

Fundsmith Emerging Equities Trust
2019 Annual General Meeting



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Why Fundsmith Emerging Equities Trust (“FEET”)?



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- The same strategy at the Fundsmith Equity Fund
- Focused on the attractive demographics and growing spending power of middle class consumers in developing countries
- Higher volatility and lower liquidity in emerging markets not compatible with open-end fund structure

1. Buy good companies

2. Don't overpay

3. Do nothing



What makes a good company?



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Returns

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

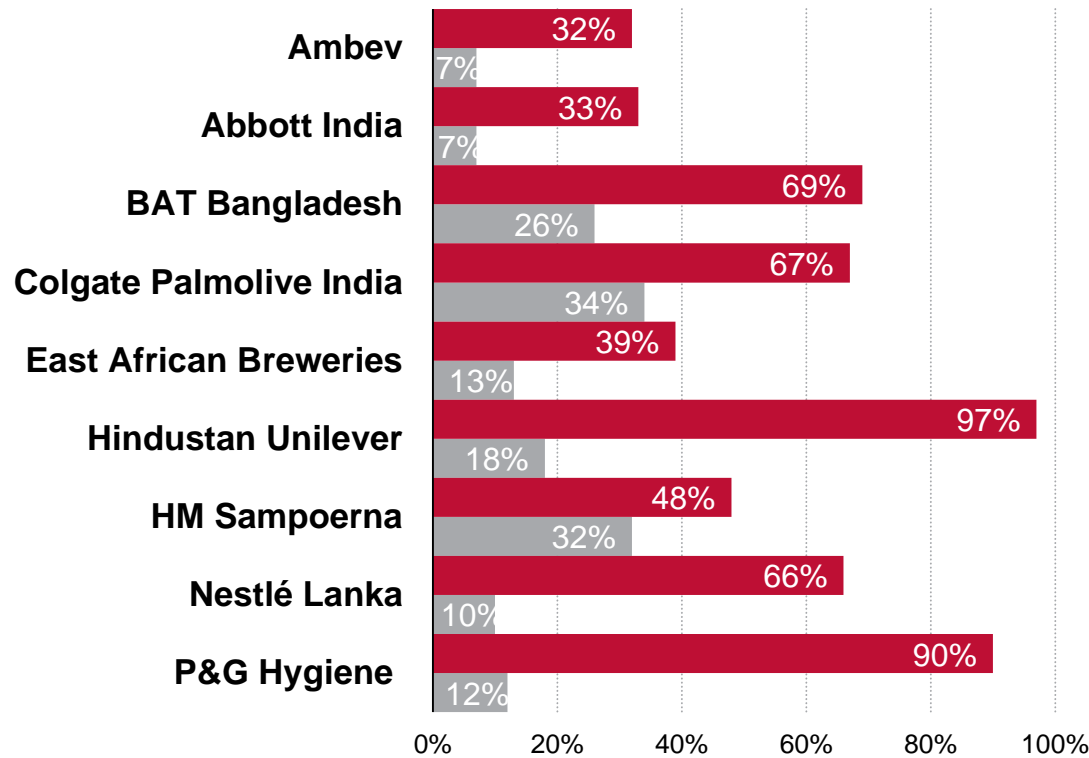
Sustainability

Able to protect returns against competition

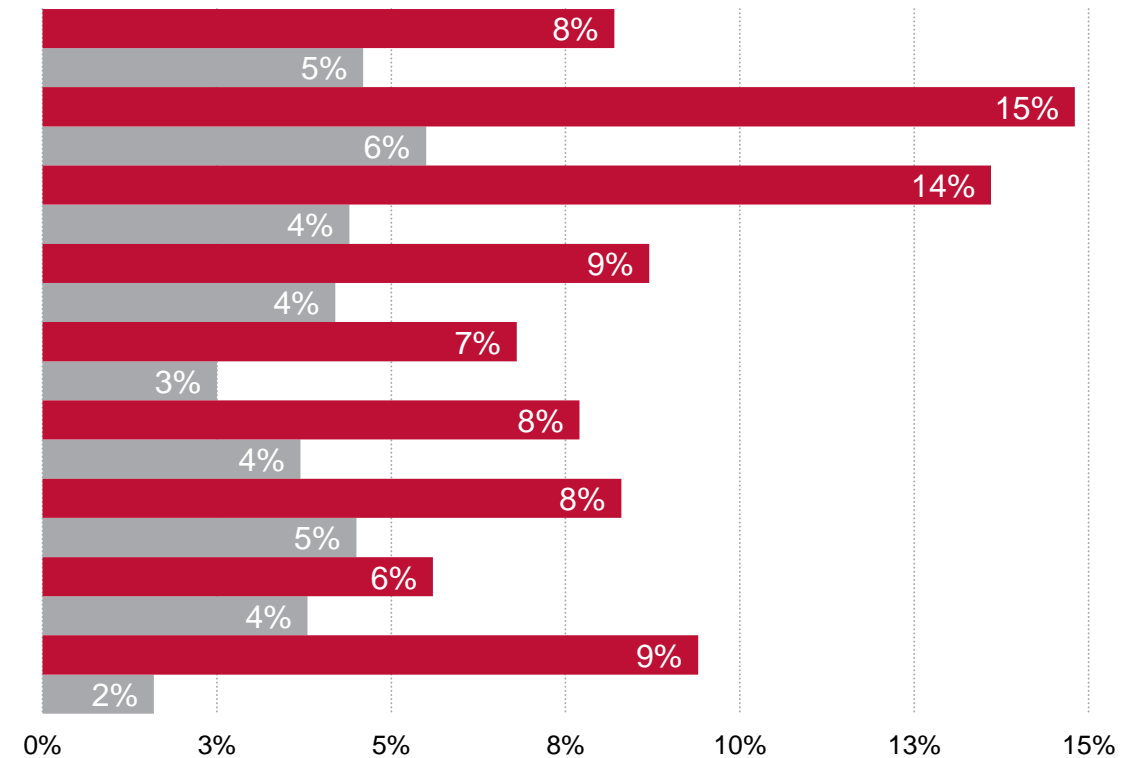
EM subsidiaries generate higher returns and growth than parents



Return on Capital Employed (ROCE)



5-Year Revenue CAGR



Subsidiary ■

Parent ■

Source: Bloomberg, Fundsmith as at 31.12.18. Revenue growth is in constant FX.

Look-through metrics



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As at 31.12.18	FEET (LTM)	MSCI EM + FM (ex-financials)
Quality		
ROCE	46%	15%
Gross Margin	50%	31%
Operating Margin	21%	18%
Cash Conversion	106%	84%
Growth		
Free Cash Flow Growth	12%	9%
Valuation		
Free Cash Flow Yield	3.5%	5.3%
Dividend Yield	1.8%	2.5%

As at 31.12.18	FEF
Quality	
ROCE	29%
Gross Margin	65%
Operating Margin	28%
Cash Conversion	95%
Growth	
Free Cash Flow Growth	8%
Valuation	
Free Cash Flow Yield	4.0%
Dividend Yield	1.6%

Source: Bloomberg, Fundsmith. All LTM, FX-neutral weighted average data, excluding cash.

All data as at 31.12.18, normalised for outliers.

1. Buy good companies

2. Don't overpay

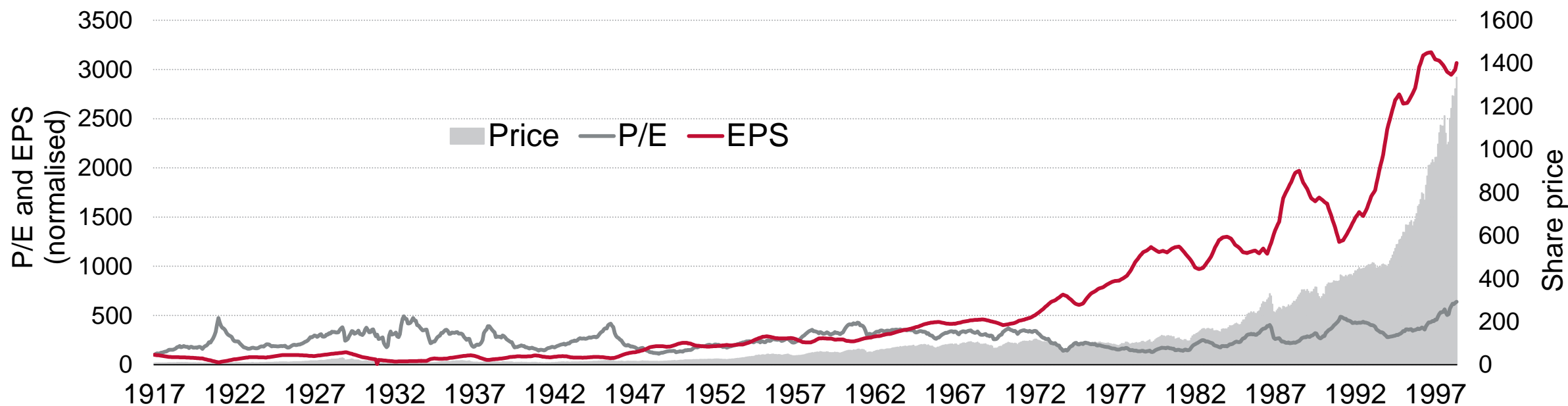
3. Do nothing



S&P 500 1917–1999



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	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%	

Source: Robert Shiller's data (<http://www.econ.yale.edu/~shiller/data.htm>). Total return is in GBP with net dividends reinvested.

Look-through metrics



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Emerging Equities Trust

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1. Buy good companies
2. Don't overpay
- 3. Do nothing**



Sell discipline



- Ideal holding period is forever
- Exit position only if:
 - Management makes bad capital allocation decisions
 - Fundamental reappraisal of investment case
 - Valuation becomes indefensible
- Sometimes we will have to involuntarily, e.g. in the event of a takeover

FEET Shares	2014	2015	2016	2017	2018
Value of stocks sold	£4m	£19m	£43m	£44m	£28m
Portfolio turnover rate	n/a	67%*	38%	34%	19%
OCF	1.7%	1.7%	1.73%	1.65%	1.52%
Voluntary dealing costs	0.06%	0.27%	0.52%	0.18%	0.18%

*FEET was still 45% cash at 31.12.14. Source: Fundsmith.

Performance



FEET performance overview



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	2018	2017	2016	2015	2014*	Since inception	Annualised
FEET NAV ₁	-3.0	+21.2	+12.0	-7.0	+0.1	+22.7	+4.6
FEET Share Price ₂	-9.4	+24.5	+10.5	-10.9	+7.2	+19.0	+3.9
Emerging Markets ₃	-9.3	+25.3	+32.4	-10.0	+0.5	+36.1	+7.1
UK Bonds ₄	+1.2	+1.4	+6.5	+1.0	+7.4	+18.5	+3.8
UK Cash ₅	+0.7	+0.4	+0.5	+0.6	+0.3	+2.5	+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.

How we differ from the index



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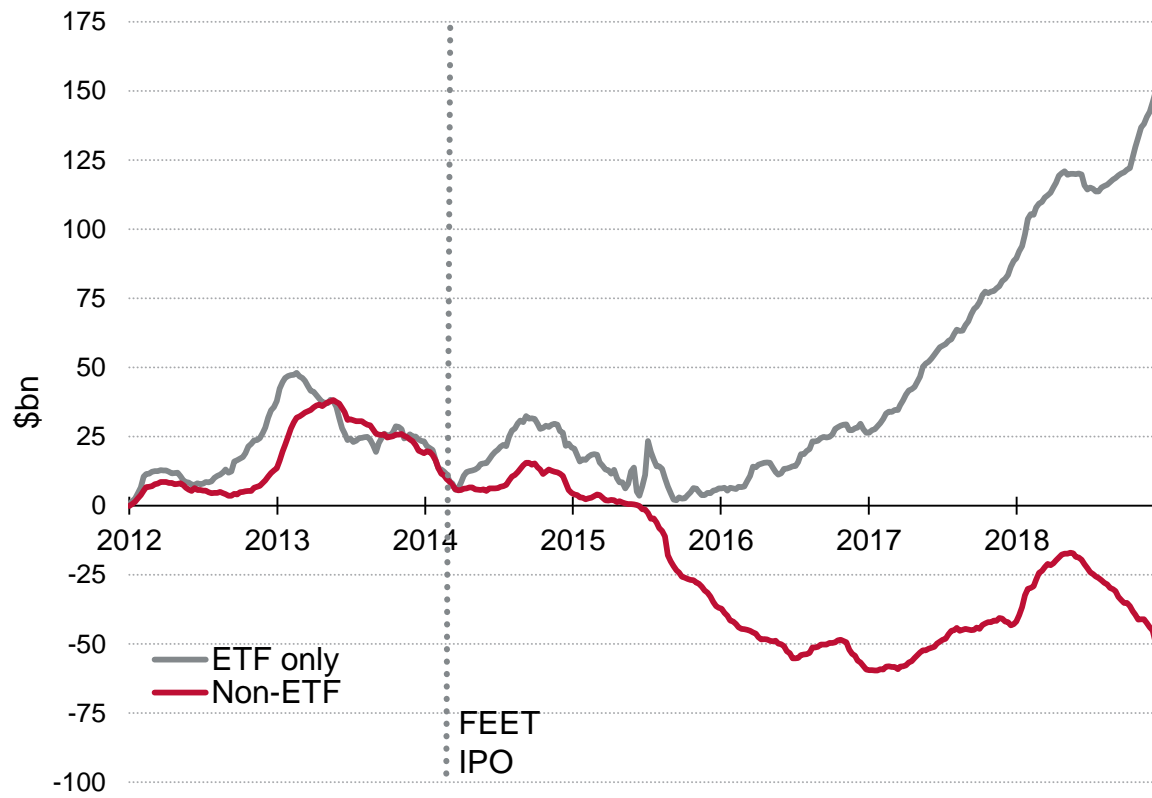
FEET country breakdown	Weight
India	43.3%
China (incl. Hong Kong)	15.9%
Egypt	7.0%
South Africa	4.7%
Indonesia	3.9%
Turkey	3.6%
Other Emerging Markets	9.5%
Frontier Markets	11.8%
Cash	0.3%

MSCI EM + FM country breakdown	Weight
China (incl. Hong Kong)	29.7%
South Korea	13.5%
Taiwan	11.1%
India	9.2%
Brazil	7.3%
Other Frontier + Emerging Markets	29.2%

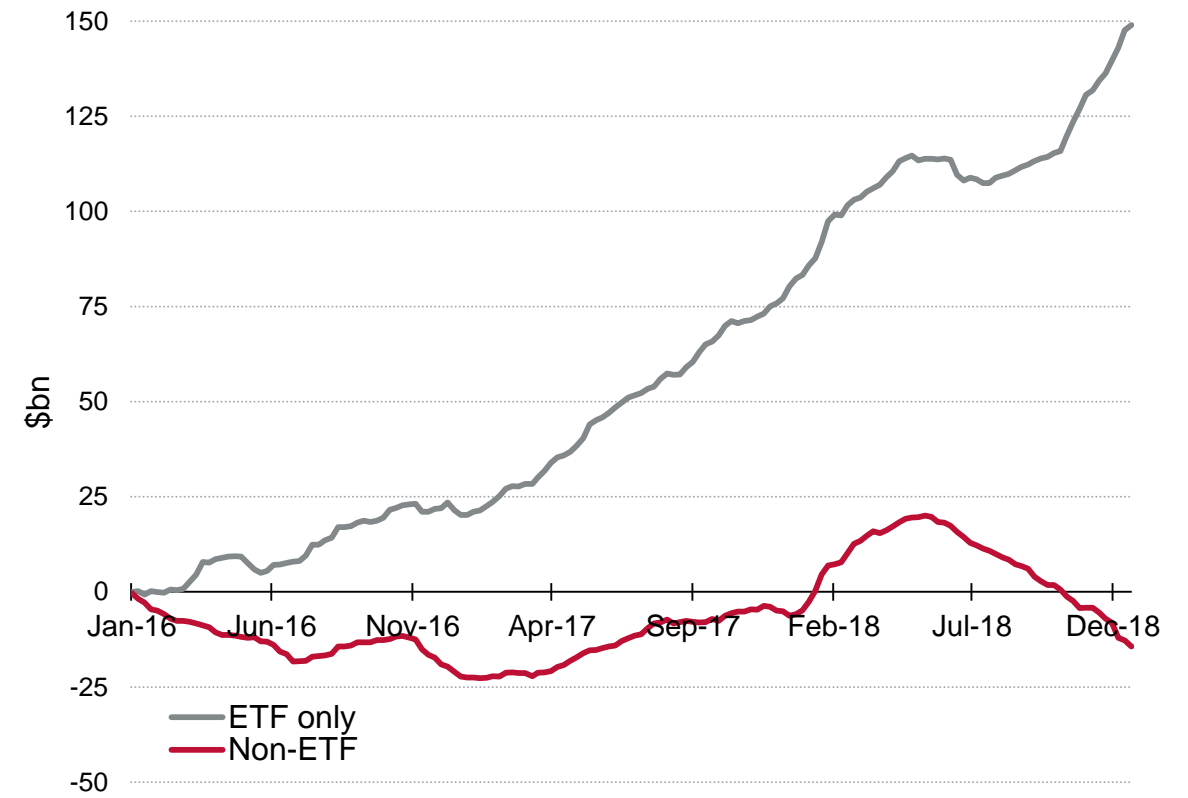
ETF fund flows into Emerging Markets



Cumulative EM fund flows since 2012



Cumulative EM fund flows since 2016



Top 10 FEET and MSCI holdings



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Top 10 FEET portfolio holdings	Weight	ROCE
Vitasoy	5.5%	34%
Britannia	4.9%	43%
Godrej Consumer Products	4.1%	38%
Foshan Haitian Flavouring	4.1%	36%
Eastern Tobacco	4.0%	59%
Marico	3.9%	46%
TravelSky Technology	3.7%	17%
Hindustan Unilever	3.4%	97%
Asian Paints	3.3%	33%
Hypera	3.3%	31%
Total	40%	
Average		43%

Top 10 MSCI EM constituents	Weight	ROCE
Tencent	4.7%	24%
Taiwan Semiconductor	3.7%	22%
Alibaba	3.6%	13%
Samsung Electronics	3.4%	24%
Naspers	1.8%	-1%
China Construction Bank	1.6%	8%
China Mobile	1.2%	12%
ICBC	1.0%	8%
Ping An Insurance	0.9%	18%
Reliance Industries	0.9%	3%
Total	23%	
Average		13%

Source: MSCI weightings as at 31.12.18, LTM pre-tax operating ROCE from Bloomberg.
FEET weightings as at 31.12.18, pre-tax operating ROCE from Fundsmith. ROCE excluding goodwill for Godrej, Hypera and Marico.

Stock attribution

Top 5	2018
Vitasoy	1.8%
Nestle India	0.9%
Foshan Haitian	0.9%
Hindustan Unilever	0.9%
Ceylon Tobacco	0.8%

Bottom 5	2018
Emami	-1.2%
DP Eurasia	-1.0%
Vietnam Dairy	-1.0%
Fan Milk	-0.6%
Tiger Brands	-0.6%

Currency attribution

Top 5	2018
Egypt	0.3%
Hong Kong	0.3%
Nigeria	0.1%
Mexico	0.1%
Kenya	0.1%

Bottom 5	2018
India	-1.0%
South Africa	-0.4%
Brazil	-0.4%
Sri Lanka	-0.2%
Pakistan	-0.2%

Stock attribution

Top 5	Since inception to 31.12.18
Eastern Tobacco	5.9%
Britannia	4.4%
Godrej	4.3%
Vitasoy	4.2%
Marico	3.8%

Bottom 5	Since inception to 31.12.18
Edita	-1.8%
Guinness Nigeria	-1.6%
Magnit	-1.3%
Want Want	-1.1%
DP Eurasia	-1.1%

Currency attribution

Top 5	Since inception to 31.12.18
India	2.7%
Hong Kong	1.6%
Philippines	0.7%
Russia	0.5%
Kenya	0.3%

Bottom 5	Since inception to 31.12.18
Brazil	-2.1%
Nigeria	-1.8%
Egypt	-0.8%
South Africa	-0.4%
Colombia	-0.3%

Changes to portfolio management and fee structure












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- Adopting the same structure as the Smithson Investment Trust
- Michael O'Brien and Sandip Patodia to become Portfolio Managers
- Terry Smith remains as CIO
- AMC reduced from 1.25% to 1.0%

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 protects high returns against competition?



Brand 	Economies of scale  México y Centroamérica	Franchising  DP Eurasia N.V.
Installed base 	Distribution 	Regulations 
Intellectual Property 	Innovation 	Professional advocacy 



Some examples of growth trends

Formalisation



Premiumisation



Digitisation



Market consolidation



Innovation



Demographics



Preventative diagnostics



Market share gains

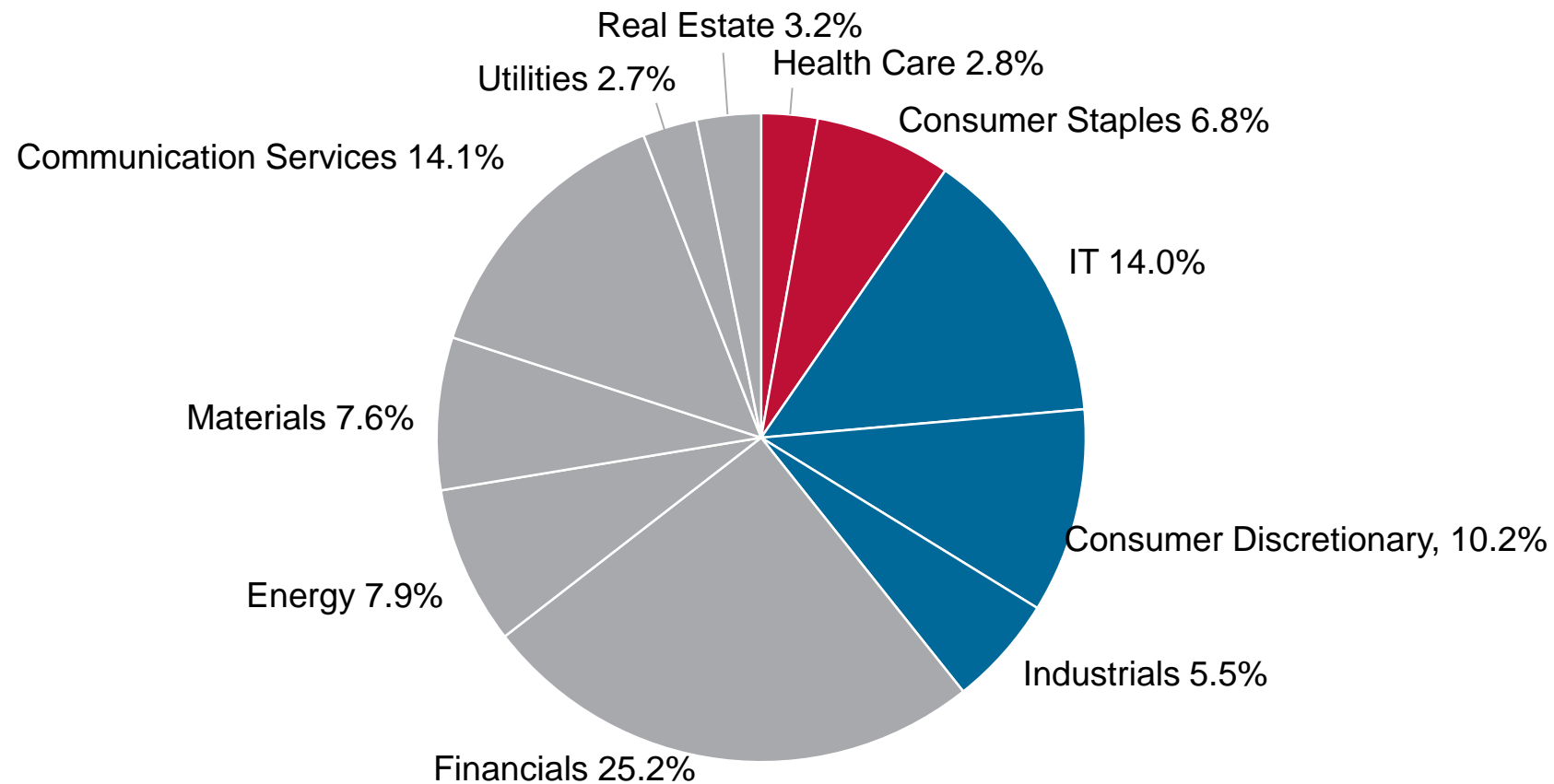


Chinese travel



MSCI index composition by sector

MSCI EM + FM sector weights



- Sectors we invest in
- Sectors we might invest in
- Sectors we don't invest in

% of index in IU:	1.3%
% of index in portfolio:	0.8%
Active share:	99.2%

FEET portfolio: sector split



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GICS sector split	Weight
Consumer Staples	69.7%
Health Care	13.8%
Consumer Discretionary	6.3%
Information Technology	3.7%
Materials	3.3%
Industrial	2.8%
Cash	0.3%

FEET sector split	Weight
Food & Beverage	30.1%
FMCG	22.0%
Health Care	13.8%
Retail	10.6%
Tobacco	9.0%
IT	5.0%
Chemicals	3.3%
Industrial	2.8%
Fast Food	1.7%
Auto	1.3%
Cash	0.3%