Fundsmith

33 Cavendish Square
London
W1G 0PW

T +44 (0)20 3551 6337
E enquiries@fundsmith.co.uk
W www.fundsmith.co.uk

31st March 2020

Dear Fellow Investor,

It would be an understatement to say it has been an eventful start to the year so I thought I should take this opportunity to update you on how we are faring in the coronavirus Covid-19 pandemic environment.

First and foremost, the Fundsmith Equity Fund ('Fund') continues to operate. We can price it, people can deal in it and we have been able to provide liquidity where required.

I know that you normally just look at the price and do not worry about such matters, but we need you to know that you can contact us, that any information you need will be provided, and that any dealing instructions you give us will be executed. This is important. If we fail on one or more of those aspects we need not worry about what comes next. As Rick Mears, one of only three drivers to win the Indianapolis 500 Race four times, said 'In order to finish first. You must first finish.'

Secondly, our Fund's performance has been as we would have expected, hoped and predicted. I would even say it is satisfactory if you accept that some fall in valuation is inevitable in a bear market.

% Change	**2020 YTD**
Fundsmith Equity Fund[1]	-7.9
MSCI World[2]	-15.7
MSCI World Value[2]	-22.0
FTSE 100[3]	-23.8

[1] T Class Acc shares, net of fees, priced at noon UK time, source: Fundsmith LLP
[2] MSCI Indices, £ net, priced at US market close, source: Bloomberg
[3] FTSE 100, £, total return, priced at UK market close, source: Bloomberg

The Fundsmith Equity Fund[1] is down 7.9% for the Year to date having outperformed the comparator MSCI World Index[2] by nearly 8%. It outperformed the FTSE 100[3] by nearly 16% and the MSCI World Value Index[2] by over 14%.

It also outperformed all these indices significantly in the fall from the peak of the market to its trough before the recent rally. Bear in mind the MSCI World and FTSE 100 indices benefit from the inclusion of our companies. The companies we do not own are collectively performing worse than the index numbers.

As you know, I was immensely sceptical of the view that so-called value stocks could protect you in a downturn. I have never been a believer in the philosophy that so-called “value” investments would perform well or protect your investment in an economic and market downturn. Shares in companies that are lowly rated are so mostly for good reasons. Because their businesses are heavily cyclical, highly leveraged, they have poor returns on capital and/or they face other structural or management issues. It doesn’t sound like a combination likely to protect the business and your investment in difficult times, and so it has proven thus far.

Our companies which are most in the firing line – Amadeus and InterContinental Hotels in airline reservations and hotels – are sensibly putting in place cost cutting and cash conservation measures and securing liquidity to enable them to hold their breath for 18 months or so with no revenues. This in our view is far more useful than speculation about what their sector will look like afterwards. They have to survive to find out (reference Mr. Mears thoughts earlier). If our equity in both is vaporised we will lose about 5% of our current portfolio. Whilst I would not be pleased with that, if that’s the worst thing that happens I would suggest we can live with it. Whilst we have various stocks exposed to knock-on effects in travel retail for example in cosmetics and drinks, and supply chain issues in other portfolio companies, if we were forced to guess we think about a third of the portfolio will endure this year with increased revenues – Microsoft, the payment processors, Clorox, and Reckitt Benckiser, for example.

It is said that every cloud has a silver lining and we are seeing opportunities and have bought two new holdings which we have been following for some while and which have been hard hit in this market because of China exposure and a classic “glitch”.

I suspect the current market reaction to the pandemic is explained by a simple analogy which relates to the virus itself. The COVID-19 virus is not fatal for the vast majority of the population. However, where it seems to be lethal is when it encounters someone with an immune system already weakened by age and/or pre-existing ailments.

Similarly, what has increased the impact of the virus, or rather measures taken to counter it, on the economy and markets is that in this area it has encountered structures with weakened immune systems too. The fact that most of the emergency measures taken in 2008—09 – deficit spending, low or zero interest rates and Quantitative Easing – were still in place 10 years after the crisis demonstrated that the patient – in this case the global economy – was not back in rude health when the virus struck. Cue a market panic.

What will emerge from the current apocalyptic state? How many of us will become sick or worse? When will we be allowed out again? Will we travel as much as we have in the past? Will the extreme measures taken by governments to maintain the economy lead to inflation? I haven't a clue. Rather like some of the companies we most admire, I try to spend very little time considering matters which I can neither predict nor control and focus instead on those which I can affect. So at Fundsmith our focus will be on keeping our service to investors fully functioning, and then seeking to grasp any new investment opportunities which are unearthed by the turmoil whilst ensuring that our colleagues, families, friends, and anyone else we can reach receives any help they need and that we can provide.

I hope and expect that our strategy of only investing in good businesses will continue to see our Fund through these trying times intact and continuing to prosper.

Yours as ever,

Terry Smith

Terry Smith
CEO
Fundsmith LLP

Disclaimer: A Key Investor Information Document and an English language prospectus for the Fundsmith Equity Fund are available via the Fundsmith website or on request and investors should consult these documents before purchasing shares in the fund. Past performance is not necessarily a guide to future performance. The value of investments and the income from them may fall as well as rise and be affected by changes in exchange rates, and you may not get back the amount of your original investment. Fundsmith LLP does not offer investment advice or make any recommendations regarding the suitability of its product. This document is communicated by Fundsmith LLP which is authorised and regulated by the Financial Conduct Authority.

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