# Sustainable Finance Disclosure Regulation

## Article 8 Product - Fundsmith Equity Fund SICAV

Fundsmith Equity Fund SICAV will only invest in "good" companies. Good companies, as we define them, are able to maintain a high return on the capital they invest across the business cycle. This good company screen analyses a variety of financial and non-financial factors that may influence a company's ability to maintain a high return on the capital they invest. As part of this screen, a businesses' impact on the environment and/or society, corporate strategy, and corporate governance and the associated risks are analysed and assessed.

Companies operating in highly damaging sectors and industries would not meet our good company definition, as these damaging practices limit their ability to sustain a high return on capital. We also consider the positive impacts a company may have, through innovation and product development, as part of our analysis and assessment of a businesses' impact.

We collect and monitor a variety of environmental, social, and corporate governance data from third-party data providers and company reports. We calculate weighted environmental statistics for portfolio companies per million GBPs of free cash flow. Should environmental statistics not be available, we estimate using the average environmental impact per million GBPs of assets of the smallest sector that the company is part of, which has at least 5 reporting companies in. We then multiply this average by the non-reporting company's assets. We also collect qualitative data in an ESG and innovation database. This database stores sustainability information concerning all the companies in the Fund's investable universe and is used to help inform our decision making regarding the impacts a company may have and the risks associated with it.

### Sustainability Risk Statement

Fundsmith, across all its products identifies and analyses sustainability risk (i.e. an environmental, social, or governance event or condition that, if it occurs, could potentially or actually cause a material negative impact on the value of an investment) as part of its risk management process.

Sustainability risks can represent a risk in their own right, but can also have an impact on other risks, and may contribute significantly to market risks, operational risks, liquidity risks and counterparty risks, among others. Sustainability risks can have an impact on long-term, risk adjusted returns for investors. Assessment of sustainability risks is complex and may be based on environmental, social, or governance data, which is often difficult to obtain, incomplete, estimated, out of date, or otherwise materially inaccurate. Even when identified, there can be no guarantee that this data will be correctly assessed.

The impacts of a sustainability risk occurring are numerous and vary according to a specific risk, region, or asset class. Generally, if a sustainability risk occurs for an asset, there will be a negative impact and, potentially, a loss of its value. This can in turn impact the Net Asset Value of the concerned financial product.

Fundsmith believes that the integration of this risk analysis could help to enhance long-term risk adjusted returns for investors, in accordance with the respective investment objectives and policies of our funds.

## Adverse Sustainability Impacts

In compliance with the definition given by the Sustainable Finance Disclosure Regulation (SFDR), (EU) 2019/2088, Fundsmith does not currently consider the adverse impacts of investment decisions on sustainability factors (i.e. environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters).

We do not consider the impacts within the scope of the SFDR's definition due to the poor availability, consistency, comparability and transparency of existing ESG data, and the challenges the onerous reporting required by the Regulation poses to a small firm such as Fundsmith LLP.

However, we will consider the impacts of our investment decisions on sustainability factors, as per the definition given by the SFDR, when we feel the quality of available ESG data has improved significantly and we can produce meaningful results from principal adverse impacts reporting. Until then we will continue to consider the positive and/or negative impacts the companies we invest in may have on the environment and/or society under the criteria most relevant to our activities.