shares in the Fundsmith SICAV to investors on a cross border basis

Fundsmith Sustainable Equity Fund (Sicav), which is the subject of this document, does not relate to a collective investment scheme which is authorised under section 286 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA") or Recognised under section 287 of the SFA. This document has not been registered as a prospectus with the Monetary Authority of Singapore (the "MAS"). Accordingly, this document and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of units in the Sub-Fund may not be circulated or distributed, nor may units be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than 1.To an institutional investor under section 304 of the SFA; or 2.To a relevant person pursuant to section 305(1) of the SFA or any person pursuant to section 305(2) of the SFA (and such distribution is in accordance with the conditions specified in section 305 of the SFA); or 3.Otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. In particular, for investment fund that are not authorised or recognised by the MAS, units in such funds are not allowed to be offered to the retail public. This document and any other document or material issued in connection with the offer or sale is not a prospectus as defined in the SFA. Accordingly, statutory liability under the SFA in relation to the content of prospectuses does not apply and investors should consider carefully whether the investment is suitable for them. In particular, for investment fund that are not authorised or recognised by the MAS, units in such funds are not allowed to be offered to the retail public. This document and any other document or material issued in connection with the offer or sale is not a prospectus as defined in the SFA. Accordingly, statutory liability under the SFA in relation to the content of prospectuses does not apply and investors should consider carefully whether the investment is suitable for them.

Sources: Fundsmith LLP & Bloomberg unless otherwise stated.

Data is as at 31 December 2022 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.

P/E ratios and Free Cash Flow Yields are based on trailing twelve month data and as at 31 December 2022 unless otherwise stated. Percentage change is not calculated if the TTM period contains a net loss.

Investment Manager's Report (continued)

Fundsmith Sustainable Equity Fund (continued)

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The figures stated in the report are historical and not necessarily indicative of future performance.

Deloitte.

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To the Shareholders of
Fundsmith SICAV
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L-3364 Leudelange

REPORT OF THE *REVISEUR D'ENTREPRISES AGREE*

Opinion

We have audited the financial statements of Fundsmith SICAV (the "SICAV") and of each of its sub-funds, which comprise the statement of net assets and the statement of investments and other net assets as at December 31, 2022 and the statement of operations and changes in net assets for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the SICAV and of each of its sub-funds as at December 31, 2022, and of the results of its operations and changes in its net assets for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the financial statements.

Basis for Opinion

We conducted our audit in accordance with the Law of July 23, 2016 on the audit profession (Law of July 23, 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "*Commission de Surveillance du Secteur Financier"* (CSSF). Our responsibilities under the Law of July 23, 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the "Responsibilities of the *"réviseur d'entreprises agréé"* for the Audit of the Financial Statements" section of our report. We are also independent of the SICAV in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Board of Directors of the SICAV is responsible for the other information. The other information comprises the information stated in the annual report but does not include the financial statements and our report of the *"réviseur d'entreprises agréé"* thereon.

Our opinion on the financial statements does not cover the other information and 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, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors of the SICAV for the Financial Statements

The Board of Directors of the SICAV is responsible for the preparation and fair presentation of the financial statements in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the financial statements, and for such internal control as the Board of Directors of the SICAV 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 Board of Directors of the SICAV is responsible for assessing the SICAV'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 Board of Directors of the SICAV either intends to liquidate the SICAV or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the *"réviseur d'entreprises agréé"* for the Audit of the Financial Statements

The objectives of our audit 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 a report of the *"réviseur d'entreprises agréé"* that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law dated July 23, 2016 and with ISAs as adopted for Luxembourg by the CSSF 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.

As part of an audit in accordance with the Law dated July 23, 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the SICAV's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors of the SICAV.
- Conclude on the appropriateness of the Board of Directors of the SICAV's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the SICAV's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the *"réviseur d'entreprises agréé"* to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the *"réviseur d'entreprises agréé"*. However, future events or conditions may cause the SICAV to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

For Deloitte Audit, *Cabinet de révision agréé*

Elisabeth Layer

Elisabeth Layer, *Réviseur d'entreprises agréé*
Partner

February 28, 2023

Statement of Net Assets as at 31 December 2022

	Notes	Combined EUR	Fundsmith Equity Fund EUR	Fundsmith Sustainable Equity Fund EUR
Assets				
Investments at market value	2(c)	7,809,995,753	7,561,657,571	248,338,182
Cash at bank	2(c)	457,970,102	437,426,166	20,543,936
Subscriptions receivable	2(c)	47,753,139	47,752,298	841
Bank interest receivable		744,711	721,330	23,381
Dividend income receivable	2(c,d)	8,791,925	8,648,089	143,836
Reclaims receivable		2,312,557	2,312,557	–
Other assets		9,943	4,980	4,963
Total assets		**8,327,578,130**	**8,058,522,991**	**269,055,139**
Liabilities				
Redemptions payable	2(c)	(10,631,245)	(10,631,181)	(64)
Due to brokers	2(c)	(2,563,540)	–	(2,563,540)
Management fees payable	3(a)	(6,820,176)	(6,630,809)	(189,367)
Depositary fees payable	3(c)	(160,597)	(155,885)	(4,712)
Administration fees payable	3(b)	(329,604)	(310,613)	(18,991)
Subscription tax payable	4	(377,677)	(370,431)	(7,246)
Professional fees payable		(68,935)	(68,722)	(213)
Other liabilities		(11,893)	(11,893)	–
Total liabilities		**(20,963,667)**	**(18,179,534)**	**(2,784,133)**
Total net assets		**8,306,614,463**	**8,040,343,457**	**266,271,006**

The accompanying notes form an integral part of these financial statements.

Statement of Operations and Changes in Net Assets for the year ended 31 December 2022

	Notes	Combined EUR	Fundsmith Equity Fund EUR	Fundsmith Sustainable Equity Fund EUR
Net assets at the beginning of the year		**9,295,149,116**	**9,095,710,357**	**199,438,759**
Income				
Dividend income	2(d)	93,606,958	91,609,827	1,997,131
Net bank interest		1,185,842	1,162,769	23,073
Other income		28,341	27,030	1,311
Total income		**94,821,141**	**92,799,626**	**2,021,515**
Expenses				
Management fees	3(a)	(81,636,693)	(79,822,223)	(1,814,470)
Depositary fees	3(c)	(1,316,654)	(1,287,296)	(29,358)
Administration fees	3(b)	(1,308,981)	(1,228,861)	(80,120)
Subscription tax	4	(1,547,298)	(1,523,734)	(23,564)
Professional fees		(79,887)	(79,424)	(463)
Directors' fees	3(d)	(61,283)	(60,000)	(1,283)
Other expenses		(5,428)	(5,000)	(428)
Total expenses		**(85,956,224)**	**(84,006,538)**	**(1,949,686)**
Net investment income		**8,864,917**	**8,793,088**	**71,829**
Net realised gain/(loss) on:				
Investments		43,204,126	51,170,999	(7,966,873)
Foreign currency		14,162,700	14,068,240	94,460
Net realised gain/(loss) for the year		**57,366,826**	**65,239,239**	**(7,872,413)**
Net change in unrealised loss on:				
Investments	2(c)	(1,727,320,337)	(1,703,453,010)	(23,867,327)
Foreign currency	2(b)	(14,765,290)	(14,473,734)	(291,556)
Net change in unrealised loss for the year		**(1,742,085,627)**	**(1,717,926,744)**	**(24,158,883)**
Decrease in net assets as a result of operations		**(1,675,853,884)**	**(1,643,894,417)**	**(31,959,467)**
Movements in share capital				
Subscriptions		3,161,359,992	3,026,887,836	134,472,156
Redemptions		(2,473,870,104)	(2,438,190,136)	(35,679,968)
Distribution paid	5	(170,657)	(170,183)	(474)
Increase in net assets as a result of movements in share capital		**687,319,231**	**588,527,517**	**98,791,714**
Net assets at the end of the year		**8,306,614,463**	**8,040,343,457**	**266,271,006**

The accompanying notes form an integral part of these financial statements.

Statistical Information

Net Assets

	Currency	31 December 2022	31 December 2021	31 December 2020
Fundsmith Equity Fund				
Net asset value per:				
T Class Accumulation Shares	EUR	49.82	60.27	46.75
T Class Income Shares	EUR	46.97	56.83	44.11
USD T Class Accumulation Shares*	USD	8.63	–	–
USD T Class Income Shares*	USD	8.63	–	–
I Class Accumulation Shares	EUR	50.51	61.02	47.27
I Class Income Shares	EUR	47.19	57.02	44.25
CHF I Class Accumulation Shares	CHF	35.30	44.74	36.26
CHF I Class Income Shares	CHF	32.91	41.72	33.88
GBP I Class Accumulation Shares	GBP	35.12	40.18	33.32
GBP I Class Income Shares	GBP	33.46	38.29	31.82
USD I Class Accumulation Shares	USD	30.02	38.45	32.29
USD I Class Income Shares	USD	28.30	36.25	30.50
R Class Accumulation Shares	EUR	47.28	57.48	44.81
R Class Income Shares	EUR	46.39	56.40	43.97
USD R Class Accumulation Shares*	USD	8.59	–	–
USD R Class Income Shares*	USD	8.59	–	–
Total net assets	**EUR**	**8,040,343,457**	**9,095,710,357**	**5,525,102,355**
Fundsmith Sustainable Equity Fund				
Net asset value per:				
T Class Accumulation Shares	EUR	10.75	12.60	–
T Class Income Shares	EUR	10.75	12.60	–
I Class Accumulation Shares	EUR	10.78	12.61	–
I Class Income Shares	EUR	10.77	12.61	–
CHF I Class Accumulation Shares	CHF	9.65	11.86	–
CHF I Class Income Shares**	CHF	–	11.85	–
GBP I Class Accumulation Shares	GBP	11.06	12.26	–
GBP I Class Income Shares	GBP	11.06	12.26	–
USD I Class Accumulation Shares	USD	9.55	11.85	–
USD I Class Income Shares	USD	9.55	11.85	–
R Class Accumulation Shares	EUR	10.65	12.55	–
R Class Income Shares	EUR	10.65	12.55	–
Total net assets	**EUR**	**266,271,006**	**199,438,759**	**–**

* Share class launched during the year ended 31 December 2022. For share class specific launch dates, please refer to Note 1.
** Share class became dormant during the year ended 31 December 2022. For share class specific termination date, please refer to Note 1.

Statistical Information (continued)

Changes in Shares Outstanding

	Currency	Balance as at 1 January 2022	Subscriptions	Redemptions	Balance as at 31 December 2022
Fundsmith Equity Fund					
T Class Accumulation Shares	EUR	21,475,080	7,397,867	(8,631,006)	20,241,941
T Class Income Shares	EUR	2,774,016	712,034	(909,348)	2,576,702
USD T Class Accumulation Shares*	USD	–	8,145,379	(159,024)	7,986,355
USD T Class Income Shares*	USD	–	490,812	(2,750)	488,062
I Class Accumulation Shares	EUR	30,476,138	8,547,082	(10,299,318)	28,723,902
I Class Income Shares	EUR	6,784,722	2,766,857	(4,385,578)	5,166,001
CHF I Class Accumulation Shares	CHF	4,975,798	898,070	(1,251,865)	4,622,003
CHF I Class Income Shares	CHF	1,028,879	39,202	(179,750)	888,331
GBP I Class Accumulation Shares	GBP	11,323,127	1,832,226	(4,884,555)	8,270,798
GBP I Class Income Shares	GBP	4,686,448	1,147,047	(1,307,757)	4,525,738
USD I Class Accumulation Shares	USD	104,288,228	49,440,898	(21,544,078)	132,185,048
USD I Class Income Shares	USD	11,003,535	693,744	(2,346,880)	9,350,399
R Class Accumulation Shares	EUR	7,440,756	5,367,855	(3,855,282)	8,953,329
R Class Income Shares	EUR	1,103,012	276,710	(235,949)	1,143,773
USD R Class Accumulation Shares*	USD	–	1,632,251	(14,567)	1,617,684
USD R Class Income Shares*	USD	–	1,000	–	1,000
Fundsmith Sustainable Equity Fund					
T Class Accumulation Shares	EUR	250,894	428,872	(160,036)	519,730
T Class Income Shares	EUR	1,439	2,177	–	3,616
I Class Accumulation Shares	EUR	13,005,756	3,175,534	(2,890,495)	13,290,795
I Class Income Shares	EUR	229,582	63,211	(9,075)	283,718
CHF I Class Accumulation Shares	CHF	320,180	153,166	(85,160)	388,186
CHF I Class Income Shares**	CHF	1,000	–	(1,000)	–
GBP I Class Accumulation Shares	GBP	32,867	8,175	(17,095)	23,947
GBP I Class Income Shares	GBP	1,559	3,942	(2,583)	2,918
USD I Class Accumulation Shares	USD	2,378,860	9,940,464	(145,686)	12,173,638
USD I Class Income Shares	USD	3,000	116,327	(1,000)	118,327
R Class Accumulation Shares	EUR	14,380	14,870	(4,921)	24,329
R Class Income Shares	EUR	1,000	–	–	1,000

* Share class launched during the year ended 31 December 2022. For share class specific launch dates, please refer to Note 1.
** Share class became dormant during the year ended 31 December 2022. For share class specific termination date, please refer to Note 1.

Portfolio of Investments as at 31 December 2022

Fundsmith Equity Fund

Currency	Holdings	Description	Market value EUR	% of net assets
Transferable securities and money market instruments admitted to an official stock exchange listing or dealt in on another regulated market				
		Equities		
		Denmark		
DKK	1,230,090	Coloplast A/S - B	135,506,835	1.68
DKK	4,662,161	Novo Nordisk A/S - B	592,264,296	7.37
		Total Denmark	**727,771,131**	**9.05**
		France		
EUR	562,891	L'Oreal SA	189,666,123	2.36
EUR	469,188	LVMH Moet Hennessy Louis Vuitton SE	323,505,126	4.03
		Total France	**513,171,249**	**6.39**
		Spain		
EUR	2,293,255	Amadeus IT Group SA	111,727,384	1.39
		Total Spain	**111,727,384**	**1.39**
		United Kingdom		
GBP	5,974,340	Diageo PLC	246,026,696	3.06
GBP	5,062,317	Unilever PLC	239,180,016	2.97
		Total United Kingdom	**485,206,712**	**6.03**
		United States		
USD	663,669	Adobe Inc	209,845,335	2.61
USD	1,897,080	Alphabet Inc - A	157,164,538	1.95
USD	1,797,640	Amazon.com Inc	141,736,832	1.76
USD	260,086	Apple Inc	31,573,779	0.39
USD	1,368,072	Automatic Data Processing Inc	308,327,140	3.84
USD	3,941,664	Brown-Forman Corp - B	244,219,607	3.04
USD	3,113,169	Church & Dwight Co Inc	237,879,751	2.96
USD	1,584,316	Estee Lauder Cos Inc - A	370,878,173	4.61
USD	984,632	IDEXX Laboratories Inc	378,469,783	4.71
USD	3,917,991	McCormick & Co Inc	308,771,366	3.84
USD	1,323,330	Meta Platforms Inc - A	149,059,766	1.85
USD	217,560	Mettler-Toledo International Inc	298,959,808	3.72
USD	2,705,892	Microsoft Corp	610,824,713	7.60
USD	2,195,166	NIKE Inc - B	241,280,119	3.00
USD	1,581,425	Otis Worldwide Corp	117,120,095	1.46
USD	2,042,575	PepsiCo Inc	348,155,091	4.33
USD	4,406,877	Philip Morris International Inc	417,676,079	5.20
USD	1,595,167	Stryker Corp	366,799,497	4.56
USD	1,416,066	Visa Inc - A	275,958,114	3.43
USD	796,366	Waters Corp	257,993,782	3.21
		Total United States	**5,472,693,368**	**68.07**
		Total equities	**7,310,569,844**	**90.93**
Total transferable securities and money market instruments admitted to an official stock exchange listing or dealt in on another regulated market			**7,310,569,844**	**90.93**
Other transferable securities				
		Equities		
		France		
EUR	485,178	L'Oreal SA - Pref	163,480,727	2.03

The accompanying notes form an integral part of these financial statements.

Portfolio of Investments as at 31 December 2022 (continued)

Fundsmith Equity Fund (continued)

Currency	Holdings	Description	Market value EUR	% of net assets
Other transferable securities (continued)				
		Equities (continued)		
		France (continued)		
EUR	260,000	L'Oreal SA - Pref 2024	87,607,000	1.09
		Total France	**251,087,727**	**3.12**
		Total equities	**251,087,727**	**3.12**
Total other transferable securities			**251,087,727**	**3.12**
Total portfolio			**7,561,657,571**	**94.05**
Other assets and liabilities			478,685,886	5.95
Net assets at the end of the year			**8,040,343,457**	**100.00**

The accompanying notes form an integral part of these financial statements.

Portfolio of Investments as at 31 December 2022 (continued)

Fundsmith Sustainable Equity Fund

Currency	Holdings	Description	Market value EUR	% of net assets
Transferable securities and money market instruments admitted to an official stock exchange listing or dealt in on another regulated market				
		Equities		
		Denmark		
DKK	79,304	Coloplast A/S - B	8,736,137	3.28
DKK	133,820	Novo Nordisk A/S - B	17,000,015	6.39
		Total Denmark	**25,736,152**	**9.67**
		France		
EUR	28,613	L'Oreal SA	9,641,150	3.62
		Total France	**9,641,150**	**3.62**
		Spain		
EUR	112,926	Amadeus IT Group SA	5,501,755	2.07
		Total Spain	**5,501,755**	**2.07**
		United Kingdom		
GBP	244,282	Unilever PLC	11,541,626	4.33
		Total United Kingdom	**11,541,626**	**4.33**
		United States		
USD	29,402	Adobe Inc	9,296,611	3.49
USD	86,835	Alphabet Inc - A	7,193,889	2.70
USD	57,363	Automatic Data Processing Inc	12,928,099	4.86
USD	154,484	Church & Dwight Co Inc	11,804,247	4.43
USD	51,047	Estee Lauder Cos Inc - A	11,949,774	4.49
USD	41,294	Home Depot Inc	12,392,647	4.65
USD	19,464	IDEXX Laboratories Inc	7,481,512	2.81
USD	76,732	Johnson & Johnson	12,761,236	4.79
USD	155,470	McCormick & Co Inc	12,252,372	4.60
USD	8,516	Mettler-Toledo International Inc	11,702,251	4.39
USD	49,078	Microsoft Corp	11,078,807	4.16
USD	45,943	Otis Worldwide Corp	3,402,531	1.28
USD	65,228	PepsiCo Inc	11,118,054	4.18
USD	87,722	Procter & Gamble Co	12,537,348	4.71
USD	50,345	Stryker Corp	11,576,544	4.35
USD	58,731	Visa Inc - A	11,445,297	4.30
USD	38,872	Waters Corp	12,593,122	4.73
USD	62,309	Zoetis Inc	8,646,165	3.25
		Total United States	**192,160,506**	**72.17**
		Total equities	**244,581,189**	**91.86**
Total transferable securities and money market instruments admitted to an official stock exchange listing or dealt in on another regulated market			**244,581,189**	**91.86**
Other transferable securities				
		Equity		
		France		
EUR	11,150	L'Oreal SA - Pref 2024	3,756,993	1.41
		Total France	**3,756,993**	**1.41**
		Total equity	**3,756,993**	**1.41**
Total other transferable securities			**3,756,993**	**1.41**
Total portfolio			**248,338,182**	**93.27**
Other assets and liabilities			17,932,824	6.73
Net assets at the end of the year			**266,271,006**	**100.00**

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

1. The SICAV

Fundsmith SICAV (the "SICAV"), formerly Fundsmith Equity Fund SICAV, is an open-ended investment company incorporated under the laws of Luxembourg as a *Société d'Investissement à Capital Variable* in accordance with the provisions of Part I of the amended Law relating to Undertakings for Collective Investment of 17 December 2010 ("UCI Law"). The SICAV was incorporated for an unlimited period on 28 October 2011. The Articles of Incorporation were published in the *Mémorial C* on 14 November 2011. The SICAV changed its name to Fundsmith SICAV on 1 March 2021 and the Articles were amended with effect on 1 March 2021. The SICAV is registered with the Luxembourg Trade and Companies Register under number B164404.

The SICAV has appointed FundRock Management Company S.A. (the "Management Company") as its management company.

As at 31 December 2022, the SICAV consisted of two active sub-funds (the "Sub-Funds"):

Sub-Fund	**Currency**	**Launch date**
Fundsmith Equity Fund	EUR	28 October 2011
Fundsmith Sustainable Equity Fund	EUR	1 March 2021

Investment Objective

The investment objective of the Sub-Funds is to achieve long-term growth in value. The Sub-Funds will invest in equities on a global basis. The Sub-Funds' approach is to be a long-term investor in its chosen stocks. They will not adopt short-term trading strategies. The Sub-Funds have stringent investment criteria which the Investment Manager adheres to in selecting securities for the Sub-Funds' investment portfolios.

Share Classes

The following share classes were launched during the year ended 31 December 2022:

Sub-Fund and share class	**Currency**	**Launch date**
Fundsmith Equity Fund		
USD T Class Accumulation Shares	USD	4 February 2022
USD T Class Income Shares	USD	4 February 2022
USD R Class Accumulation Shares	USD	4 February 2022
USD R Class Income Shares	USD	4 February 2022

The following share class became dormant during the year ended 31 December 2022:

Sub-Fund and share class	**Currency**	**Termination date**
Fundsmith Sustainable Equity Fund		
CHF I Class Income Shares	CHF	14 February 2022

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied unless otherwise stated.

(a) Preparation of the Financial Statements

The combined primary statements of these financial statements (Statement of Net Assets and Statement of Operations and Changes in Net Assets) are the arithmetic sum of the financial statements of all Sub-Funds.

These financial statements have been prepared in accordance with generally accepted accounting principles in Luxembourg applicable to undertakings for collective investment in transferable securities.

This report is presented on the basis of the latest net asset value calculated during the financial year (i.e. 30 December 2022).

The reference currency of the SICAV and of each of its Sub-Funds is EUR and all the financial statements of the SICAV are presented in EUR.

Notes to the Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(b) Foreign Currency Translation

Transactions and Balances

Foreign currency transactions are translated into the reference currency using the exchange rates prevailing on the dates of the transactions. Foreign currency assets and liabilities are translated into the base currency using the exchange rate prevailing at the Statement of Net Assets date and are detailed in Note 7.

Foreign exchange gains and losses arising from translation are included in the Statement of Operations and Changes in Net Assets.

(c) Valuation of Investments, Assets and Liabilities

The SICAV's investments, assets and liabilities are valued as follows:

(i) Investment Securities Valuation

In calculating a net asset value, the Administrator may consult the Management Company and the Investment Manager with respect to the valuation of certain investments. Whilst there is an inherent conflict of interest between the involvement of the Management Company/Investment Manager in determining the valuation price of the Sub-Funds' investments and the Management Company's/Investment Manager's other duties and responsibilities in relation to a Sub-Fund, the Management Company/Investment Manager will endeavour to resolve any such conflict of interest timely and fairly and in the interest of Shareholders.

The value of securities which are listed or dealt in on any stock exchange is based on the last available price at the point as at which the net asset value is determined.

The Board of Directors of the SICAV may adjust the value of any investment if having regard to its currency, marketability, applicable interest rates, anticipated rates of dividend, maturity, liquidity or any other relevant considerations, and deem such adjustment is required to reflect the fair value thereof.

Where the value of any investment is not ascertainable as described in the Articles, the value shall be the probable realisation value estimated by the Board of Directors of the SICAV, or by a competent person, with care and in good faith.

If the Board of Directors of the SICAV deem it necessary, a specific investment may be valued under an alternative method of valuation chosen by the Board of Directors of the SICAV.

(ii) Cash at Bank

Cash at bank includes cash on hand or on deposit and is valued at its nominal/face value.

(iii) Assets

Assets, which include dividend income receivable, subscriptions receivable, prepaid expenses and reclaims receivable, are valued at nominal value unless it appears unlikely that such nominal amount is obtainable.

(iv) Amounts due to Brokers

Amounts due to brokers include amounts payable for investment securities purchased and are valued at nominal value.

(v) Liabilities

Liabilities, which include expenses payable and redemptions payable, are valued at nominal value.

(d) Dividend Income

Dividends are recognised on the date on which the shares concerned are quoted "ex-dividend", net of withholding tax.

Notes to the Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(e) Distributions

The SICAV may issue accumulation and/or income shares within each Sub-Fund. Accumulation shares do not pay any dividends whereas income shares give their owners the right to receive distributions.

(f) Total Net Asset Value

The total net asset value is equal to the difference between the total assets and the total liabilities of each Sub-Fund and the total net asset value of each share class is expressed in the reference currency of the relevant share class.

The net asset value per share is calculated as of each valuation day by dividing the total net asset value attributable to a share class by the total number of shares in issue or deemed to be in issue in that share class as of the relevant valuation day and rounding down the resulting total to two decimal places or such number of decimal places as the Board of Directors of the SICAV may determine.

(g) Transaction Costs

Transaction costs are costs incurred to acquire financial assets or liabilities at market value through profit or loss. They include fees and commissions paid to agents, advisers, brokers and dealers. Transaction costs for the year ended 31 December 2022 are disclosed in Note 6.

(h) Swing Pricing

A Sub-Fund may suffer a reduction in value of its investments as a result of the transaction costs incurred in the purchase and sale of its underlying investments and of the spread between the buying and selling prices of such investments caused by subscriptions, redemptions and/or conversions in and out of the Sub-Fund. This is known as “dilution”. In order to counter this and to protect Shareholders’ interests, the Board of Directors may decide to apply “swing pricing” as part of the valuation policy. This will mean that in certain circumstances the Board of Directors may make adjustments in the calculations of the net asset values per share, to counter the impact of dealing and other costs on occasions when these are deemed to be significant.

If on any valuation day the aggregate value of transactions in shares of a Sub-Fund results in a net increase or decrease of shares which exceeds a threshold of 5% of such Sub-Fund’s net asset value (relating to the cost of market dealing for that Sub-Fund), the net asset value of the Sub-Fund will be adjusted by an amount (not exceeding 0.25% of the net asset value) which reflects both the estimated fiscal charges and dealing costs that may be incurred by the Sub-Fund and the estimated bid/offer spread of the assets in which the Sub-Fund invests. This maximum amount will not vary even in case of change in market conditions (i.e. it will not be increased in unusual market conditions). The adjustment will be an addition when the net movement results in an increase of all shares of a Sub-Fund and a deduction when it results in a decrease.

Both Sub-Funds are in scope of swing pricing and for both Sub-Funds swing pricing was applied during the year.

As at 31 December 2022, no swing pricing was applied.

(i) Use of Estimates

The preparation of the financial statements in conformity with the Luxembourg legal and regulatory requirements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. The Board of Directors of the SICAV may also disclose certain contingent assets and liabilities at the date of the financial statements which can affect income and expenses during the reported years. Actual results could differ from those estimates.

3. Fees

(a) Management Fees

The SICAV remunerates the Management Company, Investment Manager and the Distributor for their services out of an aggregate management fee, which is payable monthly in arrears and accrued as of each valuation day.

Notes to the Financial Statements (continued)

3. Fees (continued)

(a) Management Fees (continued)

The annual management fee rates applicable to the share classes are expressed as a percentage of the total net assets of each share class and are specified in the following table:

Sub-Fund	T Class	I Class	R Class
Fundsmith Equity Fund	1.00%	0.90%	1.50%
Fundsmith Sustainable Equity Fund	1.00%	0.90%	1.50%

The above management fee rates are inclusive of Management Company fees which is calculated on the monthly net asset value of the SICAV based on the following sliding scale rate:

Until 31 March 2022

Net asset value up to EUR 2 billion	0.0200%
Net asset value over EUR 2 billion	0.0150%

Effective 1 April 2022

Net asset value up to EUR 2 billion	0.0200%
Net asset value over EUR 2 billion and up to EUR 10 billion	0.0150%
Net asset value over EUR 10 billion	0.0100%

A minimum monthly fee of EUR 5,000 applies if the basis point fee for the SICAV does not reach the minimum fee applicable.

(b) Administration Fees

Northern Trust Global Services SE has been appointed as administrator (the “Administrator”) pursuant to the Central Administration Agreement. The Administrator provides the services of central administration agent, domiciliary and corporate agent, registrar and transfer agent to the SICAV.

The SICAV pays to the Administrator out of the assets of the Sub-Funds an annual fee, accrued as of each valuation day and payable monthly in arrears, for the fund accounting duties.

The annual rates applied are as specified in the following table:

Tier	Rate
EUR 0 - EUR 500 million	0.0300%
EUR 500 million - EUR 750 million	0.0200%
EUR 750 million - EUR 1,500 million	0.0100%
EUR 1,500 million - EUR 6,500 million	0.0075%
EUR 6,500 million - EUR 16,500 million	0.0050%
Above 16,500 million	0.0025%

There is an additional charge of EUR 1,000 per annum for each share class, the first two share classes in each Sub-Fund being free of charge.

The Administrator is also entitled to a fee of EUR 9,000 per annum at umbrella level for acting as the domiciliary agent.

Notes to the Financial Statements (continued)

3. Fees (continued)

(b) Administration Fees (continued)

The SICAV also pays to the Administrator the following fees for the transfer agency services:

Service	Fee
Fund maintenance charge	EUR 2,000/Sub-Fund/annum
Investor maintenance fee	EUR 25/investor account/annum
Dealing fee	EUR 15/manual; EUR 5/automated transaction
Fund distribution fee per Sub-Fund up to 2 share classes	EUR 500/distribution/Sub-Fund
Investor Servicing Support from Northern Trust Asia during Asia time zone*	EUR 85,000 p.a.

* The fee is effective from 1 July 2022, and may need to be revisited should either the services required or the assumptions used to quote the service differ from practice.

(c) Depositary Fees

Northern Trust Global Services SE has been appointed as depositary of its assets (the "Depositary") pursuant to the Depositary Agreement. The Depositary is entrusted with the safekeeping of the SICAV's assets.

The SICAV pays to the Depositary out of the assets of the Sub-Funds an annual fee, accrued as of each valuation day and payable monthly in arrears.

The annual rates applied are as specified in the following table:

Total net assets	Rate
EUR 0 - EUR 1 billion	0.0100%
EUR 1 billion - EUR 3 billion	0.0090%
EUR 3 billion - EUR 5 billion	0.0080%
EUR 5 billion - EUR 10 billion	0.0070%
EUR 10 billion - EUR 20 billion	0.0060%
Over EUR 20 billion	0.0050%

(d) Directors' Fees

Mr. Garry Pieters and Ms. Sheenagh Joy Gordon-Hart receive, as compensation for their services as Independent Directors, an annual fee of EUR 30,000 each, subject to approval by the general meeting of Shareholders of the SICAV. Mr. Paul Mainwaring, who is a Partner of Fundsmith LLP, does not receive a fee for acting as a Director.

(e) Performance Fees

The SICAV is not subject to performance fees.

4. Taxation

Under current Law and practice, the SICAV is not liable to any Luxembourg tax on profits or income.

The SICAV is, however, liable in Luxembourg to a subscription tax *("taxe d'abonnement")* of 0.01% per annum of its total net asset value for institutional shares (I share classes) and of 0.05% per annum of its total net asset value for retail shares (T and R share classes), such tax being payable quarterly on the basis of the value of the aggregate total net asset value of the SICAV at the end of the relevant calendar quarter.

No Luxembourg tax is payable on the realised capital appreciation of the assets of the SICAV.

Dividend and interest income received by the SICAV on its investments may be subject to non-recoverable withholding or other taxes in the countries of origin.

Notes to the Financial Statements (continued)

5. Distribution Paid

On 30 June 2022, the Fundsmith Equity Fund distributed a total amount of EUR 170,183 and the Fundsmith Sustainable Equity Fund distributed a total amount of EUR 474.

6. Transaction Costs

During the year under review, the Sub-Funds incurred transaction costs as specified in the following table:

Sub-Fund	Transaction costs
Fundsmith Equity Fund	EUR 1,041,751
Fundsmith Sustainable Equity Fund	EUR 95,506

7. Exchange Rates

The exchange rates used as at 31 December 2022 are as follows:

EUR 1 = CHF	0.985014
EUR 1 = DKK	7.436449
EUR 1 = GBP	0.886826
EUR 1 = USD	1.067650

8. Statement of Changes in the Portfolio

A statement of changes in the portfolio for the year ended 31 December 2022 is available upon request, free of charge, from the registered office of the SICAV.

9. Significant Events During the Year

With effect from 25 March 2022, Fundsmith Investment Services Limited is the Investment Manager and ceased to act as the Investment Advisor. Fundsmith LLP continues to act as the Distributor and Promoter.

A new prospectus was issued in March 2022 and in October 2022.

There were no other significant events during the year that require adjustment to, or disclosure in, the financial statements.

10. Subsequent Events

A new prospectus was issued in January 2023.

There were no other significant events subsequent to the year-end date that require adjustment to, or disclosure in, the financial statements.

Appendix I – Remuneration Disclosures (Unaudited)

FundRock Management Company S.A. ("FundRock") as subject to CSSF Circular 18/698 has implemented a remuneration policy in compliance with Articles 111a and 111b of the 2010 Law and/or Article 12 of the 2013 Law respectively.

FundRock as subject to Chapter 15 of the 2010 Law and AIFM must also comply with the guidelines of the European Securities and Markets Authority ESMA/2016/5758 and ESMA/2016/5799 to have sound processes in place. FundRock has established and applies a remuneration policy in accordance with the ESMA Guidelines on sound remuneration policies under the UCITS V Directive (ESMA 2016/575) and AIFMD (ESMA 2016/579) and any related legal & regulatory provisions applicable in Luxembourg.

Further, consideration has been given to the requirements as outlined in Regulation (EU) 2019/2088 on sustainability – related disclosures in the financial sector, the SFDR Requirements.

The remuneration policy is aligned with the business strategy, objectives, values and interests of FundRock and the Funds that it manages and of the investors in such Funds, and which includes, *inter alia*, measures to avoid conflicts of interest; and it is consistent with and promotes sound and effective risk management and does not encourage risk taking which is inconsistent with the risk profiles, rules or instruments of incorporation of the Funds that the Management Company manages.

FundRock ensures that its remuneration policy adequately reflects the predominance of its oversight activity within its core activities. As such, it should be noted that FundRock's employees who are identified as risk-takers are not remunerated based on the performance of the funds under management.

A paper version of the remuneration policy is made available free of charge to investors at FundRock's registered office. FundRock's remuneration policy can also be found at: https://www.fundrock.com/policies-and-compliance/remuneration-policy/

The total amount of remuneration for the financial year ended 31 December 2022 paid by FundRock to its staff: EUR 12,587,217.

Fixed remuneration: EUR 11,485,489
Variable remuneration: EUR 1,101,728
Number of beneficiaries: 147

The aggregated amount of remuneration for the financial year ended 31 December 2022 paid by FundRock to identified staff/ risk takers was EUR 2,524,731

The total amount of remuneration is based on a combination of the assessment of the performance of the individual, the overall results of FundRock, and when assessing individual performance, financial as well as non-financial criteria are taken into account.

The policy is subject to annual review by the compliance officer and the update is performed by HR department of FundRock and is presented for review to the Remuneration Committee and approval by the Board of FundRock.

Appendix II – Securities Financing Transactions Regulation (Unaudited)

The following information is presented with regard to Regulation (EU) 2015/2365 on transparency of securities financing transactions (SFTs) and of reuse.

During the year under review, the SICAV did not have any transactions falling into the scope of the Securities Financing Transactions Regulation.

Appendix III – Risk Information (Unaudited)

As part of the risk-management process, the global exposure of the Sub-Funds is calculated using the relative value at risk ("VaR") approach. The benchmark used for the purpose of the calculation is MSCI World Index. The expected level of leverage for the Sub-Funds, calculated on the basis of the sum of the notionals, is 100% of the net asset value, although higher levels of leverage are possible.

VaR is calculated in the Sub-Fund's currency using historical methodology with a one-year look back, 0.9950 decay, 20 day time horizon and 99% confidence interval.

FUNDSMITH SICAV						
Sub-Fund Name	Leverage			Average Utilization of VaR Limit (200% - Limit)		
	MIN	MAX	AVG	MIN	MAX	AVG
Fundsmith Equity Fund	0.00%	0.57%	0.05%	45.66%	57.71%	51.11%
Fundsmith Sustainable Equity Fund	0.00%	9.74%	0.24%	36.91%	57.32%	47.74%

Appendix IV – Portfolio Turnover Ratio (Unaudited)

The portfolio turnover ratio (“PTR”) compares the total investment purchases and sales less total subscriptions and redemptions with the average net asset value of each Sub-Fund. The PTR of the Fundsmith Equity Fund and the Fundsmith Sustainable Equity Fund for the year ended 31 December 2022 are specified in the table below:

Sub-Fund	PTR (%)
Fundsmith Equity Fund	0.45
Fundsmith Sustainable Equity Fund	-0.67

Appendix V – Total Expense Ratio (Unaudited)

The total expense ratio ("TER") compares all operating expenses with the average net asset value of each Sub-Fund. The annualised TERs for each share class of the Fundsmith Equity Fund and the Fundsmith Sustainable Equity Fund for the year ended 31 December 2022 are specified in the table below:

Sub-Fund and share class	Currency	TER (%)
Fundsmith Equity Fund		
T Class Accumulation Shares	EUR	1.08
T Class Income Shares	EUR	1.08
USD T Class Accumulation Shares	USD	1.09
USD T Class Income Shares	USD	1.10
I Class Accumulation Shares	EUR	0.94
I Class Income Shares	EUR	0.94
CHF I Class Accumulation Shares	CHF	0.94
CHF I Class Income Shares	CHF	0.94
GBP I Class Accumulation Shares	GBP	0.94
GBP I Class Income Shares	GBP	0.94
USD I Class Accumulation Shares	USD	0.94
USD I Class Income Shares	USD	0.94
R Class Accumulation Shares	EUR	1.59
R Class Income Shares	EUR	1.58
USD R Class Accumulation Shares	USD	1.58
USD R Class Income Shares	USD	1.59
Fundsmith Sustainable Equity Fund		
T Class Accumulation Shares	EUR	1.11
T Class Income Shares	EUR	1.11
I Class Accumulation Shares	EUR	0.97
I Class Income Shares	EUR	0.97
CHF I Class Accumulation Shares	CHF	0.97
CHF I Class Income Shares	CHF	0.99
GBP I Class Accumulation Shares	GBP	0.97
GBP I Class Income Shares	GBP	0.97
USD I Class Accumulation Shares	USD	0.96
USD I Class Income Shares	USD	0.97
R Class Accumulation Shares	EUR	1.61
R Class Income Shares	EUR	1.61

The TERs are calculated in accordance with the guidelines released in 2008, as amended, by the Swiss Funds and Asset Management Association ("SFAMA"), now known as the Asset Management Association Switzerland following the SFAMA's merger with the Asset Management Platform Switzerland in 2020.

Appendix VI – Information to Investors in Switzerland (Unaudited)

Representative in Switzerland

The representative in Switzerland is RBC Investor & Treasury Services S.A. Bleicherweg 7, CH-8027 Zürich.

Paying Agent in Switzerland

The paying agent in Switzerland is RBC Investor & Treasury Services S.A. Bleicherweg 7, CH-8027 Zürich.

Publications

Publications concerning the foreign collective investment scheme are made in Switzerland on www.fundinfo.com. Each time shares are issued or redeemed, the issue and the redemption prices or the net asset value together with a reference stating "excluding commissions" are published for all share classes on www.fundinfo.com. Prices are published daily.

Performance

The performance is defined as the total return of one share over a specified period, expressed as a percentage of the net asset value per share at the beginning of the observation period. The performance of each share class of the Fundsmith Equity Fund and the Fundsmith Sustainable Equity Fund is detailed in the table below:

Sub-Fund and share class	Currency	Performance (%) Year 2022	Performance (%) Year 2021	Performance (%) Year 2020
Fundsmith Equity Fund				
T Class Accumulation Shares	EUR	-17.34	28.92	10.73
T Class Income Shares	EUR	-17.34	28.92	10.71
USD T Class Accumulation Shares*	USD	-13.71	–	–
USD T Class Income Shares*	USD	-13.72	–	–
I Class Accumulation Shares	EUR	-17.22	29.10	10.88
I Class Income Shares	EUR	-17.22	29.10	10.86
CHF I Class Accumulation Shares	CHF	-21.10	23.38	10.40
CHF I Class Income Shares	CHF	-21.10	23.39	10.41
GBP I Class Accumulation Shares	GBP	-12.60	20.58	17.28
GBP I Class Income Shares	GBP	-12.60	20.57	17.28
USD I Class Accumulation Shares	USD	-21.92	19.07	21.18
USD I Class Income Shares	USD	-21.92	19.07	21.17
R Class Accumulation Shares	EUR	-17.75	28.27	10.20
R Class Income Shares	EUR	-17.75	28.27	10.12
USD R Class Accumulation Shares*	USD	-14.10	–	–
USD R Class Income Shares*	USD	-14.09	–	–
Fundsmith Sustainable Equity Fund				
T Class Accumulation Shares	EUR	-14.69	25.99	–
T Class Income Shares	EUR	-14.69	25.99	–
I Class Accumulation Shares	EUR	-14.57	26.13	–
I Class Income Shares	EUR	-14.57	26.13	–
CHF I Class Accumulation Shares	CHF	-18.57	18.56	–
CHF I Class Income Shares**	CHF	-10.52	18.57	–
GBP I Class Accumulation Shares	GBP	-9.80	22.62	–
GBP I Class Income Shares	GBP	-9.80	22.62	–
USD I Class Accumulation Shares	USD	-19.42	18.53	–
USD I Class Income Shares	USD	-19.42	18.54	–
R Class Accumulation Shares	EUR	-15.11	25.46	–
R Class Income Shares	EUR	-15.11	25.47	–

* Share class launched during the year ended 31 December 2022. For share class specific launch dates, please refer to Note 1.
** Share class became dormant during the year ended 31 December 2022. For share class specific termination date, please refer to Note 1.

Appendix VII – Additional Information for Investors in Australia (Unaudited)

Statement of Cash Flows for the year ended 31 December 2022, with comparative figures for the year ended 31 December 2021

Fundsmith Equity Fund

EUR	2022	2021
Total (loss)/return before distributions	(1,643,894,417)	1,723,380,730
less: capital losses/(gains) on securities	1,652,282,011	(1,723,111,351)
Financing Activities:		
Subscriptions	3,026,887,836	3,575,691,040
Redemptions	(2,438,190,136)	(1,726,776,944)
	588,697,700	1,848,914,096
Distributions to Shareholders	(170,183)	(1,686,824)
Investing Activities:		
Net purchase of investments	(406,395,181)	(1,751,248,274)
Working capital movements:		
(Increase)/decrease in debtors	(35,912,601)	1,159,286
Increase/(decrease) in creditors	7,146,259	(49,779,149)
Net increase in cash	161,753,588	47,628,514
Cash at bank at the beginning of the year	275,672,578	228,044,064
Cash at bank at the end of the year	437,426,166	275,672,578

Appendix VII – Additional Information for Investors in Australia (Unaudited) (continued)

Statement of Cash Flows for the year ended 31 December 2022, with comparative figures for the period from 1 March 2021 to 31 December 2021

Fundsmith Sustainable Equity Fund

EUR	**2022**	**2021**
Total (loss)/return before distributions	(31,959,467)	20,691,897
less: capital losses/(gains) on securities	31,834,200	(20,774,028)
Financing Activities:		
Subscriptions	134,472,156	182,311,386
Redemptions	(35,679,968)	(3,564,514)
	98,792,188	178,746,872
Distributions to Shareholders	(474)	(10)
Investing Activities:		
Net purchase of investments	(86,368,508)	(173,029,846)
Working capital movements:		
Increase in debtors	(73,774)	(99,247)
Decrease in creditors	2,652,595	131,538
Net increase in cash	14,876,760	5,667,176
Cash at bank at the beginning of the year	5,667,176	-
Cash at bank at the end of the year	20,543,936	5,667,176

Appendix VIII – Sustainable Finance Disclosure Regulation (Unaudited)

Starting from 1 January 2022, Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector ("SFDR") requires detailed disclosures in the periodic reports of environmental, social and governance-focused products. On 6 April 2022, the European Commission adopted the final Regulatory Technical Standards ("RTS") designed to provide further guidance on the implementation of Regulation (EU) 2019/2088 on SFDR. The RTS are applicable from 1 January 2023.

An environmental, social and governance ("ESG") assessment on investments is conducted in accordance with the Investment Manager's responsible investment approaches by using information provided by the companies as well as third-party data and applying exclusion criteria as further defined below.

The Sub-Funds listed below promote environmental and/or social characteristics within the meaning of Article 8 of SFDR.

Fundsmith Equity Fund

The Fundsmith Equity Fund takes sustainability risk and ESG characteristics into account as part of its selection process. In that respect, the Sub-Fund promotes environmental and/or social characteristics within the meaning of Article 8 of SFDR. For the assessment, areas like corporate strategy, corporate governance, transparency and the product and service range of a company are taken into account.

In accordance with its investment criteria, the Sub- Fund promotes environmental characteristics and may invest in one or more underlying investments that contribute to climate change mitigation and/or climate change adaptation.

Fundsmith Sustainable Equity Fund

The Fundsmith Sustainable Equity Fund takes sustainability risk and ESG characteristics into account as part of its selection process. In that respect, the Sub-Fund promotes environmental and/or social characteristics within the meaning of Article 8 of SFDR. For the assessment, areas like corporate strategy, corporate governance, transparency and the product and service range of a company are taken into account.

In accordance with its investment criteria, the Sub-Fund promotes environmental characteristics and may invest in one or more underlying investments that contribute to climate change mitigation and/or climate change adaptation.

Appendix VIII – Sustainable Finance Disclosure Regulation (Unaudited) (continued)

ANNEX IV

Template periodic disclosure for the financial products referred to in Article 8, paragraphs 1, 2 and 2a, of Regulation (EU) 2019/2088 and Article 6, first paragraph, of Regulation (EU) 2020/852

Sustainable investment means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

The **EU Taxonomy** is a classification system laid down in Regulation (EU) 2020/852, establishing a list of **environmentally sustainable economic activities**. That Regulation does not include a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.

Product name: Fundsmith SICAV – Fundsmith Equity Fund

Legal entity identifier: 5493007LIDK72VIBC263

Environmental and/or social characteristics

Did this financial product have a sustainable investment objective?

☐ **Yes**	☒ **No**
☐ It made **sustainable investments with an environmental objective:** ___%	☐ It **promoted Environmental/Social (E/S) characteristics** and while it did not have as its objective a sustainable investment, it had a proportion of ___% of sustainable investments
☐ in economic activities that qualify as environmentally sustainable under the EU Taxonomy	☐ with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy
☐ in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy	☐ with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy
	☐ with a social objective
☐ It made **sustainable investments with a social objective:** ___%	☒ It promoted E/S characteristics, but did **not make any sustainable investments**

Sustainability indicators measure how the environmental or social characteristics promoted by the financial product are attained.

To what extent were the environmental and/or social characteristics promoted by this financial product met?

This Sub-fund promoted environmental and social characteristics by investing in high quality business with good governance practices. These businesses have demonstrated low exposure to sustainability risks as a result of their high quality and the Sub-fund performed significantly better than expected.

Appendix VIII – Sustainable Finance Disclosure Regulation (Unaudited) (continued)

The Sub-fund's underlying investments resulted in a portfolio with a significantly lower environmental footprint (measured by total waste generated, hazardous waste generated, water usage, energy consumption, and greenhouse gas emissions) compared to the average company, which the Investment Manager represented by using the weighted average of the MSCI World Index for the chosen metrics. This index does not take into account the environmental and social characteristics promoted by the Sub-fund and was chosen for comparison purposes.

The Sub-fund's underlying investments also reduced the negative E/S impacts the investments have e and generated positive impacts through the allocation of capital to research and development to drive innovation in the products/ services the investee companies offer. The Investment Manager measured the impact that this innovation had on E/S characteristics through improvements in the environmental metrics mentioned earlier and through other qualitative measures, such as improvements to human health and welfare.

- ***How did the sustainability indicators perform?***

	Total waste (metric tons/ £m of free cash flow)	Hazardous waste (metric tons/ £m of free cash flow)	Water use (m^3/ £m of free cash flow)	Energy use (MWh/ £m of free cash flow)	Greenhouse gas emissions (metric tons/ £m of free cash flow)
Fundsmith Equity Sub-fund	22.88	0.24	877.85	557.72	68.47
MSCI World Index	791.17	18.27	31,562.03	3,405.65	343.96

The Sub-fund performed significantly better across all five of the sustainability indicators used compared to the average company, represented by the weighted average scores for the MSCI World Index.

The Sub-fund also considered the principal adverse impacts of its investment dicisions on sustainability factors. The outcome of this assessment is detailed in the '*How did this financial product consider principal adverse impacts on sustainability factors?*' section below.

- ***…and compared to previous periods?***

N/A

- ***What were the objectives of the sustainable investments that the financial product partially made and how did the sustainable investment contribute to such objectives?***

N/A

Appendix VIII – Sustainable Finance Disclosure Regulation (Unaudited) (continued)

Principal adverse impacts are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

How did the sustainable investments that the financial product partially made not cause significant harm to any environmental or social sustainable investment objective?

N/A

How were the indicators for adverse impacts on sustainability factors taken into account?

N/A

Were sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details:

N/A

The EU Taxonomy sets out a "do not significant harm" principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific Union criteria.

The "do no significant harm" principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

Any other sustainable investments must also not significantly harm any environmental or social objectives.

How did this financial product consider principal adverse impacts on sustainability factors?

The principal adverse impacts of the Investment Manager's investment decisions on sustainability factors were considered during the reference period (01/01/2022 – 31/12/2022) through the assessment of all of the Sub-fund's underlying investments using the PAI indicators given in Commission Delegated Regulation (EU) 2022/1288 Table 1, where data availability and quality were ascertained. The PAI indicators considered included:

- Greenhouse gas emissions
- Biodiversity
- Water
- Waste
- Social and employee matters

Appendix VIII – Sustainable Finance Disclosure Regulation (Unaudited) (continued)

Additionally, the three following indicators were used from Table 2 of that regulation, where data availability and quality could be ascertained, and were assessed:

- Carbon emission reduction plans
- Non-renewable energy usage
- Water management

The judgement of an adverse impact is based on the materiality of the indicator to the company's activities and that business's performance compared to that of similar businesses within the investable universe of the Sub-fund as a comparison. The performance of the Sub-fund in relation to each of the listed principal adverse impact indicators is available in Annex III of this document.

What were the top investments of this financial product?

The Sub-fund's top investments during the period are listed below. Top investments were calculated by taking the portfolio weight of each holding (including cash) at the end of each calendar quarter for the reference period (01/01/2022 – 31/12/2022) and averaging for the year.

The list includes the investments constituting **the greatest proportion of investments** of the financial product during the reference period which is: 01/01/2022-31/12/2022

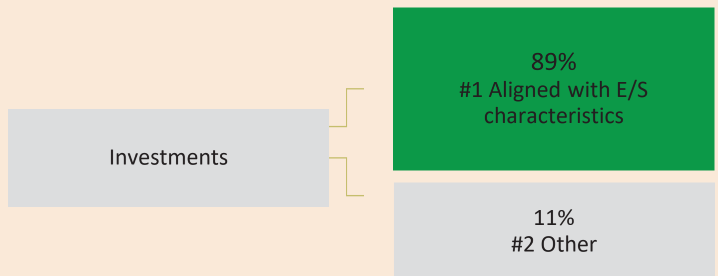
Largest investments	Sector	% Assets	Country
Microsoft Corp	*Technology*	*8.02%*	*United States*
Novo Nordisk A/S	*Health Care*	*6.13%*	*Denmark*
L'Oreal SA	*Consumer Staples*	*5.13%*	*France*
Philip Morris International Inc	*Consumer Staples*	*4.79%*	*United States*
IDEXX Laboratories Inc	*Health Care*	*4.57%*	*United States*
Estee Lauder Cos Inc/The	*Consumer Staples*	*4.49%*	*United States*
Stryker Corp	*Health Care*	*4.12%*	*United States*
PepsiCo Inc	*Consumer Staples*	*4.02%*	*United States*
McCormick & Co Inc/MD	*Consumer Staples*	*3.72%*	*United States*
Automatic Data Processing Inc	*Technology*	*3.61%*	*United States*
LVMH Moet Hennessy Louis Vuitton Se	*Consumer Discretionary*	*3.56%*	*France*

Appendix VIII – Sustainable Finance Disclosure Regulation (Unaudited) (continued)

What was the proportion of sustainability-related investments?

Asset allocation describes the share of investments in specific assets.

What was the asset allocation?



#1 Aligned with E/S characteristics includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

#2 Other includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.

The Sub-fund aimed to allocate 75% of its assets in alignment with the E/S characteristics it promotes, given as '**#1 Aligned with E/S characteristics**' in the chart above. However, during the reference period, 89% of the Sub-fund's assets met the promoted characteristics, as detailed in the section '*How did the sustainability indicators perform?*' of this annex. This therefore reduced the proportion of the Sub-fund's assets allocated to '**#2 Other**' from the target of 25% of assets to 11% during the period.

In which economic sectors were the investments made?

Industry (Bloomberg Industry Classification System)	Proportion of investments
Consumer Discretionary Products	6.4%
Consumer Discretionary Services	0.6%
Consumer Staple Products	34.2%
Health Care	22.6%
Industrial Products	1.5%
Media	4.8%
Retail & Wholesale - Discretionary	2.4%
Software & Tech Services	23.6%
Tech Hardware & Semiconductors	0.2%
Cash	3.6%

The Sub-fund had no exposure to any economic sector or sub-sector deriving revenues from the exploration, mining, extraction, production, processing, storage, refining or distribution, including transportation, storage and trade, of fossil fuels.

Appendix VIII – Sustainable Finance Disclosure Regulation (Unaudited) (continued)

Enabling activities directly enable other activities to make a substantial contribution to an environmental objective.

Transitional activities are activities for which low-carbon alternatives are not yet available and among others have greenhouse gas emission levels corresponding to the best performance.

To what extent were the sustainable investments with an environmental objective aligned with the EU Taxonomy?

0%. The Sub-fund did not make any sustainable investments.

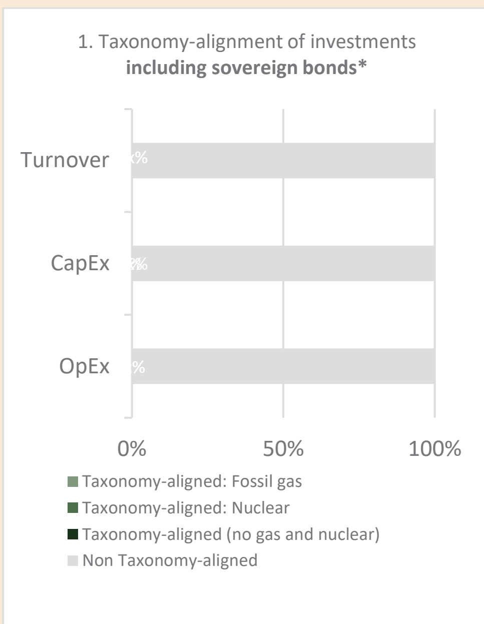
Did the financial product invest in fossil gas and/or nuclear energy related activities complying with the EU Taxonomy[1]?

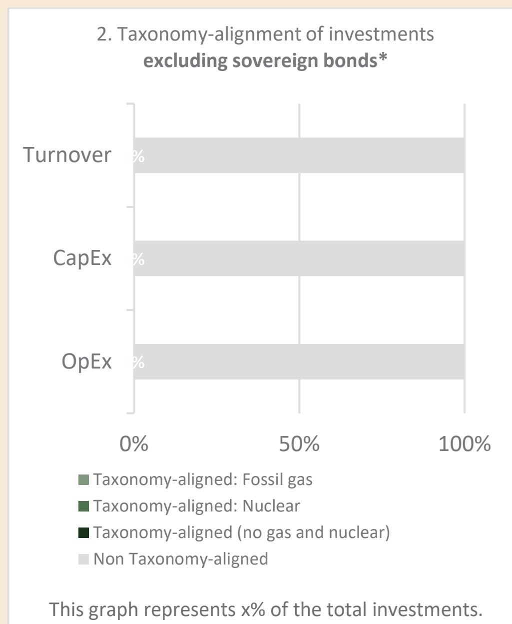
☐ Yes:

☐ In fossil gas ☐ In nuclear energy

☒ No

The graphs below show in green the percentage of investments that were aligned with the EU Taxonomy. As there is no appropriate methodology to determine the taxonomy-alignment of sovereign bonds*, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.





* *For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures.*

Taxonomy-aligned activities are expressed as a share of:
- **turnover** reflecting the share of revenue from green activities of investee companies.
- **capital expenditure** (CapEx) showing the green investments made by investee companies, e.g. for a transition to a green economy.
- **operational expenditure** (OpEx) reflecting green operational activities of investee companies.

What was the share of investments made in transitional and enabling activities?

0%. The Sub-fund did not have a commitment to a minimum proportion of investments in transitional and enabling activities.

[1] Fossil gas and/or nuclear related activities will only comply with the EU Taxonomy where they contribute to limiting climate change ("climate change mitigation") and do not significantly harm any EU Taxonomy objective - see explanatory note in the left hand margin. The full criteria for fossil gas and nuclear energy economic activities that comply with the EU Taxonomy are laid down in Commission Delegated Regulation (EU) 2022/1214.

Appendix VIII – Sustainable Finance Disclosure Regulation (Unaudited) (continued)

- ***How did the percentage of investments that were aligned with the EU Taxonomy compare with previous reference periods?***

N/A

are sustainable investments with an environmental objective that **do not take into account the criteria** for environmentally sustainable economic activities under Regulation (EU) 2020/852.

What was the share of sustainable investments with an environmental objective not aligned with the EU Taxonomy?

0%

What was the share of socially sustainable investments?

0%

What investments were included under "other", what was their purpose and were there any minimum environmental or social safeguards?

Investments included under "other" were companies that failed to meet all of the Sub-fund's promoted characteristics. These investments were included in the assessment of the Sub-fund's adverse impacts to ensure they were not causing significant harm to other sustainability indicators. These investments were included in the Sub-fund's portfolio to benefit the Sub-fund's financial performance and to ensure the Sub-fund's holdings were sufficiently diversified. Also included in "other" was cash held during the reference period for liquidity management purposes. Minimum environmental or social safeguards were not considered.

What actions have been taken to meet the environmental and/or social characteristics during the reference period?

Through the use of the Sub-fund's sustainability indicators mentioned above, the Sub-fund aligned with its promoted E/S characteristics and the investee companies were shown to have performed well. The Investment Manager monitored all investee companies' performance on a continuous basis throughout the reference period to ensure that the promoted characrteristics were being met on an ongoing basis.

Where an investee company was deemed to be at risk of failing to meet the characteristics, or where the Investment Manager required more data regarding an investee's performance, engagement was used.

Appendix VIII – Sustainable Finance Disclosure Regulation (Unaudited) (continued)

How did this financial product perform compared to the reference benchmark?

N/A. The Sub-fund did not use a reference benchmark.

Reference benchmarks are indexes to measure whether the financial product attains the environmental or social characteristics that they promote.

- ***How does the reference benchmark differ from a broad market index?***

N/A

- ***How did this financial product perform with regard to the sustainability indicators to determine the alignment of the reference benchmark with the environmental or social characteristics promoted?***

N/A

- ***How did this financial product perform compared with the reference benchmark?***

N/A

- ***How did this financial product perform compared with the broad market index?***

N/A

Appendix VIII – Sustainable Finance Disclosure Regulation (Unaudited) (continued)

ANNEX IV

Template periodic disclosure for the financial products referred to in Article 8, paragraphs 1, 2 and 2a, of Regulation (EU) 2019/2088 and Article 6, first paragraph, of Regulation (EU) 2020/852

Sustainable investment means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

The **EU Taxonomy** is a classification system laid down in Regulation (EU) 2020/852, establishing a list of **environmentally sustainable economic activities**. That Regulation does not include a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.

Product name: Fundsmith SICAV – Fundsmith Sustainable Equity Fund

Legal entity identifier: 529900QQY3MZWWNJDB76

Environmental and/or social characteristics

Did this financial product have a sustainable investment objective?

☐ **Yes**	☒ **No**
☐ It made **sustainable investments with an environmental objective:** ___%	☒ It **promoted Environmental/Social (E/S) characteristics** and while it did not have as its objective a sustainable investment, it had a proportion of 70% of sustainable investments
☐ in economic activities that qualify as environmentally sustainable under the EU Taxonomy	☐ with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy
☐ in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy	☒ with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy
	☒ with a social objective
☐ It made **sustainable investments with a social objective:** ___%	☐ It promoted E/S characteristics, but did **not make any sustainable investments**

To what extent were the environmental and/or social characteristics promoted by this financial product met?

Sustainability indicators measure how the environmental or social characteristics promoted by the financial product are attained.

This Sub-fund promoted environmental and social characteristics by investing in high quality business with good governance practices as well as sustainable investments. These businesses have demonstrated low exposure to sustainability risks as a result of their high quality and the Sub-fund performed significantly better than expected.

Appendix VIII – Sustainable Finance Disclosure Regulation (Unaudited) (continued)

The Sub-fund's underlying investments resulted in a portfolio with a significantly lower environmental footprint (measured by total waste generated, hazardous waste generated, water usage, energy consumption, and greenhouse gas emissions) compared to the average company, which the Investment Manager represented by using the weighted average of the MSCI World Index for the chosen metrics. This index does not take into account the environmental and social characteristics promoted by the Sub-fund and was chosen for comparison purposes.

The Sub-fund also promoted environmental and social characteristics through excluding companies that generate revenue from industries/ sub-industries deemed to have an excessive net negative impact on the environment and society from its investable universe (IU). This included:

- Aerospace & Defence,
- Brewers, Distillers & Vintners,
- Casinos & Gaming,
- Gas Utilities,
- Electric Utilities,
- Metals & Mining,
- Oil, Gas & Consumable Fuels,
- Pornography, and
- Tobacco.

The Sub-fund's underlying investments also reduced their negative E/S impacts and generated positive impacts through allocating capital to research and development to drive innovation in the products/ services the investee companies offered. The Investment Manager measured the impact that this innovation had on E/S characteristics through improvements in the environmental metrics mentioned earlier and through qualitative measures, such as improvements to human health and welfare. The Investment Manager balances this positive influence against negative impacts to make the assessment of the business's net impact.

- ***How did the sustainability indicators perform?***

	Total waste (metric tons/ £m of free cash flow)	Hazardous waste (metric tons/ £m of free cash flow)	Water use (m^3/ £m of free cash flow)	Energy use (MWh/ £m of free cash flow)	Greenhouse gas emissions (metric tons/ £m of free cash flow)
Fundsmith Sustainable Equity Sub-fund	30.12	0.45	1,346.11	312.11	55.96
MSCI World Index	791.17	18.27	31,562.03	3,405.65	343.96

The Sub-fund performed significantly better across all five of the sustainability indicators used compared to the average company, represented by the weighted average scores for the MSCI World Index.

Appendix VIII – Sustainable Finance Disclosure Regulation (Unaudited) (continued)

The Sub-fund also considered the principal adverse impacts of its investment dicisions on sustainability factors. The outcome of this assessment is detailed in the 'How did this financial product consider principal adverse impacts on sustainability factors?' section below.

- ***…and compared to previous periods?***

N/A

- ***What were the objectives of the sustainable investments that the financial product partially made and how did the sustainable investment contribute to such objectives?***

The objective of the Sub-fund's sustainable investments was to make a positive contribution to either the environment or society evidenced by alignment with at least one of the UN's Sustainable Development Goals.

To qualify as a sustainable investment for the Sub-fund during the reference period (01/01/2022 – 31/12/2022) a company must have passed the Investment Manager's good governance test, relating to the four areas specified by the SFDR: sound management structures, employee relations, remuneration and tax compliance. Companies must also have passed the do no significant harm test, relating to environmental, social, human rights, anticorruption and antibribery matters, represented by the principal adverse impact indicators discussed in the previous section.

The sustainable investments contributed to these objectives by allocating capital towards projects that benefit at least one of the 17 Sustainable Development Goals. The table below details the percentage of the Sub-fund's portfolio by weight that the Investment Manager judged to have made a positivie contirbution to the listeted Sustainable Development Goals. The Sub-fund's investments can contribute positively to more than one of the Goals simulataneously.

The Investment Manager's assessment for a positive contribution to the Sustainable Development Goals and their underlying targets used a pass-fail approach. This method was based upon both qualitative and quantitative analysis of a business's activities.

Each investee company that qualified as sustainable was assessed against SDG 5 (Gender Equality) and SDG 13 (Climate Action). Companies were tested for a positive contribution to gender equality through their board and executive suite composition. A proportion of >30% female representation was considered to be a positive contribution. Corporates were judged to make a positive contribution to the climate through having a greenhouse gas emissions reduction target in line with the 2015 Paris Agreement and approved by the Science Based Targets initiative. Companies also had to have submitted a response to the CDP's Climate Change questionnaire. Companies can make a positive contribution by generating at least 20% of their revenues from activities aligned with Sustainable Development Goals and their underlying targets.

Appendix VIII – Sustainable Finance Disclosure Regulation (Unaudited) (continued)

Sustainable Development Goal	% of Sub-fund's total assets making a positive contribution
2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture	8.7%
3: Ensure healthy lives and promote well-being for all at all ages	17.9%
5: Achieve gender equality and empower all women and girls	19.6%
11: Make cities and human settlements inclusive, safe, resilient and sustainable	1.3%
13: Take urgent action to combat climate change and its impacts	61.3%

Principal adverse impacts are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

How did the sustainable investments that the financial product partially made not cause significant harm to any environmental or social sustainable investment objective?

The sustainable investments made by the Sub-fund were assessed for significant harm to any environmental or social sustainable investment objective using the Investment Manager's do no significant harm test. The test assesses a company's performance relating to the 14 mandatory prinicipal adverse impact indicators and three additional environment-related adverse impact indicators. The output for the do no significant harm test can be seen in Annex IV of this document.

Alongside this assessment, the Investment Manager carried out continual internal monitoring and research to ensure that companies allocated capital as sustainable investments adhered to the do no significant harm thresholds set and continued to meet the Investment Manager's exclusion criteria.

How were the indicators for adverse impacts on sustainability factors taken into account?

The indicators used for the Investment Manager's adverse impact assessment are detailed in the section *'How did this financial product consider the principal afverse impacts on sustainability factors?'* contained within this annex.

Were sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details:

The Sub-fund's sustainable investments were assessed for their alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. The sustainable investments made by the Sub-fund were aligned with the guidelines promoted by both the OECD and UN.

The EU Taxonomy sets out a "do not significant harm" principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific Union criteria.

The "do no significant harm" principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

Any other sustainable investments must also not significantly harm any environmental or social objectives.

How did this financial product consider principal adverse impacts on sustainability factors?

The principal adverse impacts of the Investment Manager's investment decisions on sustainability factors were considered during the reference period (01/01/2022 – 12/12/2022). All the Sub-fund's underlying investments were assessed using the PAI indicators given in Commission Delegated Regulation (EU) 2022/1288 Table 1, subject to data availability and quality. This includes:

- Greenhouse gas emissions
- Biodiversity
- Water
- Waste
- Social and employee matters

Additionally, three indicators were used from Table 2 of that regulation, where data availability and quality could be ascertained, were assessed, including:

- Carbon emission reduction plans
- Non-renewable energy usage
- Water management

The judgement of an adverse impact is based on the materiality of the indicator to the company's activities and that business's performance compared to that of similar businesses within the investable universe of the Sub-fund as a comparison. The performance of the Sub-fund in relation to each of the listed principal adverse impact indicators is available in Annex IV of this document.

What were the top investments of this financial product?

The Sub-fund's top investments during the period are listed below. Top investments were calculated by taking the portfolio weight of each holding (including cash) at the end of each calendar quarter for the reference period (01/01/2022 – 31/12/2022) and averaging for the year.

Appendix VIII – Sustainable Finance Disclosure Regulation (Unaudited) (continued)

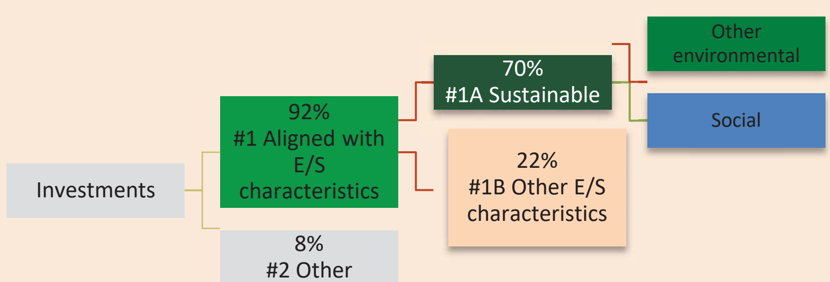
The list includes the investments constituting **the greatest proportion of investments** of the financial product during the reference period which is: 01/01/2022-31/12/2022

Largest investments	Sector	% Assets	Country
Novo Nordisk A/S	*Health Care*	*5.75%*	*Denmark*
L'Oreal SA	*Consumer Staples*	*4.99%*	*France*
Johnson & Johnson	*Health Care*	*4.76%*	*United States*
Church & Dwight Co Inc	*Consumer Staples*	*4.71%*	*United States*
McCormick & Co Inc/MD	*Consumer Staples*	*4.67%*	*United States*
Automatic Data Processing Inc	*Technology*	*4.63%*	*United States*
Microsoft Corp	*Technology*	*4.56%*	*United States*
Procter & Gamble Co/The	*Consumer Staples*	*4.48%*	*United States*
Waters Corp	*Health Care*	*4.38%*	*United States*
Estee Lauder Cos Inc/The	*Consumer Staples*	*4.37%*	*United States*
Home Depot Inc/The	*Consumer Discretionary*	*4.32%*	*United States*

What was the proportion of sustainability-related investments?

Asset allocation describes the share of investments in specific assets.

What was the asset allocation?



#1 Aligned with E/S characteristics includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

#2Other includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.

The category **#1 Aligned with E/S characteristics** covers:
- The sub-category **#1A Sustainable** covers environmentally and socially sustainable investments.
- The sub-category **#1B Other E/S characteristics** covers investments aligned with the environmental or social characteristics that do not qualify as sustainable investments.

Appendix VIII – Sustainable Finance Disclosure Regulation (Unaudited) (continued)

The Sub-fund aimed to allocate 80% of its assets in alignment with the E/S characteristics it promotes, given as '**#1 Aligned with E/S characteristics**' in the chart above. However, during the reference period, 92% of the Sub-fund's assets met the promoted characteristics, as detailed in the section 'How did the sustainability indicators perform?' of this annex. This therefore reduced the proportion of the Sub-fund's assets allocated to '**#2 Other**' from the target of 20% of assets to 8% during the period.

The Sub-fund has a commitment to allocate 70% of its assets towards sustainable investments, '**#1A Sustainable**'. During the reference period, 70% of the Sub-fund's assets were in investments the Investment Manager deemed as sustainable.

Investments contained in '**#1B Other E/S characteristics**' were 12% higher than the targeted 10%, reflecting the increased number of investments that met the promoted characteristics of the Sub-fund.

In which economic sectors were the investments made?

Industry (Bloomberg Industry Classification System)	Proportion of investments
Consumer Discretionary Services	0.8%
Consumer Staple Products	31.2%
Health Care	32.5%
Industrial Products	1.3%
Media	3.4%
Retail & Wholesale - Discretionary	4.3%
Software & Tech Services	23.3%
Cash	3.3%

Enabling activities directly enable other activities to make a substantial contribution to an environmental objective.

Transitional activities are activities for which low-carbon alternatives are not yet available and among others have greenhouse gas emission levels corresponding to the best performance.

The Sub-fund had no exposure to any economic sector or sub-sector deriving revenues from the exploration, mining, extraction, production, processing, storage, refining or distribution, including transportation, storage and trade, of fossil fuels.

To what extent were the sustainable investments with an environmental objective aligned with the EU Taxonomy?

0%. The Sub-fund did not make any Taxonomy-aligned investments.

Did the financial product invest in fossil gas and/or nuclear energy related activities complying with the EU Taxonomy[1]?

☐ Yes:

☐ In fossil gas ☐ In nuclear energy

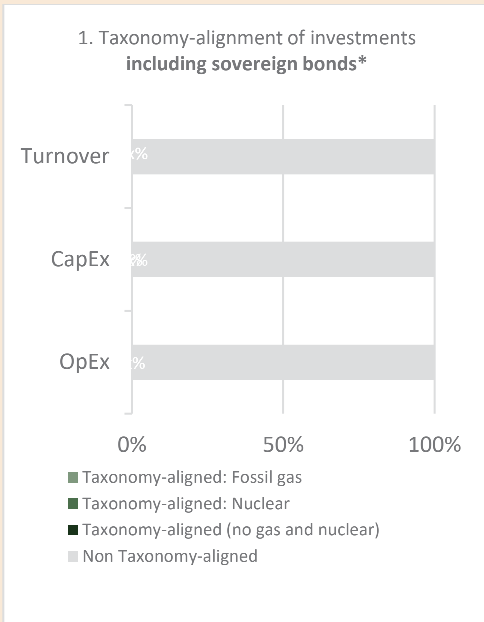
☒ No

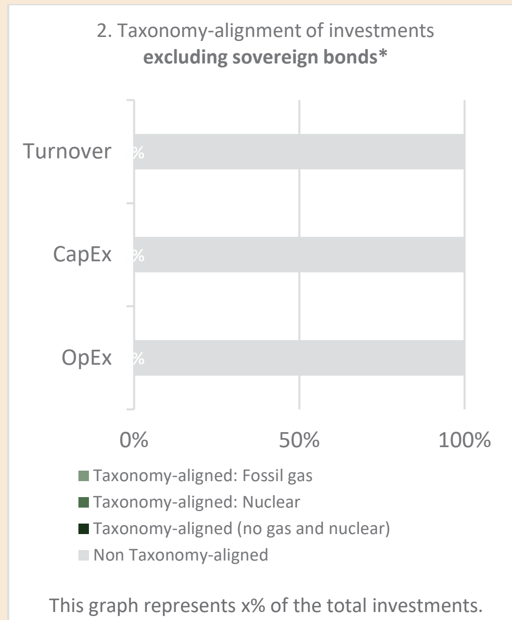
[1] Fossil gas and/or nuclear related activities will only comply with the EU Taxonomy where they contribute to limiting climate change ("climate change mitigation") and do not significantly harm any EU Taxonomy objective - see explanatory note in the left hand margin. The full criteria for fossil gas and nuclear energy economic activities that comply with the EU Taxonomy are laid down in Commission Delegated Regulation (EU) 2022/1214.

Appendix VIII – Sustainable Finance Disclosure Regulation (Unaudited) (continued)

Taxonomy-aligned activities are expressed as a share of:
- **turnover** reflecting the share of revenue from green activities of investee companies.
- **capital expenditure** (CapEx) showing the green investments made by investee companies, e.g. for a transition to a green economy.
- **operational expenditure** (OpEx) reflecting green operational activities of investee companies.

The graphs below show in green the percentage of investments that were aligned with the EU Taxonomy. As there is no appropriate methodology to determine the taxonomy-alignment of sovereign bonds*, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.





* *For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures.*

What was the share of investments made in transitional and enabling activities?

0%. The Sub-fund did not have a commitment to a minimum proportion of investments in transitional and enabling activities.

How did the percentage of investments that were aligned with the EU Taxonomy compare with previous reference periods?

N/A

are sustainable investments with an environmental objective that **do not take into account the criteria** for environmentally sustainable economic activities under Regulation (EU) 2020/852.

What was the share of sustainable investments with an environmental objective not aligned with the EU Taxonomy?

The Sub-fund did not have a commitment to make sustainable investments aligned with the EU Taxonomy, therefore all sustainable investments made during the reference period were not aligned with the EU Taxonomy. Data is not yet available at sufficient scale or quality to estimate the alignment of the Sub-fund's investments with the EU Taxonomy.

The Sub-fund's sustainable investments are assessed as those that contributed to at least one of the 17 United Nations Sustainable Development Goals (SDGs). Since these include both environmental and social goals, it is not possible to assess specific minimum shares for environmental and social investments in each case. The overall share of sustainable investments in relation to environmental and social objectives of the Sub-fund was 76% during the reference period.

Appendix VIII – Sustainable Finance Disclosure Regulation (Unaudited) (continued)

What was the share of socially sustainable investments?

The Sub-fund's sustainable investments are assessed as those that contributed to at least one of the 17 United Nations Sustainable Development Goals (SDGs). Since these include both environmental and social goals, it is not possible to assess specific minimum shares for environmental and social investments in each case. The overall share of sustainable investments in relation to environmental and social objectives of the Sub-fund was 76% during the reference period.

What investments were included under "other", what was their purpose and were there any minimum environmental or social safeguards?

Investments included under "other" were companies that did not qualify as sustainable investments and failed to meet all of the Sub-fund's promoted characteristics. These investments were included in the assessment of the Sub-fund's adverse impacts to ensure they were not causing significant harm to other sustainability indicators. These investments were included in the Sub-fund's portfolio to benefit the Sub-fund's financial performance and to ensure the Sub-fund's holdings were sufficiently diversified. Also included in "other" was cash held during the reference period for liquidity management purposes. Minimum environmental or social safeguards were not considered for cash held by the Sub-fund.

What actions have been taken to meet the environmental and/or social characteristics during the reference period?

Through the use of the Sub-fund's sustainability indicators mentioned above as well as the assessment of alignment with the UN SDGs, the Sub-fund aligned with its promoted E/S characteristics and sustainable investments and the investee companies were shown to have performed well. The Investment Manager monitored all investee companies' performance on a continual basis throughout the reference period to ensure that the promoted characrteristics were being met.

The Sub-fund met its stated goal of allocating at least 70% of its assets towards companies making a posititive contribution towards at least one of the Sustainable Development Goals for the reference period (01/01/2022 – 31/12/2022). To ensure that companies met this criteria, the Investment Manager monitored their performance in relation to the do no significant harm and good governance tests, as detailed in the earlier sections of this annex. Alongside this, the Investment Manager monitored the investee companies' positive contribution towards the Sustainable Development Goals to ensure they remained as sustainable investments.

Where an investee company was deemed to be at risk of failing to meet the characteristics, or where the Investment Manager required more data regarding an investee's performance, engagement was used.

Appendix VIII – Sustainable Finance Disclosure Regulation (Unaudited) (continued)

How did this financial product perform compared to the reference benchmark?

Reference benchmarks are indexes to measure whether the financial product attains the environmental or social characteristics that they promote.

N/A. The Sub-fund did not use a reference benchmark.

- ***How does the reference benchmark differ from a broad market index?***

  N/A

- ***How did this financial product perform with regard to the sustainability indicators to determine the alignment of the reference benchmark with the environmental or social characteristics promoted?***

  N/A

- ***How did this financial product perform compared with the reference benchmark?***

  N/A

- ***How did this financial product perform compared with the broad market index?***

  N/A

Appendix IX – Statement on Principal Adverse Impacts of Investment Decisions on Sustainability Factors (Unaudited)

Product name: Fundsmith SICAV – Fundsmith Equity Fund **Legal entity identifier:** 5493007LIDK72VIBC263

Summary
Fundsmith SICAV – Fundsmith Equity Fund considers principal adverse impacts of its investment decisions on sustainability factors. The present statement is the consolidated statement on principal adverse impacts on sustainability factors of Fundsmith SICAV – Fundsmith Equity Fund.
This statement on principal adverse impacts on sustainability factors covers the reference period from 1 January 2022 to 31 December 2022.

The principal adverse impact indicators considered by the Sub-fund are summarised below.

Table 1 – Indicators applicable to investments in investee companies

Climate and other environment-related indicators

- Greenhouse gas emissions
  - PAI 1. GHG emissions.
    - Scope 1, 2, 3, and total greenhouse gas emissions
  - PAI 2. Carbon footprint
  - PAI 3. GHG intensity of investee companies
  - PAI 4. Exposure to companies active in the fossil fuel sector
  - PAI 5. Share of non-renewable energy consumption and production
  - PAI 6. Energy consumption per high impact climate sector
- Biodiversity
  - PAI 7. Activities negatively affecting biodiversity-sensitive areas
- Water
  - PAI 8. Emissions to water
- Waste
  - PAI 9. Hazardous waste and radioactive waste ratio

Appendix IX – Statement on Principal Adverse Impacts of Investment Decisions on Sustainability Factors (Unaudited) (continued)

Indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters

- Social and employee matters
  - PAI 10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises
  - PAI 11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises
  - PAI 12. Unadjusted gender pay gap
  - PAI 13. Board gender diversity
  - PAI 14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons

Table 2 – Additional climate and other environment-related indicators

Indicators applicable to investments in investee companies

Climate and other environment-related indicators

- Emissions
  - 4. Investments in companies without carbon emission reduction initiatives
- Energy performance
  - 5. Breakdown of energy consumption by type of non-renewable sources of energy
- Water, waste and material emissions
  - 7. Investments in companies without water management policies

Appendix IX – Statement on Principal Adverse Impacts of Investment Decisions on Sustainability Factors (Unaudited) (continued)

Description of the principal adverse impacts on sustainability factors

Adverse sustainability indicator	Metric		Impact [year n]	Impact [year n-1]	Explanation	Actions taken, and actions planned and targets set for the next reference period
Indicators applicable to investments in investee companies						
CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS						
Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG emissions	15,466 metric tons	N/A	N/A	No action taken during initial data collection period. The Fundsmith Equity Sub-fund expects investee companies to avoid causing a significant negative impact as a result of their greenhouse gas emissions. Any company assessed to be an outlier or who we conclude to have a significant adverse impact in relation to any of the six listed metrics will be subject to further analysis and potentially engagement, as detailed in the 'Engagement policies'
		Scope 2 GHG emissions	11,765 metric tons	N/A	N/A	
		Scope 3 GHG emissions	N/A	N/A	N/A	
		Total GHG emissions	27,025 metric tons (scope 1 and 2 only)	N/A	N/A	
	2. Carbon footprint	Carbon footprint	3.38 metric tons / €M	N/A	N/A	
	3. GHG intensity of investee companies	GHG intensity of investee companies	19.90 metric tons / €M revenue (scope 1 and 2 only)	N/A	N/A	
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	The Fundsmith Equtiy Sub-fund does not invest in any companies active in the fossil fuels sector.	N/A	N/A	
	5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-	35% of portfolio companies consume energy from non-renewable sources. No companies directly involved with energy	N/A	N/A	

Appendix IX – Statement on Principal Adverse Impacts of Investment Decisions on Sustainability Factors (Unaudited) (continued)

		renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources	production.				section below.
	6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	**High Impact Climate Sector**	**Impact**	N/A	N/A	
			Agriculture, Forestry and Fishing	No exposure			
			Mining and Quarrying	No exposure			
			Manufacturing	0.54 GWh / €M revenue			
			Electricity, Gas, Steam and Air Conditioning Supply	No exposure			
			Water Supply; Sewage, Waste Management and Remediation Activities	No exposure			
			Construction	No exposure			
			Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	No exposure			

Appendix IX – Statement on Principal Adverse Impacts of Investment Decisions on Sustainability Factors (Unaudited) (continued)

			Transportation and Storage	No exposure			
			Real Estate Activities	No exposure			
Biodiversity	7. Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas	N/A		N/A	N/A	No action taken during initial data collection period. The Fundsmith Equity Sub-fund expects investee companies to avoid causing a significant negative impact on biodiversity as a result of their operations. Any company assessed to be an outlier or who we conclude to have a significant adverse impact in relation to any of the six listed metrics will be subject to further analysis and potentially engagement, as detailed in the 'Engagement policies' section below.
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average	0.00 metric tons / €M		N/A	N/A	No action taken during initial data collection period. The Fundsmith Equity Sub-fund expects investee companies to avoid causing a significant negative impact on water

Appendix IX – Statement on Principal Adverse Impacts of Investment Decisions on Sustainability Factors (Unaudited) (continued)

						quality as a result of their operations. Any company assessed to be an outlier or who we conclude to have a significant adverse impact in relation to any of the six listed metrics will be subject to further analysis and potentially engagement, as detailed in the 'Engagement policies' section below.
Waste	9. Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average	0.00 metric tons / €M	N/A	N/A	No action taken during initial data collection period. The Fundsmith Equity Sub-fund expects investee companies to avoid causing a significant negative impact on the natural environment resulting from the hazardous/radioactive waste generated by their operations. Any company assessed to be an outlier or who we conclude to have a significant adverse impact in relation to any of the six listed metrics will be subject to further analysis

Appendix IX – Statement on Principal Adverse Impacts of Investment Decisions on Sustainability Factors (Unaudited) (continued)

						and potentially engagement, as detailed in the 'Engagement policies' section below.
INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS						
Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	5%	N/A	N/A	No action taken during initial data collection period. The Fundsmith Equity Sub-fund expects investee companies to adhere to the UN Global Compact Principles and OECD Guidelines for Multinational Enterprises. Investee companies are also expected to have the necessary processes to monitor compliance with both frameworks and mechanisms to handle any potential violations. Any company assessed to be an outlier in relation to either indicator, or who we conclude to be having significant adverse impact will be subject to further analysis and potentially engagement, as detailed in the 'Engagement policies'
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for	12%	N/A	N/A	

Appendix IX – Statement on Principal Adverse Impacts of Investment Decisions on Sustainability Factors (Unaudited) (continued)

	Multinational Enterprises	Multinational Enterprises				section below.
	12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	4%	N/A	N/A	No action taken during initial data collection period.
	13. Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members	35%	N/A	N/A	The Fundsmith Equity Sub-fund considers gender equality at investee companies by looking at the gender pay gap and ratio of male to female board members, subject to the availability and quality of such data. Any company assessed to be an outlier in relation to either indicator, or who we conclude to be having significant adverse impact will be subject to further analysis and potentially engagement, as detailed in the 'Engagement policies' section below.
	14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	The Fundsmith Equity Sub-fund does not invest in any companies involved in the manufacture or selling of controversial weapons.	N/A	N/A	The Fundsmith Equity Sub-fund does not invest in companies exposed to controversial weapons. This is achieved through screening and excluding any company involved in the production, sales or distribution of

Appendix IX – Statement on Principal Adverse Impacts of Investment Decisions on Sustainability Factors (Unaudited) (continued)

Adverse sustainability impact		Metric	Impact [year n]		Impact [year n-1]	Explanation	Actions taken, and actions planned and targets set for the next reference period
	weapons)						controversial weapons from the Sub-fund's investable universe.
Other indicators for principal adverse impacts on sustainability factors							
Adverse sustainability impact		**Metric**	**Impact [year n]**		**Impact [year n-1]**	**Explanation**	**Actions taken, and actions planned and targets set for the next reference period**
Emissions	4. Investments in companies without carbon emission reduction initiatives	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement	4%		N/A	N/A	No action taken during initial data collection period. The Fundsmith Equity Sub-fund expects investee companies to avoid causing a significant negative impact as a result of their greenhouse gas emissions. Any company assessed to be an outlier or who we conclude to have a significant adverse impact in relation to any of the six listed metrics will be subject to further analysis and potentially engagement, as detailed in the 'Engagement policies' section below.
Energy performance	5. Breakdown of energy consumption by type of non-renewable sources of energy	Share of energy from non-renewable sources used by investee companies broken down by each non-renewable energy source	**Non-renewable energy source**	**% portfolio using source**	N/A	N/A	
			Coal	12%			
			Oil	77%			
			Gas	92%			
Water, waste	7. Investments in	Share of investments in	6%		N/A	N/A	No action taken during

Appendix IX – Statement on Principal Adverse Impacts of Investment Decisions on Sustainability Factors (Unaudited) (continued)

and material emissions	companies without water management policies	investee companies without water management policy				initial data collection period. The Fundsmith Equity Sub-fund expects investee companies to avoid causing a significant negative impact on water quality as a result of their operations. Any company assessed to be an outlier or who we conclude to have a significant adverse impact in relation to any of the six listed metrics will be subject to further analysis and potentially engagement, as detailed in the 'Engagement policies' section below.

Historical comparison
The earliest historical comparison will be available by June 2024.

Appendix IX – Statement on Principal Adverse Impacts of Investment Decisions on Sustainability Factors (Unaudited) (continued)

Product name: Fundsmith SICAV – Fundsmith Sustainable Equity Fund **Legal entity identifier:** 529900QQY3MZWWNJDB76

Summary
Fundsmith SICAV – Fundsmith Sustainable Equity Fund considers principal adverse impacts of its investment decisions on sustainability factors. The present statement is the consolidated statement on principal adverse impacts on sustainability factors of Fundsmith SICAV – Fundsmith Sustainable Equity Fund.

This statement on principal adverse impacts on sustainability factors covers the reference period from 1 January 2022 to 31 December 2022.

The principal adverse impact indicators considered by the Sub-fund are summarised below.

Table 1 – Indicators applicable to investments in investee companies

Climate and other environment-related indicators

- Greenhouse gas emissions
  - PAI 1. GHG emissions.
    - Scope 1, 2, 3, and total greenhouse gas emissions
  - PAI 2. Carbon footprint
  - PAI 3. GHG intensity of investee companies
  - PAI 4. Exposure to companies active in the fossil fuel sector
  - PAI 5. Share of non-renewable energy consumption and production
  - PAI 6. Energy consumption per high impact climate sector
- Biodiversity
  - PAI 7. Activities negatively affecting biodiversity-sensitive areas
- Water
  - PAI 8. Emissions to water
- Waste
  - PAI 9. Hazardous waste and radioactive waste ratio

Appendix IX – Statement on Principal Adverse Impacts of Investment Decisions on Sustainability Factors (Unaudited) (continued)

Indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters

- Social and employee matters
  - PAI 10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises
  - PAI 11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises
  - PAI 12. Unadjusted gender pay gap
  - PAI 13. Board gender diversity
  - PAI 14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons

Table 2 – Additional climate and other environment-related indicators

Indicators applicable to investments in investee companies

Climate and other environment-related indicators

- Emissions
  - 4. Investments in companies without carbon emission reduction initiatives
- Energy performance
  - 5. Breakdown of energy consumption by type of non-renewable sources of energy
- Water, waste and material emissions
  - 7. Investments in companies without water management policies

Appendix IX – Statement on Principal Adverse Impacts of Investment Decisions on Sustainability Factors (Unaudited) (continued)

Description of the principal adverse impacts on sustainability factors

Indicators applicable to investments in investee companies						
Adverse sustainability indicator		**Metric**	**Impact [year n]**	**Impact [year n-1]**	**Explanation**	**Actions taken, and actions planned and targets set for the next reference period**
CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS						
Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG emissions	369 metric tons	N/A	N/A	No action taken during initial data collection period. The Fundsmith Sustainable Equity Sub-fund expects investee companies to avoid causing a significant negative impact as a result of their greenhouse gas emissions. Any company assessed to be an outlier or who we conclude to have a significant adverse impact in relation to any of the six listed metrics will be subject to further analysis and potentially engagement, as detailed in the ‘Engagement policies’ section below.
		Scope 2 GHG emissions	363 metric tons	N/A	N/A	
		Scope 3 GHG emissions	N/A	N/A	N/A	
		Total GHG emissions	727 metric tons (scope 1 and 2 only)	N/A	N/A	
	2. Carbon footprint	Carbon footprint	3.54 metric tons / €M	N/A	N/A	
	3. GHG intensity of investee companies	GHG intensity of investee companies	19.64 metric tons / €M revenue (scope 1 and 2 only)	N/A	N/A	
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	The Fundsmith Sustainable Equity Sub-fund does not invest in any companies active in the fossil fuels sector.	N/A	N/A	
	5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable	37% of portfolio companies consume energy from non-renewable sources. No companies directly involved with energy production.	N/A	N/A	

Appendix IX – Statement on Principal Adverse Impacts of Investment Decisions on Sustainability Factors (Unaudited) (continued)

		energy sources compared to renewable energy sources, expressed as a percentage of total energy sources					
	6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	**High Impact Climate Sector**	**Impact (GWh / €M revenue)**	N/A	N/A	
			Agriculture, Forestry and Fishing	N/A			
			Mining and Quarrying	N/A			
			Manufacturing	0.60			
			Electricity, Gas, Steam and Air Conditioning Supply	N/A			
			Water Supply; Sewage, Waste Management and Remediation Activities	N/A			
			Construction	N/A			
			Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	0.02			
			Transportation and Storage	N/A			

Appendix IX – Statement on Principal Adverse Impacts of Investment Decisions on Sustainability Factors (Unaudited) (continued)

			Real Estate Activities	N/A			
Biodiversity	7. Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas	N/A		N/A	N/A	No action taken during initial data collection period. The Fundsmith Sustainable Equity Sub-fund expects investee companies to avoid causing a significant negative impact on biodiversity as a result of their operations. Any company assessed to be an outlier or who we conclude to have a significant adverse impact in relation to any of the six listed metrics will be subject to further analysis and potentially engagement, as detailed in the 'Engagement policies' section below.
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average	0.00 metric tons / €M		N/A	N/A	No action taken during initial data collection period. The Fundsmith Sustainable Equity Sub-fund expects investee companies to avoid causing a significant negative impact on water quality as a result of their operations. Any company assessed to be an outlier or who we conclude to have a significant adverse impact in relation to any of the six listed metrics will be subject to further analysis and

Appendix IX – Statement on Principal Adverse Impacts of Investment Decisions on Sustainability Factors (Unaudited) (continued)

						potentially engagement, as detailed in the 'Engagement policies' section below.
Waste	9. Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average	0.00 metric tons / €M	N/A	N/A	No action taken during initial data collection period. The Fundsmith Sustainable Equity Sub-fund expects investee companies to avoid causing a significant negative impact on the natural environment resulting from the hazardous/radioactive waste generated by their operations. Any company assessed to be an outlier or who we conclude to have a significant adverse impact in relation to any of the six listed metrics will be subject to further analysis and potentially engagement, as detailed in the 'Engagement policies' section below.
INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS						
Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	5%	N/A	N/A	No action taken during initial data collection period. The Fundsmith Sustainable Equity Sub-fund expects investee companies to adhere to the UN Global Compact Principles and OECD Guidelines for Multinational Enterprises. Investee

Appendix IX – Statement on Principal Adverse Impacts of Investment Decisions on Sustainability Factors (Unaudited) (continued)

	Multinational Enterprises					companies are also expected to have the necessary processes to monitor compliance with both frameworks and mechanisms to handle any potential violations. Any company assessed to be an outlier in relation to either indicator, or who we conclude to be having significant adverse impact will be subject to further analysis and potentially engagement, as detailed in the 'Engagement policies' section below.
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	13%	N/A	N/A	
	12. Unadjusted gender pay gap	Average unadjusted gender pay gap of	2%	N/A	N/A	No action taken during initial data collection period.

Appendix IX – Statement on Principal Adverse Impacts of Investment Decisions on Sustainability Factors (Unaudited) (continued)

		investee companies				The Fundsmith Sustainable Equity Sub-fund considers gender equality at investee companies by looking at the gender pay gap and ratio of male to female board members, subject to the availability and quality of such data. Any company assessed to be an outlier in relation to either indicator, or who we conclude to be having significant adverse impact will be subject to further analysis and potentially engagement, as detailed in the 'Engagement policies' section below.
	13. Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members	33%	N/A	N/A	
	14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	The Fundsmith Equity Sub-fund does not invest in any companies involved in the manufacture or selling of controversial weapons.	N/A	N/A	The Fundsmith Sustainable Equity Sub-fund does not invest in companies exposed to controversial weapons. This is achieved through screening and excluding any company involved in the production, sales or distribution of controversial weapons from the Sub-fund's investable universe.

Appendix IX – Statement on Principal Adverse Impacts of Investment Decisions on Sustainability Factors (Unaudited) (continued)

<table>
<tr><th colspan="8">Other indicators for principal adverse impacts on sustainability factors</th></tr>
<tr><th colspan="2">Adverse sustainability impact</th><th>Metric</th><th colspan="2">Impact [year n]</th><th>Impact [year n-1]</th><th>Explanation</th><th>Actions taken, and actions planned and targets set for the next reference period</th></tr>
<tr><td>Emissions</td><td>4. Investments in companies without carbon emission reduction initiatives</td><td>Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement</td><td colspan="2">1%</td><td>N/A</td><td>N/A</td><td rowspan="5">The Fundsmith Sustainable Equity Sub-fund expects investee companies to avoid causing a significant negative impact as a result of their greenhouse gas emissions.
Any company assessed to be an outlier or who we conclude to have a significant adverse impact in relation to any of the six listed metrics will be subject to further analysis and potentially engagement, as detailed in the ‘Engagement policies’ section below.</td></tr>
<tr><td rowspan="4">Energy performance</td><td rowspan="4">5. Breakdown of energy consumption by type of non-renewable sources of energy</td><td rowspan="4">Share of energy from non-renewable sources used by investee companies broken down by each non-renewable energy source</td><td>Non-renewable energy source</td><td>% portfolio using source</td><td rowspan="4">N/A</td><td rowspan="4">N/A</td></tr>
<tr><td>Coal</td><td>8%</td></tr>
<tr><td>Oil</td><td>75%</td></tr>
<tr><td>Gas</td><td>93%</td></tr>
<tr><td>Water, waste and material emissions</td><td>7. Investments in companies without water management policies</td><td>Share of investments in investee companies without water management policy</td><td colspan="2">7%</td><td>N/A</td><td>N/A</td><td>No action taken during initial data collection period.
The Fundsmith Sustainable Equity Sub-fund expects investee companies to avoid causing a significant negative</td></tr>
</table>

Appendix IX – Statement on Principal Adverse Impacts of Investment Decisions on Sustainability Factors (Unaudited) (continued)

						impact on water quality as a result of their operations. Any company assessed to be an outlier or who we conclude to have a significant adverse impact in relation to any of the six listed metrics will be subject to further analysis and potentially engagement, as detailed in the 'Engagement policies' section below.

Historical comparison

The earliest historical comparison will be available by June 2024.