Fundsmith
Emerging Equities Trust

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May 2022 AGM

Important notice

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Performance & attribution

Performance

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% return

	2022 YTD to Apr	2021	2020	2019	2018	2017	2016	2015	2014*	Since inception	Annualised
FEET NAV[1]	-8.9	+3.8	+20.7	-0.5	-3.0	+21.2	+12.0	-7.0	+0.1	+39.3	+4.3
FEET share price [2]	-13.6	-3.4	+29.1	-7.4	-9.4	+24.5	+10.5	-10.9	+7.2	+18.7	+2.2
Emerging markets [3]	-5.2	-1.4	+14.4	+13.9	-9.3	+25.3	+32.4	-10.0	+0.5	+65.7	+6.6
UK bonds [4]	-5.6	-4.5	+4.6	+3.8	+1.2	+1.4	+6.5	+1.0	+7.4	+16.0	+1.9
UK cash [5]	+0.1	+0.1	+0.3	+0.8	+0.7	+0.4	+0.5	+0.6	+0.3	+3.8	+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] £ Interest Rate (Source: Bloomberg).
From 25.6.14.
Disclaimer: Past performance is a not a reliable indicator of future results.

2021 attribution

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Largest contributors	2021
Avenue Supermarts	2.2%
Metropolis Healthcare	2.0%
Havells	1.8%
Dr Lal Pathlabs	1.6%
Asian Paints	1.1%

Largest detractors	2021
Foshan Haitian	-2.3%
Vitasoy	-2.1%
Yihai	-1.4%
Mercadolibre	-1.2%
Tencent	-0.8%

Source: Fundsmith.

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1. Buy good companies
2. Don’t overpay
3. Do nothing

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Good company criteria and look through metrics

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

As at 31.12.21	FEET (LTM)	MSCI EM + FM (ex-financials)
Quality		
ROCE	35%	14%
Gross margin	51%	32%
Operating margin	20%	15%
Cash conversion	99%	86%
Growth		
Free cash flow growth	21%	13%

As at 31.12.21	FEF
ROCE	28%
Gross margin	64%
Operating margin	26%
Cash conversion	95%
Free cash flow growth	20%

Source: Bloomberg, Fundsmith. All LTM, FX-neutral weighted average data, excluding cash.
FEET and index data as at 31.12.21 and FEF data as at 31.12.21, normalised for outliers.

2. Don't overpay

Valuation

- Free cash flow yield is assessed in the context of sustainability of the company's competitive advantage and longevity of growth prospects.

As at 31.12.21	FEET (LTM)	MSCI EM + FM (ex-financials)
Free cash flow yield	3.2%	4.5%
Portfolio dividend yield	1.3%	2.0%

As at 31.12.21	FEF
Free cash flow yield	2.7%
Portfolio dividend yield	1.2%

Source: Bloomberg, Fundsmith. All LTM, FX-neutral weighted average data, excluding cash.
FEET and index data as at 31.12.21 and FEF data as at 31.12.21, normalised for outliers.

3. Do nothing

Fund costs and portfolio turnover

- Most of the portfolio turnover in 2019 and 2020 was due to change in PM;
  - Increased portfolio concentration in companies with highest levels of conviction.
- Higher turnover in 2021 largely on account change in investment policy;
- Portfolio turnover YTD significantly below historical levels.

FEET	2014	2015	2016	2017	2018	2019	2020	2021
Value of stock transactions	£4m	£19m	£43m	£44m	£28m	£49m	£36m	£75m
Portfolio turnover ratio	n/a	67%	38%	34%	19%	27%	21%	38%
OCF	1.7%	1.7%	1.7%	1.7%	1.5%	1.4%	1.3%	1.3%
Voluntary dealing costs	0.06%	0.27%	0.52%	0.18%	0.18%	0.21%	0.14%	0.06%

Source: Fundsmith 31.12.2021.
OCF: Ongoing Charges Figure.

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2019 and 2020

Actions taken during 2019 and 2020

Sought to increase portfolio resilience by:

1. reducing exposure to countries with relatively high macroeconomic and political risk, particularly in frontier markets;
2. increasing exposure to high quality companies in the healthcare and technology sectors;
3. increasing concentration in companies with highest levels of conviction; and
4. focusing on businesses with alignment of management/founder interest to that of the broader shareholder base.

Impact of Covid-19 on the portfolio

Many of our companies benefitted from the pandemic:

- Covid-19 accelerated trends around (1) market consolidation, (2) formalisation and (3) digitalisation;
- Exposure to ‘essential’ sectors provided strong degree of resilience;
- Biggest negative impact has come from China’s ‘Zero Covid’ policy;
- Fund is typically not exposed to businesses with complex supply chains.

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Portfolio evolution 2019-2021

Progress indicators on actions that were taken during 2019 and 2020

	December 2018	December 2019	December 2020	December 2021
1 Macro and political risk % of portfolio in frontier markets	12%	9%	7%	6%
2 Sector diversity Broad sector split of the portfolio	Consumer 81% Technology 5% Healthcare 14%	Consumer 72% Technology 11% Healthcare 17%	Consumer 64% Technology 20% Healthcare 16%	Consumer 54% Technology 32% Healthcare 14%
3 Ownership and governance % of portfolio in family or founder-influenced companies	53%	63%	76%	72%
4 Portfolio concentration Number of holdings in the portfolio	45 stocks	36 stocks	38 stocks	38 stocks

Source: FEET data as at 31.12.2021, 31.12.2021, 31.12.19 and 31.12.2018.

Investment policy change approved in 2021

	Previous	Current
Investment policy	‘to invest in shares issued by listed or traded companies which have the majority of their operations in, or revenue derived from, Developing Economies and which provide direct exposure to the rise of the consumer classes in those countries’.	‘invest in shares issued by listed or traded companies which have the majority of their operations in, or revenue derived from, Developing Economies and which provide direct exposure to the rise of the consumer classes in those countries **or to the broader social and/or economic development of those countries’.**
Number of holdings	**35 to 55 stocks**	**25 to 40 stocks**

Impact

Changes in investment policy approved at the AGM last year:

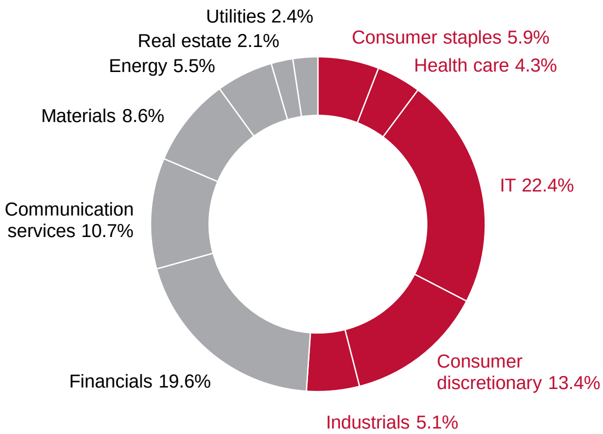
- Evolutionary ‘next step’ – fund now can benefit in a broader context from economic development in emerging markets, particularly service industries;
- Trust now consistent with other funds within Fundsmith;
- No compromise on quality of companies;
- Greater portfolio concentration will ensure we invest in companies with highest level of conviction whilst ensuring sufficient diversification and risk management.

Current themes

- Sector and style rotation in the equity markets;
- Inflationary pressure exacerbated by supply shocks;
- Russia-Ukraine conflict;
- Emerging market terms of trade and borrowing levels under increased scrutiny;
- Geographical exposure.

Sector rotation

MSCI EM + FM sector weights



Sectors we invest in

Sectors we are unlikely to invest in

% of index in the IU:	15%
% of index in the portfolio:	9%
Active share:	91%

Source: www.msci.com. Data as at 31.12.21.

YTD (Jan-Apr) sector performance (%)

Sectors	EM Index	FEET weight (%)
Energy	+9%	-
Financials	+9%	3%
Materials	+6%	5%
Real estate	+4%	-
Industrials	-0%	5%
Consumer staples	-3%	42%
Energy	-3%	-
Communication services	-7%	11%
Consumer discretionary	-12%	7%
Information technology	-14%	13%
Health care	-15%	14%

Source: Bloomberg and Fundsmith (weights as of 31.12.2021).

Inflation – how does it affect FEET companies?

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Impact of 5% inflation in COGs

FEET	Before	After
% of revenues		
Revenue	100%	100%
COGs	49%	51%
Gross profit	51%	49%
SG&A	31%	31%
Operating profit	20%	18%
Decline in profit		**-12%**

MSCI EM Index	Before	After
% of revenues		
Revenue	100%	100%
COGs	68%	71%
Gross profit	32%	29%
SG&A	17%	17%
Operating profit	15%	12%
Decline in profit		**-23%**

Source: Bloomberg, Fundsmith. All LTM, FX-neutral weighted average data, excluding cash.
FEET and index data as at 31.12.21.

Russia – Ukraine conflict

- Fund has no Russian companies – whether listed in Russia or overseas;
- Russia provides a good source of 'reasons not to invest', including;
  - issues around governance and legal ownership;
  - lack of independent judiciary;
  - capital allocation issues;
  - economy largely founded on legacy industries;
  - weak demographics and high levels of urbanisation.
- All these provide paucity of suitable investments;
- One company in the fund has meaningful exposure to Russia – DP Eurasia;
- Sanctions regime potential future playbook for conflicts elsewhere?

Emerging markets – Economic headwinds

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- Rising global interest rates;
- QE policies unwinding;
- Major deterioration in most EM country's terms of trade due to commodity prices;
  - …with double-deficit countries particularly exposed…
  - …particularly where debt is hard currency denominated…
- China's Covid-zero policies and diminishing returns to investment increasingly problematic.

Geographical exposure

Geographical and currency divergence relative to the index

- Our bottom up approach to investing has led to the portfolio having a significant geographical difference to the underlying weightings of the MSCI index and give us a markedly different currency exposure to the index.

FEET country breakdown	Weight
India	53.3%
China (incl. Hong Kong)	15.7%
Argentina	6.0%
Egypt	4.1%
Taiwan	3.2%
Brazil	3.0%
Emerging markets	7.4%
Frontier markets	5.8%
Cash	1.5%

MSCI EM + FM country breakdown	Weight
China (incl. Hong Kong)	32.0%
Taiwan	15.9%
South Korea	12.7%
India	12.3%
Brazil	3.9%
Other frontier + emerging markets	23.2%

Source: www.msci.com, FEET data as at 31.12.21. MSCI data at 31.12.21

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How is FEET positioned to deal with the current environment

- Repricing of longer duration assets impacted Q1 performance;
- Fund investment approach stands it in good stead;
  - Higher gross margins than the index;
  - Lack of financial leverage;
  - Strong market positions – give both buying power and pricing power;
  - Businesses we own typically sell low value, repeat, everyday essential products.

Conclusion

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- The aim to 'buy good companies', 'not overpay' and then 'do nothing' remains unchanged;
- Portfolio evolution with greater focus on businesses operating in environments conducive to sustained growth;
- Amended investment policy brings consistency across funds within Fundsmith and has increased the scope of investment opportunities;
- Covid-19 has accelerated existing themes around market consolidation, formalisation and digitalisation;
- Our long-term approach encourages sustainability.

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Appendix

ESG

ESG approach

Our long-term approach focuses on sustainability

- As long term investors ESG is an integral part of our investment approach because we are concerned about the sustainability of a company's returns;
  - Our process leads us to avoid asset-intensive, low return and cyclical businesses, typically barring the most environmentally destructive (and those who finance them) industries from FEET;
  - We expect the regulatory and fiscal environment to increasingly reduce returns for investors in environmentally destructive industries and make it harder for them to access capital;
  - The vast majority of the businesses we own have brand values and public perception to protect leading to positive social outcomes;
  - Governance is a material element of our evaluation of candidates for our Investible Universe. Simply put, we don't invest where we find governance to be unsatisfactory.
- We vote on all proxies we receive ourselves and regularly engage with management on areas such as ESG, remuneration, business performance and innovation;
- Fundsmith are signatories of the UN PRI and our ESG approach is overseen by the Fundsmith Stewardship and Sustainability Committee.