Fundsmith
Emerging Equities Trust

27th May 2020

Fundsmith Emerging Equities Trust

2020 Annual General Meeting

Important Notice

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Why Fundsmith Emerging Equities Trust (“FEET”)?

- The same strategy as the Fundsmith Equity Fund
- Focused on 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-ended fund structure

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

1. Buy good companies – criteria and look through metrics

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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 31.12.19	FEET (LTM)	MSCI EM + FM (ex-financials)
Quality		
ROCE	40%	14%
Gross Margin	51%	32%
Operating Margin	19%	18%
Cash Conversion	102%	85%
Growth		
Free Cash Flow Growth	15%	7%

As at 31.12.19	FEF
ROCE	29%
Gross Margin	66%
Operating Margin	27%
Cash Conversion	95%
Free Cash Flow Growth	9%

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

FEET data as at 31.12.19 and FEF data as at 31.12.19, normalised for outliers.

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

2. Don't overpay – valuation metrics

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- We look at the cash flow yield of a company and assess it in the context of sustainability of the company's competitive advantage and longevity of growth prospects

As at 31.12.19	FEET (LTM)	MSCI EM + FM (ex-financials)
Free Cash Flow Yield	3.8%	5.1%
Portfolio Dividend Yield	2.0%	2.4%

As at 31.12.19	FEF
Free Cash Flow Yield	3.4%
Portfolio Dividend Yield	1.6%

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

FEET data as at 31.12.19 and FEF data as at 31.12.19, normalised for outliers.

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1. Buy good companies

2. Don't overpay

3. **Do nothing**

3. Do nothing - sell discipline

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- Ideal holding period is forever
- Voluntarily exit a position only if:
  - Management makes bad capital allocation decisions
  - Fundamental reappraisal of investment case
  - Valuation becomes indefensible
  - Superior investment opportunity identified
- Some portfolio turnover will be involuntary, e.g. in the event of a takeover

FEET Shares	2014	2015	2016	2017	2018	2019
Value of stocks sold	£4m	£19m	£43m	£44m	£28m	£49m
Portfolio turnover ratio	n/a	67%*	38%	34%	19%	27%
OCF	1.7%	1.7%	1.7%	1.7%	1.5%	1.4%
Voluntary dealing costs	0.06%	0.27%	0.52%	0.18%	0.18%	0.21%

Source: Fundsmith 31.12.2019
OCF: Ongoing Charges Figure

3. Do nothing – importance of being fully invested

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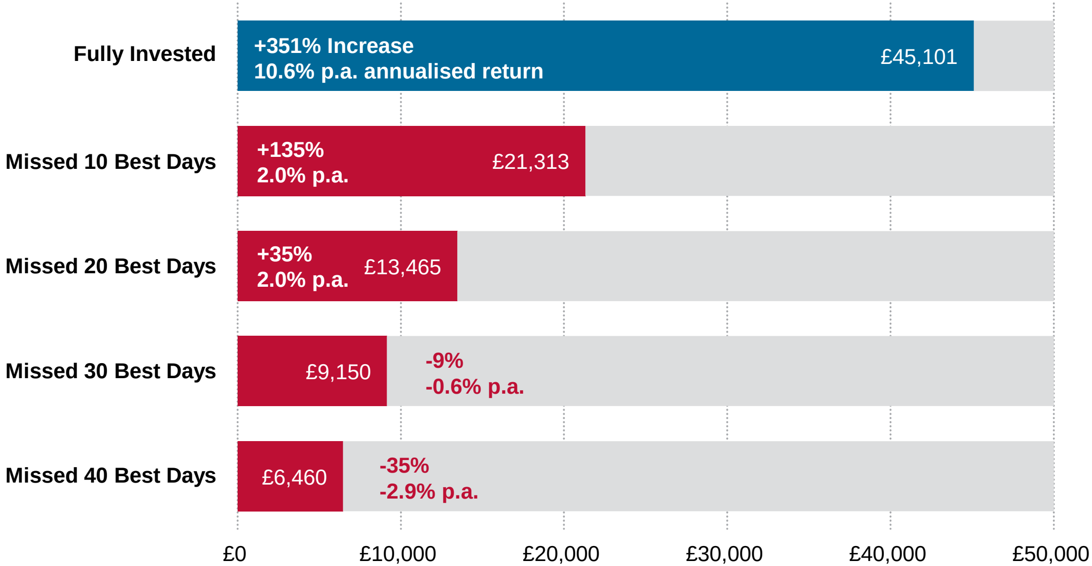
£10,000 invested in the S&P 500 (with dividends reinvested) for 15 years (31-Dec-02 to 31-Dec-17)



Being fully invested for 15 years would give you over twice the money (or an extra £23,788) than someone missing the 10 best days in the market.

Source: Bloomberg, Fundsmith Research
Data compiled using S&P 500 net total return index in GBP.

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Performance

FEET performance overview

% return

	2019	2018	2017	2016	2015	2014*	Since inception	Annualised
FEET NAV[1]	-0.5	-3.0	+21.2	+12.0	-7.0	+0.1	+22.0	+3.7
FEET Share Price[2]	-7.4	-9.4	+24.5	+10.5	-10.9	+7.2	+10.2	+1.8
Emerging Markets [3]	+13.9	-9.3	+25.3	+32.4	-10.0	+0.5	+55.0	+8.3
UK Bonds [4]	+3.8	+1.2	+1.4	+6.5	+1.0	+7.4	+23.0	+3.8
UK Cash [5]	+0.1	+0.7	+0.4	+0.5	+0.6	+0.3	+3.3	+0.6

[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.

Disclaimer: Past performance is a not a reliable indicator of future results.

Impact on relative performance

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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	41.4%
China (incl. Hong Kong)	15.5%
Egypt	8.1%
Argentina	4.7%
Philippines	3.8%
Brazil	3.6%
Other Emerging Markets	9.6%
Frontier Markets	9.4%
Cash	3.9%

MSCI EM + FM country breakdown	Weight
China (incl. Hong Kong)	33.6%
South Korea	11.5%
Taiwan	11.5%
India	8.5%
Brazil	7.3%
Other Frontier + Emerging Markets	27.6%

Source: www.msci.com, FEET data as at 31.12.19. MSCI data at 31.12.19

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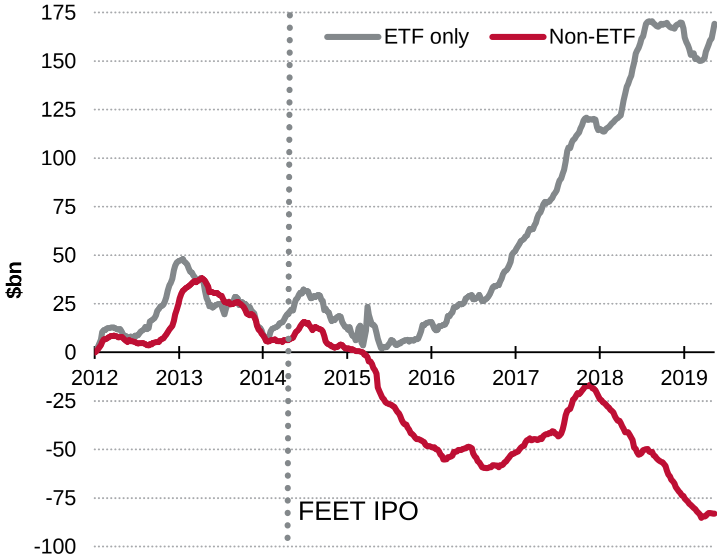
Impact on relative performance

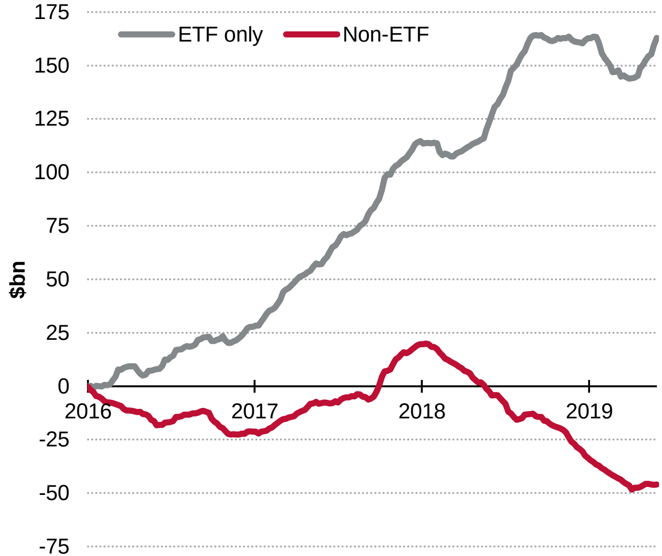
Substantial inflows into Exchange Traded Funds (ETFs)

In 2019, emerging markets experienced net outflows of $17.7bn led by net outflows of $31.7bn from “active” funds and $14bn net inflows into ETFs. These inflows are typically invested in the largest index constituents. Our overlap with the index is less than 2%.

Cumulative EM fund flows since 2012



Cumulative EM fund flows since 2016



Source: EPFR Global. Data to 31.12.19

Impact on relative performance

Significant proportion of index performance has been led by the largest constituents in the index

Alibaba, Tencent, Samsung, TSMC and Naspers (whose main asset was its stake in Tencent) accounted for over 40% of the increase in the index in 2019

Top 10 FEET portfolio holdings	Weight	ROCE
Vitasoy	5.1%	31%
Mercadolibre	4.6%	NM
Foshan Haitian	4.6%	41%
Eastern Tobacco	4.6%	65%
Asian Paints	4.1%	30%
Godrej Consumer	3.8%	37%
Philippine Seven	3.8%	29%
Nestle India	3.8%	94%
Hypera	3.6%	27%
TravelSky	3.4%	14%
Total	**41%**	
Average		**41%**

Top 10 MSCI EM constituents	Weight	ROCE
Alibaba	5.7%	8%
Tencent	4.4%	19%
TSMC	4.3%	20%
Samsung Electronics	3.6%	10%
China Construction Bank	1.3%	6%
Naspers	1.1%	-2%
Ping An Insurance	1.0%	3%
Reliance Industries	1.0%	10%
HDFC Bank	0.9%	12%
China Mobile	0.8%	12%
Total	**24%**	
Average		**10%**

Source: MSCI weightings as at 31.12.19, LTM pre-tax operating ROCE from Bloomberg.
FEET weightings as at 31.12.19, pre-tax operating ROCE from Fundsmith. ROCE excluding goodwill for Godrej.

Portfolio themes going forward

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1 **Macro and political risk**	Reduce exposure to countries with relatively high macroeconomic and political risk, particularly in frontier markets
2 **Sector diversity**	Increase exposure to resilient growth companies in healthcare and technology sectors to ensure that the fund performs better in 'up markets' whilst maintaining defensive qualities
3 **Ownership and governance**	Increase exposure to companies that are run or controlled by founders or families with high standards of corporate governance
4 **Portfolio concentration**	Increase portfolio concentration to 35-40 stocks

Progress on portfolio themes in 2019

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	December 2018	December 2019
1 Macro and political risk % of portfolio in frontier markets	12%	9%
2 Sector diversity Broad sector split of the portfolio	Consumer 81% Healthcare 14% Technology 5%	Consumer 72% Healthcare 17% Technology 11%
3 Ownership and governance % of portfolio in family or founder controlled companies	53%	63%
4 Portfolio concentration Number of holdings in the portfolio	45 stocks	36 stocks

Source: FEET data as at 31.12.19 and 31.12.2018

Impact of Covid-19

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FEET is well positioned to weather the current crisis…

- The fragility of so called more "efficient" institutions – with long JIT (Just In Time) global supply chains or financially engineered leveraged balance sheets – are likely to be exposed.

- With our relatively high allocation to defensive sectors such as consumer staples, grocery retail and, to a lesser extent, healthcare and technology, the portfolio is well positioned to weather the current crisis.

- Most of our companies maintain a large amount of net cash on their balance sheets.

- There is limited impact on the portfolio because of relatively low allocations to (1) higher risk countries, (2) companies in the travel, leisure and hospitality sectors and (3) companies that sell discretionary consumer products.

Impact of Covid-19

…and ultimately benefit from the current crisis

- Social, economic and political reactions tend to have bigger impacts during and after a pandemic.
- There is likely to be significant acceleration in existing trends in emerging markets around (1) market consolidation, (2) formalisation of the economy and (3) digitalisation.
- These trends should help most of our companies to (1) gain market share from informal/smaller players, (2) strengthen their market position and (3) drive penetration of products at a faster rate over the medium-term.
- The timeless characteristics of sustainable and high quality businesses of satisfying a need for consumers at an acceptable price backed by a reputable brand are unlikely to change.

Impact of Covid-19

Portfolio retains a high allocation to defensive sectors

GICS sector split	Weight
Consumer Staples	62.9%
Health Care	14.7%
Consumer Discretionary	6.4%
Materials	4.2%
Communication Services	2.9%
Information Technology	2.9%
Industrials	2.8%
Financials	1.4%
Cash	1.8%

FEET sector split	Weight
Food & Beverage	26.8%
FMCG	15.2%
Health Care	14.7%
Retail	14.3%
Information Technology	11.9%
Tobacco	7.5%
Decorative Paints	4.2%
Household Electricals	2.8%
Fast Food	0.8%
Cash	1.8%

Source: Fundsmith. As at 31.03.20.

Impact of Covid-19

FEET performance in 2020

% return

	2020 to Apr
FEET NAV[1]	-6.3
Emerging Markets [3]	-12.5
UK Bonds [4]	+3.9
UK Cash [5]	+0.2

[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)

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

Disclaimer: Past performance is a not a reliable indicator of future results.

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Appendix

Attribution

Stock attribution

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Top 5	2019
Foshan Haitian	2.1%
Mercadolibre	1.2%
Metropolis	0.8%
Nestle India	0.8%
Dr Lal Pathlabs	0.8%

Bottom 5	2019
Eris Lifesciences	-1.2%
DP Eurasia	-1.0%
Godrej Consumer	-0.8%
Mr Price	-0.7%
Marico	-0.5%

Top 5	Since inception to 31.12.19
Foshan Haitian	4.6%
Britannia	4.4%
Vitasoy	4.1%
Eastern Tobacco	3.9%
Godrej Consumer	3.4%

Bottom 5	Since inception to 31.12.19
DP Eurasia	-2.0%
Nigerian Breweries	-1.8%
Guinness Nigeria	-1.3%
Biotoscana	-1.0%
Eris Lifesciences	-0.9%

Source: Fundsmith.

Currency attribution

Top 5	2019
Egypt	0.5%
Indonesia	0.0%
Mexico	0.0%
South Africa	0.0%
Sri Lanka	0.0%

Bottom 5	2019
India	-2.8%
China	-0.6%
Turkey	-0.3%
Brazil	-0.3%
US	-0.2%

Top 5	Since inception to 31.12.19
Hong Kong	1.6%
Philippines	0.8%
India	0.6%
Russia	0.5%
Indonesia	0.3%

Bottom 5	Since inception to 31.12.19
Brazil	-2.0%
Nigeria	-2.0%
China	-0.5%
Turkey	-0.5%
Mexico	-0.3%

Source: Fundsmith.

Q&A