Fundsmith

Fundsmith Stewardship Report 2024

Fundsmith
Buy good companies
Don't overpay
Do nothing

Fundsmith

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Introduction

Welcome to Fundsmith's 2024 Stewardship Report. This document, following the 12 Principles for Asset Owners and Asset Managers outlined in the Financial Reporting Council's (FRC) updated UK Stewardship Code 2020 (the Code) and having regard to UK rules implementing the requirements of the EU Shareholder Rights Directive 2007/36/EC (as amended), details how we allocate, manage, and oversee capital to generate value for our investors.

The FRC defines stewardship for the updated Code as:

> **"The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society".**[1]

As a long-term, buy-and-hold investor in the companies we choose to buy, stewardship is not only part of our fiduciary duty but an essential and implicit component of our investment strategy. Fulfilling our responsibility as stewards is a key contributor to ensuring the success of our investment approach. Reflecting our dedication to this, Fundsmith was among the first cohort of applicants to gain signatory status to the Code in 2021 and has remained as a signatory since. This report explains how Fundsmith has applied the Code's Principles over the 12-month period beginning 1st January 2024 and, in doing so, gives details on how Fundsmith understands stewardship, the policies and processes used to encourage and support it, and how we performed as stewards of our investors' capital during 2024.

This report was discussed and approved at the Fundsmith LLP Management Committee meeting on 14/04/2025.

Signed, Terry Smith, CEO and CIO

[1] https://www.frc.org.uk/getattachment/5aae591d-d9d3-4cf4-814a- d14e156a1d87/Stewardship-Code_Final2.pdf

Principle 1

Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, environment, and society.

Purpose, culture, and values

Fundsmith was founded in 2010 as a fund management business responding to what the founding partners saw as failings in the investment industry. At the time, many of the equity funds available in the UK were consistently underperforming their benchmark. They held too many companies in their portfolios, making them indistinguishable from the market as a whole and sacrificed investment returns through expensive overtrading. Put simply, many equity funds were overpriced, underperforming, and offered little difference from an index tracker.

Fundsmith was created to offer investors something different to the options available at the time. Through being different, the founding partners aimed to offer something better, in line with Sir John Templeton's axiom "if you want to have a better performance than the crowd, you must do things differently from the crowd". We launched our first fund, the Fundsmith Equity Fund, with the intention of providing retail investors with the best fund they have ever owned. By "best", we mean the fund with the highest returns over the long term, adjusted for risk. Our focus on this has remained unchanged since our inception.

Our business model is derived from the desire to be better. We run open-ended and closed-ended funds that invest in high-quality companies for the long term. These high-quality companies grow and compound in value over the long term, generating value for our clients and beneficiaries. Most important to the success of our business model is ensuring we operate Fundsmith as the kind of high-quality company we look to invest in. We apply exacting standards to potential investments to produce portfolios of resilient businesses with excellent performance across a small number of equity funds. Minimising the costs we incur on behalf of our customers while implementing our strategy also sits at the heart of our business model. For example, we do not charge our investors entry or exit fees. Instead of the typical 'annual management charge', or 'ongoing charges figure' firms use to compare themselves, both of which fail to account for the incremental costs of trading, we use total cost of investment (TCI) as it recognises all the costs our investors incur whilst owning our products.

Fundsmith prioritises transparency, integrity, and conviction across all our activities as an asset management firm, including our responsibilities as stewards of our investors' capital. The firm operates with a flat management structure and minimal hierarchy, fostering a collegiate culture with a strong diversity of thought. Our structure aims to remove bureaucracy and allow quicker and more effective decision-making, supported by our Management Committee. All employees have access to Fundsmith's management.

Our investment beliefs and strategies

When Fundsmith was first established in 2010, we published an 'Owner's Manual' outlining our purpose, approach to investing, and strategy for the Fundsmith Equity Fund (FEF). The Manual remains essentially the same today as it was in 2010 and is available on our website. We published respective versions of the Owner's Manual for the Fundsmith Stewardship Fund (FSF) and Smithson Investment Trust (SSON) when they were launched. We want those investing with us to use these manuals to understand our investment beliefs and approach, and what we are trying to achieve with the funds we manage. Alongside our owner's manuals, we write an annual letter for each of our funds and publish them online for our investors. The letters, written by each fund's portfolio manager, discuss the performance of the fund and its underlying portfolio of companies and cover any key events that occurred during the period.

Our investment strategy is simple and builds from three basic principles: buy good companies, don't overpay and, finally, do nothing. We believe that the most important driver of a business' returns is whether it is, in fact, a good business. Of the over 80,000 listed equities in the world, we have identified fewer than 160 across our three strategies that qualify as "good", according to our criteria.

Good Companies

The high-quality businesses we look to invest in are predictable, have defensive characteristics, and invest their capital at rates of return substantially above their cost of capital. These businesses make a high return on operating capital employed, in cash, over the long term. We are not just looking for a high rate of return but a sustainably high rate of return. This means we invest in businesses with a significant and distinct competitive advantage. An important factor is repeat business, usually from consumers. A company that sells many small items every day is better able to earn consistent returns over the years than a company whose business is cyclical, like a steel manufacturer, or lumpy, like a property developer. This approach rules out many businesses that do not sell directly to consumers or produce goods that are not consumed at short, regular intervals.

We look for businesses that typically have an advantage over the market via some form of intangible asset (brand, distribution network, technology etc.) that helps to sustain a high rate of return on the capital they employ. Further, we like businesses that can reinvest some of those returns at the same high rate. This approach comes from the belief that over the long term, a company's share price will compound at about the rate of return at which the underlying business invests its capital. Therefore, the key is the business's rate of return, not the share price.

There are many industries in which we don't believe a good company could ever exist. This is due to specific factors that make it impossible to generate a high return on capital employed or through little control over pricing, as with many commodity-based industries. For example, we can confidently say that we will never invest in a mining or oil and gas company. Alongside this, our high-quality business screen removes some of the most environmentally and/or socially damaging industries, such as airlines, energy, automotive and biotechnology. We avoid these as we believe their business models are unsustainable and they will struggle to generate sufficiently high returns over the long term.

When assessing the sustainability of a company and its returns, we analyse the business in the widest possible sense. We consider any negative impacts it may have on the environment and society as well as any positive contributions through its products and services and via research and development. Sustainability-related factors have become increasingly important to all companies and have the potential to influence their performance over the long term. We view poor performance across any of these factors as taking profits from tomorrow to fund today. Companies with operations that damage the environment or society or who have poor quality governance may struggle to sustain the high return on capital the high-quality companies we look for must have. As a long-term investor, we won't invest in companies that generate returns and profits unsustainably, as we want to own the businesses we invest in forever. We expect the management of investee companies to act like owners of the company, prioritising capital allocation that benefits the business over the long term.

Don't Overpay

Our research process is the most important component of our investment strategy. We believe that detailed research and developing a deep understanding of a business before investing is the best way to build a portfolio of companies that outperforms over the long term. When we identify a good company, we don't want to overpay if we choose to invest in its stock, but we also realise that to buy superior businesses, you may need to pay a higher valuation. As Warren Buffet said, "It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price". Our goal is to buy securities that will grow and compound in value over time. These securities must offer free cash flow yields that are high relative to long-term interest rates and to the investments already selected within our portfolios or the other investment candidates within our investible universe. The securities should also offer yields that are similar to, or better than, what we would get from a bond. We calculate the free cash flow of every company after tax and interest, before dividends and other distributions, and after adding back any discretionary capital expenditure that is not needed to maintain the business. This avoids penalising companies for investing capital at high rates of return to grow their business, which is precisely what we want.

Do Nothing

Finally, once we have invested in a company, we aim to do nothing. We like to compare investing to competing in the Tour De France; the overall winner of the Tour (the 'yellow jersey') never wins every stage. Similarly, we don't expect to outperform every quarter, or even year, but we do expect the companies we invest in to compound in value by more than the average company over the long term which will, in turn, generate superior risk-adjusted returns compared to our peers.

Ironically, this is the part of the process when we are most active. In doing nothing, we try only to buy and sell a company based on its fundamentals, irrespective of its share price movement. This discipline means that we avoid the temptation of rebalancing our portfolios and keep trading to a minimum, reducing costs and, consequently, the charges for our investors. We constantly monitor our companies after investing and continue to evaluate whether there are any changes in approach or new factors that might affect the company's long-term performance. If we identify an issue with an investee company, we follow the engagement, escalation and voting practices outlined in our report on Principles 9, 11 and 12, respectively, to promote resolutions that support the company's long-term performance.

These investment beliefs are followed and complied with across the three investment strategies that we operate: Fundsmith Equity, Fundsmith Stewardship and Smithson. The same research process is followed by each strategy, which involves defining an investible universe of good companies all of whom meet our strict investment criteria. The resulting investible universe forms the basis for the respective fund portfolios.

Enabling effective stewardship

Fundsmith was set up to be a long-term shareholder in high-quality companies. We want to invest in companies that can and will sustain their operations indefinitely as, ideally, we want to hold the shares of investee companies forever. Our fundamental approach to investing means that stewardship is not a "bolt-on" concern but a crucial aspect in ensuring the success of our value proposition to clients. As our approach to investment is entirely focused on the long-term, many of the day-to-day actions we take are designed to ensure we are acting as effective stewards of investors' capital. Our report on Principle 2 discusses how our governance is structured to support stewardship, and Principle 7 goes into more detail regarding the role of stewardship in our investment process.

Fundsmith's staff share the Firm's investment beliefs, and many of the Firm's employees have invested significant amounts in Fundsmith's products. We encourage this as we believe it aligns our incentives with those of our investors. We view this as an important aspect of good stewardship as it means we invest our clients' capital as though it were our own; for many Fundsmith employees, it is.

How have we done?

Since its inception in November 2010 to the end of 2024, the Fundsmith Equity Fund generated a cumulative return of 607% (annualised: 15%), compared to the MSCI World Index's cumulative return of 403.4% (annualised 12%). Not only has the Fund outperformed its reference index, but it has also done so with less risk. We measure risk using the Sortino ratio, which measures return relative to downside risk. A higher ratio indicates better risk-adjusted returns. The Sortino ratio for FEF since its inception is 0.87, compared to the MSCI World's 0.60.

Since its inception in November 2017, the Fundsmith Stewardship Fund has generated cumulative returns of 98% (annualised: 10%) versus the MSCI World's 117% (annualised: 11%). FSF's Sortino ratio since inception is 0.45 versus 0.48 for the MSCI World over the same period. The net asset value (NAV) of the Smithson Investment Trust has generated a cumulative return of 63% (annualised: 8%) since its inception in October 2018 versus the MSCI World Small and Mid-Cap Index's return of 64% (annualised: 8%).

Fundsmith also publishes value assessments for both FEF and FSF. Our Value Assessment analyses both funds across seven pillars: quality of service, performance, costs, economies of scale, comparable market rates, comparable service rates, and share classes. The assessment of both funds concludes that they provide value to their investors, and when considered alongside the strong Sortino ratios of both, means we are achieving our aim of delivering strong risk-adjusted returns at a reasonable cost as consistently presented to and expected by our investors. The assessments are available on our website.

We continually look for ways to improve our disclosure on our stewardship activities and will be using this report as an opportunity to explain how we interact with our investee companies to promote sustainable long-term returns.

Principle 2

Signatories' governance, resources, and incentives support stewardship.

An essential part of ensuring we are good stewards is establishing practices within our business that not only support but encourage stewardship. Our report on this principle addresses the way we do this; how our governance provides oversight and accountability for stewardship, how we select and work with our resources to ensure our stewardship activities are fully supported, and how we incentivise the integration of stewardship with investment decision making.

Governance

Fundsmith continues to be wholly owned by its partners, all of whom are actively involved in the business on a day-to-day basis. As such, Fundsmith's ownership and governance structure is completely aligned with the long-term focus of our funds and the aim to ensure the long-term growth of the business.

Fundsmith's Management Committee is the firm's ultimate governing body and is responsible for all aspects of Fundsmith's business. The Management Committee is designed to ensure that we are being run in compliance with applicable regulatory rules, that we act in the best interests of investors in our funds, and that we are operating with an appropriate risk management framework. The Committee is ultimately responsible for setting our approach to stewardship and for ensuring that the business adheres to the stewardship principles and policies it has set itself. The Management Committee comprises both executive and independent non-executive members.

Figure 1: Fundsmith LLP's management structure.

The Management Committee delegates responsibility for the development and implementation of the Firm's strategy and for the day-to-day management of the business to Terry Smith, Fundsmith CEO and CIO. To support Terry Smith in this, Fundsmith operates an Executive Committee as a sub-Committee of the Management Committee.

The Management Committee has also delegated certain oversight and management responsibilities to other sub-Committees. Oversight of Fundsmith's stewardship and sustainability-related risks and activities are delegated to the Stewardship and Sustainability Committee. The Committee, which completed its fourth year of operation in 2024, reviews all relevant stewardship and sustainability-related regulations and initiatives, sustainability-related disclosure frameworks, the Fundsmith Stewardship Fund investible universe and its exclusions, the application of our Responsible Investment Policy and our engagement and proxy voting activities.

The Committee is chaired by Julian Robins, Fundsmith's Head of Research, with representatives from each portfolio management team, the Chief Compliance Officer, the Head of Sustainability, and our Stewardship Analyst. The structure of this Committee was chosen to ensure that all areas of the business involved with our stewardship activities meet regularly to ensure they are aware of any changes in the company's approach and updated on key issues and best practices. The conclusions of the Committee's meetings are reported to the Management Committee. This reflects the importance of ensuring that we are acting as good stewards of our clients' capital and our management's commitment to appropriately resourcing our stewardship activities.

Fundsmith Stewardship & Sustainability Committee	
Julian Robins	Head of Research, Founding Partner
Robert Parker	Chief Compliance Officer
Thomas Boles	Head of Sustainability
Simon Barnard	Portfolio Manager, Smithson Investment Trust
David Simpson	Stewardship Analyst

Table 1: Fundsmith's Stewardship & Sustainability Committee.

Our investment beliefs are the same across the three investment products we operate. The same research process is followed by each strategy, which involves defining an investible universe of "good companies" that meet our strict investment criteria and the respective strategy's market capitalisation range and market classification. Before adding a new company to the IU, the research team produces a comprehensive report on all aspects of the business, looking at all factors that might affect its ability to sustain a high return on capital and grow over the long term. This is then put to the strategy's portfolio management team, which decides whether the company is worthy of IU inclusion. All IU inclusions are reviewed and approved by the Chief Investment Officer (CIO) to ensure that the good company process is followed properly. This ensures that we have a consistent approach and independent review of the process. The strategy's portfolio is created from this universe.

The Fundsmith Stewardship Fund's IU is created from the Fundsmith Equity Fund's and Smithson Investment Trust's investible universes. Each company is subject to two further screens to ensure they meet the criteria we have established for inclusion the FSF IU. This process is discussed in more detail in Principle 7.

Stewardship is also generated through the ongoing oversight and management of our investments. Our approach to this is detailed in Principles 9, 10, 11 and 12 of this report and follows the practices laid out in our Responsible Investment Policy. As part of his role as Head of Research, Julian Robins oversees the monitoring of our existing investments. He decides when, in accordance with the Responsible Investment Policy, we might need to engage, escalate, or consider divesting a portfolio company. While Julian, as chair of the Stewardship Committee, is accountable for our stewardship activities and processes, every member of Fundsmith's research team supports our stewardship activities and works to keep our decision-making appropriately informed.

The policies we use to guide our stewardship activities are subject to an annual review by the Stewardship and Sustainability Committee in accordance with the Committee's Terms of Reference.

Resources

Stewardship is an integrated component of our investment process and is considered explicitly by all employees. We rely on our Research department, including the Head of Research, to conduct the in-depth research and analysis of companies to identify those that can produce the long-term, sustainable growth our strategies rely on. The Research team has a wealth of experience across the investment industry, totalling almost 170 years between 9 analysts. The team comes from a diverse range of academic backgrounds, including degrees in history and economics to French and geography, and has achieved a range of qualifications, including four CFAs, an MBA, a variety of masters' degrees and a PhD. Their expertise and experience mean we have a team that fully understands and has the skills needed to implement Fundsmith's investment philosophy and process.

While we consider good stewardship to be a natural attribute of the entire research team, we also have a member of the team dedicated solely to stewardship activities. This extra resource helps ensure we are properly executing and correctly documenting, reporting and communicating our stewardship activities. Our Stewardship Analyst has an undergraduate degree in environmental science and a postgraduate degree in global politics; he has also attained the CFA UK's Certificate in Sustainability Investing and Investment Management Certificate (IMC). He has specific responsibility for supporting the research team by keeping team members aware of sustainability-related regulations and considerations, best practices, and any changes in the way they approach stewardship activities.

It is also important to integrate and utilise a diverse workforce to support stewardship. In support of this, Fundsmith has committed to being an equal opportunities employer and operates under a Diversity, Equal Opportunities, and Inclusion Policy. Our recruitment, promotion and all other selection processes are conducted based on merit against an objective set of criteria, avoiding discrimination against all protected characteristics.

We use various resources to support our analysts and their research process. We collect qualitative and quantitative information from a variety of publicly available sources such as earnings reports, sustainability reports, press releases, the CDP (previously the Carbon Disclosure Project) and Science Based Targets initiative (SBTi), and Bloomberg. We use Bloomberg to retrieve and calculate basic stats such as CO2 emissions, water and energy use, and the amount of waste generated. We also use RepRisk's RepRisk Index to assess individual companies and the portfolio's aggregated risk exposure to sustainability-related issues and to benchmark our funds against our chosen index. We use RepRisk as it avoids the intra-industry approach that other rating services implement. We believe this intra-industry, or "best-in-class" approach, facilitates investment in fundamentally unsustainable companies as they are slightly more sustainable than the others operating in their damaging industry.

We use these sources in combination to support qualitative decisions on the companies that can be part of FSF's investible universe, to assess potential investments, and as part of our ongoing monitoring of the companies in which we are currently invested. We do not make investment decisions based on an individual score provided by RepRisk. Instead, we use it to supplement our fundamental research and analysis of a company during our decision-making process.

Incentives

Fundsmith is owned and managed by its Partners. The Founding Partners do not receive variable remuneration from the Firm. They are each entitled to a pre-determined, fixed proportion of the Firm's profit in accordance with their ownership. The Founding Partners' interests are, therefore, in alignment and dependent upon the long-term profitability and sustainability of Fundsmith.

The Smithson Portfolio Manager (PM) has his remuneration structured to ensure he is focused on the long-term success of the fund. We do not set short-term targets, and the PM is not rewarded with respect to the short-term performance of the funds. It is important to note again that our portfolio managers, including Terry Smith, are invested in the funds they manage. This alignment of interests with our clients is an important incentive in encouraging the sustainable growth of the businesses within each fund, and as such the sustainable growth in value of their own and our clients' investment.

Our incentive scheme for portfolio managers (other than Terry Smith) depends on the long-term performance of the fund which they manage. As mentioned, active and effective stewardship from our portfolio managers is a key contributor to the fund's performance and, consequently, portfolio managers' remuneration. Further details on our portfolio managers' remuneration are available in our annual report and accounts. We consider a range of metrics combined with qualitative judgements to analyse the effectiveness of our portfolio managers' stewardship activities. However, there are difficulties in identifying and quantifying a single, holistic measure that accurately represents the many facets of our stewardship activities and achievements over the previous 12 months. We continue to work to find better ways to measure the effectiveness of our stewardship activities. Given that our investment and business strategy will only succeed if our portfolio managers encourage the long-term performance of their companies through being effective stewards, we feel that stewardship is adequately addressed and incentivised.

Our Remuneration Policy is available **here**.

Effectiveness

As discussed in Principle 1, we feel that the long-term sustainable outlook we take when investing is the key driver of stewardship at Fundsmith. Our internal governance, resources and incentives are structured around generating long-term, sustainable growth in the value of the companies in which we invest. This is the aim of all our fund products. Since Fundsmith's inception in 2010, we have been successful in creating long-term value for our clients and beneficiaries, and we believe that our approach will continue to do so.

The investible universe for each of our strategies is relatively concentrated and static. Since the inception of the Fundsmith Equity Fund in 2010, we have added and removed two companies per year on average. This low turnover allows for robust oversight of the investment process and the respective strategy IUs by the Management and Stewardship committees.

However, we are aware that effective stewardship does not simply result from relying on established processes but from reviewing our policies, assessing the effectiveness of our activities, and continually improving our approach. Our report on Principle 5 reviews this in more detail and explains how we typically approach the area. Even the process of producing this Report has presented opportunities to assess our approach and identify areas we can improve upon.

Principle 3

Signatories manage conflicts of interest to put the best interest of clients & beneficiaries first.

Fundsmith is under a regulatory duty to ensure that any conflicts of interest are managed in such a way so as to put the interests of clients first.

Fundsmith's investment criteria mean our investible universe, across each of our funds, totals less than 160 individual companies. This is significantly less than that of many fund managers with comparable assets under management. The result of this is a very low chance of conflicts of interest arising between Fundsmith, its Partners and employees, and the companies we invest in. Regardless, we still strive to avoid any conflicts of interest in our investment activities. Should any potential or actual conflicts of interest be identified across our stewardship activities or more widely within the business, they will be recorded in our internal Conflicts of Interest Register. Fundsmith follows the procedure detailed in our internal Conflicts of Interest Policy, which outlines the steps we take to avoid, minimise and manage such potential conflicts. A summary of our Policy is available **here**.

Managing these potential conflicts is important. Failure to do so in the normal course of business could put us in a situation where the interests of clients and the interests of the Firm are at odds with one another. Given the range of investors in our products and the accompanying range of approaches to stewardship, we will not change our approach in any way under the pressure of a single investor. However, should a situation arise where the majority of our investors are of a similar mind, we are prepared to adapt our approach. We communicate our investment beliefs and approach to stewardship to potential investors in our owner's manuals, product prospectuses and our Firm-wide Responsible Investment Policy to ensure all investors understand and are comfortable with our approach before investing, minimising the potential for this kind of conflict occurring.

Our Conflicts of Interest Policy follows three steps: identification, management and disclosure. Potential conflicts of interest relevant to us may occur between our Partners, employees, or any person directly or indirectly linked to Fundsmith by control (relevant persons) and a client of Fundsmith. There is also the potential for conflict between different clients. In our policy, we identify five scenarios where there is potential for conflicts of interest in our activities. These arise when the firm or a relevant person:

- Is likely to make a financial gain or avoid a financial loss at the expense of a client;
- has an interest in the outcome of a service provided to the client or of a transaction carried out on behalf of the client, which is distinct from the client's interest in that outcome;
- has a financial or other incentive to favour the interest of one client over the interests of another client;
- carries on the same business as the client; or
- receives or will receive from a person other than the client an inducement in relation to a service provided to the client, in the form of money, goods or services, that is not the standard commission or fee for that service.

Fundsmith's Management Committee, assisted by Compliance, have considered various situations arising from the day-to-day business of the Firm from which a conflict of interest may occur, given the services and activities that Fundsmith undertakes. These are documented in the Conflicts of Interest Register, which is reviewed and updated annually and approved by Fundsmith's Management Committee. The potential for additional conflicts of interest will be considered each time Fundsmith takes on a new client, considers launching a new fund, develops a new investment strategy, or undertakes a new line of business.

The Conflicts of Interest Register also summarises the approach Fundsmith takes to manage and mitigate these conflicts. Where the potential for a conflict of interest has been identified, Fundsmith will seek to organise its business activities in a manner that prevents such a conflict from arising.

Where conflicts are unavoidable, Fundsmith will seek to provide measures for their mitigation and management. These management arrangements are designed to ensure that Fundsmith always acts in the best interests of its clients and puts their interests ahead of our own. Where a conflict arises between two clients, Fundsmith will seek to treat both clients fairly.

Currently, there are no conflicts of interest considered to exist at Fundsmith which we are unable to prevent or manage in such a way as to ensure the interests of our clients and beneficiaries are not impacted. Potential conflicts may exist in relation to aspects of our business that are not material in nature, and that we believe are being effectively prevented or managed. Accordingly, these potential conflicts are not disclosed.

While executing our responsibilities as stewards of our investors' capital, conflicts of interest could occur in the execution of proxy votes. Conflicts of interest are most likely to occur here if an employee involved in the proxy voting process holds an interest or has a relationship with the company in question.

We actively manage the risk of this conflict via a variety of methods. First, Fundsmith's employees are prohibited from investing in any of the companies in our funds' investible universes. We also log and monitor the outside business interests of any Fundsmith employee and their connected persons with any IU company to identify any potential conflict.

All proxy voting decisions are made by the relevant portfolio manager, executed by our Stewardship Analyst and monitored by Compliance. Our Stewardship Analyst checks our voting decisions' compliance with our Proxy Voting Policy (see Principle 12). Compliance also monitors the proxy voting process biannually to ensure compliance with the Policy.

Our Management Committee has allocated separate responsibilities for supervising different areas of the business, such as client relationship management, business development, portfolio management, investment research, risk management, operations, and compliance. Fundsmith ensures that the risk management function does not carry out any portfolio management or investment research tasks and is supervised and remunerated independently from those functions to minimise any potential conflicts further. As part of Fundsmith's risk and compliance framework, the firm has a Compliance Monitoring Plan to ensure the requirements of this and various other policies are followed. The Compliance team is responsible for ensuring that appropriate measures exist to mitigate and manage conflicts. The Management Committee is responsible for reviewing and approving these management measures. Where Fundsmith is not reasonably confident that it is able to manage conflicts to ensure that the risk of detriment to the interests of a client or investors in a fund will be avoided, this will be reported to Compliance. They are responsible for taking any decisions necessary to ensure that Fundsmith acts in the best interest of the client or investors in the fund.

The Management Committee reviews and updates our Conflicts of Interest Policy on an annual basis. Our legal advisors provide guidance as required in relation to our conflict management arrangements.

Principle 4

Signatories identify and respond to market-wide & systemic risks to promote a well-functioning financial system.

At Fundsmith, we believe that there are more systemic and potentially market-wide risks that we cannot identify than those we can. As ex-US Secretary of Defence Donald Rumsfeld said:

> **“There are known knowns; there are things we know we know. We also know there are known unknowns; that is to say we know there are some things we do not know. But there are also unknown unknowns—the ones we don’t know we don’t know. And if one looks throughout the history of our country and other free countries, it is the latter category that tends to be the difficult ones”.**

We take a proactive approach to risk, minimising it as much as possible during the construction of our investible universes and portfolios. We minimise the risks we face by investing in high-quality companies with defensive characteristics. The companies we look to invest in benefit from repeat business in the form of small, everyday transactions. This is usually, but not exclusively, from consumers. We look for companies whose product or service offerings are resilient to technological change and are difficult to replicate. These characteristics allow a business to generate consistent returns over the years. We want to invest in companies that use these characteristics to generate a high return on the capital they employ and who reinvest these returns to support long-term growth. Picking companies with defensive characteristics helps us build portfolios that are more resilient to market-wide and systemic risks, such as changes to interest and currency rates and other macroeconomic/geopolitical issues.

There are numerous industries we will never invest in as we believe it is impossible for the high-quality businesses we prefer to operate within them. For example, it is highly unlikely that we would ever invest in a traditional bank. Banks typically rely upon leverage to generate profits and, at some point, that leverage is withdrawn. We are also unlikely to ever invest in a business reliant upon commodities, such as utility companies, as they have no control over the changing price of the materials upon which they depend.

Across all our strategies, we invest in businesses that have an established track record of success. We look for companies with a dominant market share in their product/service niche or having brands and/ or patents that are challenging, if not impossible, to replicate. Our desire to invest in long-term winners is reflected in the age of the companies we invest in; the companies owned by Fundsmith Equity Fund at the end of 2024 had an average age of 104 years and a median market capitalisation of £103bn, Fundsmith Stewardship Fund an average age of 89 years and median market capitalisation of £79bn, and Smithson companies had an average age of 59 and a median market cap of £8bn. These companies have experienced numerous economic cycles, World Wars, and technological advances and have persisted throughout. We invest in these companies with the intention of holding that investment forever.

Our long-term investment horizon means we encourage our companies to focus on long-term capital allocation with the goal of generating sustainable growth. We also support sustainable practices to ensure they are managing the risks they face in both the day-to-day and long-term operations of the business. Our approach is fundamentally opposed to the myopic obsession held by some parts of the market. This myopia forces companies to post growth after every quarter, often pushing businesses into unsustainable short-term profit maximisation to meet these expectations. We regularly engage with companies to remind them of how little significance we put on short-term guidance or any small changes in it. This, we believe, directly contributes to a more efficient and well-functioning financial system by reminding management that not every shareholder is focused on the short term.

We spend a great deal of time researching prospective companies and want to get to know them intimately before deciding whether to invest, identifying and assessing a variety of risks. There are, of course, unforeseen risks that we may not have accounted for, or a company's approach to risk may change during the period in which we own the stock. Our response to this is to engage with the company, aiming to understand company management's perspective of the risk and their response to it, should it be present and material. We follow our engagement, escalation, and proxy voting processes, detailed in Principles 9, 11, and 12, respectively.

Fundsmith's risk management process is overseen by the Management Committee, which holds the overall responsibility for the identification and management of risk and for the determination of the Firm's risk appetite. The Management Committee is responsible for setting the 'tone at the top' and for ensuring that the Firm operates in a manner consistent with its risk principles.

The Management Committee has delegated responsibility for the oversight of certain risks and authority for the approval of the policies related to the management of those risks to its subcommittees. These committees report to the Management Committee on their activities and their conclusions as to whether the risks are being managed within the Firm's appetite.

Market-wide and systemic risks

There are, of course, events during the short term that impact the operations of the businesses in which we invest. While we are confident that the quality of our companies makes them resilient to this, monitoring the impact of these events is important. Over the past few years, there have been a series of unpredictable events that have influenced global markets, including a pandemic, a global supply chain crisis, the resurgence of inflation and a corresponding increase of interest rates, and increasing instances of conflict and political instability. We believe our approach to investing means our companies are relatively resilient to these shorter-term risks, and our response to these events was the same: do nothing.

War and wider geopolitical unrest

Armed conflict and global geopolitical unrest were major themes during 2024, as they were in our last Report. The war in Ukraine entered its third year and Israel's war with Hamas its second. There remains the risk of wider unrest in the Middle East, the overthrow of the Assad Regime in Syria late last year highlighting this.

These events, and the wider instability they cause, disrupt various components of the global financial system. As geopolitical risk grows and investors' appetite for risk decreases financial markets experience increased volatility, as was experienced following Russia's invasion of Ukraine. Not only did the invasion send shock waves through stock markets, it forced many Western companies to sell their operations in Russia and disrupted their supply chains.

The main way we reduce this geopolitical and macro risk is by focusing on creating portfolios of globally diversified companies, not in terms of domicile, but in their revenue generation and risk exposure. We avoid companies generating high proportions of their profits from jurisdictions we deem to have high exposure to the themes discussed.

Inflation and interest rates

Russia's invasion of Ukraine also significantly exacerbated another trend emerging from the pandemic: inflation. Inflation was already increasing due to strong demand from consumers emerging from pandemic lockdowns, which combined with supply chain bottlenecks caused by material and labour shortages. The invasion caused commodity prices to increase sharply, exacerbating the inflation that businesses and consumers were already experiencing. In an attempt to manage this inflation and prevent it from taking hold, central banks around the world started increasing their interest rates. Despite continued progress made in reducing inflation throughout 2024, it remained relatively high compared to recent periods. Interest rates also remained elevated as central banks continued efforts to bring headline inflation back to their target level.

The companies we invest in are well-placed to deal with inflation due to the nature of the industries they operate within. As we have explained, we look for companies that generate their revenues from a large number of everyday repeat transactions. These businesses sell many small items every day rather than a few very large items less frequently. These small items are usually price inelastic, meaning producers can increase the price consumers pay for the goods without seeing a significant change in demand, making their revenue streams resilient to inflation. Further, we invest in companies with high gross margins, which means their raw material costs are a lower proportion of profits and hence increase by less than companies with lower gross margins, further increasing their resilience.

The companies we own are also well-placed to deal with high interest rates. We do not invest in companies that rely on leverage to generate a high return on the capital they employ. We have long held the belief that, at some point, this leverage will be withdrawn, which can put the solvency of the business at risk. Instead, we look for businesses that create high returns on capital rather than just equity. This is not to say that the companies we invest in do not use leverage as part of their business. Where our companies do use leverage, we look for businesses that have high interest cover and healthy balance sheets to ensure servicing the loans they do have does not impact their ability to operate when credit is more expensive.

Climate change

The impact of climate change continues to be a market-wide and systemic risk to the financial system. We maintained our focus on climate change and its associated risks during 2024 due to its continuing relevance to us as a long-term investor.

Our investment approach means we are unlikely to ever invest in or have exposure to the industries that contribute most to climate change, such as oil & gas, mining, and utilities. However, we are still exposed to the risks and opportunities both the transition to a low-carbon economy and the physical impacts of climate change entail. Figure 2 shows the concentration of greenhouse gas emissions in tonnes of CO_2e per million GBPs of total assets for different sectors. We typically invest in companies that the Global Industry Classification Standard (GICS) would classify as Consumer Staples, Consumer Discretionary, Health Care, and Information Technology. As the Figure shows, the industries we focus on are significantly more carbon efficient comparted to those we avoid. As a result, the companies we own in our funds' portfolios, and therefore the funds themselves, are relatively less exposed to climate-related risks than those operating in carbon-intense sectors such as Utilities, Materials, and Energy.

Despite our lower exposure to these risks, it is important to ensure that the companies we invest in are reducing their contribution to climate change and managing its potential impact on their operations. As part of this assessment, we look at our companies' commitments to reducing their greenhouse gas emissions. We use data collected from the Science Based Targets initiative (SBTi), the CDP, and directly from the companies themselves to assess the emissions profile of a business and their alignment with the Paris Agreement (keeping global warming below 2°C), the Business Ambition for 1.5°C, and their commitment to net zero carbon emissions (covering at least their direct operations, or scope 1 & 2 emissions). Table 2 details the results of this.

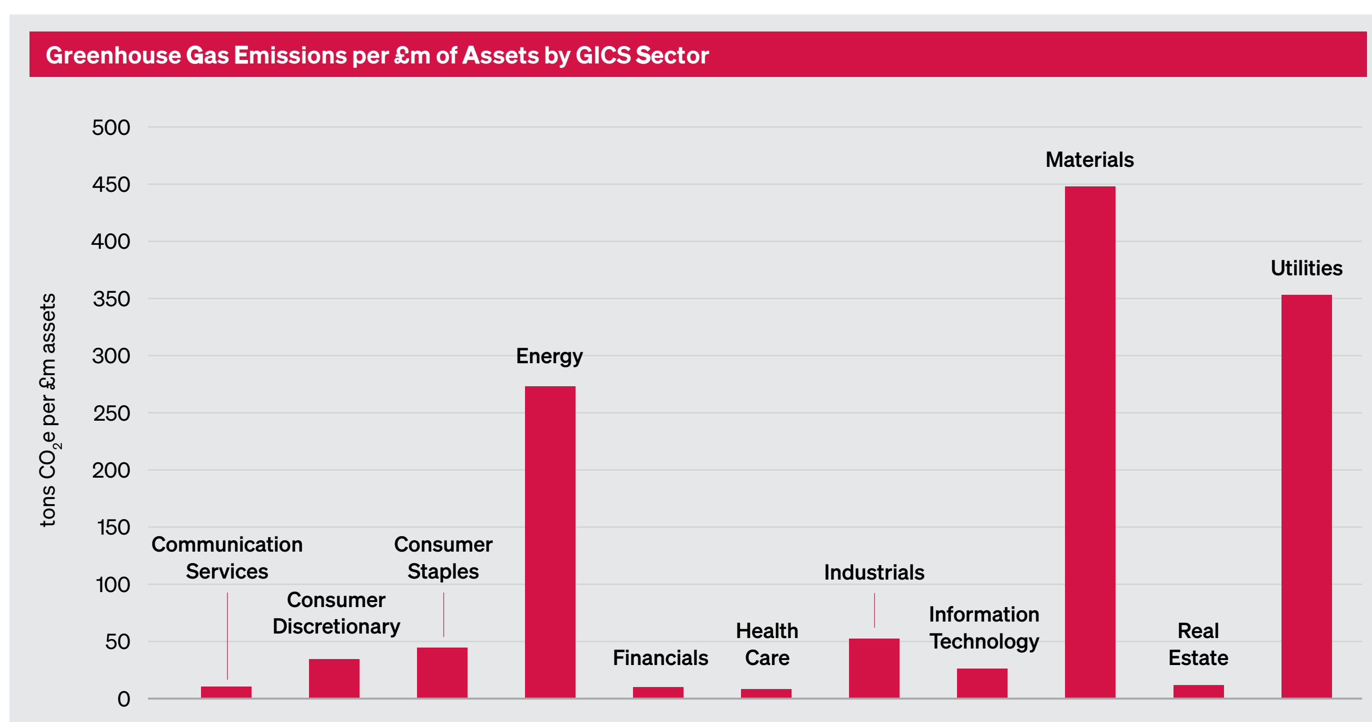


Figure 2: Greenhouse gas emissions per £m of assets by GICS Sector

SBTi status	By weight				By emissions			
	FEF	FSF	SSON	Fundsmith LLP	FEF	FSF	SSON	Fundsmith LLP
Committed	90%	88%	49%	87%	99%	98%	64%	98%
1.5°C Aligned	74%	70%	40%	71%	94%	94%	52%	93%
Net Zero Committed	52%	31%	27%	49%	84%	69%	18%	81%
Net Zero Validated	24%	22%	22%	24%	71%	68%	13%	69%

Table 2: Fundsmith's alignment with the SBTi

By the end of 2024, 90%, 88%, and 49% of the FEF, FSF, and SSON portfolios respectively, had either already set, or had committed to setting, SBTi-approved greenhouse gas emissions reduction plans at least in line with keeping global warming below 2°C by 2100. This meant that 87% of Fundsmith LLP's AUM were SBTi-aligned. Further, close to 50% of our AUM were committed to reaching net zero emissions by 2050 at the latest, with around a quarter of our assets having already set SBTi-validated net zero targets.

We also think it is important to look at the proportion of emissions these commitments cover, rather than simply looking at AUM. 98% of Fundsmith LLP's financed emissions were SBTi-aligned at the end of 2024, with 93% having SBTi-approved emissions reduction targets in line with keeping global warming within 1.5°C by 2100. Further, 81% of emissions were committed to achieving net zero and 69% had already had net zero targets validated by the SBTi. More detailed climate disclosures are available as part of our TCFD report.

Of course, given that the requirement is for all parts of the global economy to achieve net zero emissions by 2050 to avoid climate change's worst impacts, we are not quite there yet. We are engaging with the companies that we feel lag the rest of the portfolio in terms of their stated commitments. However, we have found these companies to be the ones with the lowest emissions and, therefore, lowest exposure to the risks resulting from climate change.

We believe the way in which we construct our investible universes and portfolios helps build resilience to the risk climate change poses. Our approach to assessing the long-term sustainability of a company's returns means our research team must identify any risk that may affect its ability to achieve this. Companies with excessively high greenhouse gas emissions will find themselves increasingly exposed to negative consumer sentiment, fines and increasing taxation as society continues to shift towards a low-carbon economy. Hence, we want to see the companies we invest in take the steps necessary to reduce their emissions and protect their returns.

Industry initiatives and promotion of well-functioning markets

Fundsmith is a signatory to the UN Principles for Responsible Investment (UN PRI). This UN-supported network of investors works to promote sustainable investment practices through incorporating sustainability factors into the investment process. The initiative encourages investors and, through investor engagement, companies, to think about the longer-term impacts their capital allocation decisions have. We believe this process will lead to more efficient capital markets.

We also engage with our investor base and the wider community on a range of topics, including the dangers of market timing and the benefits of investing with a long-term investment horizon, amongst a variety of other issues that influence the functioning of global markets. Our CEO and CIO regularly contributes to the investment community through various interviews and articles, discussing the misunderstandings and risks that occur within investments and assessing ongoing market events and trends. We hope that by illuminating such issues, we can encourage wider discussion around these risks and more sustainable capital allocation and management.

During volatile periods, falling markets, or the inevitable periods of underperformance, outflows become a risk for open-ended investment funds such as ours. Ensuring we have enough liquidity to be able to return investors' cash when they want it is essential. We have long been aware of this risk and are highly unlikely to ever invest in unlisted companies within our funds. We have also monitored and published a liquidity measure for our open-ended funds on our factsheets since 2012. These funds are invested in companies with large market capitalisations that are typically highly liquid, meaning the risk of not being able to exit investments quickly is low.

Assessing our effectiveness in identifying and responding to market-wide and systemic risks over the reporting period is challenging. Our strategies are all long-term focused; we do not focus on annual outcomes, nor are they important to us. In addition, these risks play out over a timeframe of considerably longer than 12 months. For example, coronavirus continues to have substantial knock-on effects more than four years after the initial wave of lockdowns in the West, and climate change is not something that can be handled over the course of a year, nor can we expect our companies to respond to the risk over such a short time frame. However, we have been effective in using our stewardship activities, such as engagement and proxy voting, to ensure our investee companies are making decisions to support their long-term performance and manage their risks during the last year.

Principle 5

Signatories review their policies, assure their processes, and assess the effectiveness of their activities.

Fundsmith's governance committees, with the support of the Compliance department, review all the Firm's policies and reports. This is done to ensure we are consistently operating in line with our investment approach and values and complying with any regulatory requirements. We re-assess policies annually to ensure that they are appropriate and effective and that we are delivering consistency across the business, reflecting new information, and continuously improving. Part of our review process includes horizon scanning for regulatory changes across the markets in which we operate. The sustainability-related regulatory landscape is evolving rapidly, and ensuring we remain compliant with these requirements is paramount.

The principal policy that relates to our stewardship activities is our Responsible Investment Policy. The Policy details the processes and activities used to integrate sustainability into our investment process and our approach to engagement and proxy voting. The Responsible Investment Policy is approved by Fundsmith's Stewardship and Sustainability Committee. The Policy is updated on an ad hoc basis to reflect any changes to our internal processes and to ensure we are up to date with best practices. The Committee review the Policy biannually to ensure it remains accurate.

The Stewardship and Sustainability Committee oversees the Firm's stewardship activities. The Committee was created in 2020 to centralise discussions relating to our stewardship and responsible investment-related policies, processes and activities. One of the Committee's responsibilities is the ongoing assessment of current inclusions and exclusions and potential entrants to our funds' investible universes. This assessment includes reviewing companies' compliance with both our Responsible Investment Policy and investment policies. The Committee is also responsible for approving our UN PRI report and any other stewardship or sustainability-related reporting, as well as reviewing engagement activity and significant votes across all funds. The Committee is chaired by the Head of Research, Julian Robins, and comprises the Chief Compliance Officer, Head of Sustainability, our Stewardship Analyst, and a representative from each of our funds. This means all the people involved in implementing and supporting stewardship in the investment process are present on the Committee.

The Committee also reviews any investor feedback or external reviews we receive regarding stewardship and sustainability, such as those from fund-rating agencies. We meet with such bodies regularly to update them on our approach and respond to requests for information/due diligence questionnaires throughout the year. The feedback from these meetings and assessments is taken to the Stewardship & Sustainability Committee, which assesses what if any, points from the feedback we should act upon.

We also receive a level of external assurance on our integration of stewardship and sustainability through our participation with the UN PRI. The PRI assesses the quality of our strategy and governance, our integration of sustainability in our investment process, and the measures used to support the information used in their assessment, or 'Confidence building measures'. For the last reporting period (2024), we received 82% (4/5) for our Policy, Governance and Strategy (median 3/5), 90% (4/5) for sustainability-integration in our funds (median 4/5), and 80% (4/5) for our confidence building measures (median 4/5). We use these scores to assess where we can improve our approach for the next reporting period.

Proxy voting is a key component of our stewardship approach, allowing us to represent the interests of our investors at the meetings of investee businesses. Reflecting its importance, Fundsmith has established processes to ensure that we are properly fulfilling our responsibilities. Proxy voting is now reviewed twice yearly by our dedicated Compliance Monitoring team, which is part of Fundsmith's Compliance function. Review frequency is assessed periodically, driven by the Compliance Risk Assessment, which includes proxy voting as a risk area. Compliance Monitoring assesses whether it can be demonstrated that regulatory compliance requirements and expectations are being met and can be evidenced throughout our proxy voting process. The areas typically reviewed by Compliance Monitoring in relation to proxy voting include governance arrangements, a review of the end-to-end process from vote notification through to vote submission and conflict of interest considerations. Where enhancements have been identified, any associated actions are assigned to relevant individuals with agreed action dates. All reports on proxy voting are circulated to the Stewardship & Sustainability Committee. This new review process was introduced in 2022 and has been in effect since.

We aim to report on all our stewardship activities in a fair, balanced, and understandable way as a core part of our approach to stewardship. Ensuring our investors understand how we behave and how we act on their behalf ensures that they understand what we are doing and why we are doing it. It also holds us responsible for ensuring stewardship activities are carried out as our investors expect. Our stewardship-related reporting is done by analysts in the Research team who are directly involved in the investment process and implementation of our responsibilities as stewards of investors' capital. All reports relating to our stewardship activities are checked by Fundsmith's Compliance team before being sent to the Stewardship and Sustainability Committee for approval. The Stewardship & Sustainability Committee is in place to monitor the overall reporting process and assess the output.

We believe that internal assurance of stewardship is appropriate given our approach, size and resources, and investment strategy. However, we are keen to ensure that any decisions we make are as unbiased as possible and we continue to explore possible ways of obtaining additional forms of assurance in relation to our stewardship activities.

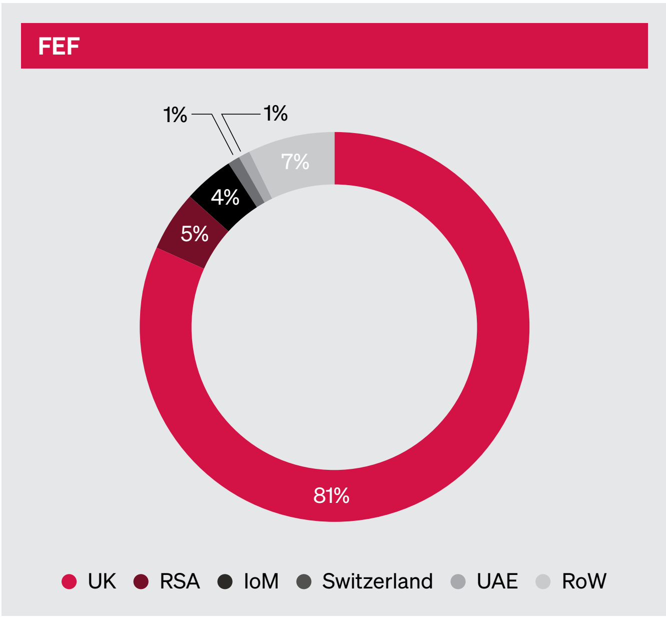
Principle 6

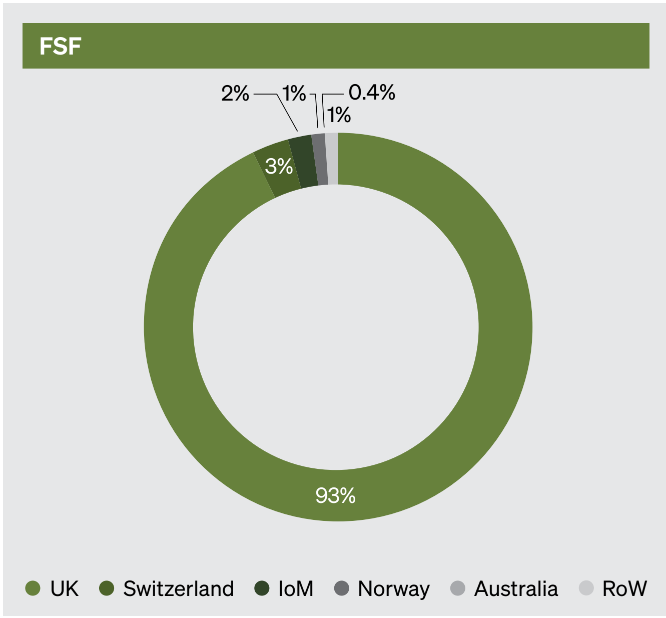
Signatories take account of client & beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Fundsmith follows a single investment philosophy across our three products, all of which only invest in listed equities. As of 31 December 2024, Fundsmith LLP's total assets under management (AUM) were £25.3bn across the Firm's three funds: Fundsmith Equity Fund (£22.5bn), Fundsmith Stewardship Fund (£646.7m), and Smithson (£2.1bn). Both FEF and FSF are Open-Ended Investment Companies (OEICs) and accounted for 92% of the Firm's AUM. The remaining 8% was in Smithson, an investment trust which is a closed-ended investment company listed on the London Stock Exchange. 91% of our assets were invested in large cap developed markets, with the remaining 9% invested in small and mid cap developed markets.

Fundsmith has a wide variety of investors in its funds. Across our products, 38% of our assets under management are from retail investors who invest in our funds directly through our website or an investment platform. The remaining 62% comes from institutional investors, such as wealth managers, fund of funds, charities and pension funds.

We also have investors from a variety of locations investing in our UK-listed funds. The geographic distribution of the investors in each of our strategies is shown in the graphs below.





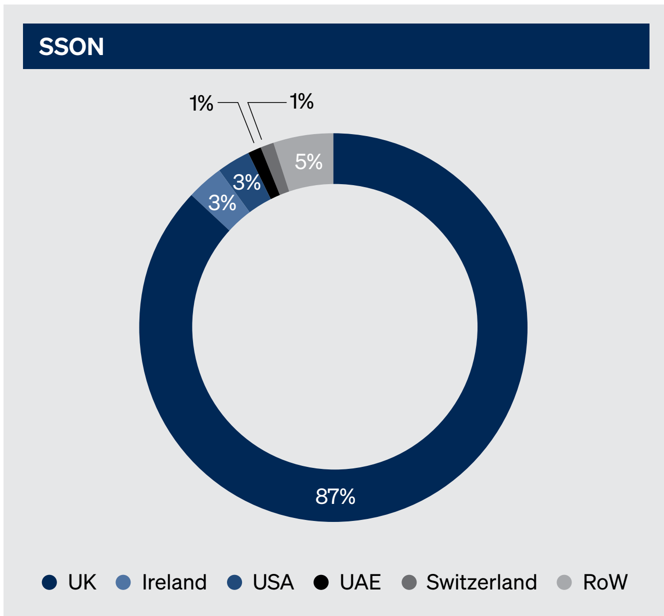


Figure 3: Fundsmith funds' investor geographies as at 31/12/2024.

We make a concerted effort to clearly communicate our investment philosophy with investors prior to investment via our owner's manuals and Responsible Investment Policy. We do this to ensure they have a clear idea of the way in which we operate our funds and so they can identify whether our approach is suited to their investment and stewardship policies and preferences. We believe this is the appropriate approach given the diverse range of our investor base and, in particular, the mix between retail and institutional investors and the resources we have available as a small firm. Adapting our approach based on the preferences of a particular individual or group risks disenfranchising our other investors and would be contrary to our aim of building a group of like-minded investors.

Most importantly, we want those who wish to invest with us to understand the long-term nature of all our strategies. Our research team spends a great deal of time identifying and researching the type of companies that we believe will provide the best long-term, risk-adjusted returns. It is important to us that investors understand why we believe the types of companies we invest in will compound in value and outperform over the long term. Providing investors with the information that supports this will enable them to have confidence in investment decisions during more volatile periods for the market and our funds. Reflecting this, our recommended holding period for investors is at least 5 years.

Unlike many other investment managers, we hold an annual shareholders' meeting (ASM) for the Fundsmith Equity Fund and the Fundsmith Stewardship Fund, to which all our direct investors, retail and institutional, are invited to attend in person. The ASM has grown each year and now has over a thousand of our investors in attendance. The meeting gives those attending an opportunity to submit questions to our CIO & CEO, Terry Smith, and Head of Research, Julian Robins, with the most recent ASM seeing hundreds of questions submitted. While there is only time to address a few of these during the ASM itself, we make a commitment to answer every question following the event. The ASM provides an effective format for us to collect feedback from our investors, both retail and institutional, as anyone in attendance may submit a question. This allows us to receive views from a variety of investors in an efficient manner, which is particularly helpful given the small size of the Firm. It allows us to assess how successfully we are meeting our investors' needs by assessing key themes that emerge from the questions submitted. Each meeting is recorded and made available to all our investors on our website, which is available **here**.

Outside the ASM, we encourage questions from our clients and consider any issues brought to our attention in this way. All our responses to direct clients are conducted through the email address of a member of our sales team. This gives our investors direct access to a representative at Fundsmith to whom they may submit their questions, queries, or complaints.

We have a sales and relationships team that engages with a variety of our investors, typically larger institutional investors. Analysts from the Research team frequently take part in these engagements, allowing our investors to engage directly with those involved in the investment and stewardship decision-making process. We meet with these investors regularly and respond to the requests for information and due diligence questionnaires sent throughout the year. Our meetings typically follow on from the questions sent to us, but we also frequently engage to receive feedback on various areas and to provide updates on the performance of the fund and our various stewardship activities.

We also have an internal Client Operations team largely dedicated to answering routine investor queries and issues, escalating where necessary and reporting feedback to the sales and relationships team. Our sales and relationships and Client Operations teams compile reports detailing the level of engagement they have with investors of all levels, including complaints, recurring issues, and suggestions for members of senior management.

In December 2022, we sent out our first customer survey to our retail investors. The purpose of the survey was to ensure we were providing a high level of service and value for money to our customers. We asked for feedback on the quality of our customer service and written communications, our website functionality, our funds' performance, and if we provided our investors with value for money. Alongside each of these questions, we also asked how Fundsmith compared to its industry peers. Participants had the opportunity to provide individual written feedback if they had experienced specific issues with our Firm or our service providers, as well as to put forward any suggestions. We have repeated the survey every year since, ensuring that we are improving in areas identified in earlier surveys and maintaining the standards our investors expect across all others.

We periodically publish updates for all our products on their respective websites. These updates ensure that investors are kept informed about a variety of information relevant to the respective fund. Our monthly factsheets provide data and a short description of key activity within the fund over the previous month. All our funds publish both an annual and semi-annual letter, written by their respective portfolio manager. The letters are designed to provide each funds' investors with a commentary on the performance and a discussion of the key themes for the first half of the year and for the year as a whole. These are all published on the fund websites. For institutional investors, there are also regular fund updates from the respective portfolio manager.

While the attention sustainability-focused funds received during the pandemic-affected period has somewhat faded, we remain committed to providing our investors with better and more insightful sustainability-related information. We publish a monthly 'Sustainability Factsheet' for the Fundsmith Stewardship Fund. This Factsheet gives us the opportunity to discuss some of the key environmental, social, governance and innovation-related stories and data for the month. We also published the fourth edition of our 'Annual Sustainability Summary' documents for FEF and FSF in 2024, which are available on our funds' websites. The summaries are designed to provide details on key sustainability and governance-related information, as well as examples of sustainability innovation made by portfolio companies during the year.

This Stewardship Report itself is an effective method of communicating the outcomes of our stewardship and investment activities to our investors. Principles 9, 10, 11 and 12 of this Report have become our main format for communicating our engagement and proxy voting activities to our investors.

Overall, it is clear to us that our investors will vote with their feet, so to speak. If we fail to account for our clients' needs and our communication with them does not live up to their expectations, we can expect those who have trusted us with their capital to move it elsewhere. As discussed in Principle 1, our priority is to run a great business; understanding and responding to the needs of those who make operating the business possible is paramount to this. Our processes used to understand and address the needs of our investors have been, and continue to be, effective.

Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues to fulfil their responsibilities.

As outlined in our report on Principle 1, active and effective stewardship is an essential part of our investment approach as a long-term buy-and-hold investor. Our firm-wide **Responsible Investment Policy** outlines our approach in detail. It discusses how we integrate and assess sustainability-related issues as part of the investment process for all our products and how this assessment promotes the responsible allocation of capital. It also discusses how engagement and proxy voting are used to manage and oversee investee companies' long-term performance. Each of our funds' Owner's Manuals and the various other fund literature we produce aim to make it clear that investors should be prepared to invest for the long term, with a minimum recommended holding period of at least 5 years. We do not use service providers to assist with integrating stewardship and investment. However, we use data provided by RepRisk to supplement our research on the reputational risks of current and potential investee companies resulting from sustainability-related performance. RepRisk is discussed within this Principle and in Principle 8.

The success of our approach relies upon the long-term performance of the companies we invest in. Ensuring our stewardship activities are effective and our investment process appropriately considers sustainability-related impacts, risks, and opportunities is fundamental to our investment approach. Our priority is to invest in good companies and hold our investment in these companies forever. All our investment strategies are equity-based, and we adopt the same approach to integrating stewardship for our funds and client portfolios. The challenges we face in integrating stewardship can vary depending on the geography and the company's size. Accessing sustainability-related data for some of the smaller companies we invest in can be difficult, and our approach must be changed. In such cases, we engage with the company both before and during the period in which we are invested to assess the company management's understanding of the risks they face and how they manage them. Regardless of the size or location of the company, we aim to vote on 100% of the proxies available to us, as this is an essential part of exercising our responsibilities as stewards of our investors' capital. Principle 12 gives more detail on our voting activities for 2024.

We conduct our own internal research and use publicly available information sources to assess the companies we invest in. We regularly engage and interact with the management of those companies to ensure that they are looking to improve their businesses and succeed over the long term. The information we gain from the combination of our research and these interactions is the main way we assess whether to buy or sell a company rather than what has happened to its share price.

We classify a company as 'good' or high-quality if it can make and sustain a high return on capital employed across the full business cycle. Notably, many of the companies that do the most damage to the environment and wider society do not meet this requirement. We will not invest in the sectors GICS define as Materials, Energy, or Utilities as they don't contain companies with the sustainable business models that fit our criteria. As displayed in Figure 2 in Principle 4, they are also among the most carbon-intensive industries.

The good company criteria leaves each of our funds with around 100 companies in their respective investible universes. Whilst we would ideally hold any of these companies forever, assuming they remain good companies, they may not currently trade at an attractive valuation or form a balanced portfolio when all are held simultaneously.

We see damaging practices towards the environment and society potentially resulting in the company's failure to sustain the high returns over the long term, which we prioritise. This can damage their growth and consequently affect their investment potential. Therefore, understanding how the various sustainability-related risks affect the ability to sustain a high return on capital invested is essential. Our research team identifies and assesses these issues and risks as part of our pre-investment research and continual monitoring processes for all IU companies.

We consider sustainability-related impacts in the widest possible sense, considering both the positive and negative effects an investee company may have on the environment and society. We analyse and evaluate the company's environmental and social impacts, its governance policies and practices, its dividends and executive remuneration policies and its methodology for assessing the adequacy of capital investments. We also look at a company's positive impacts, such as their research and development and product innovation activities, as many of the companies in our funds' investible universes are constantly striving to develop their products to improve their sustainability and offer a positive impact. They achieve this through improving product efficacy, inventing new solutions to problems, or reducing their existing products' negative environmental or social impacts. Sustainability is an area which is developing and evolving, and we expect the companies in our investible universe to be aware of this and always seek to improve.

The sustainability-related risks we consider vary depending on the company in question. We aim to understand the risks associated with the company holistically, i.e., the risks associated with its direct activity, supply chain, the lifecycle of end products, and in the interaction with end users/customers. We also assess how effectively the company is mitigating these risks, should they be present and material.

We analyse the risks associated with a company's direct activities via various metrics. For example, we use greenhouse gas emissions to judge exposure to the transitional risks associated with the development of the low-carbon economy; high concentrations of greenhouse gas emissions increase the likelihood a company will be exposed to the fines and regulations implemented to assist in this economic transition. Greenhouse gas emissions also contribute to the wider, systemic risk of climate change and are something that we monitor closely. However, as discussed in Principle 4 and earlier in this Principle, our investment approach means our companies are relatively small contributors to this.

Supply chains are exposed to environmental and social risks, which can impact their normal operation and long-term sustainability and, consequently, the company's performance. To assess supply chain sustainability, we look at various factors, such as identifying the presence of potential human and/ or labour rights abuses or assessing the supply chain's vulnerability to extreme weather events. The environmental and social risks associated with distributing, using, and disposing of the company's products are also considered. We assess the product's impact; is it beneficial, neutral, or detrimental to society? Products that are detrimental to the environment/ society are more likely to suffer from negative consumer sentiment and increased regulation over time, impacting the product's performance and, potentially, the performance of the business. It is also important to include an assessment of how the company is innovating to improve the impact of its products, for example, introducing so-called 'heat-not-burn' tobacco products or reduced fat/salt/sugar food products.

We monitor and assess a company's sustainability risks and establish a view of its net negative ESG impacts using three main sources of data and information:

1. **Our qualitative sustainability and innovation database.** We have built and continually update a database of all the qualitative information a company has provided on its sustainability efforts, from its sustainability reports, earnings calls, press releases, annual reports and website, and various external sources. These pieces of information are tagged and categorised within approximately 100 different topic tags under the main categories of environmental, social, governance, and innovation. These tags are updated to reflect current global concern issues and incorporate new factors. This allows us to look across the entire investible universe for all funds by these topics and to have a record of what a company has said/what has been said about a company regarding an issue across several years.

2. **Our quantitative sustainability database.** We collate data on environmental performance, diversity, corporate governance, and innovation reported by companies. We use this to assess individual companies, provide a look-through of the respective portfolio, and compare against the relevant index. Not all companies report the same numbers; even fewer use the same methodology or have them assured to the same standards. Hence, we don't rely on these numbers. However, we think they still offer some insight into the relative impact of the portfolio compared to the benchmark. Environmental stats are reported per million GBPs of free cash flow. This helps us address the trade-off between a company's investment proposition and net negative impacts on the world within our universe of good companies.

3. **External reputation risk rating.** We utilise an independent assessment of negative reputational risk from environmental, social, and governance issues called the RepRisk Index, which RepRisk provides. RepRisk scans over 150,000 public news sources from around the world in 23 different languages daily, creating a company score based on the severity, reach and novelty of the respective issues a company is responsible for. This service is used in two ways by Fundsmith:

   a. First, it serves as a proxy for a company's overall negative impact and provides a way to rank companies within our investible universes. We can then adjust these rankings based on any significant positive impacts or where we think RepRisk's score may be overstated due to its focus on the negative impacts.

   b. Second, it acts as a catchall for any negative news regarding a company that our usual news filtering services may miss.

In addition to the above, we require the companies we invest in to have well-managed policies for ethical working practices and a sustainable relationship with the environment and their stakeholders. Fundsmith integrates expectations of a company's environmental, social, governance and innovation impacts on the world into our model forecasts.

We are constantly searching for ways to improve our monitoring of sustainability-related risks and integrate them into our investment process. As the industry moves towards a more standardised method of measuring these factors, we can start developing more consistent metrics that allow a more accurate assessment of, and comparisons between, the companies within and outside our investible universes.

Fundsmith Stewardship Fund (FSF)

The investible universe for the Fundsmith Stewardship Fund is created from FEF and Smithson's universes of good companies. We apply a sector exclusion screen and a sustainability screen over these two universes to create the FSF IU, excluding companies which do not meet our sustainability criteria. At any point in time, the FSF investible universe will be a subset of these universes.

The hard sector exclusion screen is in place to prevent investment in companies described as being in the following GICS Industries:

- Aerospace & Defence,
- Electric Utilities,
- Gas Utilities,
- Metals & Mining,
- Oil, Gas & Consumable Fuels, and
- Tobacco.

The Fund also excludes the following GICS Sub-Industries:

- Brewers
- Distillers & Vintners, and
- Casinos & Gaming.

We also exclude any companies that profit from pornography. Further, we exclude companies that may not be classified by MSCI as being in the above industries but generate a significant proportion of their profits from them. An example is our exclusion of Louis Vuitton Moet Hennessy (LVMH), which MSCI defines as a Textiles, Apparel and Luxury Goods company but generates a significant proportion of its revenue from alcohol sales. We exclude these industries as we deem it unlikely a sustainable company could operate within them. These exclusions are detailed in the Fund's prospectus, meaning that we cannot invest in any companies operating in the industries/ sub-industries given above.

We then apply our sustainability screen. This screen uses the information we have collected regarding the SSON and FEF IU companies' sustainability risks, net environmental and social impact on the world, awareness of these impacts, and the mitigation measures undertaken to reduce their risks/impacts. We use these factors to make a judgement on a company's overall level of sustainability. This judgement assesses whether the company's net environmental and social impact on the world is first negative, second excessive, and third decreasing due to concerted mitigating action by the company.

We assess environmental and social impact, both positive and negative, in the widest possible sense. Although assessing negative environmental and social impacts has inherent subjectivity, we attempt to make our process as objective as possible by leveraging as much information as possible in our decision-making process. We think we are well positioned to make this assessment as our investible universes are small, and we intimately know the companies inside each universe.

Fundsmith Stewardship Fund's additional sustainability-related criteria mean companies such as Meta and Philip Morris International are excluded from its investible universe, both of which are present in the Fundsmith Equity Fund's investible universe. While both companies pass our good company screen, Philip Morris International is a tobacco company, so our sector exclusion screen removes it. Meta is excluded as our assessment concludes that its net impact on society is excessively negative and the company is currently failing to mitigate these impacts.

Principle 8

Signatories monitor and hold to account managers and/or service providers.

We use very few service providers to assist our stewardship-related activities. For example, we do not use any proxy voting advisory services, all our voting decisions are made internally and independently. We use internal analysis of the vote topic and company in question to inform our decision. Service providers are only used when we feel they are necessary and offer a material improvement to the outcome of the stewardship activity than we could produce internally.

We use various quantitative and qualitative data to assess potential and monitor existing investments. Our Research team does all our analysis in-house using data collected directly from company websites, publications, and via Bloomberg. Data for prospective investee companies is collected from company websites through their publications of annual reports and other public documentation. We meet management, attend conferences, and read industry publications to help build the profiles of the companies and industries in all our respective investment universes. We also collate data on environmental emissions, diversity, corporate governance, and innovation from data that companies provide themselves or through initiatives such as the CDP and SBTi. It is important to note that we don't rely on any single service provider for any part of our investment process. Data from each provider is used as part of our assessment of a company's investment proposition and is never relied on exclusively.

We check the quality/accuracy of the data by cross-referencing it against other freely available sources. For example, we reconcile company-reported greenhouse gas emissions against those provided by the CDP, which are calculated and reported separately. We also use our relationships with investment banks for access to company management teams and for information on companies that can sometimes be more difficult to access, particularly within Smithson's market capitalisation range. However, we place little value on any recommendations, opinions or advice that research by these institutions provides.

We don’t use dedicated resources for sustainability-related data or the ‘sustainability ratings’ provided by some institutions for our analysis. We have doubts about the methodologies used and the consistency of ratings given across different providers. Our main aim when analysing a company, as mentioned throughout this report, is to assess its ability to sustain a high return on capital employed across the business cycle and its capacity to invest more capital at these high rates of return. Evaluating their ability to do this relies on an understanding of the company’s net impact on the world, which is assessed through the variety of metrics we collect and analyse. Integrating the subjective assessments these sustainability ratings offer contributes nothing to our understanding of a company’s ability to do this.

To help us assess these net impacts, we use a reputational risk score from RepRisk. We think this acts as a strong proxy for negative impacts on the world and is better suited to our approach compared to the sustainability ratings we looked at. The service analyses over 150,000 news sources a day in 23 languages and acts as a catchall for any negative news on a company that our usual news filtering services may miss. The data we receive from RepRisk is delivered via their online ‘ESG Risk’ platform, from which we can download the data we need and integrate it directly into our workflow. This allows us to access the third-party sustainability-related risk proxy quickly and efficiently.

To check the validity of the information RepRisk provides, we collect and store both positive and negative media coverage of our companies in our internal daily news emails. We can then compare what we’ve collected to what RepRisk has considered significant. We have regular contact with RepRisk to help improve their systems and provide feedback on any issues we have had. This contact is typically twice a year. However, if any specific issues emerge between these meetings, we have a designated customer service representative we can engage with to address them.

During 2024, we had no issues with our service providers, with our needs being met throughout the year.

Principle 9

Signatories engage with issuers to maintain or enhance the value of assets.

Fundsmith's approach to engaging with companies is available as part of our **Responsible Investment Policy**.

Our approach to engaging with the companies in our portfolios comes directly from our desire to be a long-term shareholder in the businesses we own. We use engagement to encourage sustainable business decisions that will benefit the long-term performance of the company. Practically, this means we generally support changes and investments that promote long-term growth and oppose the establishment of unrealistic short-term targets and activities that negatively impact the ability to sustain high returns.

The decision to engage with a company is made on a case-by-case basis and is prompted by various factors, both internal and external. We only engage with companies regarding topics relevant to their operations and when we deem the risk to be material and detrimental to long-term performance. Engaging with a company is an effective way to generate change that reduces risk, but we do not always engage with the goal of changing the company. We use engagement to reassure ourselves and better understand the company's perception of the potential risk. Companies are often aware of the risks we identify and either have plans to or are already mitigating them or have deemed them immaterial. We view these engagements as equally successful as those that force change within a company. Of course, if the company is unaware or not doing enough to address the risk, engagement can then be used to generate the change needed.

We also want to encourage companies to integrate sustainability into their business model and give due diligence to environmental, social and governance factors. As we have previously discussed, poor sustainability performance might not impact profits immediately, but it has the potential to influence future growth negatively.

Our approach to engagement differs slightly between our funds given the varying sizes of the businesses they invest in. As at the end of 2024, the companies in FEF and FSF had a median market capitalisation of £103bn and £79bn respectively, while Smithson had a much smaller average of £8bn. Due to the size of the companies held in FEF and FSF, our access to top-level decision-makers is limited. For example, Microsoft (held in both funds) had a market capitalisation of approximately £2.5tn at the end of 2024. FEF and FSF's combined holdings accounted for around 0.07% of the company, making it challenging for us to access the company's leadership and exert influence, should we deem it necessary.

However, the size of the Fundsmith Equity Fund's assets (£22.5bn as of 31/12/2024) makes us significant shareholders in some of the smaller companies the Fund invests in. Waters Corporation, a company owned by FEF since 2015, had a market capitalisation of around £17.6bn at the end of 2024. At that point, according to Bloomberg data, FEF and FSF's combined shareholdings made us company's third largest shareholder. This position means we are more likely to be given access to the company's senior management, should we request it.

We engage with companies using a variety of methods. Before the coronavirus pandemic, the dominant method of engaging with investees was to meet them physically; in 2019, 92% of our meetings were held in-person. However, the pandemic has resulted in a significant shift in the way we meet with our companies. During 2020 and 2021, the years most impacted by the pandemic, virtual meetings dominated, at 87% and 85% of all meetings, respectively. In the 'post-pandemic' years, we have been able to meet our companies in-person again, meaning the proportion of our meetings held virtually has fallen. Despite this, virtual meetings still represent a significant proportion of our engagements. Last year 56% of our company engagements were held virtually, a seven-fold increase versus before the pandemic.

We recorded 136 engagements across our funds during 2024. The majority of our engagements were general updates regarding the company's performance, introduction to new executives, discussions over their long-term strategy and capital allocation plans and general risk management. Sustainability matters remained a routine topic of discussion at many of our engagements, including topics such as public health and greenhouse gas emissions.

	Total number of engagements		% of portfolio engaged	
Fund	**2024**	**2023**	**2024**	**2023**
FEF	43	55	53%	58%
FSF	36	47	57%	53%
SSON	57	48	46%	59%
Total	**136**	**150**		

Table 3: Fundsmith funds' engagements summary 2023/2024.

One topic we frequently engage with our investee businesses about is executive remuneration. Generally, we care about how executives are paid, not how much. We would like the remuneration policies of the companies we invest in to be aligned with the sustainable, long-term growth of the business. We don't like remuneration policies that are based on short-term profit maximisation. We believe an effective policy includes both a measure of growth and a measure of returns; it is no use having one without the other. Incorporating both these metrics into the long-term component of executive remuneration is the best way to incentivise management to grow the businesses sustainably.

Some examples of our engagements from 2024 are provided below.

Company	Novo Nordisk
Sector	Health Care
Fund(s)	FEF, FSF
Context	Executive remuneration
Objective	Novo Nordisk altered its executive remuneration policy in 2022, removing a returns-based metric from its long-term incentive policy (LTIP) as part of the update. We believe that including a returns-based metric in executive remuneration incentivises management to allocate the company's capital effectively and helps reinforce sustainable long-term growth. We met with the company to discuss the removal of the metric and if it would be reintroduced soon.
Activity	We met with Novo's Chairman, CEO, and CFO to discuss remuneration. The company explained why it removed the 'economic value creation' metric from the LTIP, the main reason being that as it was not pursuing large mergers/acquisitions in the current business cycle, therefore having a returns metric was not necessary and potentially a distraction. The Chair commented that the current approach, focusing on growth and margins, was serving the company well and, when taken with the company's individual and non-financial targets, gave the right balance for the company and its goals. We asked if the company would reintroduce a returns metric to the LTIP in the future. The company would consider including the metric if it were to pursue M&A but for the time being it was happy with its approach. Given our belief that including a returns-based metric is important in ensuring management focuses on sustainable long-term growth, we encouraged the company to consider using the metric going forward regardless of its M&A activity.
Outcome	While it was clear that Novo was not interested in reintroducing the returns metric it had removed in 2021, we understood management's point that the current structure of the company's LTIP supported its growth and margin goals, which would facilitate continued investment in innovation. In the end, we chose to vote in favour of Novo's executive remuneration at the 2024 AGM. However, we still believe that including a returns-based metric with a growth-based metric is the most effective way to align management's incentives with the business's long-term success. As such, we plan to continue our engagement with the company to encourage the reintroduction of the returns metric.

Company	IDEXX
Sector	Health Care
Fund(s)	FEF, FSF
Context	Greenhouse gas emissions
Objective	We first engaged with IDEXX in 2023 to discuss the company's approach to setting emissions reduction targets. It is one of the few companies held in both the FEF and FSF portfolios that has not set SBTi-approved emission reduction targets. We engaged with them to understand why they were not pursuing this and how the company was approaching emissions management. We engaged with IDEXX again in 2024 to assess the company's progress.
Activity	We met with IDEXX's Investor Relations team, Chief Human Resources Officer, and General Counsel to discuss the company's greenhouse gas emissions management. IDEXX's approach to the SBTi was unchanged; the company still felt that it could achieve the same if not more reductions in their greenhouse gas emissions using internal targets versus targets approved by the SBTi. IDEXX said that the costs and time associated with aligning with the SBTi, in particular its net zero standard, were unnecessary given that its emissions were very low on both an absolute and relative basis. IDEXX remained focused on delivering material reductions in their direct emissions over the short term before moving to achieving net zero emissions.
Outcome	Our engagements with IDEXX have reassured us that the company is approaching emissions reductions pragmatically and is focused on achieving reductions rather than setting expensive and potentially unachievable targets with the SBTi. We will continue to engage with the company to ensure that the company is managing its carbon emissions.

Company	L’Oreal
Sector	Consumer Staples
Fund(s)	FEF, FSF
Context	Remuneration
Objective	After voting against L’Oreal’s executive remuneration at the company’s 2023 AGM, we engaged with the company to discuss our reasons for voting against, and to listen to the company’s plans for its 2024 remuneration policy.
Activity	We engaged with L’Oreal’s Investor Relations and Legal teams ahead of the company’s 2024 AGM. We voted against L’Oreal’s policy as it did not contain a metric for returns, which we believe is a key component of an effective long-term incentive policy. We explained our position to the company’s representatives, highlighting the importance of aligning management’s incentives with the long-term success of the business and the importance of using both returns- and growth-based metrics in achieving this. The company took our feedback onboard but ultimately did not agree that including a metric for returns was appropriate for the company and its longer term goals. As such, the metrics in its LTIP were to remain the same as its 2023 plan.
Outcome	While L’Oreal justified the metrics it used in its the long-term incentive component of executive remuneration, our position remained the same. We did not agree that the existing structure was the most effective approach. As such, we voted against the company’s remuneration policy at the 2024 AGM. We plan to continue our engagement with L’Oreal.

Company	Fever-Tree
Sector	Consumer Staples
Fund(s)	SSON
Context	Company strategy and performance
Objective	Our engagement with Fever-Tree started in 2023 following growing concerns about the company’s performance in the US. The US had become the largest market for the group yet the margins the company were able to generate there were very low. We continued our engagement with the company throughout 2024 with the goal of understanding what was being done to improve the situation and if it was sufficient to resolve the issue.
Activity	During 2024 we met with Fever-Tree’s Chair, CEO, CFO, Investor Relations team and the head of the company’s US market division. Our discussions with the company focused on US operations and the capability of the current management team to improve the situation. Across the meetings we had with the company, it outlined its plans to boost growth and expand margins in the US, as well as how they were dealing with the supply chain issues they had in the country.
Outcome	By the end of 2024 the situation had not sufficiently improved to our satisfaction. We weren’t convinced that the company’s approach was the most effective and continued issues during the year supported our thinking. We lost confidence in the long-term growth prospects of the business and as such sold our shareholding in early 2025.

Principle 10

Signatories, where necessary, participate in collaborative engagement to influence issuers.

Fundsmith is open to participating in collaborative engagements when we feel an issue is of sufficient severity, and collaboration can achieve a result we cannot achieve alone. As a long-term investor, we value the relationships we build with the companies in which we invest. Our preference is to deal with companies directly and usually privately. Collaborative engagement is usually only considered when our independent engagement and escalation activities have failed to generate the change that we feel necessary.

The increasing pressure on investment managers to engage collaboratively is resulting in more engagements that potentially serve the interests of the managers over those of the underlying company. Given our long-term approach, our interests are rarely aligned with these engagements as they typically want companies to commit to short-term targets or engage in activities that provide little to no benefit to long-term performance. Collaborative engagement is only ever exercised if it offers clear benefits to the company's long-term outlook rather than simply ticking a box to say we've done it. We prefer speaking to management and exchanging opinions and views on different issues directly. This, we believe, is more effective than any number of investors signing a generic letter sent to multiple companies.

We are a signatory to the UN Principles for Responsible Investment and continually monitor their collaborative engagement platform to identify any collaborative engagement opportunities that are aligned with concerns we may have and match our preferred approach. Should an opportunity to use collaborative engagement that offers meaningful value arise, we would participate. Fundsmith is also an active and full member of the Investment Association (IA) and regularly participates in industry engagements and discussions.

Given the concentrated nature of our funds' portfolios, with each holding less than 35 companies, the opportunity to take part in collaborative engagements is rare. It is rarer still, given the quality of the companies we invest in. Part of our assessment of a company's quality includes an analysis of the risks the company faces from external as well as internal factors. If a company were exposed to a risk material enough to warrant mass shareholder action, it would likely have been identified by our research and factored into our assessment of that business.

As we acknowledged in Principle 9, it is possible that the circumstances of a company we own may change during the period in which we own it, and this is one of the reasons we may opt to use collaborative engagement. We did not feel the need to pursue collaborative action in 2024. However, in 2023 Smithson worked alongside an activist investor with the aim of mitigating issues at Masimo.

Our concerns with the behaviour of Masimo's management started following the company's acquisition of Sound United in February 2022, a sound equipment company. The purchase was a significant departure from Masimo's core business of health technology, and the company's management provided no justification for this departure. Later that year, an activist investor, Politan, acquired a 9% stake in the company. We met with Masimo's management the day after the announcement of the activist's purchase. Our goal was to see how management planned to respond to the activist. The company told us they planned to engage with Politan constructively and would be open to their suggestions, which we were satisfied with. We met with Masimo's management team three more times over the following six months, covering various topics but frequently asking for developments regarding Politan.

Our first meeting with Politan came in March 2023. We met with them to discuss their views on the company and their desired outcomes for the business. Politan wanted to change a clause in the CEO's remuneration policy, enlarge the Board, and remove certain bylaws, measures that we believed had the potential to improve the business's long-term prospects.

We met with Masimo's executive management and a member of the Board shortly after this first meeting with Politan. The meeting raised concerns about management's attitude towards Politan and its suggestions, despite Masimo claiming they were willing to comply with the activist, aside from their request to enlarge the Board.

We engaged with Politan on two more occasions, both in June 2023 ahead of Masimo's AGM. Politan told us of their intention to fight for two seats on the Board in the hope that this would allow them to gain a voice at the company and make the necessary changes. By this time, it had become clear that management no longer wanted to cooperate and were becoming increasingly belligerent. We maintained our belief that Politan had important points on senior management's time and capital allocation that were worth impressing on Masimo's management, which we hadn't been able to do previously. We chose to support the most qualified director put forward by Politan and abstained from voting for any other directors slated by either Politan or Masimo at the AGM. Politan won the two Board seats they wanted at the expense of the directors selected by Masimo.

We were optimistic that the addition of Politan's directors to the Board would result in changes in the company. However, it became clear that Masimo's management had no interest in working with the new directors. Ultimately, we lost faith in the company and its management and reached the conclusion that we could no longer trust it to be good stewards of the capital we had invested in the company. Following this, we sold our holding in the company.

Principle 11

Signatories, where necessary, escalate stewardship activities to influence issuers.

As discussed in our report on Principle 9, we engage with our companies with the aim of promoting their long-term performance and growth and to discuss any activities that we believe may limit their ability to sustain growth and returns over the long term.

However, engagement may not always produce the results we desire. Some companies fail to act on the issues highlighted, or their response fails to address them adequately. Should our engagement with a company fail to generate change, we will escalate our activities to help the company understand our position or to get a more comprehensive statement about why it cannot/will not make the change we seek.

Our decision to escalate our stewardship activities, as with our engagement decision-making process, is done on a case-by-case basis. If our initial engagement fails to generate the changes we want, we will not automatically escalate the engagement. This decision is largely, but not exclusively, based on the scale of the impact the issue may have and the length of time before those impacts are felt, supported by our research team's knowledge of the company in question. If the severity is lower and the time frame long, we are likely to continue our engagements with the company without escalation. Conversely, if the potential impact is high and the time frame is short, we will escalate our stewardship activities as necessary.

Generally, we escalate our stewardship activities by taking the issue to the company's board of directors, sending a letter to the CEO, or exercising our right to vote against management's recommendations at its annual general meeting. Typically, we will inform management that we intend to vote against a proposal at the AGM so that they have an opportunity to engage with us to exchange points of view before the meeting. As discussed in our report for Principle 10, when we feel the issue is particularly significant, we may collaborate with other shareholders to support our cause. While we prefer to keep our dealings with companies private, in some instances, we may deem it necessary to express our concerns publicly should we feel that it increases the chances of a constructive dialogue.

Should previous engagements or escalation efforts prove ineffective, our final escalation step is the sale of our shareholding in the company. We would likely do this because of consistently poor capital allocation by company management and the lack of an adequate incentive structure to encourage management to fix it. We may also sell a holding if we believe there is an issue that will seriously impact the company's ability to make and sustain a high return on capital over the long term. Reaching the point of exiting our investments is rare; most of our escalations are resolved through voting against management, on multiple occasions if necessary, and continuing our engagement with company executives.

Our approach to escalation is the same across all our strategies as we believe it is the most effective way to align management's thinking with our own, focusing on the long-term performance of the company. However, the various sizes and geographies of the companies our funds invest in mean that there are some challenges in enacting this approach, particularly escalating the issue to the attention of the board or senior management, as mentioned in Principle 9. Where we are larger shareholders in portfolio companies, we may find it easier to bring our concerns to the attention of senior management. However, where we are small shareholders, this can be considerably more difficult.

As our focus across each of our strategies is to be a long-term shareholder in high quality businesses, reaching the point of escalating engagements is rare and we do not expect to experience the need to significantly escalate an engagement on a year-to-year basis. This was the case in 2024, with no situation requiring the form of escalation process as detailed above.

Principle 12

Signatories actively exercise their rights and responsibilities.

As a long-term shareholder and as part owners of our funds, we take our voting rights seriously. It is key for us to vote in a way that supports the long-term, sustainable growth of our investments. We will exercise voting rights in nearly all circumstances; however, in some instances, we may abstain from voting when we consider it appropriate. Our full voting records for 2024 are available **here**.

Our approach to proxy voting is laid out in our **Responsible Investment Policy** and **Proxy Voting Policy**. We do not have a prescriptive approach to proxy voting. Instead of following a policy-based approach, our portfolio managers assess matters subject to a shareholder vote on a case-by-case basis, accounting for the specific context of the company and the topic of the vote in question. All our analysis is completed in-house and set down in writing by the relevant analyst, with the final voting decision made by the portfolio manager. We do not rely on recommendations made by proxy advisors.

When we exercise voting rights, we will do so in a manner that is consistent with the best interests of our funds and their investors. We ensure that the exercising of voting rights is consistent with the investment objectives and policies of the relevant fund. When we vote, we always do so with the aim of supporting the long-term sustainable performance of the company and subsequently creating value for our clients and beneficiaries. We have never and will never engage in stock lending.

All our proxy votes are submitted through the ProxyEdge and Proxymity voting platforms. Our custodians register our holdings, which inform us of when our companies' AGMs or EGMs are occurring, what voting rights we have, the details of each proxy and the voting deadline for each meeting.

Table 4 details our voting activity in 2024 and compares it to 2023. As in 2023, we voted 100% of the 1,284 available proxies last year. We see voting on every available proxy as our responsibility as stewards of our investors' capital, ensuring that we represent their best interests at every opportunity.

	No. of shareholder meetings	No. of voteable proxies	% Voted		% Voted against management	
			2024	2023	2024	2023
FEF	25	431	100%	100%	6%	9%
FSF	25	443	100%	100%	5%	10%
SSON	33	410	100%	100%	3%	4%
Total	**83**	**1284**	**100%**	**100%**	**5%**	**8%**

Table 4: Fundsmith LLP proxy voting summary 2023/2024.

Across our funds, we voted against 5% of the recommendations made by company management teams during the year, a 3 percentage point decrease versus 2023. We choose to vote against the recommendations made by company management teams if we believe that their recommendations are not in the best interests of the company's long-term growth.

As shown in Figure 4, the majority of our votes against management related to remuneration. As a firm, we voted against 71% of all remuneration-related proxies in 2024. We categorise a proxy as a remuneration vote if it relates to executive remuneration reports and policies, say-on-pay and say-on-pay frequency votes, the remuneration of directors, and the approval of employee stock incentive schemes.

The most material of these proxies to the long-term performance of a business are the so-called 'say-on-pay' votes. These are the votes that allow shareholders to approve or reject (although they are typically advisory votes) a company's incentives structure for executives. Ensuring that remuneration is used effectively to align management's interests with the long-term success of the business is important and is an area we monitor closely across all our portfolio businesses. As we discussed in Principle 9, we believe that the best way to do this is to use metrics that incentivise the growth of the business and the sustainability of its underlying returns in the long-term incentive plan (LTIP) component of executives' remuneration.

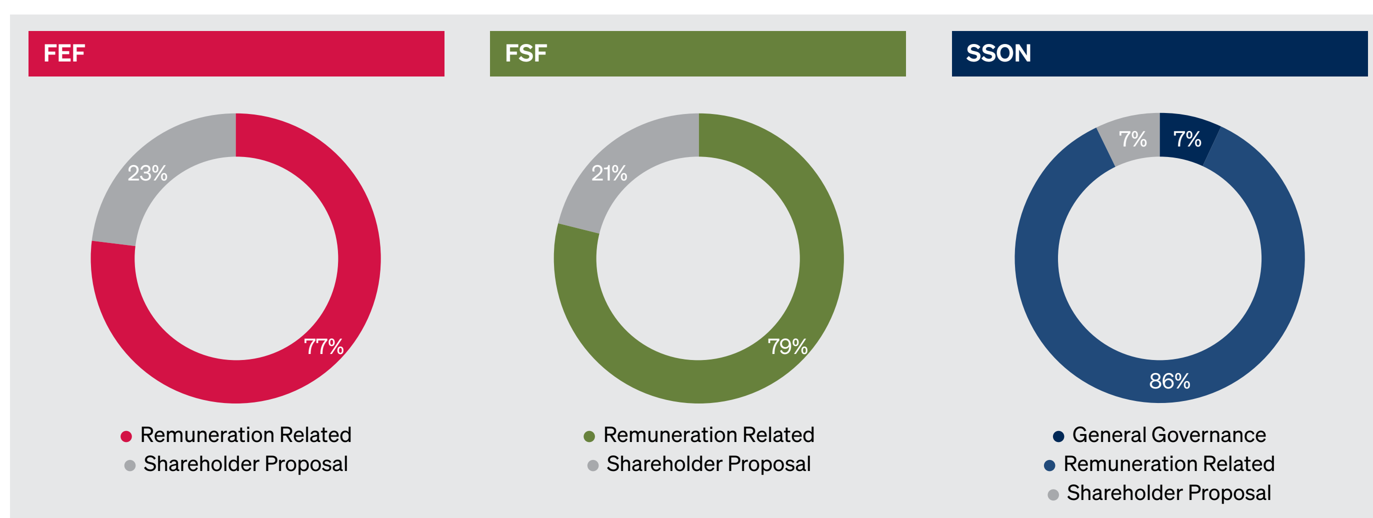


Figure 4: Distribution of votes against management's instruction.

In 2024, FEF voted against 78% and FSF against 71% of the say-on-pay votes presented their companies' AGMs, while Smithson voted against 40%. As we have discussed in our previous reports, we are seeing an increasing number of remuneration policies that do not do enough to align management's incentives with the long-term success of the business. A growing majority of the executive remuneration policies presented at AGMs use metrics that we feel management teams have too much control over and can manipulate, such as earnings per share (EPS), or little to no control over, such as total shareholder return (TSR). Further, some companies then 'adjust' EPS, or use 'relative' TSR. These are metrics which have no benefit to a business's long-term, sustainable growth.

The remaining votes against management for FEF and FSF were votes in favour of proxies put forward by other shareholders.

In last year's report, we noted that we had supported significantly more shareholder proposals compared to previous years, voting in favour of 33% in 2023, versus 11% in 2022. This was largely a result of a higher proportion of the shareholder proxies submitted in 2023 asking for companies to install an independent board chair. In 2024, we voted in favour of 11% of shareholder proxies, as in 2022. Unlike 2023, in 2024 there were no shareholder requests for the installation of an independent chair. Instead, most shareholder proxies requested our company's boards to produce reports across a variety of issues pertinent to the party forwarding the proxy. In most cases, our companies were already reporting the information requested and had policies covering the shareholders' area of concern. In some cases, the report topic requested by the shareholder was only of tangential relevance to the business and its activities. We were happy to support the company in these instances.

	No. of shareholder proxies		% Voted against management	
	2024	2023	2024	2023
FEF	54	53	11%	17%
FSF	52	49	10%	26%
SSON	3	4	33%	50%
Total	**109**	**106**	**11%**	**33%**

Table 5: Fundsmith funds' voting on shareholder proxies.

Significant Votes

We define significance in various ways. A vote may be significant due to the size of our holding in the company or the weighting of the company in our portfolio. It may be significant if we feel that the vote can bring about substantial, positive change in the company or that failing to vote could result in large, negative impacts on ourselves and our clients. A vote can also be significant if it varies from our typical approach to voting on a particular issue or results from previous engagement with the investee company regarding the issue.

Given the proportion of executive remuneration policies FEF and FSF voted against in 2024, any vote in favour of a policy is deemed significant. Between the two funds, we voted in favour of eight 'say-on-pay' proxies during the reporting period. That is not to say that any of these approaches were perfect, but we aim to support the companies that are heading in the right direction and where we think engagement can promote continued development of their approach to executive remuneration.

We supported say-on-pay votes for Greggs, McDonald's, Home Depot, and Unilever as each company included a returns-based metric in the LTIP component, despite the lack of a growth metric. Unusually, we also voted in favour of IDEXX and Atlas Copco's executive remuneration, despite the fact neither use growth or returns metrics in their LTIP. Atlas Copco do not use a LTIP component in its remuneration plans but do use economic value added (a returns metric) in its bonus plan, which we approve of. Similarly, IDEXX uses both growth and returns-based metrics in its bonus plan. As described in Principle 9, our decision to vote in favour of Novo Nordisk's policy was significant particularly as we had voted against the policy at the company's previous AGM.

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