



Fundsmith Emerging Equities Trust

2018 Annual General Meeting



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Why FEET?



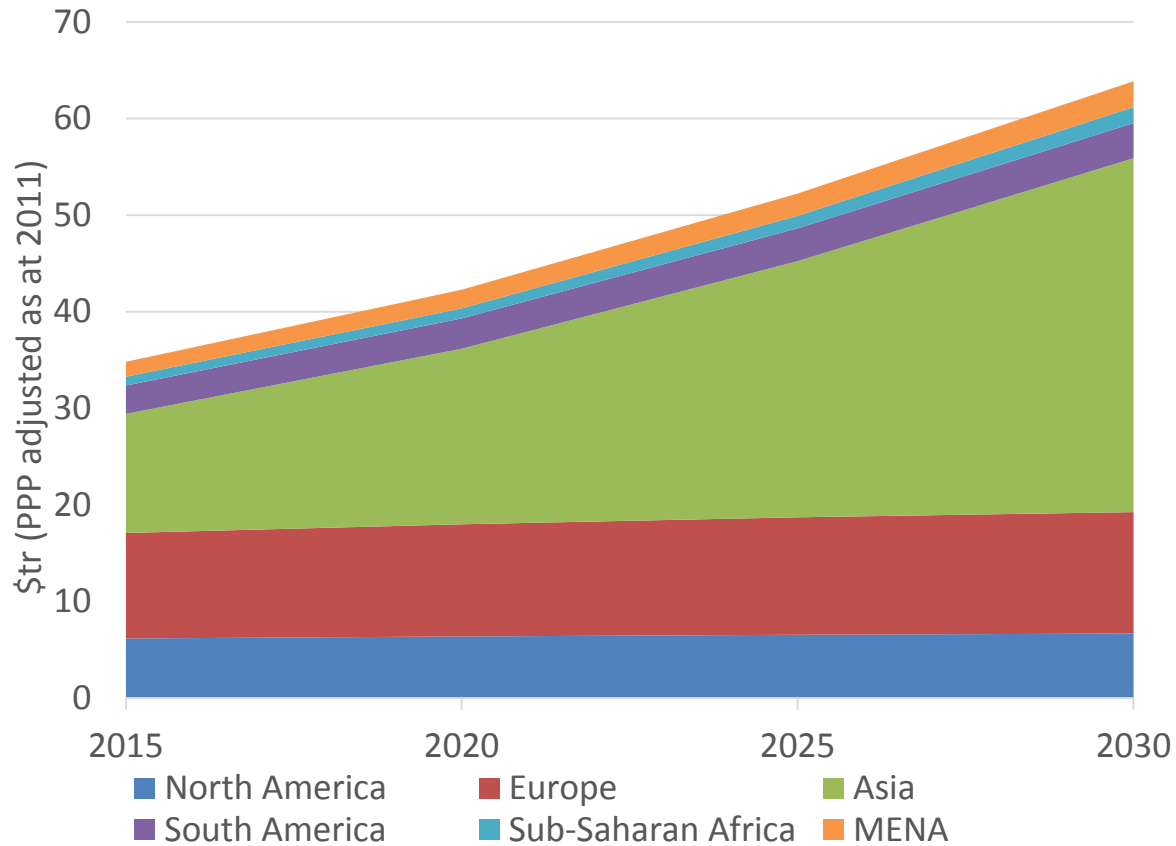
Why Fundsmith Emerging Equities Trust (“FEET”)?

- Growing demand from Fundsmith Equity Fund (“FEF”) investors for direct exposure to emerging markets
- Attractive demographics and growing spending power of middle class consumers in developing countries
- Lower liquidity in emerging markets not compatible with open-ended fund structure

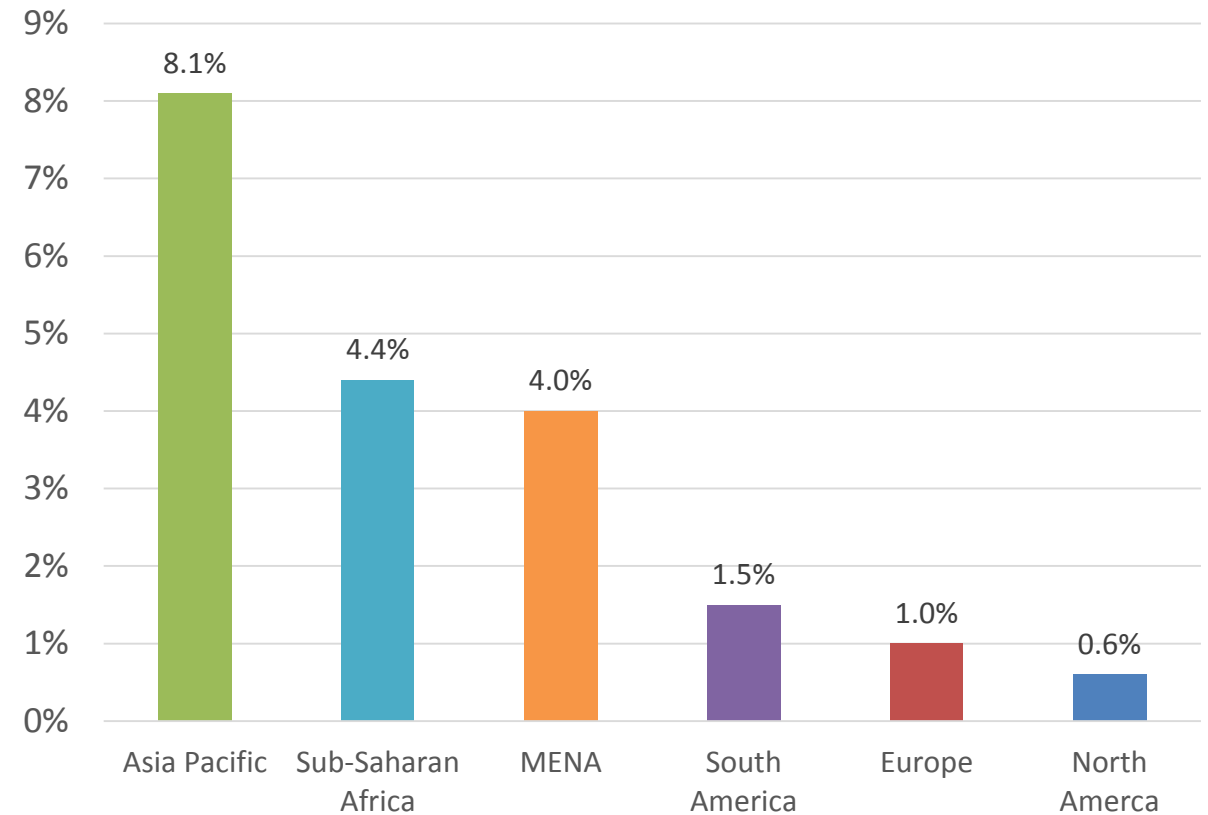


Growth in middle class consumption

Middle class spending by region



Middle class spending CAGR (2015-30)





How we invest



Fundsmith investment strategy

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



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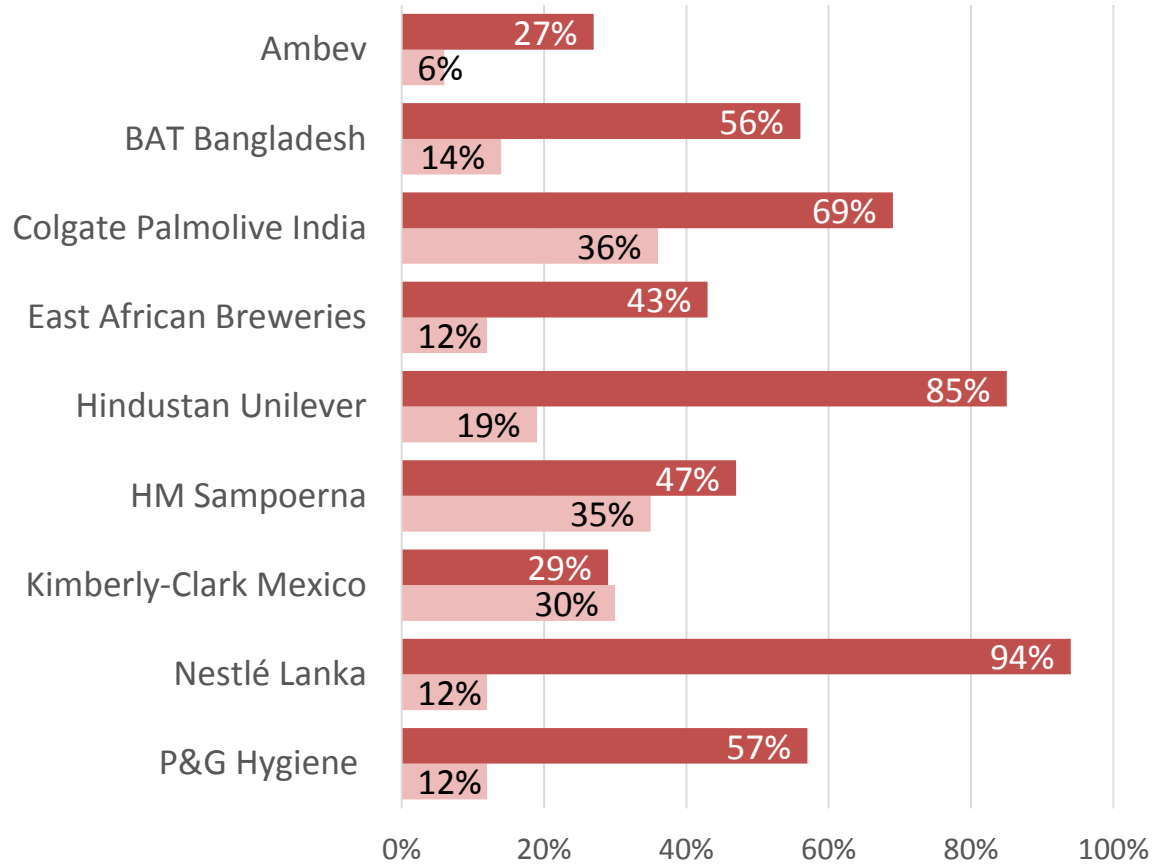
What makes a good company?

- High returns on operating capital employed in cash
- Growth driven from reinvestment of their cash flows at high rates of return
- Make money from a large number of everyday, small-ticket, repeat, predictable transactions
- Able to protect returns against competition

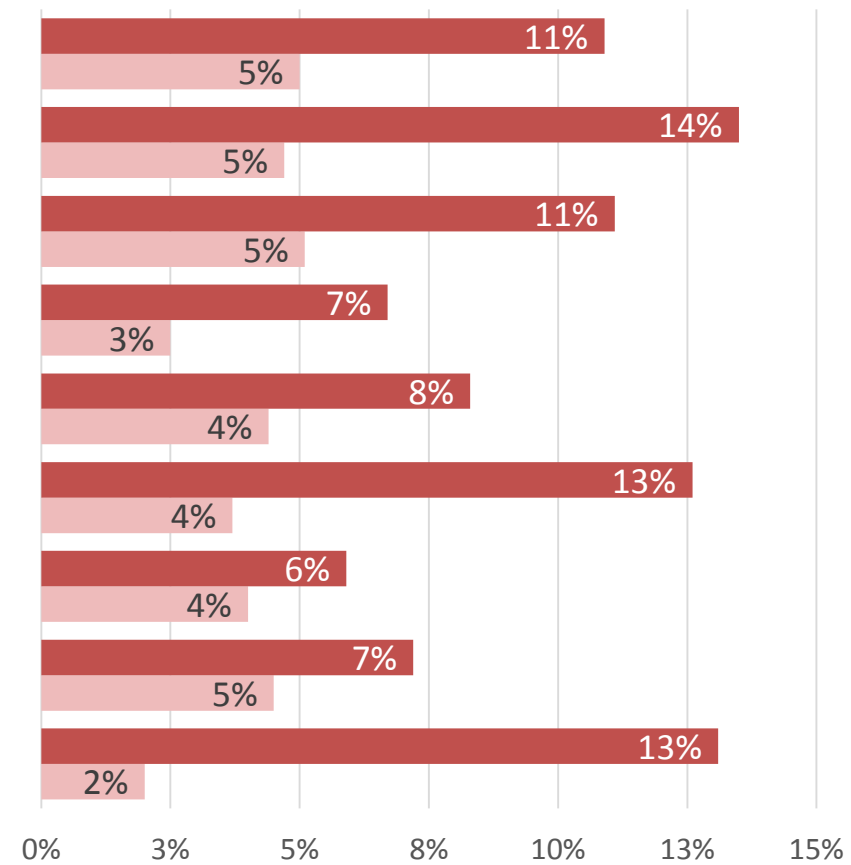


EM subsidiaries generate higher returns and growth than parents

Return on Capital Employed (ROCE)



5-year Revenue CAGR

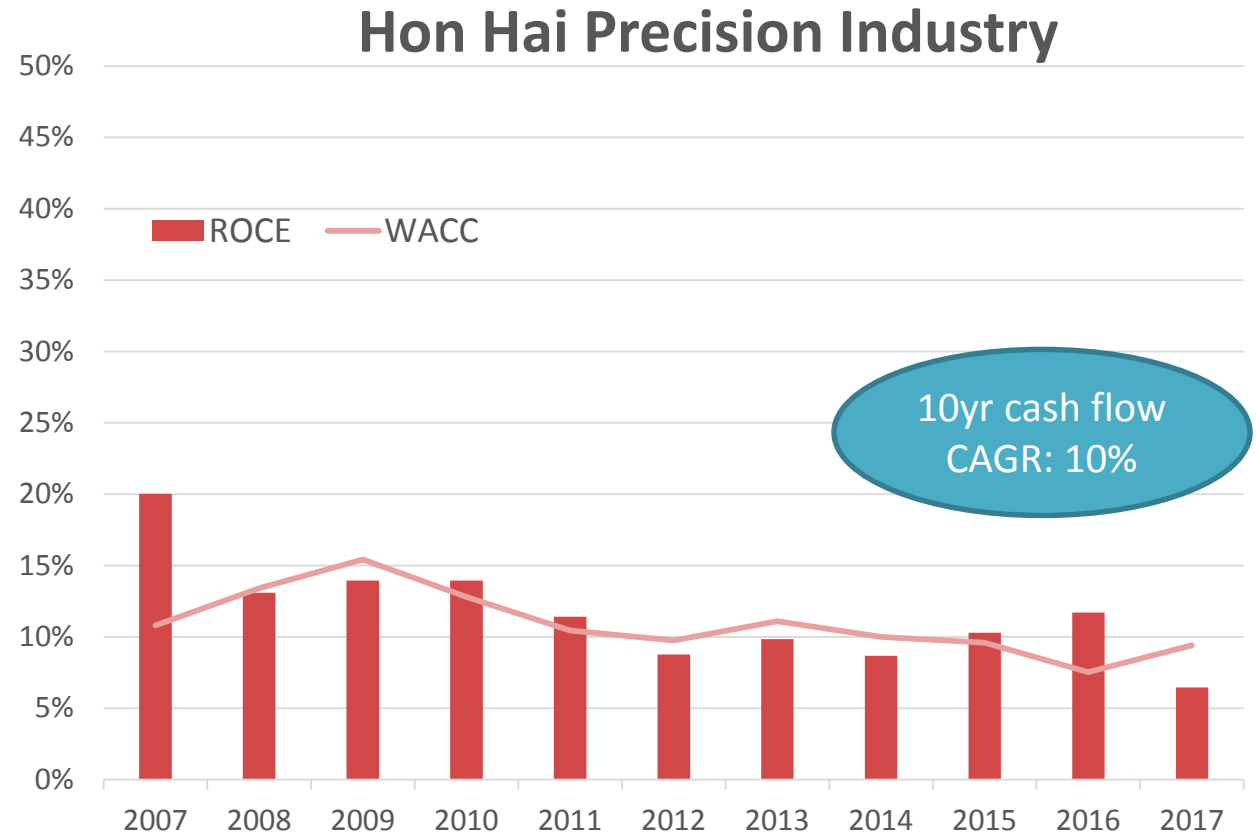
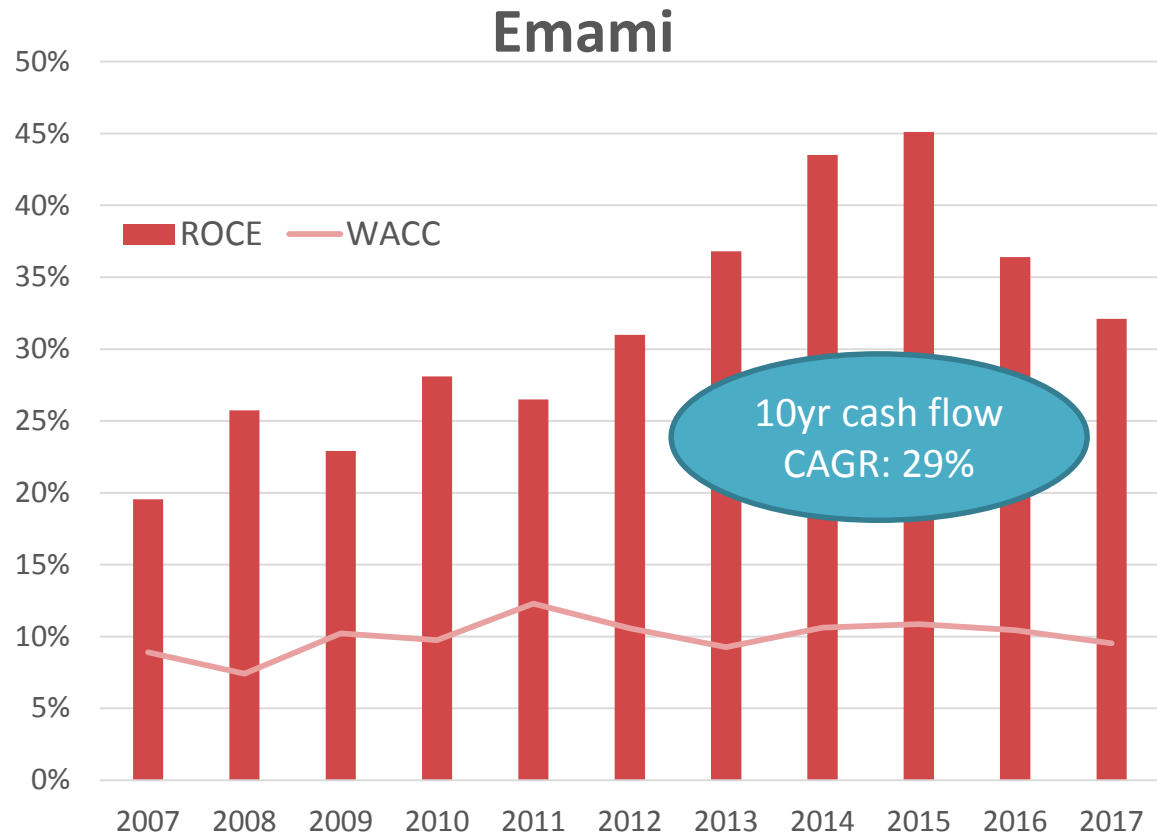


Subsidiary: ■

Parent: ■



Good company vs. bad company





Good sectors vs. bad sectors

<i>"Best" Businesses in 2017</i>					<i>"Worst" Businesses in 2017</i>				
<i>Industry Name</i>	<i>Number of Firms</i>	<i>ROCE</i>	<i>WACC</i>	<i>ROCE-WACC</i>	<i>Industry Name</i>	<i>Number of Firms</i>	<i>ROCE</i>	<i>WACC</i>	<i>ROCE-WACC</i>
Tobacco	62	41.1%	6.2%	34.9%	Oil/Gas (Production and Exploration)	928	2.9%	10.2%	-7.3%
Advertising	258	35.9%	7.9%	28.0%	Brokerage & Investment Banking	555	0.0%	5.4%	-5.3%
Healthcare Support Services	355	35.2%	7.4%	27.8%	Bank (Money Centre)	615	0.0%	4.8%	-4.8%
Information Services	193	31.5%	9.7%	21.8%	Banks (Regional)	853	0.0%	4.7%	-4.7%
Household Products	531	28.5%	7.8%	20.7%	Oil/Gas (Integrated)	48	4.6%	9.3%	-4.7%
Beverages (Soft)	101	20.4%	5.8%	14.6%	Financial Svcs. (Non-bank & Insurance)	1030	0.4%	4.0%	-3.6%
Business & Consumer Services	834	22.2%	7.6%	14.5%	Shipbuilding & Marine	342	4.5%	7.8%	-3.2%
Retail (Building Supply)	53	19.7%	6.4%	13.3%	Oil/Gas Distribution	143	6.4%	8.7%	-2.3%
Computer Services	931	20.7%	8.2%	12.5%	Reinsurance	38	6.5%	8.6%	-2.1%
Entertainment	374	20.8%	8.3%	12.4%	Precious Metals	961	7.8%	9.8%	-2.0%



Some examples of growth trends

Formalisation	Premiumisation	Digitisation
		
Market consolidation	Innovation	Demographics
		
Preventive diagnostics	Market share gains	Chinese travel
		



FEET portfolio: sector split

GICS Sector Split	Weight
Consumer Staples	69.4%
Health Care	13.1%
Consumer Discretionary	5.5%
Information Technology	4.0%
Industrials	3.9%
Materials	2.9%
Cash	1.2%

FEET Sector Split	Weight
Food & beverage	29.4%
FMCG	21.2%
Health Care	13.1%
Retail	12.1%
Tobacco	10.0%
IT	4.0%
Chemicals	2.9%
Fast Food	2.2%
Industrial	2.2%
Auto	1.7%
Cash	1.2%



What protects high returns against competition?

Brand	Economies of Scale	Franchising
 <p>marico</p>	 <p>Walmart</p> <p>México y Centroamérica</p>	 <p>Domino's</p> <p>DP Eurasia N.V.</p>
Installed Base	Distribution	Regulations
 <p>中国航信 TravelSky</p>	 <p>asianpaints</p>	 <p>الشركة الشرقية إيستون كومباني EASTERN COMPANY SAE</p>
Intellectual Property	Innovation	Professional Advocacy
 <p>edita</p>	 <p>3M India Limited</p>	 <p>Eris Lifesciences</p>



Look-through metrics

As at 30.04.18	FEET (LTM)	MSCI EM + FM (Ex-Financials)
ROCE	48%	15%
Gross margin	50%	33%
Operating margin	21%	19%
FCF conversion	106%	90%
FCF growth	26%	16%

As at 31.12.17	FEF
ROCE	28%
Gross margin	63%
Operating margin	26%
FCF conversion	102%
FCF growth	13%



Look-through metrics

	FEET (LTM)	MSCI EM + FM (Ex-Financials)	Fundsmith Equity Fund
Median Mkt Cap (£m)	£3,254	£4,489	£47,957
No. of holdings	49	955	27
Founding Date	1966	n/a	1922



Fundsmith Investment Strategy

1. Only invest in good companies
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3. Do nothing



FEET valuation metrics

As at 30.04.18	FEET	MSCI EM & FM Index (ex-Financials)	As at 31.12.17	FEF
LTM FCF yield	3.0%	5.0%	LTM FCF yield	3.7%
LTM Dividend yield	1.9%	2.6%	LTM Dividend yield	1.8%
LFY FCF Growth	26%	16%	LFY FCF Growth	13%
ROCE	48%	15%	ROCE	28%

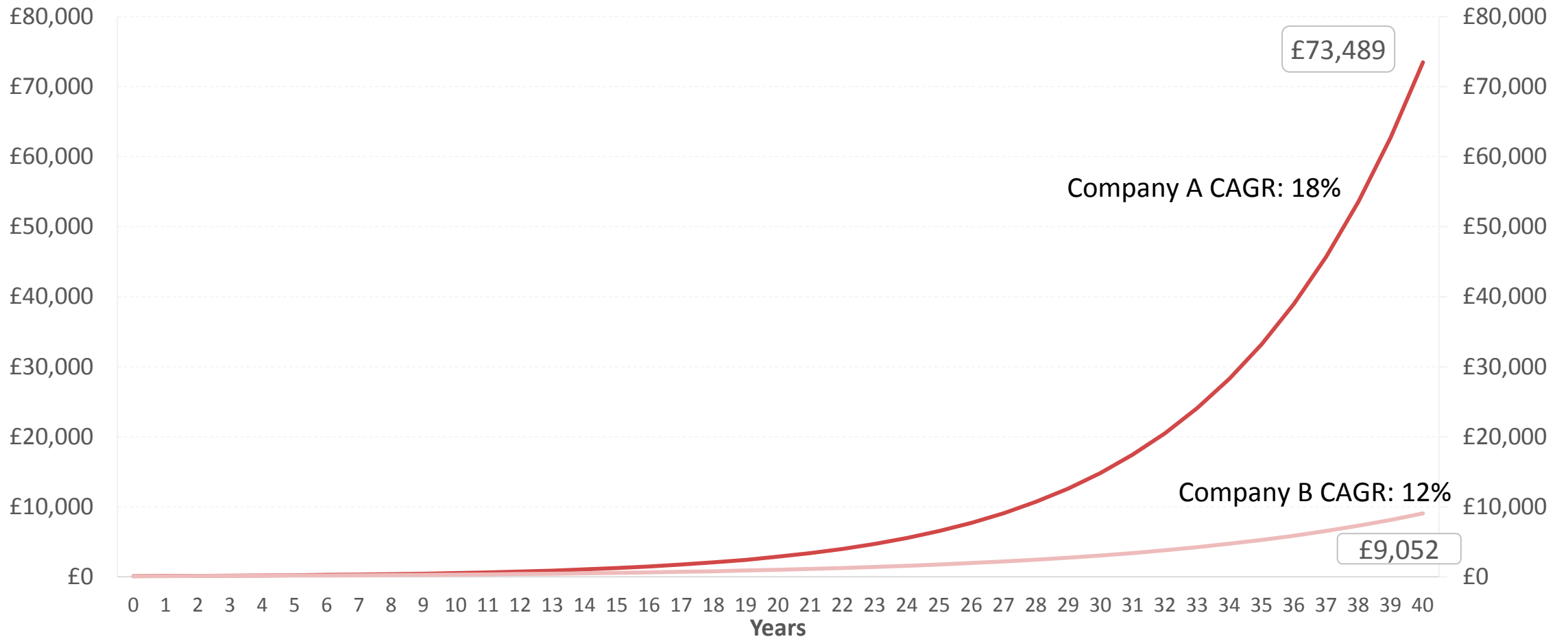
Which company would you rather own one share of over 40 years?



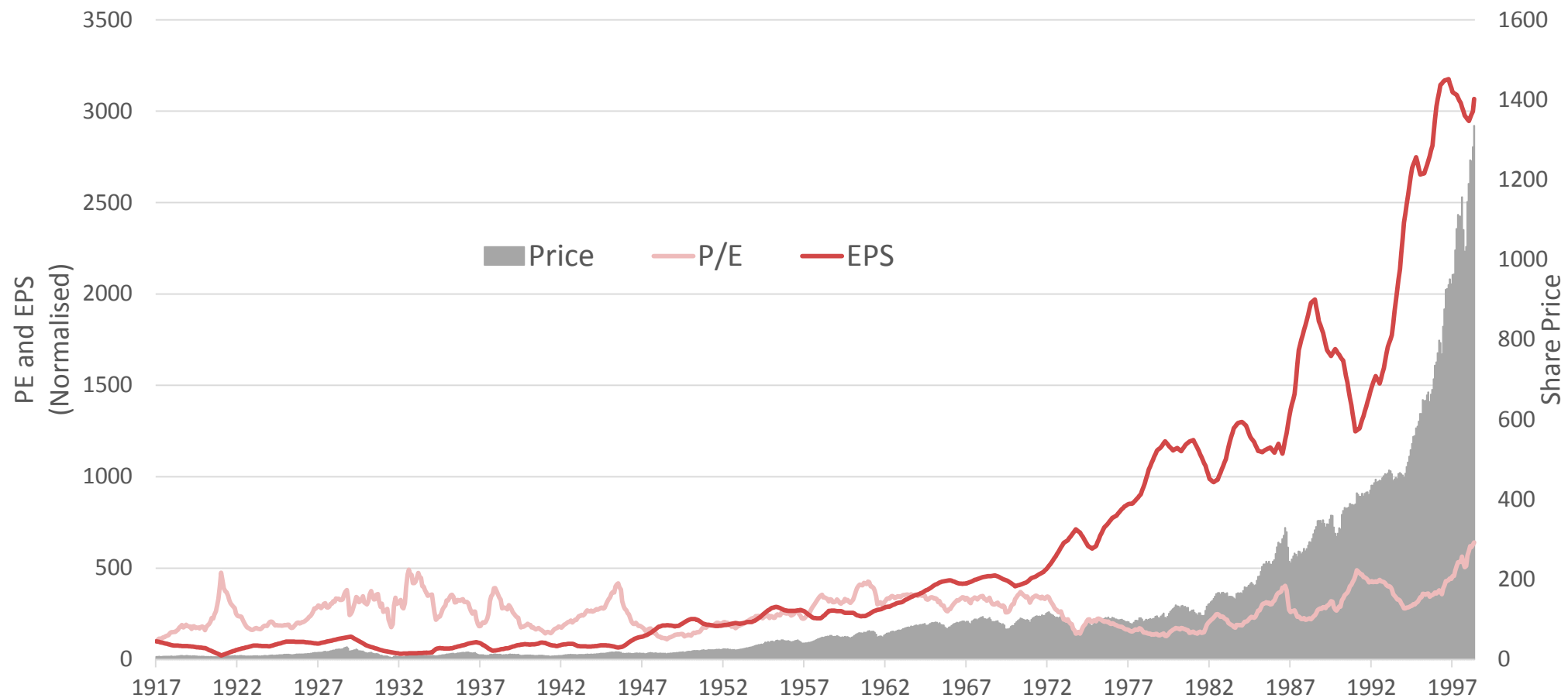
	Net Income	ROCE	P/E at start	P/E at end
Company A	£1000	20%	40x	20x
Company B	£1000	10%	20x	40x

Warren Buffett: *“It’s far better to buy a wonderful company at a fair price than a fair company at a wonderful price”*

Which company would you rather own one share of over 40 years?

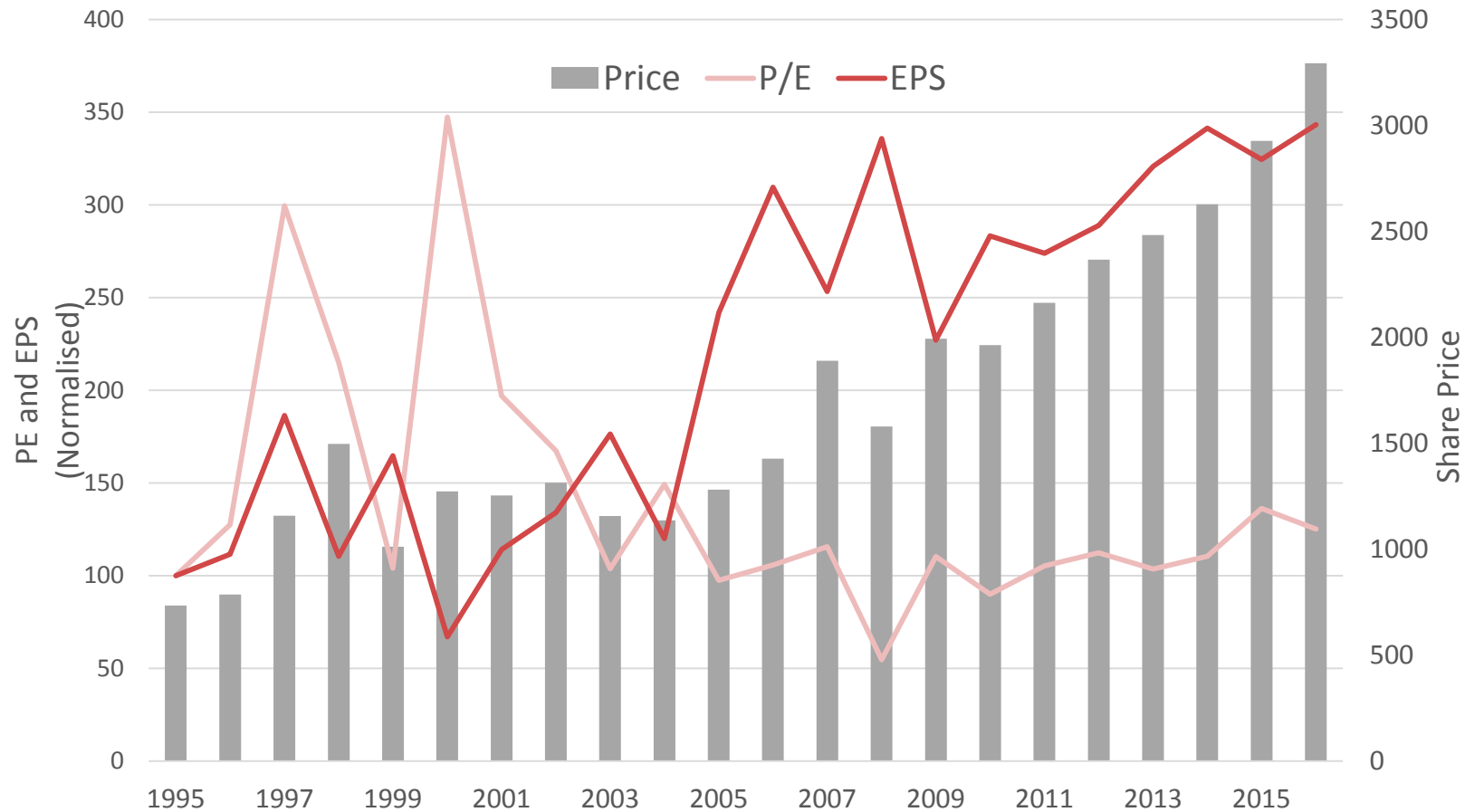


S&P 500: 1917-1999



	01/12/1917	01/05/1999	Annualised CAGR	% of return
Return from P/E growth	5.3x	34.0x	2.3%	20%
Return from EPS and EPS growth			9.3%	80%
S&P 500 Total return			11.6%	

Unilever 1995-2016



Unilever	1995	2016	Annualised CAGR	% of return
Return from P/E growth	16.8x	21.1x	1.1%	10%
Return from EPS and EPS growth			9.8%	90%
Total return			10.9%	



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Sell discipline

- Ideal holding period is forever
- Exit position only if:
 - Material change in original investment proposition
 - Management misallocates capital
 - Valuation becomes indefensible
- Sometimes we will have to involuntarily exit because of a takeover

FEET shares	2014	2015	2016	2017
Value of Stocks Sold	£4m	£19m	£43m	£44m
Portfolio Turnover Rate	n/a	67%*	38%	34%
OCF	1.7%	1.7%	1.73%	1.65%
Voluntary Dealing Costs	0.06%	0.27%	0.52%	0.18%

*FEET was still 45% cash at 31/12/2014.



Increasing Healthcare and Technology weighting

Sector Weighting	FEET 30.04.17	FEET 30.04.18
Health Care	6.8%	13.1%
Technology	0.6%	4.0%



Evolution of the emerging markets fund

Sectors we like

Fundsmith Equity Fund

Fundsmith Emerging Market Equities Trust

- Consumer
- Tobacco and Alcohol
- Healthcare
- Technology
- Industrials

Unilever

PEPSICO

DIAGEO

PHILIP MORRIS INTERNATIONAL

Johnson & Johnson

IDEXX LABORATORIES

PayPal

amADEUS

3M

KONE

Hindustan Unilever Limited

BRITANNIA Eat Healthy, Think Better

維他奶 vitasoy

eabl Celebrating Life

PT HM SAMPOERNA Tbk.

Eastern Company SAE

Hypermarchas

Eris Lifesciences

IDH INTEGRATED DIAGNOSTICS HOLDINGS

mercado libre

中国航信 TravelSky

3M India Limited

asianpaints

HAVELLS



How FEET compares with the Index



How we differ from the index

FEET country breakdown

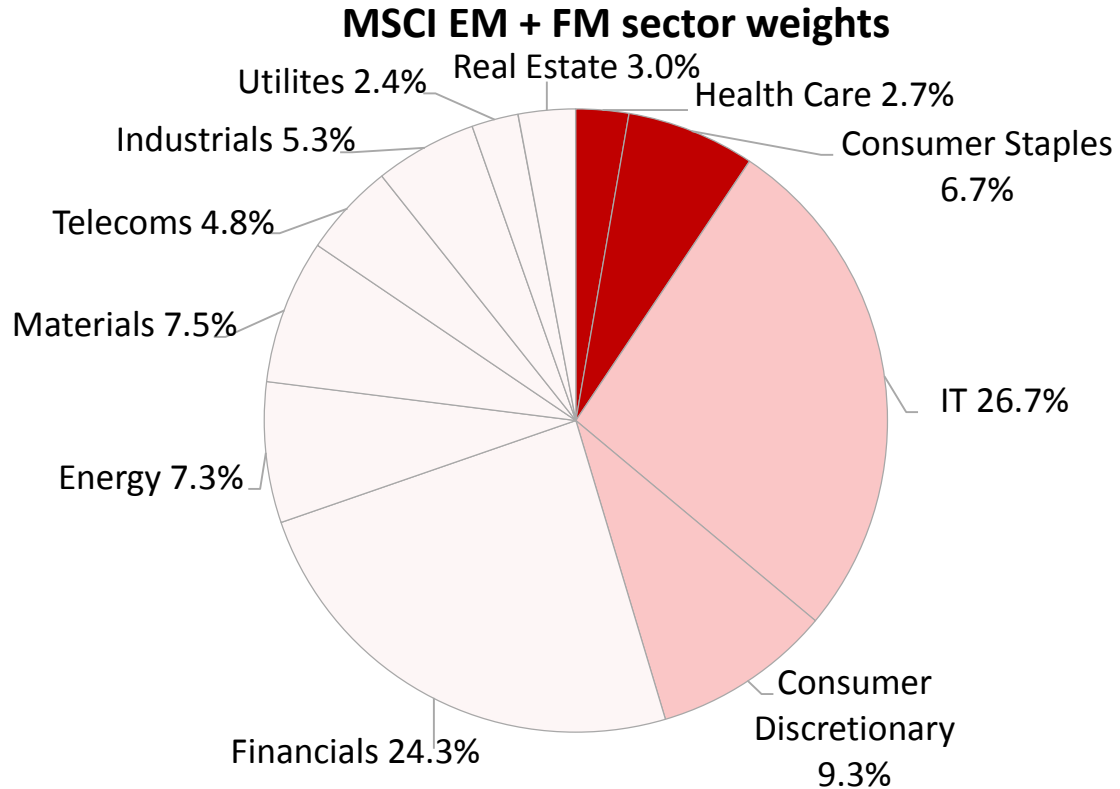
India	40.2%
China (inc. Hong Kong)	12.2%
Egypt	8.9%
South Africa	5.7%
Indonesia	4.8%
Brazil	4.1%
Other emerging markets	10.2%
Frontier markets	13.9%

MSCI EM + FM country breakdown

China (inc. Hong Kong)	29.4%
South Korea	15.3%
Taiwan	11.0%
India	8.3%
Brazil	7.0%
Other frontier + emerging markets	29.1%



MSCI Index composition by sector



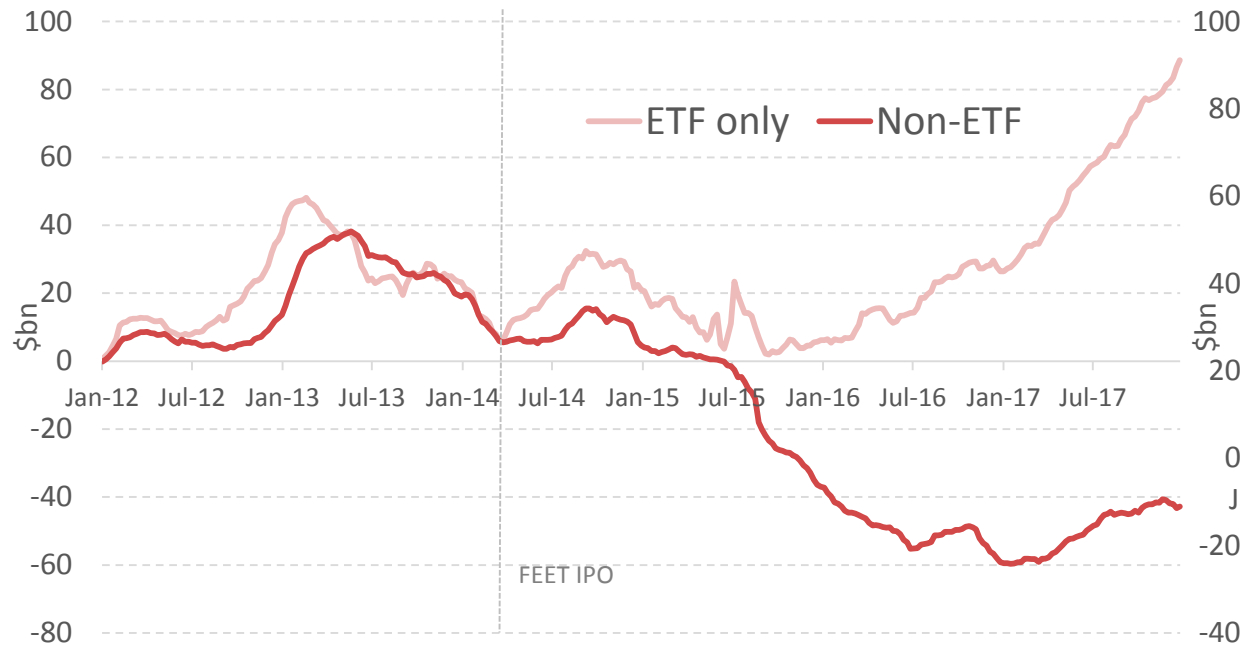
■ Sectors we invest in
■ Sectors we might invest in
□ Sectors we don't invest in

% of index in IU:	1.5%
% of index in portfolio:	0.8%
Active share:	99.2%

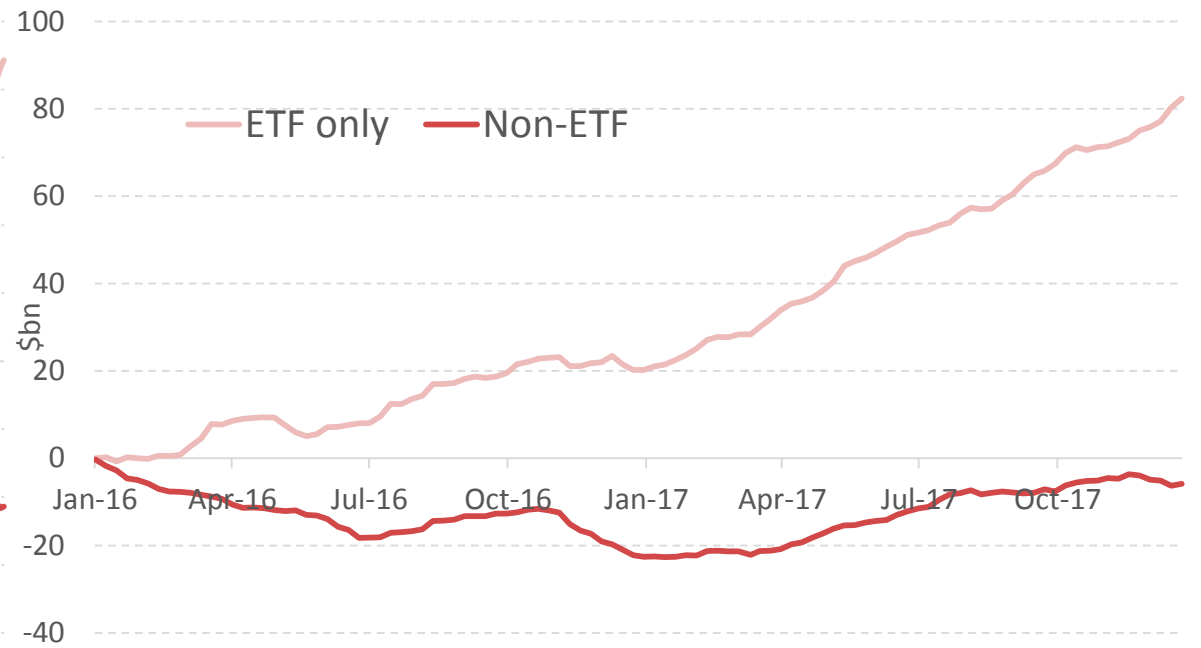


ETF fund flows

Cumulative EM fund flows since 2012



Cumulative EM fund flows 2016-2017





Top 10 FEET and MSCI holdings

Top 10 FEET portfolio holdings			Top 10 MSCI EM constituents		
	Weight	ROCE		Weight	ROCE
Eastern Tobacco	5.7%	48%	Tencent Holdings	5.1%	24%
Britannia Industries	4.3%	46%	Samsung Electronics	4.3%	23%
Godrej Consumer Products	3.7%	47%	Alibaba Group Holding	3.7%	14%
Foshan Haitian Flavouring	3.5%	36%	Taiwan Semiconductor	3.4%	22%
Vitasoy Intl Holdings	3.5%	31%	Naspers	1.9%	-2%
Marico	3.4%	44%	China Construction Bank	1.6%	6%
Philippine Seven	3.3%	24%	Baidu	1.2%	10%
Travelsky Technology	3.1%	17%	ICBC	1.2%	7%
Vietnam Dairy Products	3.1%	47%	China Mobile	1.1%	12%
Asian Paints	2.9%	33%	Ping An Insurance	0.9%	3%
Total	37%		Total	24%	
Average		37%	Average		12%



Main components of benchmark performance

Top 10 MSCI EM Constituents	% Wtg.	% Change		MSCI EM Sector Weights	% Wtg.	% Change	
		2016	2017			2016	2017
Tencent Holdings (CN)	5.3	48.4	93.9	Information Tech.	27.1	37	52
Samsung Electronics (KR)	4.2	69.3	44.8	Financials	24.0	30	18
Alibaba Group Holding (CN)	3.6	29.0	79.2	Consumer Discr.	10.0	24	24
Taiwan Semiconductor (TW)	3.4	53.9	26.0	Materials	7.3	71	27
Naspers (ZA)	2.2	27.9	73.5	Energy	6.8	60	20
China Construction Bank (CN)	1.4	34.1	9.3	Cons Staples	6.7	25	15
Baidu (CN)	1.2	3.8	30.0	Industrials	5.2	32	18
China Mobile (HK)	1.1	12.1	-12.7	Telecom Services	5.0	24	8
ICBC (CN)	1.1	18.5	22.6	Real Estate	2.9	26	33
Ping An Insurance (CN)	1.0	7.6	90.0	Health Care	2.7	53	6
				Utilities	2.4	14	46



Performance



FEET performance overview

% Total return

	April-18	2018-30.04.18	2017	2016	2015	2014*	Since inception	Annualised
FEET NAV ₁	+2.8	-2.2	+21.2	+12.0	-7.0	+0.1	+23.7	+5.7
FEET share price ₂	+4.1	-4.1	+24.5	+10.5	-10.9	+7.2	+26.0	+6.2
Emerging markets ₃	+1.5	-0.8	+25.3	+32.4	-10.0	+0.5	+48.9	+10.9
UK bonds ₄	-0.2	-1.3	+1.4	+6.5	+1.0	+7.4	+15.5	+3.8
UK cash ₅	+0.1	+0.2	+0.4	+0.5	+0.6	+0.3	+2.0	+0.5

1 Net of fees, priced at UK market close (source: Fundsmith)

2 At LSE close (source: Fundsmith)

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

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

5 3m £ LIBOR Interest Rate (source: Bloomberg)

* From 25.6.14



Stock attribution – Since Inception

Top 5	Since Inception to 31 st December 2017	Bottom 5	Since Inception to 31 st December 2017
Eastern Tobacco	6.0%	Guinness Nigeria	-1.6%
Godrej	3.5%	Edita	-1.5%
Britannia	3.2%	Magnit	-1.3%
Marico	3.2%	Want Want	-1.1%
Hypera	2.5%	Sun Art	-1.0%



Currency attribution – Since Inception

Top 5	Since Inception to 31 st December 2017	Bottom 5	Since Inception to 31 st December 2017
India	3.8%	Nigeria	-2.0%
Hong Kong	1.4%	Brazil	-1.8%
Philippines	0.7%	Egypt	-1.1%
Russia	0.5%	Mexico	-0.4%
Indonesia	0.3%	Colombia	-0.3%



Stock attribution – 2017

Top 5	2017
Eastern Tobacco	3.6%
Vinamilk	1.9%
Godrej	1.7%
Britannia	1.6%
Foshan Haitian	1.4%

Bottom 5	2017
Famous Brands	-0.7%
Magnit	-0.4%
Biotoscana	-0.4%
Dr Lal Pathlabs	-0.4%
Nestlé Lanka	-0.1%



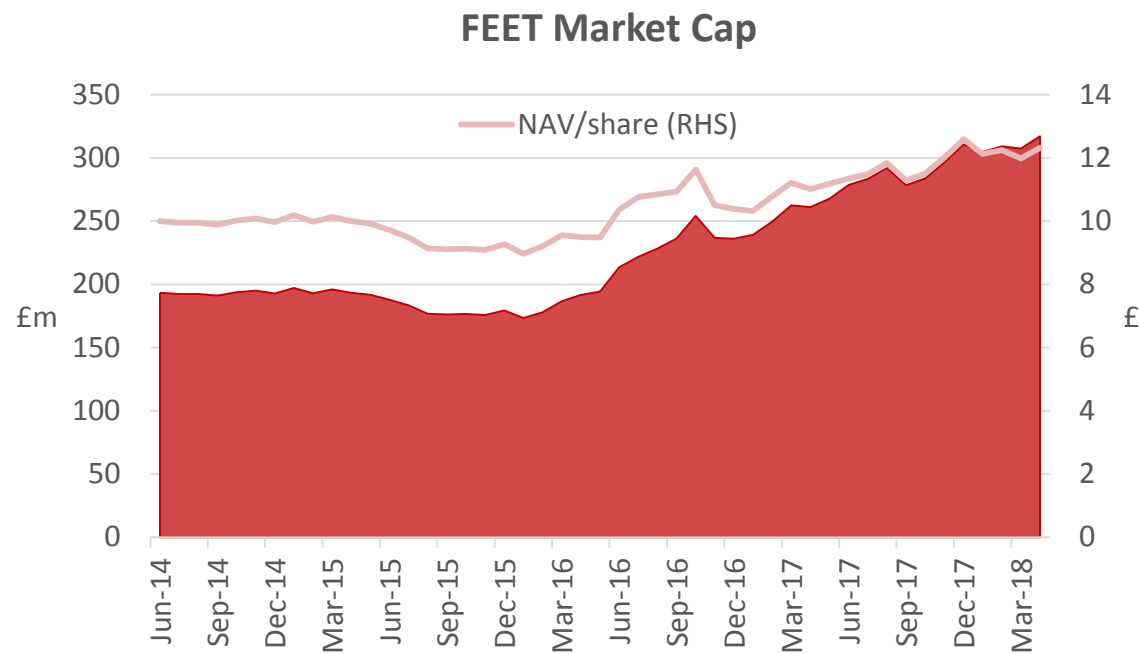
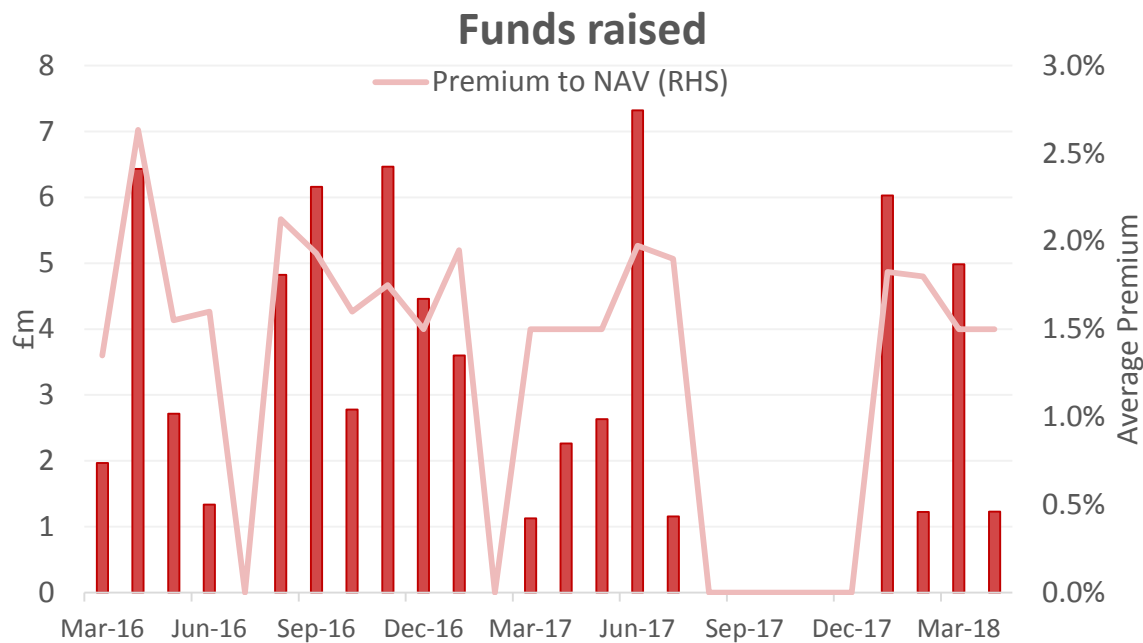
Currency attribution – 2017

Top 5	2017
South Africa	0.1%
Mexico	-0.1%
Chile	-0.1%
Ghana	-0.2%
Pakistan	-0.2%

Bottom 5	2017
India	-2.8%
Indonesia	-0.7%
Hong Kong	-0.7%
Brazil	-0.6%
Bangladesh	-0.5%



Tap issues



- Authority to issue up to 25% of equity granted again at 2017 AGM
- Issues only done at premium to NAV and when cash is less than 10%
- Tap issue started in March 2016
- Amount raised to 30/04/2018: £69m at an average premium of 1.8%