

Sustainability-related disclosure

Fundsmith SICAV – Fundsmith Equity Sub-fund

Summary

The Fundsmith Equity Sub-fund (the “Sub-Fund”) promotes environmental and social characteristics but does not commit to making any investments with a sustainable objective.

The Sub-fund invests in high quality businesses that have a low exposure to sustainability-related risks as a result of their high quality and also have strong environmental and social performance. These characteristics are promoted by measuring The Sub-fund’s holdings against five environmental metrics:

‘Environmental footprint’ refers to a combination of five commonly reported environmental metrics:

- Total waste generated
- Total waste generated
- Hazardous waste generated
- Water usage
- Energy consumption
- Greenhouse gas emissions

The Investment Manager uses exclusions, environmental, social and governance analysis and active ownership as part of the investment strategy to ensure these characteristics are met and maintained. At least 75% of the Sub-fund’s assets are aligned with the promoted environmental and social characteristics.

Through proprietary due diligence, research, engagement and external data sources, such as Bloomberg, the Investment Manager sources the most recent available data per holding and monitors this on an ongoing basis. Where data is not available, the Investment Manager carries out an internal estimation to calculate an approximation for the specific holding, based on sector, scale and size of the holding.

All of the Sub-fund’s investee companies are monitored with respect to their principal adverse impacts (“PAIs”) on sustainability factors.

The Sub-fund does not use a specific index designated as a reference benchmark for the purpose of attaining its environmental/ social characteristics.

No sustainable investment objective

This financial product promotes environmental or social characteristics, but does not have as its objective sustainable investment.

Environmental or social characteristics of the financial product

The environmental and social characteristics promoted by this Sub-fund are derived from its investments in high quality business with good governance practices. These businesses have low exposure to sustainability risks as a result of their high quality. The Sub-fund's underlying investments form a portfolio with a significantly lower environmental footprint, measured by the total waste generated, hazardous waste generated, water usage, energy consumption, and greenhouse gas emissions, compared to the average company, represented by the weighted average of the MSCI World Index for the chosen metrics.

The Sub-fund promotes environmental or social characteristics through the use of binding exclusions during the creation of its universe of investable companies and through assessing the principal adverse impacts of the Sub-fund's underlying investments.

The Sub-fund's underlying investments also reduce the negative E/S impacts they have and generate positive impacts through allocating capital to research and development to drive innovation in the products/ services they offer. The Investment Manager measures the impact that this innovation has on E/S characteristics through improvements in the environmental metrics mentioned earlier and through other qualitative measures, such as improvements to human health and welfare.

Investment strategy

Strategy

The Fundsmith Equity Sub-fund operates a long term, buy and hold investment strategy, only investing in publicly listed, large market capitalisation (>\$15bn) companies. The Sub-fund's underlying investments are selected from an investable universe of approximately 80 companies, all of which have been subject to detailed research and analysis by the Investment Manager's Research team before admission to the Sub-fund's investable universe. A concentrated portfolio comprising of between 20 to 30 high-quality businesses is created from this investable universe.

The Fundsmith Equity Sub-fund follows the approach laid out in the Investment Manager's Responsible Investment Policy, which describes the approach taken towards investment and how the promoted environmental and social characteristics are attained.

This Includes:

Exclusions

Exclusions are applied during the construction of the portfolio's universe of investible companies. These exclusions are applied to prevent investment in companies with any exposure to controversial weapons or controversial jurisdictions, substantial exposure to fossil fuel extraction, refinement, and/or combustion, and those with substantial exposure to mining. Substantial exposure is quantified as generating more than 5% of revenue from the listed activities. The companies admitted to the Sub-fund's investable universe are re-assessed for their compliance with these exclusionary criteria ahead of each meeting of the Investment Manager's Stewardship and Sustainability Committee to ensure compliance with these exclusions.

ESG Integration

As well as forming a component of the Sub-fund's second exclusionary screen, environmental, social and governance ("ESG") factors are integrated into the wider investment process. The Investment Manager assesses a business's ability to manage their E/S impact and the resulting risks, as well as taking advantage of opportunities, as part of the assessment of a company's ability to sustain a high return on invested capital over the long term. A component of this assessment is the reduction of negative impacts and the generation of positive impacts through innovation in the products/services companies offer, such as healthier food and drink options, health care products that address global health issues, and more environmentally sustainable products to mitigate their contribution to climate change. Portfolio companies are monitored continually with all new and material information/ data integrated into the Investment Manager's ongoing assessment of the business.

Active Ownership

Should the Investment Manager find a company's quality of governance or financial, environmental, or social performance to be of concern, for example a deterioration of the metrics used to measure the attainment of the E/S impact, the Investment Manager's engagement and escalation processes (including proxy voting) will be used to attempt to address the issue and encourage a long-term approach towards their capital allocation.

Good Governance

The investment strategy also analyses the good governance practices of investee companies. This can be in the form of independent checks and balances on management's actions by the board of directors and anything else that influences the decision-making and incentive structure within the organisation. This includes relatively easy areas to assess, such as policies towards forced and child labour within the business's supply chain, workplace safety and employee satisfaction, the percent of non-executive independent directors on the company's board and nomination committee, the independence of the board, the remuneration structure of executives at the company and tax compliance. It also includes an assessment of areas of the company that are harder to objectively measure, such as the culture at the company and how that incentivises employees to act appropriately.

Proportion of investments

A minimum of 75% of the Sub-fund's assets are aligned with its promoted E/S characteristics. The remaining 25% of the Sub-fund's assets are investments made to achieve the Sub-fund's investment objective but are not aligned with the Sub-fund's promoted E/S characteristics, as well as cash being held for liquidity management purposes. The percentage given is the planned percentage which may be held by the Sub-fund. The actual percentage may vary over time. The Sub-fund only invests in listed equity to have direct exposure to investee entities.

Monitoring of environmental or social characteristics

The Investment Manager uses five sustainability indicators, updated on a quarterly basis, to monitor the environmental characteristics promoted by the Sub-fund. These are:

- Total waste generated
- Hazardous waste generated
- Water usage
- Energy consumption
- Greenhouse gas emissions

The Investment manager monitors all 14 of the mandatory principal adverse impact (PAI) indicators for the Sub-fund. These cover greenhouse gas emissions, biodiversity, water, waste, and social and employee matters. Additionally, the Investment Manager monitors the Sub-fund's performance against three further PAI indicators, including assessments of underlying investments with or without carbon emission reduction initiatives, non-renewable energy assessments, and the presence of a water management policy. The Sub-fund's performance in respect of these indicators is assessed at the end of each quarter of the calendar year.

Methodologies for environmental or social characteristics

At least 75% of the Sub-fund's assets will be invested in companies that outperform the average company across each of the five selected sustainability indicators. By outperform, the Investment Manager intends to maintain the Sub-fund's weighted average intensity for each metric below that of the weighted average intensity for the MSCI World Index.

The weighted average free cash flow (FCF) for the portfolio and index is calculated by multiplying each of the constituent companies' free cash flow (€m) by their respective weightings and summing the result for all constituents. The same method is used to calculate the weighted average total waste (metric tons), hazardous waste (metric tons), water usage (m³), energy (MWh), and greenhouse gas emissions (CO₂e) for both the Sub-fund and Index. The weighted average environmental indicators are divided by the weighted average FCF to produce an intensity-based metric, representing the average company for the Sub-fund's portfolio and the Index.

Data sourcing and processing

Data Sourcing

The Investment Manager sources data from Bloomberg to calculate both the Sub-fund and Index's characteristics. Environmental data is for the most recent available per holding and is updated on a rolling basis. The free cash flow data used reflects the most recently reported numbers. Environmental and financial data for MSCI World Index constituents is also sourced from Bloomberg. MSCI provides data for the constituents and weightings of the MSCI World Index.

Data Quality and Processing

Data sourced from Bloomberg is checked manually for outliers and metric consistency. Should inconsistencies be found the Investment Manager fills gaps and corrects data using internal research. Sources such as company reports, CDP questionnaires and engagement are used.

The proportion of data estimated varies between the metrics used for key indicators selected. Where data is not available for a portfolio holding, an internal estimation engine is used to calculate an approximation for the business. The estimation is based on similar companies operating within the same industry and scaled to the assets of the business.

Limitations to methodologies and data

The main limitation faced is the varying availability, consistency and quality of sustainability-related information across the metrics tracked. Environmental metrics also rely on data which is backward-looking and does not account for forward-looking information on a company's approach to managing the metrics the Investment Manager tracks. Where such issues exist, the Investment Manager uses further research to fill any data gaps and, when necessary, engagement to support improvement in the data published by investees to ensure that the environmental or social characteristics promoted by the Sub-Fund are met.

Due diligence

Company due diligence is an integrated part of the Sub-fund's investment process, executed by the Research team during their initial assessment of a company and continued throughout the period the investment is held.

Much of the data used in the Invest Manager's company analysis is subjected to external due diligence. For example, company reports and accounts are audited by a third-party before publication and carbon emissions data collected from the CDP allows the Investment Manager to see the proportion of company emissions that have been verified by a third party. The Investment Manager also collects carbon emission reduction plans from the Science Based Targets initiative, which works with companies to ensure that the commitments made are accurate and achievable.

Engagement policies

The Investment Manager's approach to engagement is detailed in the Investment Manager's Responsible Investment Policy. The Investment Manager's approach comes directly from their desire to be a long-term shareholder in the businesses the Sub-fund invests in. When the Investment Manager engages with investee companies, the priority is to support changes and/or investment that promotes their long-term, sustainable growth and equally to oppose activities focused on maximising short-term profits. The decision to engage with a company is made on a case-by-case basis, prompted by a variety of internal and external factors but will always be focused on issues that are material to the business's activities and long-term success.

Designated reference benchmark

The Sub-fund does not use a specific index designated as a reference benchmark for the purpose of attaining its environmental/ social characteristics. It uses the MSCI World Index as a tool for comparison.