



# Fundsmith Emerging Equities Trust

**AGM – Thursday 26<sup>th</sup> May 2016**



Fundsmith LLP (“Fundsmith”) is authorised and regulated by the Financial Conduct Authority and only acts for the funds to whom it provides regulated investment management and transaction arrangement services. Fundsmith does not act for or advise potential investors in connection with acquiring shares in Fundsmith Emerging Equities Trust plc and will not be responsible to potential investors for providing them with protections afforded to clients of Fundsmith. Prospective investors are strongly advised to take their own legal, investment and tax advice from independent and suitably qualified advisers. The value of investments may go up as well as down. Past performance is not a guide to future performance.



## Investment Proposition 1.

FEET will be invested using the same strategy as the Fundsmith Equity Fund but with one added dimension: the companies invested in by FEET will have the majority of their operations in, or revenue derived from, Developing Economies and will provide direct exposure to the rise of the consumer classes in those countries. This rise is a well established trend with a predictable pattern of development and a has a long way to run.



## Investment Proposition 2.

At the time of launch we believed that a favourable entry point for our strategy of investing in consumer stocks in Developing Economies lay ahead as a result of two major developments:

1. The mooted end of Quantitative Easing ('QE') in the United States which might lessen the flow of funds into Emerging Markets and even lead funds to return to the United States.
2. The economic slowdown in China and its knock-on effect in countries which are dominated by commodity exports, most of which are also Developing Countries.



# FEET Performance Overview

## % Total Return

	2016 to 30.4.16	2015	2014*	Since Inception to 30.4.16
FEET NAV <sub>1</sub>	+2.3	-7.0	+0.1	-4.6
FEET Share Price <sub>2</sub>	+2.4	-10.9	+7.2	-2.2
Emerging Markets <sub>3</sub>	+6.8	-10.0	+0.5	-3.3
UK Bonds <sub>4</sub>	+3.1	+1.0	+7.4	+11.8
UK Cash <sub>5</sub>	+0.2	+0.6	+0.3	+1.1

<sub>1</sub> Net of fees, priced at market close (source: Fundsmith)

<sub>2</sub> At LSE close (source: Fundsmith)

<sub>3</sub> MSCI Emerging & Frontier Markets Index (£ Net) priced at close of business US EST (source: www.msci.com)

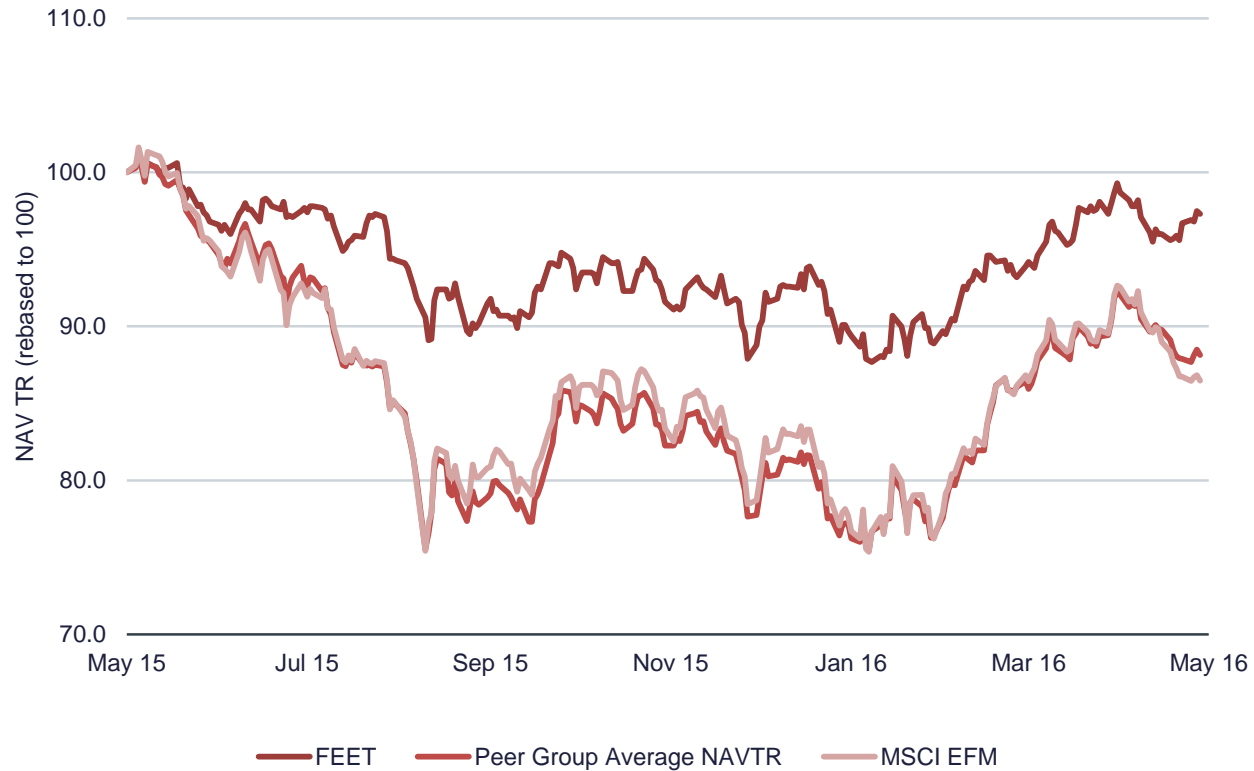
<sub>4</sub> Bloomberg/EFFAS Bond Indices UK Govt 5-10yr (source: Bloomberg)

<sub>5</sub> 3m £ LIBOR Interest Rate (source: Bloomberg)

\* From 25.6.14



# NAV Total Return vs Index and Peer Group





# Stock Attribution

Top 5	Since Inception to 30 <sup>th</sup> April 2016
Marico	+1.6
Grupo LaLa	+1.1
Godrej	+1.0
Hypermarcas	+1.0
Vitasoy	+0.7

Bottom 5	Since Inception to 30 <sup>th</sup> April 2016
Bajaj	-2.7
Guinness Nigeria	-1.1
Want Want	-1.1
Magnit	-1.1
Sun Art Retail	-1.0

Source: Fundsmith



# Currency Attribution

Top 5	Since Inception to 30 <sup>th</sup> April 2016
Indian Rupee	+2.7
Hong Kong	+1.2
US Dollar*	+0.3
Indonesian Rupee	+0.3
Philippine Peso	+0.2

Bottom 5	Since Inception to 30 <sup>th</sup> April 2016
Brazilian Real	-2.1
South African Rand	-1.7
Colombian Peso	-0.3
Mexican Peso	-0.2
Turkish Lira	-0.2

Source: Fundsmith

\* Magnit priced in \$





# Portfolio Geographic Split

Regions	%
Asia	55
Europe, Middle East, Africa	26
Latin America	11
Cash	8
Total	100

Top 5 Countries	%
India	31
Philippines	8
South Africa	8
Brazil	4
Indonesia	4

Source: Fundsmith. As at 30.4.16.



## Tap Issues

- Authority to issue up to 10% until today's AGM.
- Seeking to renew authority for up to 10% and the ability to issue a further 15%.
- Issues only done at premium to NAV and when cash is less than 10%.
- Issued to 3.5.16;

Date	Number of Shares	Issuance Price	Premium	Shares issued under block listing	% of block listing used
March 23 16	100,000	966.3	1.20%	100,000	5.17%
March 24 16	102,880	972.0	1.50%	202,880	10.49%
April 5 16	382,611	978.3	1.50%	585,491	30.28%
April 20 16	170,500	1,005.0	3.90%	755,991	39.09%
April 26 16	100,000	973.5	2.50%	855,991	44.26%
May 3 16	181,894	963.5	1.50%	1,037,885	53.67%



# Investment Strategy

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



# Investment Strategy

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



# FEET Portfolio: Sector Split

Fundsmith Sector	
Food & Beverage	35%
FMCG	25%
Retail	14%
Tobacco	7%
Fast food	6%
Chemicals	2%
Healthcare	1%
<i>Cash</i>	8%

GICS Sector	
Consumer Staples	78%
Consumer Discretionary	10%
Materials	2%
Healthcare	2%
<i>Cash</i>	8%

Source: Fundsmith. As at 30.4.16.



## FEET 'plc' vs Market

	FEET	MSCI Emerging & Frontier Index
Return on Capital Employed ('ROCE')	53%	6%
Gross Margin	45%	23%
Operating Profit Margin	18%	12%
Cash Conversion	109%	n/a
Leverage	42%	102%

Source: Fundsmith, Bloomberg. All last twelve month data as at 30<sup>th</sup> April 2016 other than Revenue and EPS growth which are last reported full year.



# Portfolio Metrics

**30<sup>th</sup> April 2016**

Revenue Growth	+13%
----------------	------

EPS Growth	+16%
------------	------

Number of Holdings	46
--------------------	----

Median Co. Founded	1950
--------------------	------

Source: Fundsmith, Bloomberg. Revenue and EPS growth are last full year reported.



# Investment Strategy

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





## Quality is more important than Value

- **Charlie Munger – Vice-Chairman Berkshire Hathaway;**

‘Over the long term, it’s hard for a stock to earn a much better return than the business which underlies it earns. If the business earns six percent on capital over forty years and you hold it for that forty years, you’re not going to make much different than a six percent return – even if you originally buy it at a huge discount. Conversely, if a business earns eighteen percent on capital over twenty or thirty years, even if you pay an expensive looking price, you’ll end up with one hell of a result.’



## Which company would you rather own over 40 years?

	ROCE	Price at start	Price at end	CAGR
<b>Company A</b>	20%			
<b>Company B</b>	10%			



## Which company would you rather own over 40 years?

	ROCE	Price at start	Price at end	CAGR
<b>Company A</b>	20%	4x Book Value		
<b>Company B</b>	10%	2x Book Value		



## Which company would you rather own over 40 years?

	ROCE	Price at start	Price at end	CAGR
<b>Company A</b>	20%	4x Book Value	2x Book Value	
<b>Company B</b>	10%	2x Book Value	4x Book Value	



## Which company would you rather own over 40 years?

	ROCE	Price at start	Price at end	CAGR
<b>Company A</b>	20%	4x Book Value	2x Book Value	18%
<b>Company B</b>	10%	2x Book Value	4x Book Value	12%



## Don't Overpay

	FEET	Fundsmith Equity Fund	MSCI EM & FM Index
LTM PE ratio	36.7x	24.0x	13.8x
LTM NFCF yield	3.9%	4.8%	n/a
LTM Dividend yield	1.8%	2.1%	3.0%
EPS Growth Rate	16.6%	6.6%	-18.6%

Source: Fundsmith, Bloomberg. All last twelve month data other than EPS growth which are last full year reported. As at 31.3.16



# Investment Strategy

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



# Do Nothing

As at 30.4.16	
Number of holdings	46
Value of Stocks sold in 2015	£22m
Value of Portfolio as at 30.4.16	£192m





## Portfolio Changes - Total

2015	
Purchases	Sales
Asian Paints	Kroton
Foshan Haitian	Natura
Havells	Alicorp
Pidilite	Group Nutresa
Bajaj	Wynn Macau
Edita	ITC
Tanzania Breweries	Havells
HM Sampoerna	Sa Sa
Walmart de Mexico	Souza Cruz
	Pidilite



## Portfolio Changes – Ex Takeovers/Buybacks

2015	
Purchases	Sales
Asian Paints	Kroton
Foshan Haitian	Natura
Havells	Alicorp
Pidilite	Group Nutresa
Bajaj	Wynn Macau
Edita	ITC
Tanzania Breweries	Havells
HM Sampoerna	Sa Sa
Walmart de Mexico	Pidilite

Souza Cruz was bought by BAT.



## Portfolio Changes – Ex IPO/Stock Offers

2015	
Purchases	Sales
Asian Paints	Kroton
Foshan Haitian	Natura
Havells	Alicorp
Pidilite	Group Nutresa
Bajaj	Wynn Macau
Walmart de Mexico	ITC
	Havells
	Sa Sa
	Pidilite

Edita IPO'd in 2015.

HM Sampoerna increased free float to meet Stock Exchange requirements.

Tanzanian Government sold stake in Tanzanian Breweries.



# Portfolio Turnover and Costs

<b>FEET shares</b>	<b>2014</b>	<b>2015</b>
Portfolio Turnover Rate	n/a	67%
OCF	1.7%	1.7%
Voluntary Dealing Costs	0.01%	0.06%

Source: FEET Annual Reports to 31<sup>st</sup> December & Fundsmith LLP

# Appendices

Same **F**und Manager  
Same **U**nique Investment Process  
Same **N**o Nonsense  
Same **D**iscipline  
Same **S**ectors  
Same **M**ethodology  
Same **I**nactivity  
Same **T**otal Alignment of Interest  
Same **H**igh Conviction



# What's In The MSCI EM Index?

MSCI EM Weight	%
China	24.3
South Korea	15.4
Taiwan	12.9
India	8.1
South Africa	6.9
Other	32.4

Top 10 MSCI EM Constituents	%
Taiwan Semiconductor (TW)	3.4
Samsung Electronics (KR)	3.3
Tencent Holdings (CN)	2.9
China Mobile (CN)	2.0
China Construction (CN)	1.7
Naspers (ZA)	1.5
ICBC (CN)	1.1
Alibaba Group (CN)	1.1
Hon Hai Precision Ind (TW)	1.1
Bank of China (CN)	0.9

MSCI EM Sector Weights	%
Financials	27.0
Information Tech	20.8
Consumer Discr.	9.8
Cons Staples	8.5
Energy	7.5
Industrials	7.1
Telecom Services	6.9
Materials	6.5
Utilities	3.2
Healthcare	2.8



## Portfolio Management Details

FEET Characteristics		Risk Management	
Typical No. Holdings	35-55	Currency Hedging	Not normally but possible in extremis
Reporting	Interim & Annual	Derivatives	Only for currency hedging
2015 OCF	1.7%	Gearing	Up to 15% for max 120 days for share buybacks
AMC	1.25%	Portfolio Concentration	Max 5% in one company or up to 10% for up to 40% of assets
Performance Fee	No	Country Concentration	Max 40% in a single country
Portfolio Turnover	Low	Counterparty Concentration	No more than 20%
Expenses	Charged to P&L	Continuation Policy	At board discretion if discount >10% >1 year after 4 <sup>th</sup> year
Dividend	Unlikely	Dealing	Via State Street Global Markets to sub brokers in local markets
Benchmark	MSCI Emerging & Frontier Index		
NAV Publication	<a href="http://www.feetplc.co.uk">www.feetplc.co.uk</a>		



## Fund Vehicle Details

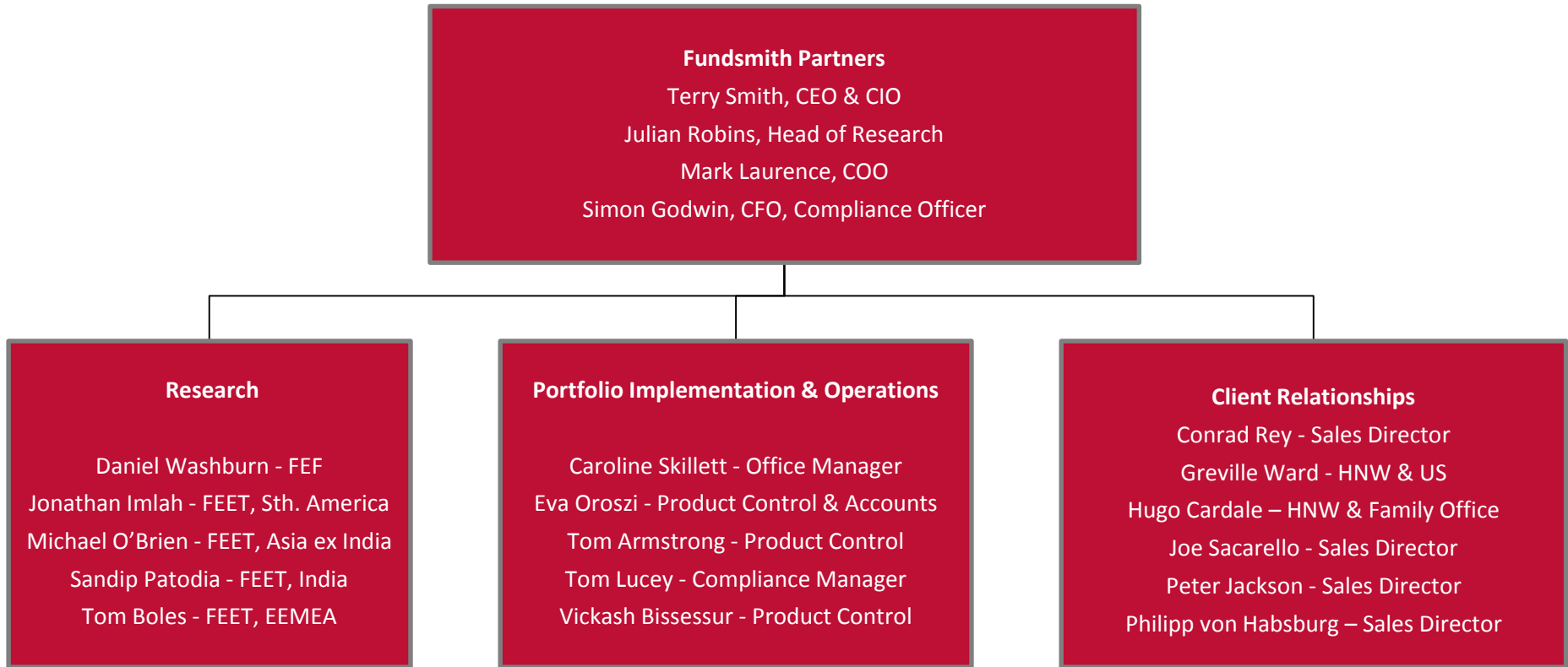
FEET IPO Details	
Legal Structure	PLC
Market	LSE Main Market
Base Currency	GBP
Issue Price	£10
First Day of Dealings	25 <sup>th</sup> June 2014
ISA	Yes
Monthly Savings	Yes
Manager Commitment	Terry Smith £5m Partners & Employees >£1m
AIC Member	Yes, Global Emerging Mkts

Directors & Advisers	
Board	Martin Bralsford – Chairman David Potter John Spencer
Sponsor & Broker	Investec Bank
Legal Adviser	Travers Smith LLP
Auditor	Deloitte
Administrator	State Street Bank & Trust Co.
Registrar	Capita Asset Services
Depository	State Street Trustees Limited
Co. Secretary	Frostrow Capital LLP





# Fundsmith Team





## Terry Smith – Fund Manager



Terry Smith graduated in History from University College Cardiff in 1974. He worked for Barclays Bank from 1974-83 and became an Associate of the Chartered Institute of Bankers in 1976. He obtained an MBA at The Management College, Henley in 1979. He became a stockbroker with W Greenwell & Co in 1984 and was the top-rated bank analyst in London from 1984-89. In 1990 he became head of UK Company Research at UBS Phillips & Drew, a position from which he was dismissed in 1992 following the publication of his best selling book Accounting for Growth. He joined Collins Stewart shortly after, and became a director in 1996. In 2000 he became Chief Executive and led the management buy-out of Collins Stewart, which was floated on the London Stock Exchange five months later. In 2003 Collins Stewart acquired Tullett Liberty and followed this in 2004 with the acquisition of Prebon Group, creating the world's second largest inter-dealer broker. Collins Stewart and Tullett Prebon were demerged in 2006 with Terry remaining CEO of Tullett Prebon until September 2014. In 2012 he was appointed a Member of the New Zealand Order of Merit for services to New Zealand-UK relations following the success of his campaign to commemorate the New Zealander, Air Marshal Sir Keith Park.

## Julian Robins – Head of Research



Julian Robins started his career with the stockbroking firm EB Savory Milln in 1984. From 1987 until 1999, he worked for BZW and after their takeover of BZW's equity business in 1998, CSFB. Between 1988 and 1993 he was BZW's senior bank analyst in London, from 1993 until 1999, he worked as an institutional salesman in New York. In 1999 he was one of the founders of Collins Stewart's New York office. He has 1st class degree in Modern History from Christ Church, Oxford and is qualified as a Series 7 Registered Representative and Series 24 General Securities Principal with FINRA.



# The Analysts

## **Michael O'Brien**

Michael joined from Canaccord Genuity (formerly Collins Stewart) where he spent more than a decade as an analyst covering a wide range of sectors and geographies. He was instrumental in the development of the company's research product and institutional franchise. Michael began his career at Guinness Flight Global Asset Management (subsequently Investec Asset Management) in 1994 as an analyst before taking responsibility for the group's UK Small and Emerging Companies Funds in 1997, and subsequently the Recovery Fund. Michael holds an MPhil from Cambridge University.

## **Jonathan Imlah**

Jonathan also joined from Canaccord Genuity, where he had been a senior technology analyst since 2010. He was previously at Altium Securities where he covered technology for 6 years, latterly becoming the Head of Research. Prior to Altium, he worked at Dresdner Kleinwort covering emerging markets equity research and subsequently pan-European IT services in the large cap technology team. Jonathan was Techmark analyst of the year in 2007 and was number 1 or 2 in his sector in the FT Starmine survey between 2006 and 2010. Prior to taking up a career as an analyst, Jonathan wrote country investment reports covering Mexico, Brazil, Peru, Guatemala, India, Russia, Hungary and Zimbabwe. Jonathan has an MBA from INSEAD and is a fluent Spanish speaker.

## **Sandip Patodia**

Sandip joined from Morgan Stanley, where he had been a Vice-President within the UK Investment Bank from 2009 to 2013, providing corporate finance advice to UK listed companies on all aspects of their interaction with the equity markets. From 2005 to 2009, he qualified as a Chartered Accountant and worked as an M&A adviser at Ernst & Young. Sandip obtained a scholarship to Aston University and holds a first class honours degree in Electronics and Computer Science.

## **Tom Boles**

Tom joined having completed an MSc in Economics and Finance from the University of Bristol with distinction in 2012, where his dissertation was on Persistence of Performance in the Mutual Fund Management Industry. He completed a BSc in Economics in 2011, also at Bristol University, having conducted work experience at Odey Asset Management and Neptune Investment Management. He is a CFA charterholder.



# The Board

## **Martin Bralsford - Chairman**

Martin Bralsford was articled with Pannell Kerr Forster & Co, London, qualifying as a Chartered Accountant in 1970 and obtained a masters degree at the London Business School in 1974. Until July 2007 he was Chief Executive of C.I. Traders, taking up this role in August 2002 when it acquired Le Riche Group. C.I. Traders was an AIM listed public company with c £325 million turnover and c.3,500 employees engaged in leisure, retail (including a Marks & Spencer Franchise) and wholesale distribution and property businesses mainly in the Channel Islands. It had an enterprise value of c.£460 million. He joined Le Riche Group as its Chief Executive in November 1992 after having previously been Group Managing Director and Chairman of Premier Brands Ltd. (now Premier Foods Ltd), part of Hillsdown Holdings. Prior to this he held a number of financial and general management appointments in Calor Gas, Rank Group, Smith Kline Beecham and Cadbury Schweppes. He has served as an independent member of the Boards of a number of commercial, banking and investment companies including Gartmore Capital Strategy Fund Limited and Acorn Income Fund Limited. He is a trustee of a number of charitable trusts; a former President of the Jersey Chamber of Commerce; and a former Chairman of both the Training and Employment Partnership in Jersey and the Durrell Wildlife Conservation Trust of which he is a Life Trustee.

## **David Potter**

After 35 years in the City (CSFB, Montagu, Midland, Guinness Mahon, Investec) David has spent the last 15 years as a chairman, non executive and trustee in a wide range of companies and institutions. He is currently chairman of Spark Ventures PLC, a director of Maven Income and Growth VCT, a member of the council of The Centre for the Study of Financial Innovation, chairman of the Bryanston and National Film & TV School Foundations and a member of The King's College London Investment Board.

## **John Spencer**

John Spencer qualified as a chartered accountant in 1966 and worked with KPMG from 1966 to 1969. He joined Barclays Bank in 1969 and held a variety of posts, including President of Barclays Bank of New York and chief executive of the USA Banking division. He returned to the UK in 1990 as deputy chief executive of BZW and chief executive of the Global Markets division and was appointed a member of the Group Executive Committee. Mr. Spencer retired in 1995. He was non-executive chairman of Regent Inns plc from 1995 to 1998 and served as non-executive chairman of softehhnet.com plc, a director of Numerica Group plc and chief executive of Snell & Wilcox Limited, a private company. He was appointed director of Tullett Prebon (originally Collins Stewart) in September 2000 and became the Senior Independent Non-executive Director, and a member of the Audit, Remuneration and Nominations Committees. He resigned in June 2007. Mr. Spencer has been a non-executive director of tpSEF Inc. since August 2013.



# Fundsmith Emerging Equities Trust

**AGM – Thursday 26<sup>th</sup> May 2016**