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# **Fundsmith Emerging Equities Trust**

**AGM – Tuesday 26<sup>th</sup> May 2015**

Private & Confidential

**Fundsmith**  
Emerging Equities Trust



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.

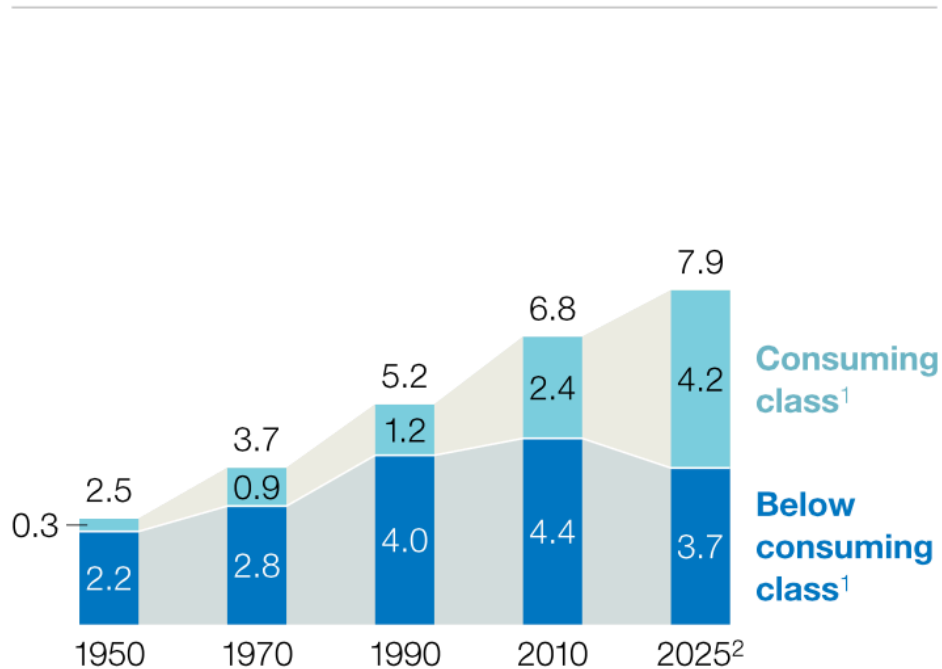
At the time of launch we believed that a favourable entry point for our strategy of investing in consumer stocks in Developing Economies lay ahead as a result of two major developments:

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.

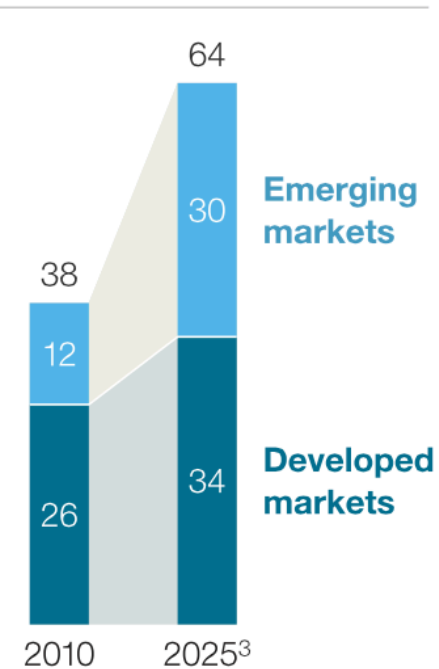


# Growth in the Consuming Classes

World population, billions



World consumption, \$ trillion

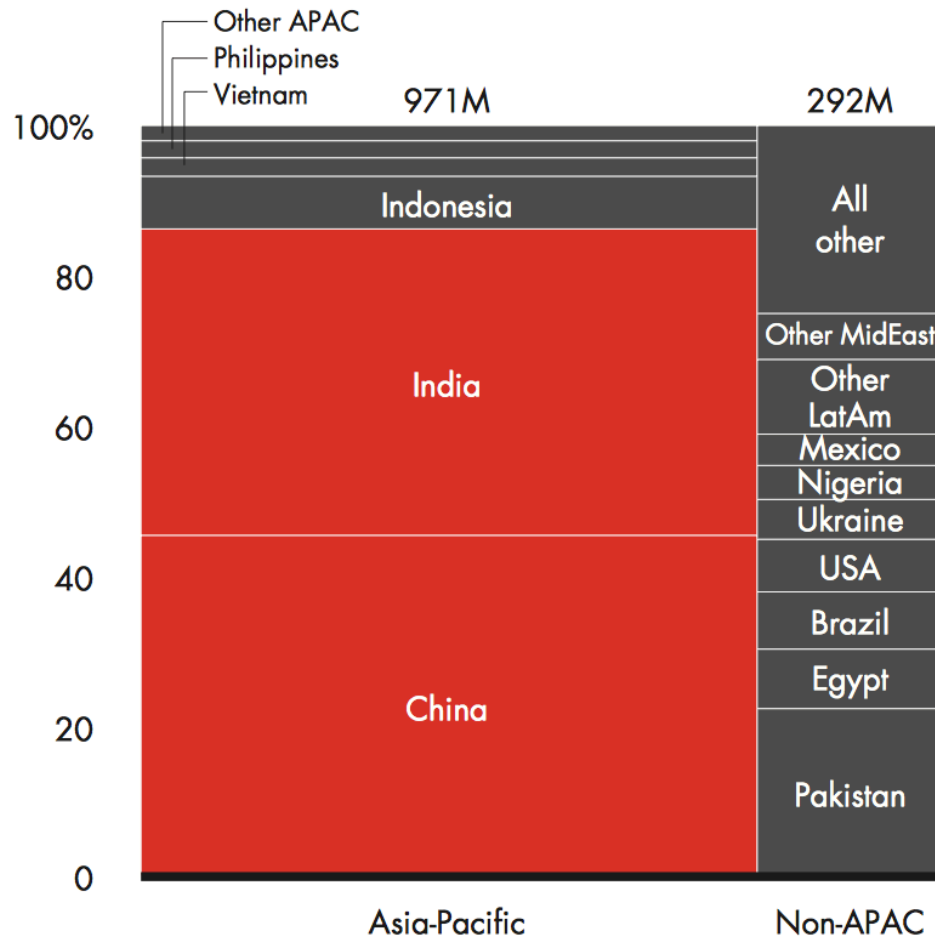


<sup>1</sup> Consuming class: Daily disposable income is  $\geq$ \$10,  
 Below consuming class: Daily disposable income is  $<$ \$10  
 Incomes adjusted for purchasing-power parity.  
<sup>2</sup> Projected  
<sup>3</sup> Estimate based on 2010 private consumption's share of GDP will remain constant.

Sources: Groningen University, Brookings Institution, McKinsey



# Distribution of Growth in Middle Class 2010-2020



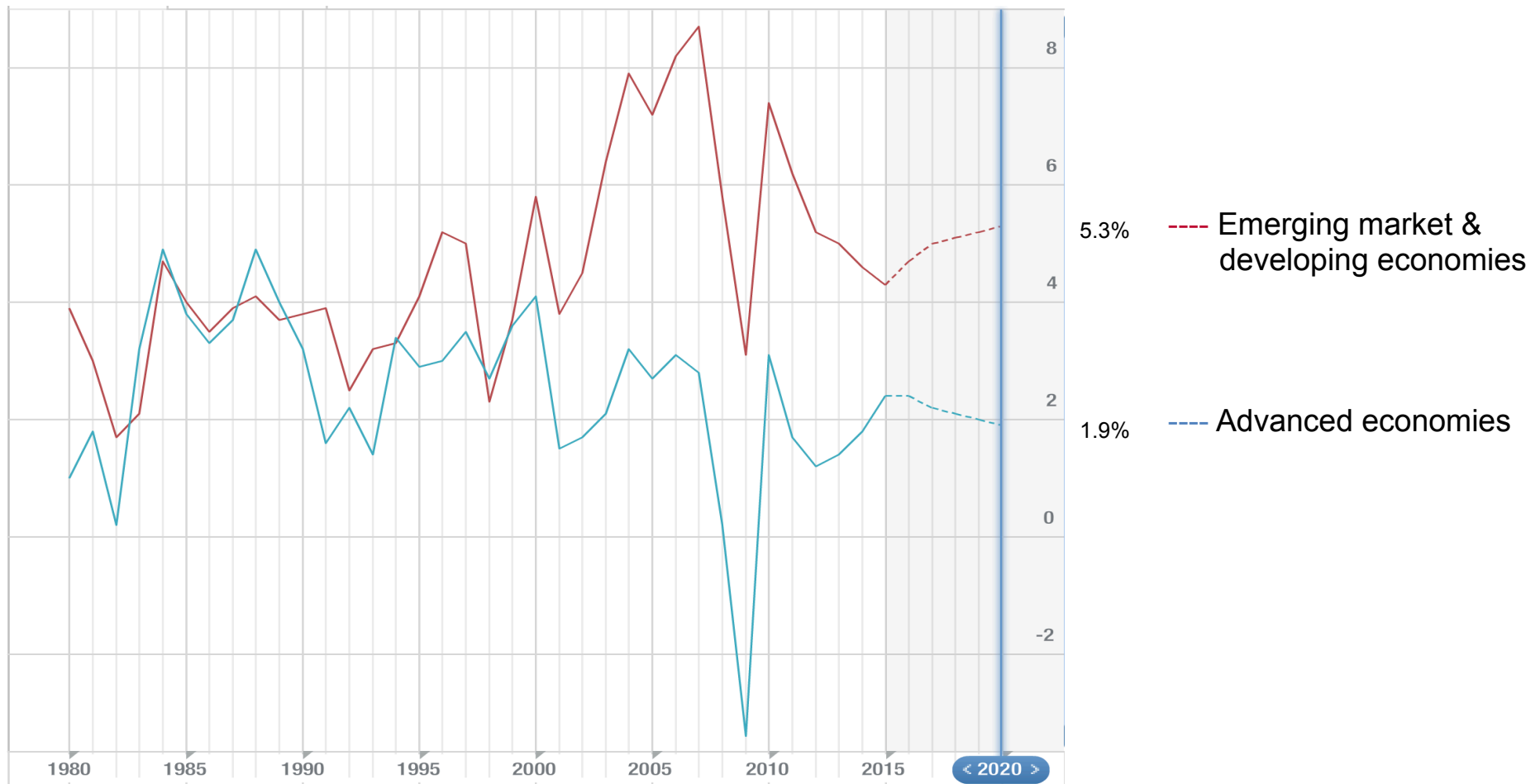
- Estimated 1.3bn growth in middle class.
- Based on \$5,000 per year threshold for household disposable personal income.
- Minimum income necessary to participate in economic activity beyond subsistence.

Source: Euromonitor; Bain Macro Trends Group analysis, 2011

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# Developed vs EM GDP Growth

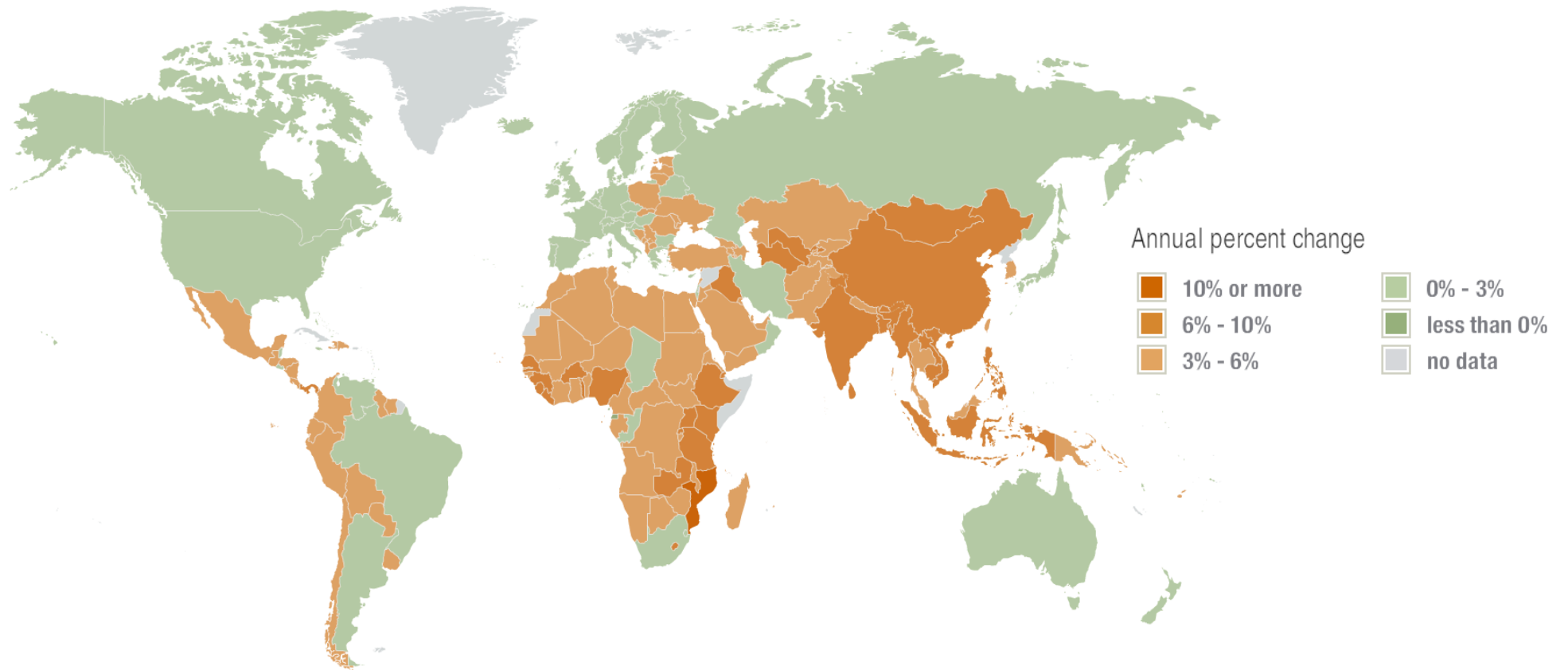


Source: IMF World Economic Outlook April 2015

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# IMF 2015 GDP Growth Forecast



Source: IMF World Economic Outlook April 2015

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## Diversity drives Indian Ocean region

Next decade will see rise of India and east Africa as mature economies stagnate – John Authers, FT May 2015.

### Projections of GDP growth to 2023

Selected top countries



Source: Harvard Center for International Development

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## Performance Overview

	Since Inception to 30 <sup>th</sup> April 2015
FEET NAV	+0.4
FEET Share Price	+8.6
MSCI Emerging & Frontier <sup>1</sup>	+12.1
Cash <sup>2</sup>	+0.5
Net Assets Invested as at 30 <sup>th</sup> April	71%

Source: Fundsmith, Bloomberg, Inception 26.6.14, <sup>1</sup> MSCI Emerging & Frontier Markets Index, £ Net (source: www.msci.com), <sup>2</sup> 3 Month Sterling LIBOR Interest Rate.



## Portfolio Sector Exposure

As at 30 <sup>th</sup> April 2015	%
Consumer Staples	59.3
Consumer Discretionary	9.9
Materials	1.7
Industrials	0.5
Cash	28.6

Source: Fundsmith



## Portfolio Geographic Split

As at 30 <sup>th</sup> April 2015	%
Asia	59
Europe, Middle East, Africa	29
Latin America	12
Total	100

Source: Fundsmith

Top 5 Countries	%
India	18
South Africa	7
China	7
Philippines	6
Nigeria	5



## The Importance of ROCE

- **Warren Buffett said in his 1979 annual letter as Chairman of Berkshire Hathaway:**  
‘The primary test of managerial economic performance is the achievement of a high earnings rate on equity capital employed’.
- **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.’



## FEET 'plc' vs Market

	FEET	MSCI Emerging & Frontier Index
Return on Capital Employed ('ROCE')	39%	6%
Gross Margin	44%	21%
Operating Profit Margin	17%	11%
Cash Conversion	100%	52%
Leverage	44%	102%

Source: Fundsmith, Bloomberg. All last twelve month data as at 30<sup>th</sup> April 2015 other than Revenue and EPS growth which are last full year reported.



## Valuation & Portfolio Metrics

**30<sup>th</sup> April 2015**

Free Cash Flow Yield	3.5%
Revenue Growth	+10%
EPS Growth	+11%
Number of Holdings	50
PTR	8%
Median Co. Founded	1958

Source: Fundsmith, Bloomberg. All last twelve month data as at 30<sup>th</sup> April 2015 other than Revenue and EPS growth which are last full year reported.



## Stock Attribution

Top 5	Since Inception to 30 <sup>th</sup> April 2015
Marico	+0.8
Vitasoy	+0.6
Universal Robina	+0.6
Emami	+0.5
Souza Cruz	+0.5

Bottom 5	Since Inception to 30 <sup>th</sup> April 2015
Wynn Macau	-0.8
Sa Sa	-0.6
Want Want	-0.4
Grupo Nutresa	-0.3
Nigerian Breweries	-0.3

Source: Fundsmith

- BAT is seeking to buy out the minority stake in Souza Cruz.
- Unilever is seeking to increase its stake in Unilver Nigeria to 75% from 50%.





# Currency Attribution

Top 5	Since Inception to 30 <sup>th</sup> April 2015
Hong Kong Dollar	+0.7
US Dollar*	+0.2
Philippine Peso	+0.2
Chilean Peso	+0.1
Thailand	+0.1

Bottom 5	Since Inception to 30 <sup>th</sup> April 2015
Brazilian Real	-1.0
Nigerian Naira	-0.6
Colombian Peso	-0.3
Turkish Lira	-0.2
South African Rand	-0.2

Source: Fundsmith

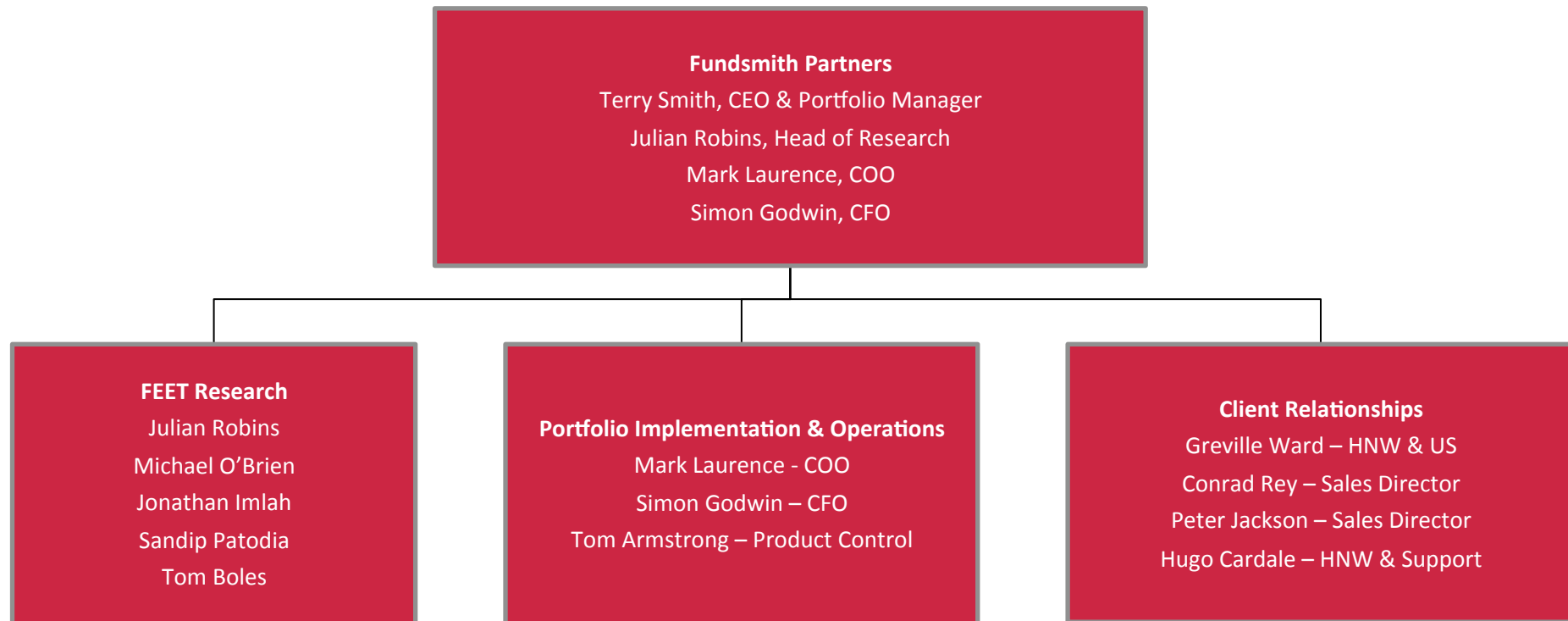
\* Magnit priced in \$

# 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



# Fundsmith Team



As of 28<sup>th</sup> Feb 2014.

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## 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 and he remains CEO of the latter having retired as Deputy Chairman of Collins Stewart at the end of 2010 to found Fundsmith LLP.



## 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.



## The Analysts

### **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 an Investment Management Certificate (IMC) holder and has passed Level 1 of the CFA Programme.



## 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 Hilldown 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.





## The Board cont.

### **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 softtehhnet.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.