Fundsmith Equity

Opinion

- This Established fund benefits from the disciplined application of a clearly-defined and well-established investment process.
- The fund's low turnover approach is consistent with the search for resilient, but growing, companies in developed markets that are well placed for the long term.
- Given the size of the fund and its concentrated nature, it features on our Established list.

Characteristics and Utility

- The rigid process, which narrows the global stock universe to a small number of companies/industries that meet their specific thresholds, means that the fund's outcome can differ substantially from indices.
- With a focus upon consistently high returns on capital, as well as clear sources of growth, fund performance is likely to shine when quality and growth attributes are in favour.
- On the other hand, markets that are driven by cyclical/recovery themes and/or mid and smaller companies are likely to be more challenging for relative returns. Given its lack of direct emerging market exposure, outperformance from these regions would be a headwind.
- The fund is suitable for investors who are comfortable with a highly selective, quality-biased, low-turnover approach to global equities.

Risk Commentary

The fund's KIID Synthetic Risk and Reward Indicator (SRRI) is 5. This is a regulatory measurement that is, where possible, calculated from the volatility of its weekly performance over a five-year period. A score of 5 means the fund's historic volatility is between 10% and 15%.

The investment approach emphasises resilient larger companies with relatively predictable operational performance. Historically, this has translated into a low participation in market falls and equally, a failure to keep up with benchmarks when risk appetite is high. Over the long term, this pattern should hold, but may not do so over shorter time periods, particularly when such companies have elevated valuations. Different share classes could have differing SRRI scores.

Key Fund Facts

Inception Date:	1 November 2010
Manager(s) Since:	Terry Smith (Nov 10)
Fund Domicile:	United Kingdom
Base Currency:	£ Sterling
Fund Benchmark:	MSCI World
IA Sector:	Global
Share Class Type(s):	Acc and Inc

Formal documentation, including the fund prospectus and the KIID, should be sought directly from the asset manager. A link to the asset manager's website can be found on the relevant fund page at theadvisercentre.co.uk. An asset manager adviser factsheet is also provided there.

Fund Snapshot

A concentrated global equity fund that is managed with a distinctive approach and focused upon companies with particular characteristics. The fund only invests in developed market companies that the managers believe offer very predictable and sustainable growth by generating high returns on capital invested in the business. Within its sector, the fund features in our 'Larger-Cap, Growth' category.

Investment Team

The investment team is led by Terry Smith, who owns the majority of Fundsmith as one of four founding partners of the business in 2010. He has a long history of company research, including a role as Head of UK Company Research at UBS Phillips & Drew between 1990 and 1992. As CEO of Tullett Prebon, which was created through 2003-04 acquisitions while he was Chief Executive of Collins Stewart, he has significant business management experience. In running the fund, he works very closely with Julian Robins, Head of Research and Partner, and Daniel Washburn, Analyst and Partner.

Investment Philosophy

The manager invests with a long-term mindset according to a rigid definition of strong companies that can grow in value over time. In his view, a concentrated portfolio of these stocks will deliver strong returns over a multi-year period, as investors benefit from the compounded effects of the companies' ability to grow reliably and to afford to continue to invest in their business.

Investment Process

The process is based around the strict definition of large, global companies meeting the team's quality criteria. The objective is to identify companies listed in developed markets whose sales are driven by a large number of predictable purchases and that have historically delivered high cash returns on investment. The manager also requires holdings to have the ability and opportunity to continue to invest at a high rate of return. Given the importance of continued growth over the longer term, it is important to the team that their investments incorporate characteristics that minimise the risk of increased competition and of obsolescence through technological change. This leads the manager to favour particular sectors, notably consumer staples, medical supplies and industrial or technology companies that generate revenue by servicing existing customers.

Only a small number of companies – considerably fewer than 100 – meet these requirements and relative value analysis, focusing primarily on free cashflow yield, is then undertaken in the construction of the concentrated portfolio. Emerging market company research helps understand the subsidiaries and markets of the fund holdings but the fund invests only in stocks listed in developed markets.

Portfolio Construction and Risk Controls

Stock turnover is deliberately low, on the basis that market timing is difficult to achieve reliably and that the 20-30 investments in the portfolio were initiated at attractive prices relative to their long-term potential. The focus is exclusively on larger companies in developed markets, in part reflecting the importance that the team places on the historic delivery of stable and predictable growth. Neither derivatives nor stock lending are employed in the fund.