Fundsmith

Sustainable Finance Disclosure Regulation

Fundsmith
Buy good companies
Don't overpay
Do nothing

Sustainable Finance Disclosure Regulation

Promotion of environmental and social characteristics

The Fundsmith Sustainable Equity Sub-fund will only invest in high-quality, or 'good' companies. We identify good companies as those that can sustain a high return on the capital they employ across the entire 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 business's impact on the environment and/or society, corporate strategy, and corporate governance 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, which informs our assessment of a business's net impact.

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 (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 companies that we would like to invest in are also reducing the negative E/S impacts they have and generate positive impacts by allocating capital to research and development that drives innovation in the products/ services they offer. Fundsmith measures the impact that this innovation has on E/S characteristics through improvements in the environmental metrics mentioned earlier and through qualitative measures, such as improvements to human health and welfare. Fundsmith balances this positive influence against negative impacts to make an assessment of the net impact the business has.

To measure the attainment of the environmental and social characteristics promoted by this Sub-fund, we monitor a variety of quantitative and qualitative environmental and social indicators and utilise a third-party reputational risk score provided by RepRisk.

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

- Total waste generated (metric tons/£m of free cash flow [FCF])
- Hazardous waste generated (metric tons/£m of FCF)
- Water usage (m3/£m of FCF)
- Energy usage (MWh/£m FCF)
- Greenhouse gas emissions (metric tons CO2e/£m FCF)

The Investment Manager expects the portfolio's weighted average scores across all metrics to be lower than that of the MSCI World Index for each reporting period. We also assess the principal adverse impacts (PAIs) of the Sub-fund's investments on sustainability factors to ensure no holding is causing significant harm.

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 - Entity Level

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 at the entity level (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.