Fundsmith LLP

GROUP REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

Year to 31 March 2012

Registered No OC354233

Fundsmith LLP

Group report and consolidated financial statements

For the year to 31 March 2012

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Registered No OC354233

Partnership information

Members

Terry Smith - (Designated Member)
Mark Laurence - (Designated Member)
Julian Robins - (Designated Member)
Simon Godwin - (Designated Member)
International Value Investments Limited
MALSCG Limited
NoLeLu II, LLC

Auditors

Kinetic Partners Audit LLP
One London Wall
Level 10
London
EC2Y 5HB

Bankers

Coutts & Co
440 The Strand
London
WC2R 0QS

Registered office

7th Floor
52-54 Gracechurch Street
London
EC3V 0EH

Members' report

The Members present their report and consolidated financial statements of Fundsmith LLP (the 'Partnership') for the year to 31 March 2012 The Partnership is a limited liability partnership, incorporated in England and Wales, of which Fundsmith Partners (US) LLC (the US Operating Company) and Fundsmith Equity Fund (GP) LLC (the 'US General Partner) are wholly owned subsidiaries The US Operating Company is a limited liability company incorporated in Connecticut, USA The US General Partner is a limited liability company incorporated in Delaware

Principal activity and review of the business

The principal activity of the Partnership is to provide investment management services to the Fundsmith Equity Fund (the 'UK Fund') It also provides investment management services to The Fundsmith Equity Fund, LP, a fund structured as a Delaware based limited partnership, (the 'US Fund') and the Fundsmith Equity Fund Feeder, a Luxembourg based SICAV which is a feeder fund into the UK fund (the 'Feeder Fund' The LLP is regulated by the Financial Services Authority

The results of the Partnership are significantly improved on last year reflecting the growth in funds under management The ongoing growth in funds under management gives the Partners confidence about the future

Results and distributions

The loss for the period available for discretionary division among Members was £326,765 (2011 loss £1,605,801) The Group's balance sheet as detailed on page 9 shows a satisfactory position Members' total interests amount to £761,325 (2011 £1,586,150) Comparison figures are shown for the period from incorporation on 16 April 2010 to 31 March 2011,

Members' profit allocation

Any profits are shared among the Members as decided by the Members Meeting and governed by the Partnership Agreement dated 7 July 2010

Policies for Members' drawings, subscriptions and repayment of Members' capital

Policies for Members' drawings, subscriptions and repayment of Members' capital are governed by the Partnership Agreement dated 7 July 2010

Members

The Members of the Partnership during the period were as follows

Terry Smith - (Designated Member)
Keith Hamill - (Designated Member) – resigned 9 July 2012
Mark Laurence - (Designated Member)
Julian Robins - (Designated Member)
Simon Godwin - (Designated Member)
Aldrington Investments Limited – resigned 9 July 2012
International Value Investments Limited
MALSCG Limited
NoLeLu II, LLC – appointed 9 July 2012

Going concern

These consolidated financial statements have been prepared on a going concern basis The Members believe that this is appropriate as they have a reasonable expectation that the Group has adequate resources to meet its liabilities as they fall due for the foreseeable future

Pillar 3

An unaudited Pillar 3 disclosure, the Partnership's risk management objectives, and policies on its regulatory capital requirements and on remuneration, in accordance with the rules of the Financial Services Authority, is attached to this document as an appendix

Members' report

Statement as to disclosure of information to auditors

So far as the Members are aware, there is no relevant audit information of which the Partnership's auditors are unaware, and each Member has taken all the steps that he ought to have taken as a Member in order to make himself aware of any relevant audit information and to establish that the Partnership's auditors are aware of that information

By order of the Members

Simon Godwin
Designated Member

24 July 2012

Statement of Members' responsibilities in respect of the consolidated financial statements

The Members are responsible for preparing the annual report and consolidated financial statements in accordance with applicable law and generally accepted United Kingdom Accounting Principles

The Limited Liability Partnership Regulations (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 ("the 2008 Regulations") require the Members to prepare consolidated financial statements for each financial year

Under Regulation 8 of the 2008 Regulations the Members must not approve the consolidated financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Partnership and of the results of the Group and Partnership for that period In preparing these consolidated financial statements, the Members are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- follow applicable accounting standards subject to material departures being disclosed and explained in the consolidated financial statements, and
- prepare the consolidated financial statements on a going concern basis unless it is inappropriate to presume that the Group and Partnership will continue in business

Under Regulation 6 of the 2008 Regulations, the Members are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Group and Partnership and that enable them to ensure that the consolidated financial statements comply with those Regulations The Members are also responsible for safeguarding the assets of the Group and Partnership and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The Members are responsible for the maintenance and integrity of the corporate and financial information included on the Partnership's website It is important to bear in mind that legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

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Independent auditor's report to the Members of Fundsmith LLP

We have audited the financial statements of Fundsmith LLP ("the Partnership") for the year ended 31 March 2012, which comprise the consolidated profit and loss account, the statement of total recognised gains and losses, the consolidated and Partnership balance sheet, the consolidated cash flow statement and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the Partnership's Members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 Our audit work has been undertaken so that we might state to the Partnership's Members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Partnership and the Partnership's Members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of Members and auditors

As explained more fully in the statement of Members' responsibilities set out on page 5, the Members are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the consolidated financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Group's and the Partnership's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Members, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Members' report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Independent auditor's report to the Members of Fundsmith LLP (continued)

Opinion

In our opinion the consolidated financial statements.

- o give a true and fair view of the Group's and Partnership's affairs as at 31 March 2012 and of the Group's loss for the year then ended,
- o have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- o have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 as applied to limited liability partnerships requires us to report to you if, in our opinion·

- o adequate accounting records have not been kept by the Partnership, or returns adequate for our audit have not been received from branches not visited by us; or
- o the Partnership's financial statements are not in agreement with the accounting records and returns, or
- o we have not received all the information and explanations we require for our audit.

Kinetic Partners Audit LLP

Deborah Weston (Senior statutory auditor)

For and on behalf of Kinetic Partners Audit LLP, Statutory Auditor

One London Wall, Level 10

London

EC2Y 5HB

25 July 2012

Consolidated profit and loss account

for the year to 31 March 2012

	Notes	2012 £	2011 £
Turnover	2	2,152,056	269,484
Administrative expenses	3	(2,484,491)	(1,877,041)
Operating loss	4	(332,435)	(1,607,557)
Interest receivable and similar income		634	1,756
Other income		5,036	-
Loss for the financial year available for discretionary division among Members		(326,765)	(1,605,801)

There is no difference between the loss for the period and its historical cost equivalent

Consolidated statement of total recognised gains and losses

There were no recognised gains or losses in the year other than the loss for the period All amounts are in respect of continuing activities

The notes on pages 12 to 18 form part of these consolidated financial statements

Consolidated balance sheet
as at 31 March 2012

	Notes	2012 £	2011 £
Fixed assets			
Investments	7	613	-
Tangible assets	8	50,173	13,341
		50,786	13,341
Current assets			
Debtors	9	7,157,424	6,276,581
Cash at bank and in hand	10	2,387,769	2,578,879
		9,545,193	8,855,460
Creditors: amounts falling due within one year	11	(7,910,795)	(6,856,852)
Net current assets		1,634,398	1,998,608
Total assets less current liabilities		1,685,184	2,011,949
Net assets attributable to Members		1,685,184	2,011,949
Represented by:			
Equity			
Members' capital	12	3,617,750	3,617,750
Other amounts	12	(1,932,566)	(1,605,801)
		1,685,184	2,011,949
Total Members' interests			
Loans and other debts due to Members	12	(923,859)	(425,799)
Members' other interests	12	1,685,184	2,011,949
		761,325	1,586,150

The consolidated financial statements on pages 8 to 18 were approved by the Members on 24 July 2012
For and on behalf of the Members

Simon Godwin

Designated Member

The notes on pages 12 to 18 form part of these consolidated financial statements

Partnership balance sheet
as at 31 March 2012

	Notes	2012 £	2011 £
Fixed assets			
Investments	7	614	1
Tangible assets	8	48,434	10,359
		49,048	10,360
Current assets			
Debtors	9	7,154,920	6,280,815
Cash at bank and in hand	10	2,368,871	2,564,016
		9,523,791	8,844,831
Creditors: amounts falling due within one year	11	(7,930,622)	(6,856,852)
Net current assets		1,593,169	1,987,979
Total assets less current liabilities		1,642,217	1,998,339
Net assets attributable to Members		1,642,217	1,998,339
Represented by:			
Equity			
Members' capital	12	3,617,750	3,617,750
Other amounts	12	(1,975,533)	(1,619,411)
		1,642,217	1,998,339
Total Members' interests			
Loans and other debts due to Members	12	(923,859)	(425,799)
Members' other interests	12	1,642,217	1,998,339
		718,358	1,572,540

The consolidated financial statements on pages 8 to 18 were approved by the Members on 24 July 2012
For and on behalf of the Members

Simon Godwin

Designated Member

The notes on pages 12 to 18 form part of these financial statements

Consolidated cash flow statement

for the year ended 31 March 2012

	Notes	2012 £	2011 £
Net cash inflow/(outflow) from operating activities	13(a)	363,853	(598,163)
Returns on investments and servicing of finance			
Interest received		634	1,756
Transactions with Members	13(b)	(498,060)	3,191,951
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(56,924)	(16,665)
Purchase of investments		(613)	-
(Decrease)/increase in cash	13(c)	(191,110)	2,578,879

The notes on pages 12 to 18 form part of these consolidated financial statements

Notes to the consolidated financial statements

at 31 March 2012

1. Accounting policies

Basis of accounting

The accounts have been prepared on the going concern basis, under the historical cost convention, and in accordance with applicable accounting standards, the Limited Liability Partnerships (Accounts and Audit) (Application of the Companies Act 2006) Regulations 2008, the Large and Medium Sized LLP (Accounts) Regulations 2008 and the Statement of Recommended Practice 'Accounting by Limited Liability Partnerships' ("LLP SORP") issued in March 2010

Basis of consolidation

The Partnership is the parent company of Fundsmith Partners (US) LLC and Fundsmith Equity Fund (GP) LLC The consolidated financial statements incorporate the financial statements of the Partnership and the two subsidiaries which are referred to together as the Group The Partnership has not presented its individual profit and loss account as allowed by the exemption under Section 408 of the Companies Act 2006 The Partnership's loss for the period was £356,122 (2011 £1,619,411)

Depreciation

Tangible fixed assets are recorded at cost and depreciated Depreciation is calculated on a straight line basis so as to write off the cost of the asset, less its estimated residual value, over the expected useful economic life of the asset The following depreciation rates have been applied

Leasehold improvements	-	over the lease term
Computer equipment	-	over 3 years

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction Exchange differences are taken to the profit and loss account

Taxation

No taxation is reflected in the financial statements as tax is borne by the individual Members in a personal capacity on their attributable profit shares and not the Partnership

Investments

Investments are held at cost less provision for impairment

Operating leases

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term The value of any rent free period is amortised over the life of the operating lease

Client money

The Group and Partnership holds money on behalf of clients in accordance with the client money rules of the Financial Services Authority Such monies and corresponding liability are included on the balance sheet

2. Turnover

Turnover is attributable to one continuing activity, the supply of investment management services Fees are recognised once receivable All turnover in the year arose from the supply of services to the funds identified above

3. Administrative expenses

Administrative expenses include services fees and professional fees Expenses incurred have been accounted for on an accruals basis

Notes to the consolidated financial statements

at 31 March 2012

4. Operating loss

Operating loss is stated after charging

	2012	2011
	£	£
Auditors' remuneration - audit services	19,600	14,000
Operating lease rentals	144,124	73,091
Depreciation	20,092	3,324
Exchange rate variance	11,287	4,129

Audit services are provided by Kinetic Partners Audit LLP

The creation and redemption of shares in the Fund are transacted through the Partnership, through the operation of a manager's box The net expense recognised comprises the following balances

	2012	2011
	£	£
Sale of units	258,298,005	98,248,304
Repurchase of units	(17,506,476)	(1,618,083)
Creation of units	(251,737,247)	(97,704,281)
Liquidation of units	10,939,990	1,076,097
Bank interest on the box	917	162
Bank charges on the box	(4,711)	(5,225)
Commission	(60,421)	(25)
	(69,943)	3,050

5. Staff costs

	2012	2011
	£	£
Wages, salaries, other staff costs and benefits	550,721	227,424
Social security costs	38,987	28,702
	589,708	256,126

The average monthly number of employees during the period was as follows

	2012	2011
Administration	4	3

6. Members' remuneration

The average number of Members during the year was 8 (2011 8) No profit has been allocated to Members in the period

Notes to the consolidated financial statements
at 31 March 2012

7. Investments

	Group	Partnership
	£	£
Net book value at 31 March 2011	-	1
Cost as 4 May 2011 US$1,000	613	613
Disposals	-	-
Net book value at 31 March 2012	613	614
	£	£
Investment Fundsmith Equity Fund, LP	613	-
Investment 100% Fundsmith Partners (US) LLC	-	1
Investment 100% Fundsmith Equity Fund (GP) LLC	-	613
Net book value at 31 March 2012	613	614

The LLP has a £1 investment in a wholly owned subsidiary, Fundsmith Partners (US) LLC (the 'US Company'), a company incorporated in Connecticut, USA The US Company provides marketing service to the Group in respect of its US fund and support for its US operations

The LLP has a £613 investment in Fundsmith Equity Fund (GP), LLC (the 'US General Partner'), a company incorporated in Delaware, USA The US General Partner is the General Partner for the Fundsmith Equity Fund, LP, the US fund, and also not been included in the consolidation

8. Tangible fixed assets

Group:	Leasehold improvements	Furniture & fixtures	Computer equipment	Total
	£	£	£	£
Cost at 31 March 2011	6,500	-	10,165	16,665
Additions	45,600	5,611	5,713	56,924
Cost at 31 March 2012	52,100	5,611	15,878	73,589
Depreciation at 31 March 2011	1,444	-	1,880	3,324
Depreciation in year	13,567	1,559	4,966	20,092
Depreciation at 31 March 2012	15,011	1,559	6,846	23,416
Net book value at 31 March 2012	37,089	4,052	9,032	50,173
Net book value at 31 March 2011	5,056	-	8,285	13,341

Partnership:	Leasehold improvements	Leasehold improvements	Computer equipment	Total
	£	£	£	£
Cost at 31 March 2011	6,500	-	6,407	12,907
Additions	45,600	5,611	5,712	56,923
Cost at 31 March 2012	52,100	5,611	12,119	69,830
Depreciation at 31 March 2011	1,444	-	1,104	2,548
Depreciation in year	13,567	1,559	3,722	18,848
Depreciation at 31 March 2012	15,011	1,559	4,826	21,396
Net book value at 31 March 2012	37,089	4,052	7,293	48,434
Net book value at 31 March 2011	5,056	-	5,303	10,359

Notes to the consolidated financial statements

at 31 March 2012

9. Debtors

	2012	*2011*
Group	*£*	*£*
Amounts due from Members	923,859	425,799
Trade debtors	6,035,989	5,697,183
Other debtors	27,265	138,270
Rent deposit	124,863	14,495
Prepayments and accrued income	45,448	834
	7,157,424	6,276,581

	2012	*2011*
Partnership:	*£*	*£*
Amounts due from Members	923,859	425,799
Trade debtors	6,035,989	5,697,183
Other debtors	27,265	145,000
Rent deposit	122,360	12,000
Prepayments and accrued income	45,447	833
	7,154,920	6,280,815

Included in other debtors is a rent deposit for an operating lease that commenced on 1 April 2011 This amount is due after more than one year

10. Cash at bank

Included in cash at bank at 31 March 2012 are balances of £28,689 (2011 £50,000) held by the Group and Partnership on behalf of clients in accordance with the client money rules of the Financial Services Authority

11. Creditors

	2012	*2011*
Group·	*£*	*£*
Trade creditors	7,559,207	6,721,928
Other creditors	40,000	-
Accruals and deferred income	311,588	134,924
	7,910,795	6,856,852

	2012	*2011*
Partnership	*£*	*£*
Trade creditors	7,559,207	6,721,928
Amounts due from subsidiary	19,827	-
Other creditors	40,000	-
Accruals and deferred income	311,588	134,924
	7,930,622	6,856,852

Included in trade creditors of the Group and Partnership is an amount of £28,689 (2011 £50,000) relating to money held on behalf of clients

Notes to the consolidated financial statements

at 31 March 2012

12. Reconciliation of movements in Members' interests

Group:

	Members' capital classified as equity £	Other reserves £	Total Members' other interests £	Loans and other debts due to/(from) Members £	Total Members' interests £	2011 £
Balance at 31 March 2011	3,617,750	(1,605,801)	2,011,949	(425,799)	1,586,150	-
Loss for the financial year available for discretionary division among Members	-	(326,765)	(326,765)	-	(326,765)	(1,605,801)
Members' interests after loss for the year	3,617,750	(1,932,566)	1,685,184	(425,799)	1,259,385	(1,605,801)
Contribution by Members	-	-	-	-	-	3,617,750
Drawings				(498,060)	(498,060)	(425,799)
Amounts due to Members				(923,859)		
Amounts due from Members				-		
Balance at 31 March 2012	3,617,750	(1,932,566)	1,685,184	(923,859)	761,325	1,586,150

Partnership:

	Members' capital classified as equity £	Other reserves £	Total Members' other interests £	Loans and other debts due to/(from) Members £	Total Members' interests £	2011 £
Balance at 31 March 2011	3,617,750	(1,619,411)	1,998,339	(425,799)	1,572,540	-
Loss for the financial year available for discretionary division among Members	-	(356,122)	(356,122)	-	(356,122)	(1,619,411)
Members' interests after profit for the year	3,617,750	(1,975,533)	1,642,217	(425,799)	1,216,418	(1,619,411)
Contribution by Members	-	-	-	-	-	3,617,750
Drawings				(498,060)	(498,060)	(425,799)
Amounts due to Members				(923,859)		
Amounts due from Members				-		
Balance at 31 March 2012	3,617,750	(1,975,533)	1,642,217	(923,859)	718,358	1,572,540

In the event of winding up all amounts included in "Loans and other debts due to Members" will rank equally with unsecured creditors

Notes to the consolidated financial statements
at 31 March 2012

13. Notes to the consolidated cash flow statement

(a) Reconciliation of operating loss to net cash flow from operating activities

	2012	2011
	£	£
Operating loss	(332,435)	(1,607,557)
Other income	5,036	-
(Increase) in debtors	(382,783)	(5,850,782)
Increase in creditors	1,053,943	6,856,852
Depreciation	20,092	3,324
Net cash inflow/(outflow) from operating activities	363,853	(598,163)

(b) Transactions with Members

	2012	2011
	£	£
(Payments to) Members	(498,060)	(425,799)
Contributions by Members	-	3,617,750
	(498,060)	3,191,951

(c) Analysis of changes in net funds

	At 31 March 2011	Cash flows	At 31 March 2012
	£	£	£
Cash in hand	2,578,879	(191,110)	2,387,769

(d) Reconciliation of net cash flow to movement in net funds

	2012	2011
	£	£
(Decrease)/increase in cash in the year	(191,110)	2,578,879
Change in net funds resulting from cash flows	(191,110)	2,578,879
Net funds at the start of the year	2,578,879	-
Net funds at the end of the year	2,387,769	2,578,879

14. Other financial commitments and contingencies

At 31 March 2012, the Partnership had annual commitments under non-cancellable operating leases as set out below

	2012	2011
	£	£
Land and buildings		
Operating leases which expire		
Within two to five years	122,360	55,649

Notes to the consolidated financial statements
at 31 March 2012

15 Related party transactions

The Partnership has taken advantage of the exemption in FRS 8 'Related Party Disclosures', relating to transactions between 100% controlled subsidiaries, by not disclosing information on related party transactions with entities that are part of the Group

16. Ultimate controlling party

The ultimate controlling party is deemed to be Terry Smith, based on his direct and indirect holding of over 50% of the voting rights of the Partnership

The following does not form part of the statutory financial statements and is unaudited

Fundsmith LLP

Disclosure under Pillar 3 of Capital Requirements Directive

The Capital Requirements Directive ('the Directive') of the European Union establishes a regulatory capital framework across Europe governing the amount and nature of capital credit institutions and investment firms must maintain

In the United Kingdom, the Directive has been implemented by the Financial Services Authority ('FSA') in its regulations through the General Prudential Sourcebook ('GENPRU') and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU')

The FSA framework consists of three 'Pillars'

- Pillar 1 sets out the minimum capital amount that meets the firm's credit, market and operational risk capital requirement,
- Pillar 2 requires the firm to assess whether its capital reserves, processes, strategies and systems are adequate to meet pillar 1 requirements and further determine whether it should apply additional capital, processes, strategies or systems to cover any other risks that it may be exposed to
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position, and remuneratuion policy and amounts to encourage market discipline

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure This document is designed to meet our Pillar 3 obligations

The Pillar 3 disclosure document has been prepared by Fundsmith ("The Firm") in accordance with the requirements of BIPRU 11 and is verified by the senior management Unless otherwise stated, all figures are as at the financial year-end

Pillar 3 disclosures will be issued on an annual basis after the year end and published with the annual accounts

We are permitted to omit required disclosures if we believe that the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions about the firm

In addition, we may omit required disclosures where we believe that the information is regarded as proprietary or confidential In our view, proprietary information is that which, if it were shared, would undermine our competitive position Information is considered to be confidential where there are obligations binding us to confidentiality with our customers, suppliers and counterparties

We have made no omissions on the grounds that it is immaterial, proprietary or confidential

Scope and application of the requirements

The Firm is authorised and regulated by the FSA and as such is subject to minimum regulatory capital requirements The Firm is categorised as a Limited Licence Firm by the FSA for capital purposes

It is an investment management firm and as such has no trading book exposures

The Firm has subsidiaries and is a member of a group However the subsidiaries meet the requirements criteria for exclusion in BIPRU 8 5 9 and so consolidated reporting for prudential purposes is not required

Risk management

The Firm has established a risk management process in order to ensure that it has effective systems and controls in place to identify, monitor and manage risks arising in the business The Senior Management team takes overall responsibility for this process and the fundamental risk appetite of the firm The team has responsibility for the implementation and enforcement of the Firm's risk principles

Senior Management meet on a regular basis and discuss current projections for profitability, cash flow, business planning and risk management Senior Management engage in the Firm's risks through a framework of policy and procedures having regard to the relevant laws, standards, principles and rules (including FSA principles and rules) with the aim to operate a defined and transparent risk management framework These policies and procedures are updated as required

The Senior Management team has identified that business, operational, market and credit are the main areas of risk to which the Firm is exposed Annually the Senior Management team formally review their risks, controls and other risk mitigation arrangements and assess their effectiveness

Management accounts demonstrate continued adequacy of the firm's regulatory capital and are reviewed on a regular basis

Appropriate action is taken where risks are identified which fall outside of the Firm's tolerance levels or where the need for remedial action is required in respect of identified weaknesses in the firm's mitigating controls

Specific risks applicable to the Firm come under the headings of business, operational, credit and market risks

Business risk

The Firm's revenue is reliant on the performance of the existing funds under management and its ability to launch new funds/obtain new mandates As such, the risk posed to the firm relates to underperformance resulting in a decline in revenue and adverse market conditions hindering the launch of new funds and ultimately the risk of redemptions from the funds managed by the firm This risk is mitigated by the significant levels of capital held by the firm which will continue to cover all the expenses of the business

Operational risk

The Firm places strong reliance on the operational procedures and controls that it has in place in order to mitigate risk and seeks to ensure that all personnel are aware of their responsibilities in this respect

The Firm has identified a number of key operational risks to manage These relate to systems failure, failure of a third party service provider, potential for serious regulatory breaches, and market abuse Appropriate polices are in place to mitigate against these risks, which includes taking out adequate professional indemnity insurance, compliance training for employees and business continuity planning

Credit risk

The Firm is exposed to credit risk in respect of its debtors, investment management and performance fees billed and cash held on deposit

Management fees are drawn monthly from the funds managed and performance fees are drawn monthly or quarterly where applicable The Firm considers that there is little risk of default by its clients All bank accounts are held with large international credit institutions

Given the nature of the Firm's exposures, no specific policy for hedging and mitigating credit risk is in place The Firm uses the simplified standardised approach detailed in BIPRU 3 5 5 of the FSA Handbook when calculating risk weighted exposures of 1 6% (Cash in Bank) and 8% in respect of its other assets

Market risk

The Firm takes no market risk other than foreign exchange risk in respect of its accounts receivable and cash balances held in currencies other than GBP

Since the Firm takes no trading book positions, the primary market risk relates to fluctuations in the value of its revenues due to movements in currency rates The Firm maintains multi-currency bank accounts and uses currency contracts to hedge this risk

The Firm calculates its foreign exchange risk by reference to the rules in BIPRU 7 5 1 of the FSA Handbook and applies an 8% risk factor to its foreign exchange exposure

Liquidity risk

The Firm is required to maintain sufficient liquidity to ensure that there is no significant risk that its liabilities cannot be met as they fall due or to ensure that it can secure additional financial resources in the event of a stress scenario

The Firm retains an amount it considers suitable for providing sufficient liquidity to meet the working capital requirements under normal business conditions The firm has always had sufficient liquidity within the business to meet its obligations and there are no perceived threats to this given the cash deposits it holds Additionally, it has historically been the case that all management fee debtors are settled promptly, thus ensuring further liquid resources are available to the firm on a timely basis The cash position of the firm is monitored by the Senior Management on a monthly basis

The Firm maintains a liquidity risk policy which formalises this approach

Regulatory capital

The Firm is a Limited Liability Partnership and its capital arrangements are established in its Partnership deed Its capital is summarised as follows

The main features of the Firm's capital resources for regulatory purposes are as follows

	31/03/12 **£000**
Tier 1 capital*	718
Tier 2 capital	
Tier 3 capital**	
Deductions from Tiers 1 and 2	
Total capital resources	**718**
*No hybrid tier one capital is held **Note Tier 3 capital is to be removed under the CRD IV	

Our Firm is small with a simple operational infrastructure Its market risk is limited to foreign exchange risk on its accounts receivable in foreign currency, and credit risk from management and performance fees receivable from the funds under its management The Firm follows the standardised approach to market risk and the simplified standard approach to credit risk

Limited License - The Firm is subject to the Fixed Overhead Requirement ("FOR") and is not required to calculate an operational risk capital charge though it considers this as part of its process to identify the level of risk based capital required

As discussed above the firm is a limited licence firm and as such its Pillar 1 capital requirement is the higher of

- €50,000
- The sum of the market & credit risk requirements
- Its FOR

The FOR is the higher measure and is calculated, in accordance with FSA rules, based on the firm's previous year's audited expenditure The firm is not subject to an operational risk requirement

The firm's Pillar 2 Internal Capital Adequacy Assessment Process indicates that no capital in addition to the Pillar 1 level is required.

Remuneration Code Disclosure

Fundsmith LLP ("the Firm") is authorised and regulated by the Financial Services Authority as a Limited Licence Firm and so it is subject to FSA Rules on remuneration These are contained in the FSA's Remuneration Code located in the SYSC Sourcebook of the FSA's Handbook The Remuneration Code ("the RemCode") covers an individual's total remuneration, fixed and variable The Firm incentivises staff through a combination of the two

The Firm's business is to provide investment management services to a number of funds managed by the Firm (the "Funds")

Our policy is designed to ensure that we comply with the RemCode and our compensation arrangements

1 are consistent with and promotes sound and effective risk management,
2 do not encourage excessive risk taking,
3 include measures to avoid conflicts of interest, and
4 are in line with the Firm's business strategy, objectives, values and long-term interests

Proportionality

Enshrined in the European remuneration provisions is the principle of proportionality The FSA have sought to apply proportionality in the first instance by categorising firms into 4 tiers The Firm falls within the FSA's fourth proportionality tier and as such this disclosure is made in line with the requirements for a Tier 4 Firm

Application of the requirements

We are required to disclose certain information on at least an annual basis regarding our remuneration policy and practices for those staff whose professional activities have a material impact on the risk profile of the firm Our disclosure is made in accordance with our size, internal organisation and the nature, scope and complexity of our activities

1 Summary of information on the decision-making process used for determining the firm's remuneration policy including use of external benchmarking consultants where relevant

- The Firm's policy has been agreed by the Senior Management in line with the RemCode principles laid down by the FSA
- Due to the size, nature and complexity of the firm, we are not required to appoint an independent remuneration committee
- The Firm's policy will be reviewed as part of annual process and procedures, or following a significant change to the business requiring an update to its internal capital adequacy assessment
- The Firm's ability to pay bonus is based on the performance of firm overall and derived after the fund's managed returns have been calculated by client appointed third party administrators
- There is limited involvement of the Firm in deriving asset prices

2 Summary of how the firm links between pay and performance

- Individuals are rewarded based on their contribution to the overall strategy of the business concerning
  - a Investment Generation
  - b Investment Trading

c Sales & Marketing
d Operations

- Other factors such as performance, reliability, effectiveness of controls, business development and contribution to the business are taken into account when assessing the performance of the senior staff responsible for the infrastructure of the firm

3 In accordance with CRD III and CEBS guidance the Firm takes a proportionate approach to its Remuneration Code disclosures in line with the nature, scale and complexity of the Firm and as such has chosen not to disclose exact remuneration figures in regards to the remuneration of the three Code Staff identified by the Firm's Policy Furthermore, all discretionary remuneration is directly related to the performance of our managed entities and as such staff interests are intrinsically aligned with the interest of the Firm and its Clients vis-a-vis remuneration and performance

4 Partnership profits allocated to members of the LLP are disclosed in aggregate in the report and accounts of the Firm

We may omit required disclosures where we believe that the information could be regarded as prejudicial to the UK or other national transposition of Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data

We have made no omissions on the grounds of data protection