Fundsmith

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Dear Fellow Investor,

Change to the name and clarification of the investment policy of the Fundsmith Sustainable Equity Fund (the 'Fund')

We are writing to inform you of changes being made to the name and investment policy of the Fund taking effect on 24 March 2025 (the '**Effective Date**'). The changes being made to the Fund's investment policy are to provide you with more clarity about the investment process but the way in which the Fund is managed, its investment approach and its risk profile will remain unchanged.

What is changing?

As of the Effective Date, the name and investment policy of the Fund will be modified as summarised below and set out in more detail in the Appendix to this letter.

1. Name

   The name of the Fund will be changed to '*Fundsmith Stewardship Fund*'.

   We believe that the new name reflects the current (and continued) investment focus of the Fund to be a good steward of shareholder capital through responsible allocation, management and oversight, including through sustainability integration and screening.

2. Investment policy

   The investment policy will be amended (as detailed in the Appendix to this letter) to provide you with more information on the selection process for our portfolio investments. The main changes we have made in this respect have been to:

   a. clarify that a key component of our investment strategy is to be a good steward of shareholder capital; and

   b. include more detail on the further screening criteria currently applied to the Fund's investment universe to exclude businesses that are considered to have an excessive net negative impact on the environment or society.

   The sector exclusions listed in the Fund's current investment policy remain unchanged, but we have provided more detail on how they are applied.

Further information regarding our investment approach, including details of how sustainability is considered in the selection process for our portfolio investments, has been included in section 2 of the Fund's Prospectus. This is also set out in the Appendix to this letter.

The Fund's portfolio at the time of implementation of the new regulatory requirements will not change as a result.

Why are these changes being made?

The Financial Conduct Authority has introduced new rules on Sustainability Disclosure Requirements and investment labels ('**SDR**'). These rules restrict the use of certain terms in fund names. Specifically, the SDR requires that funds using the word 'sustainable' in their name either:

1. adopt a sustainable investment label, which also requires the fund to have a specific sustainability objective and meet certain criteria; or
2. stop using 'sustainable' in their name.

As you may already be aware, the assessment of sustainability-related impacts forms a component of our current investment process. We consider sustainability in the widest sense when evaluating the Fund's investments, with details of the key metrics used to evaluate sustainability (for example, greenhouse gas emissions and net zero commitments) having historically been referenced in the Fund's Annual Sustainability Summary, the Fund's monthly sustainability factsheet, as well as in the annual letter to shareholders of the Fund.

However, whilst sustainability is considered as part of our investment process, the Fund does not have (and is not managed to) a specific sustainability objective. We are therefore changing the Fund’s name and updating the investment policy of the Fund in light of the SDR rules to provide greater clarity on how the Fund's investments are selected. These clarificatory changes do not constitute a significant deviation from the current investment approach adopted in relation to the Fund.

What do you need to do?

You do not need to take any action. These changes will take effect on 24 March 2025.

What can I do if I am not happy with these changes?

If you are not happy with these changes, you can sell your investment or switch into a different Fundsmith fund before the changes become effective, free of charge, in accordance with the normal processes set out in the Fund's prospectus.

Please note that selling your investment or switching into a different fund will be treated as a disposal of your shares for UK tax purposes and you may be liable to capital gains tax on any gains arising from the disposal. You may wish to seek professional tax advice.

Who is responsible for the costs of making these changes?

We will meet all costs associated with the implementation of these changes, including legal and administrative costs.

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Further Information

These changes will be reflected in the Fund's Prospectus and the Key Investor Information Document. Further information about the Fund and its sustainability framework can also be found in the Fund's Sustainability Disclosure Document. These documents will be available for investors on our website at https://www.fundsmith.co.uk/fsf/forms/ from the Effective Date.

If you are uncertain about the contents of this letter, we recommend that you consult a financial adviser. Please be aware that we are not able to give you investment advice.

If you have any questions, please contact our Customer Services Team on 0330 123 1815 or email us at enquiries@fundsmith.co.uk. If you are calling us from outside of the UK, please call us on +44 1268 448659. Our lines are open Monday to Friday between 9am and 5pm.

Yours sincerely,

Terry Smith

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Appendix

Changes to the investment policy of the Fund

The changes that have been made to the investment policy of the Fund are shown in ~~struck through~~ and red text.

Investment objectives and policy

Investment Objective
2.1 The investment objective of the Company is to achieve long term growth (over 5 years) in value.

Investment Policy

2.2 The Company will invest in equities on a global basis.

2.3 The Company's approach is to be a long-term investor in its chosen stocks. It will not adopt short-term trading strategies.

2.4 The Company seeks to be a good steward of Shareholder capital through responsible allocation, management and oversight, including through sustainability integration and screening.

~~**2.4**~~ **2.5** The Company has stringent investment criteria which the ACD and the Investment Manager adhere to in selecting securities for the Company's investment portfolio. These criteria aim to ensure that the Company invests in high quality businesses which in the opinion of the ACD and Investment Manager are those:

- that can sustain a high return on operating capital employed;
- whose advantages are difficult to replicate;
- which do not require significant leverage to generate returns;
- with a high degree of certainty of growth from reinvestment of their cash flows at high rates of return;
- that are resilient to change, particularly technological innovation; and
- whose valuation is considered to be attractive.

~~**2.5**~~ **2.6** The Company will not invest in businesses which have ~~substantial interests in~~ 5% (or such lower threshold as the ACD may apply in its discretion) or more of reported revenue derived from any of the following ~~sectors~~ industries and sub-industries (classified according to the Global Industry Classification Standard):

- Aerospace and defence;
- Brewers, distillers and vintners;
- Casinos and gaming;
- Gas and electric utilities;
- Metals and mining;
- Oil, gas and consumable fuels; and
- Tobacco.

2.7 The Company also excludes any businesses which have 5% or more of reported revenue derived from pornography.

~~**2.6** In addition, the ACD and the Investment Manager apply further criteria to screen investments in accordance with the ACD's Responsible Investment Policy.~~

~~**2.7** The ACD evaluates sustainability in the widest sense, taking account not only the companies handling of environmental, social and governance policies and practices but also their policies and practices on research and development, new product innovation, dividend policy and the adequacy of capital investment.~~

~~**2.8** Further detail on the sustainability policy is available from the ACD on request.~~

2.8 The potential investment universe is further screened to remove businesses that are considered to have an excessive net negative impact on the environment or society. See Section 2.14.6 for further details.

2.9 Investors should be aware that the application of these investment criteria significantly limits the number of potential investments which the ACD and the Investment Manager will consider to be appropriate investments for the Company's portfolio. It is envisaged that the investment portfolio of the Company will be concentrated, generally comprising between 20 and 30 stocks.

2.10 There are additional investment restrictions applicable to the Company as follows:

- The Company will not invest in units of other UCITS or other collective investment schemes except for money market funds. No more than 10% of the value of the Company will be invested in money market funds;
- The Company will not invest in derivatives and will not hedge any currency exposure arising from within the operations of an investee business nor from the holding of an investment denominated in a currency other than sterling; and

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- The Company does not intend to have an interest in immovable or tangible movable property.

2.11 The Company will not use securities financing transactions or total return swaps.

Comparisons

2.12 The Company is not managed with reference to any benchmark. In the ACD's fund factsheet and other marketing material, a number of comparisons are provided for ease of reference to enable the reader to have a general and consistent comparison for the Company's performance. The following are used:

- Equities – The ACD shows the performance of the MSCI World Index, in Sterling with net dividends reinvested (priced at the close of US business and sourced from www.msci.com). The MSCI World Index is a market capitalisation weighted index of global developed world equities. This shows what you might have earned if you had invested in a broad portfolio of global developed world equities.

  The ACD shows the performance of the Investment Association Global Sector in Sterling which is representative of funds that invest at least 80% of their assets globally in equities. This facilitates a comparison against funds with broadly similar characteristics

- Bonds – The ACD shows Bloomberg Bond Indices UK Govt 5-10 yr (source: Bloomberg). This shows what you might earn if you had invested in UK Government Debt.

- Cash – The ACD shows the SONIA Interest Rate (source: Bloomberg). This is a proxy for what you might be able to earn for cash deposits.

  The ACD is not suggesting that these are the only comparisons that are relevant or, indeed the best for an individual investor and investors may prefer others.

Sustainability Disclosures

2.13 Sustainability Label

Sustainable investment labels help investors find products that have a specific sustainability goal. The Company does not have a UK sustainable investment label as it does not have a sustainability goal.

2.14 Sustainability Characteristics

2.14.1 Several aspects of the Company's investment approach are considered to shape the sustainability characteristics of the Company's portfolio.

2.14.2 The Company aims to be a long-term investor in high quality businesses. High quality businesses are those with the qualities set out in Section 2.5 above, in particular. One of those qualities is a business being able to sustain a high return on capital employed and, in turn, deliver long-term value for investors. A business's possession of these qualities is evaluated by the ACD as part of its stewardship efforts. When assessing this quality, the ACD and Investment Manager assess a business's sustainability characteristics (alongside other factors), as the risks and opportunities resulting from these may materially influence a business's ability to sustain high returns over the long term and, consequently, its perceived investment potential.

2.14.3 The ACD/Investment Manager will not invest in businesses whose sustainability characteristics pose a material and unmitigated risk to the business's ability to sustain high returns over the Company's investment time horizon. The assessment of a business's exposure to environmental or social risks is non-prescriptive and intended to be comprehensive, accounting for the specific context of the business being assessed. A range of qualitative and quantitative data is used as part of the assessment, collected from public sources and via direct engagement with the company.

2.14.4 The Company will not invest in any company:

- involved in the production, sale or distribution of controversial weapons; nor
- that has their primary listing in, or who generates a substantial proportion of their profits from, a country identified by and specified in the UN Security Council's Sanctions, and high-risk jurisdictions subject to a "Call for Action" by the Financial Action Task Force.

2.14.5 The ACD/Investment Manager operates the hard sector exclusion screen set out in Section 2.6 to prevent the Company from investing in companies operating in industries that the ACD/Investment Manager consider to be unsustainable.

2.14.6 The ACD/Investment Manager also applies excessive net negative impact screening. This involves an assessment of a potential investment's impact on the environment and/or society. It is carried out in a systematic way using both quantitative and qualitative data and comprises three elements:

2.14.6.1 First, the ACD uses its research data to identify and assess any positive and/or negative impacts a business may have on the environment and/or society, either as a direct result of its operations or indirectly via the use of the products or services the business offers and its supply chain.

- This is done through quantitative assessment of the business's environmental impact via its water consumption, energy consumption, waste generation, and greenhouse gas emissions. The ACD uses this data to assess how the business's impact has changed over time and the size of its impact at the time of the assessment. The ACD uses the environmental commitments the business has made to understand how its impact will evolve over time. The ACD also considers the impact of a business's product or service offering on the environment.

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- The ACD's assessment of a business's impact on society is based on qualitative data. There are no metrics that can accurately represent the holistic impact a business has on society. The ACD's approach is to use a wide range of sources, including (but not exclusive to) company reports and policies, academic research, reputable media, and trade journals, to assess the business's impact. Part of the ACD's assessment is focused on how the company manages its workforce, both direct employees and those participating in its value chain. This assessment includes the company's observation of labour rights, human rights, practices relating to equality, and health and safety and employment conditions. The ACD also uses qualitative data to assess the impact that the business's products or services have on society. The ACD gathers information on both the negative and positive impacts a product or service may have. The ACD assesses the product or service's impact on health and wellbeing (both physical and mental), social cohesion or divisiveness, economic inequality and other material ethical concerns.

2.14.6.2 Second make a judgment on the net impact of these positive and/or negative impacts, including, where appropriate, an assessment of the efforts made by the business to mitigate the negative impacts it has. Hard quantitative thresholds or qualitative criteria are not applied to the judgement as it is designed to be a holistic assessment of a business's impact.

2.14.6.3 Third, to provide further assurance, the ACD utilises independent assessments of environmental and social impacts and their risks provided by third parties. The ACD's use of these external assessments is designed to mitigate the risk of bias that might otherwise be present were the ACD to solely rely on internal assessment techniques.

2.14.7 If the ACD and Investment Manager's assessment concludes that the impact a business has on the environment and/or society is excessively net negative, it is not admitted to the Company's universe of investible companies from which the Investment Manager selects the Company's portfolio.

2.15 Metrics

2.15.1 The metrics listed below are used to provide Shareholders with a level of insight into the sustainability characteristics of the Company's investee companies. The metrics do not represent an exhaustive list of the sustainability factors assessed by the ACD / Investment Manager and nor are they universally considered as part of the investment approach.

2.15.1.1 Environmental metrics

The environmental metrics include:

- Greenhouse gas emissions (metric tons CO_2e/£m of free cash flow, FCF);
- Energy usage (MWh/£m FCF);
- Water usage (m^3 /£m of FCF); and

- Waste generated (metric tons/£m of FCF).

All of the environmental metrics are intensity metrics - i.e. they measure the relevant environmental matter relative to the business's free cash flow. Free cash flow is the remaining money a business has after covering operating expenses and capital expenditure and is one of the key indicators of a business's financial performance. Free cash flow is used for these purposes as it allows evaluation consistent with the Company's investment philosophy of investing in businesses capable of sustaining high returns on operating capital employed. Using intensity metrics allows the differing sizes of investee companies to be normalised.

The metrics are given as a weighted average for the portfolio. For those companies that do not report, the ACD uses estimates based on sector, industry and sub-industry averages. When reporting these metrics, the ACD will use the most recent investee company data that is publicly available as at the end of the Company's financial year and will report based upon portfolio composition as at this date.

Where reporting greenhouse gas emissions, only a business's direct emissions from owned or controlled sources (i.e. scope 1), and emissions arising generation of energy purchased by the business are included (i.e. scope 2). Scope 3 emissions are not included in these calculations. Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the investee company, including all upstream and downstream emissions. Upstream emissions include, for example, emissions arising from a supplier's production of something which the investee company uses in its business. Downstream emissions include, for example, emissions arising from a customer's use of a product sold by the investee company. Including scope 3 emissions may lead to double counting where one or more investee business's activities form part of the value chain of another's. There is also a lack of consistency in approaches to reporting scope 3 emissions, meaning that emissions reported are not directly comparable between companies.

More calculation methodologies employed can be found as part of the Company's Annual Sustainability Summary, available at https://www.fundsmith.co.uk/fsf/documents.

2.15.1.2 Social metrics

Unlike environmental performance, the impact that a business has on society is challenging to measure and report using quantitative metrics. Whereas environmental data is relatively straightforward to measure (e.g. CO2 emissions) and, if the measuring methods used are the same, compare between companies, social impact is more nuanced making measuring, quantifying, and comparing companies' impacts significantly more challenging. As such, the ACD will use qualitative reporting to summarise the social performance of investee companies aligned with the most material issues / themes during the reporting period.