LLP Number OC354233

Fundsmith LLP

Report and Financial Statements

Year Ended

31 March 2017

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Partnership Information

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

Registered Office
33 Cavendish Square
London
W1G 0PW

LLP Number
OC354233

Bankers
National Westminster Bank
1 Princes Street
London
EC2R 8BP

Auditors
BDO LLP
55 Baker Street
London
W1U 7EU

The Members present their annual report and consolidated financial statements of Fundsmith LLP (the 'Partnership') for the year to 31 March 2017. 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 (together, the 'Group'). 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, USA.

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 (the 'US Fund'), a fund structured as a Delaware based limited partnership, the Fundsmith Equity Fund Feeder(the 'Feeder Fund'), a Luxembourg based SICAV which is a feeder fund into the UK Fund, Fundsmith Emerging Equities Trust plc ('FEET'), a listed investment trust, and four segregated accounts. The Partnership is regulated by the Financial Conduct Authority.

Results and distributions

The results for the year are shown in the Consolidated Statement of Comprehensive Income on page 8. The profit for the year was £14,158,194 (2016: was £2,809,759). The Group's balance sheet as detailed on page 9 shows Members' total interests amount to £12,079,236 (2016: £3,709,424).

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, as amended on 20 September 2013 and 19 November 2013.

Members

The Members of the Partnership during the year and up to the date of this report were as follows:

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

Going concern

The Group and Partnership have sufficient liquid capital and ongoing arrangements for the provision of investment management services. The Members are of the opinion that the Group and Partnership have adequate resources to continue operational activities and to meet their liabilities as they fall due for the foreseeable future. Therefore, the going concern basis is adopted in the preparation of the financial statements.

Pillar 3

Unaudited Pillar 3 disclosure of the Partnership's risk management objectives and policies, capital resources and requirements and on remuneration, in accordance with the rules of the Financial Conduct Authority, is attached to this document as an appendix.

Statement as to disclosure of information to auditors

So far as the Members are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) 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.

Auditors

The auditors, BDO LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be put to the Members.

By order of the Members

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Simon Godwin
Designated Member
17 July 2017

Statement of Members' Responsibilities

The members are responsible for preparing the Members' report and the financial statements in accordance with applicable law and regulation.

The Limited Liability Partnerships *(Accounts and Audit) (Application of the Companies Act 2006) Regulations 2008* require the members to prepare financial statements for each financial year. Under these regulations the members have elected to prepare the group and Limited Liability Partnership financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under these regulations the Members must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and Limited Liability Partnership and of the profit or loss of the group for that period.

In preparing these financial statements, the Members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Limited Liability Partnership will continue in business.

The Members are responsible for keeping adequate accounting records that are sufficient to show and explain the Limited Liability Partnership's transactions, disclose with reasonable accuracy at any time the financial position of the Limited Liability Partnership, and enable them to ensure that the financial statements comply with the Limited Liability Partnerships *(Accounts and Audit) (Application of the Companies Act 2006) Regulations 2008*. They are also responsible for safeguarding the assets of the Limited Liability Partnership and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report

We have audited the financial statements of Fundsmith LLP for the year ended 31 March 2017 which comprise the Consolidated Statement of Comprehensive income, the Consolidated and LLP Balance Sheet, the Consolidated Cash flow Statement, the Statement of Members' Interest 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 limited liability partnership's members, as a body, in accordance with the Limited Liability Partnerships (Accounts and Audit) (Application of the Companies Act 2006) Regulations 2008. Our audit work has been undertaken so that we might state to the limited liability 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 limited liability partnership and the limited liability 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, the members are responsible for the preparation of the 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 Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the limited liability partnership's affairs as at 31 March 2017 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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 the 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 as applied to limited liability partnerships requires us to report to you if, in our opinion:

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

BDO LLP

Neil Griggs (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
17th July 2017

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Statement of Comprehensive Income for the year ended 31 March 2017

	Notes	Continuing operations 2017 £	Continuing operations 2016 £
Turnover	2	81,695,654	41,623,383
Administrative expenses	3	(67,497,131)	(38,754,165)
Group operating profit	4	**14,198,523**	**2,869,218**
Interest receivable and similar income		-	351
Other income		3,534	4,115
Profit on ordinary activities before taxation		14,202,057	**2,873,684**
Taxation on profit on ordinary activities	8	(43,863)	(63,925)
Profit for the financial year available for discretionary division among members		**14,158,194**	**2,809,759**

There is no other comprehensive income in the prior or current year.

The notes on pages 13 to 21 form part of these financial statements.

Consolidated Balance Sheet at 31 March 2017

	Notes	2017 £	2016 £
Fixed assets			
Investments	7	613	613
Tangible assets	9	8,783	20,158
		9,396	20,771
Current assets			
Debtors	10	75,269,688	82,568,441
Cash at bank and in hand		21,311,153	8,324,048
		96,580,841	90,892,489
Creditors: Amounts falling due within one year	11	(78,608,441)	(84,295,028)
Net current assets		17,972,400	6,597,461
Total assets less current liabilities		17,981,796	6,618,232
Net assets attributable to Members		17,981,796	6,618,232
Represented by			
Members other interest			
Members' capital classified as equity		3,617,750	3,617,750
Members 'other interests – other reserves classified as equity		14,364,046	3,000,482
		17,981,796	6,618,232
Total Members' interest			
Amounts due from Members		(5,902,560)	(2,908,808)
Members' other interests		17,981,796	6,618,232
		12,079,236	3,709,424

The financial statements were approved by the members and authorised for issue:

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Simon Godwin
Designated Member
Date 17 July 2017

The notes on pages 13 to 21 form part of these financial statements.

Consolidated Statement of Cash Flows for the year ended 31 March 2017

	Notes	2017 £	2016 £
Cash flows from operating activities			
Profit for the financial year before Members' remuneration and profit shares		14,158,194	2,809,759
Adjustments for:			
Depreciation, impairment and amortisation of fixed assets	9	19,372	20,451
Net interest payable/(receivable)			
Decrease/(increase) in trade and other debtors		10,319,432	(40,377,372)
Increase/(decrease) in trade and other creditors		(5,686,587)	40,612,203
Taxation paid		43,863	63,925
Interest received		-	(351)
Cash from operations		18,854,274	3,128,615
Tax paid		(43,863)	(63,925)
Members' drawings in relation to remuneration		(5,815,308)	(2,210,388)
Net Cash generated from operating activities		12,995,103	854,302
Cash flows from investing activities			
Purchase of tangible fixed assets		(7,998)	(2,664)
Interest received		-	351
		(7,998)	(2,313)
Net increase in cash and cash equivalents		12,987,105	851,989
Cash and cash equivalents at beginning of year		8,324,048	7,472,059
Cash and cash equivalents at end of year		21,311,153	8,324,048
Cash and cash equivalents comprise:		21,311,153	8,324,048
Cash at bank and in hand		21,311,153	8,324,048

The notes on page 13 to 21 form part of these financial statements.

LLP Balance Sheet at 31 March 2017

	Notes	2017 £	2016 £
Fixed assets			
Investments	7	614	614
Tangible assets	9	7,316	20,158
		7,930	20,772
Current assets			
Debtors	10	75,116,847	82,565,658
Cash at bank and in hand		21,263,919	8,311,957
		96,380,766	90,877,615
Creditors: Amounts falling due within one year	11	(78,767,896)	(84,459,081)
Net current assets		17,612,870	6,418,534
Total assets less current liabilities		17,620,800	6,439,306
Net assets attributable to Members		17,620,800	6,439,306
Represented by:			
Members' other interests			
Members' capital classified as equity		3,617,750	3,617,750
Members' other interests – other reserves classified as equity		14,003,050	2,821,556
		17,620,800	6,439,306
Total members' interests			
Amounts due from Members		(5,902,560)	(2,908,808)
Members' other interests		17,620,800	6,439,306
		11,718,240	3,530,498

The financial statements were approved by the Members and authorised for issue:

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Simon Godwin

Designated Member

Date 17 July 2017

Statement of Members' Interest for the year ended 31 March 2017

Group:

	Members' capital classified as equity £	Other reserves £	Total Members' other interests £	Loans and other debts due to/(from) Members £	Total Members' interests £	2016 £
Balance at 31 March 2016	3,617,750	3,027,408*	6,645,158	(2,908,808)	3,736,350	3,110,053
Profit for the financial year available for discretionary division among Members	-	14,158,194	14,158,194	-	14,158,194	2,809,759
Members' interests after profit for the year	3,617,750	17,185,602	20,803,352	(2,908,808)	17,894,544	5,919,812
Allocation of profits to Members	-	(2,821,556)	(2,821,556)	2,821,556	-	-
Drawings	-	-	-	(5,815,308)	(5,815,308)	(2,210,388)
Amounts due to Members				-		
Amounts due from Members				(5,902,560)		
Balance at 31 March 2017	3,617,750	14,364,046	17,981,796	(5,902,560)	12,079,236	3,709,424

*includes foreign exchange gain of £26,926 on brought forward profits of Fundsmith Partners (US) LLC

Partnership:

	Members' capital classified as equity £	Other reserves £	Total Members' other interests £	Loans and other debts due to/(from) Members £	Total Members' interests £	2016 £
Balance at 31 March 2016	3,617,750	2,821,556	6,439,306	(2,908,808)	3,530,498	2,919,330
Profit for the financial year available for discretionary division among Members	-	14,003,050	14,003,050	-	14,003,050	2,821,556
Members' interests after profit for the year	3,617,750	16,824,606	20,442,356	(2,908,808)	17,533,548	5,740,886
Allocation of profits to Members	-	(2,821,556)	(2,821,556)	2,821,556	-	-
Drawings	-	-	-	(5,815,308)	(5,815,308)	(2,210,388)
Amounts due to Members				-		
Amounts due from Members				(5,902,560)		
Balance at 31 March 2017	3,617,750	14,003,050	17,620,800	(5,902,560)	11,718,240	3,530,498

1. Accounting Policies

Fundsmith LLP is a Limited Liability Partnership ('LLP') incorporated in England & Wales under the Companies Act. The address of the registered office is given on the contents page and the nature of the group's operations and its principal activities are set out in the strategic report. The financial statements have been prepared in accordance with FRS 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland, including the Statement of Recommended Practice (2017), 'Accounting by Limited Liability Partnerships'.

Parent LLP disclosure exemptions

In preparing the separate financial statements of the parent LLP, advantage has been taken of the following disclosure exemptions available in FRS 102:

- No cash flow statement has been presented for the parent LLP;
- No disclosure has been given for the aggregate remuneration of the key management personnel of the parent LLP as their remuneration is included in the totals for the group as a whole.

The following principal accounting policies have been applied:

Basis of consolidation

The consolidated financial statements present the results of Fundsmith LLP and its subsidiaries ("the Group") as if they formed a single entity. Intergroup transactions and balances between group companies are therefore eliminated in full.

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 profit for the year was £14,003,050 (2016: £2,821,555).

Depreciation

Tangible fixed assets are recorded at cost and depreciated, Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives range as follows:

Leasehold land and buildings	-	The term of the lease
Fixtures, fittings, tools and equipment	-	3 years
Computers	-	3 years

Website development costs

Expenditure incurred on maintaining websites and expenditure incurred on developing websites are written off as incurred.

Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

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.

Profit allocations

Profit allocations are recognised in the year in which they are declared and become a present obligation of the LLP. Unallocated profits are recognised in equity ('other reserves').

Drawings

Drawings represent payments on account of profits which may be allocated to Members. The amount of such drawings is set at the beginning of each financial year, taking into account the anticipated cash needs of the LLP and may be reclaimed from Members until profits have been allocated to them. Unallocated profits are included within Members' other interests, classified as equity, advanced drawings in excess of allocated profits are included within 'Amounts due from Members' in debtors, and allocated profits in excess of drawings are included within 'Amounts due to Members' as a liability.

Members' capital

Initial capital contributions ('principal capital') of each of the Members are amounts as set out in the LLP agreement. Further members shall contribute upon admission to the LLP such capital as determined by the Members.

No Member can withdraw or receive back any part of their principal capital contribution account except for in specific circumstances as detailed in the LLP deed and approved by the Members. Members' principal capital is therefore classified as equity.

Subsequent capital is repaid to members shortly after ceasing to be a Member of the LLP, or at such other time as is determined by the Members. Members' subsequent capital is therefore classified as a liability due within one year. There is no opportunity for the appreciation of capital subscribed.

Taxation

Taxation on a members' share of the LLP's profits is solely the personal liability of the individual Members and consequently is not dealt with in these financial statements. The tax within these consolidated financial statements relate to the corporate subsidiaries of the group.

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 Conduct Authority.

2. Analysis of Turnover

	2017 £	2016 £
Turnover	81,695,654	41,623,383

Turnover is attributable to one continuing activity, the provision of regulated investment management services in the United Kingdom, United States, and Luxembourg to funds domiciled in those locations. Turnover is recorded on an accrual basis.

3. Administrative expenses

Administrative expenses include services fees (see note 15) and professional fees. Expenses incurred have been accounted for on the accrual basis.

4. Operating profit

	2017 £	2016 £
This is arrived at after charging/(crediting):		
Depreciation of tangible assets	19,372	20,451
Operating lease rentals	210,417	189,333
Fees payable to the LLP's auditor and its associates for the audit of the LLP's annual accounts	18,000	18,000
Fees payable to the LLP's auditor and its associates for other services to the group	-	9,000
Exchange differences	29,212	9,021

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

	2017 £	2016 £
Sale of units	4,573,739,902	2,195,070,660
Repurchase of units	(1,888,317,756)	(859,242,323)
Creation of units	(3,182,626,209)	(1,673,652,915)
Liquidation of units	497,255,465	337,839,681
Bank interest on the box	2,339	2,753
Bank charges on the box	(58,049)	(22,742)
	(4,308)	(4,886)

5. Employees

	2017 £	2016 £
Staff costs consist of:		
Wages and salaries	4,894,547	3,012,646
Social security costs	663,955	365,153
	5,558,502	**3,377,799**

The average number of employees during the year was as follows:

	2017 Number	2016 Number
Administration	15	13

6. Members' remuneration

Profits are shared among the members in accordance with agreed profit sharing arrangements. Members are required to make their own provision for pensions from their profit shares.

	2017 Number	2016 Number
Average number of members during the year	5	5
	£	£
Profit attributable to the member with the largest entitlement	8,079,760	1,628,038

7. Investments

Investments

	Group £	Partnership £
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 2017 and 31 March 2016	613	614

The Group has a £613 investment in Fundsmith Equity Fund, LP, (the 'US Fund'), a company incorporated in Delaware, USA.

The Partnership 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 services to the Group in respect of its US fund and support for its US operations.

The Partnership 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 to the Fundsmith Equity Fund, LP, the US fund.

8. Taxation on profit on ordinary activities

The profits of the partnership is not subject to UK corporation tax. The £43,863 in the consolidated profit and loss account is the amount of tax paid by the US subsidiary during the financial year.

9. Tangible fixed assets

Group	Leasehold improvements	Furniture & fixtures	Computer Equipment	Total
	£	£	£	£
Cost or valuation				
At 1 April 2016	86,209	7,710	46,279	140,198
Additions	-	-	7,998	7,998
At 31 March 2017	**86,209**	**7,710**	**54,277**	**148,196**
Depreciation				
At 1 April 2016	77,155	6,851	36,035	120,041
Depreciation in year	9,054	638	9,680	19,372
Depreciation at 31 March 2017	**86,209**	**7,489**	**45,715**	**139,413**
Net book value				
At 31 March 2017	-	221	8,562	8,783
At 31 March 2016	9,054	859	10,245	20,158

LLP	Leasehold improvements	Furniture & fixtures	Computer Equipment	Total
	£	£	£	£
Cost or valuation				
At 1 April 2016	86,209	7,710	41,017	134,936
Additions	-	-	5,912	5,912
At 31 March 2017	**86,209**	**7,710**	**46,929**	**140,848**
Depreciation				
At 1 April 2016	77,155	6,851	30,772	114,778
Depreciation in year	9,054	638	9,062	18,754
Depreciation at 31 March 2017	**86,209**	**7,489**	**39,834**	**133,532**
Net book value				
At 31 March 2017	-	221	7,095	7,316
At 31 March 2016	9,054	859	10,245	20,158

10. Debtors

	Group 2017 £	Group 2016 £	LLP 2017 £	LLP 2016 £
Amounts due from Members	5,902,560	2,908,808	5,902,560	2,908,808
Trade debtors	68,848,777	79,336,286	68,848,777	79,336,286
Other Debtors	22,000	42,819	22,000	42,819
Rent Deposit	125,562	125,143	122,360	122,360
Prepayments and accrued income	370,789	155,385	221,150	155,385
	75,269,688	**82,568,441**	**75,116,847**	**82,565,658**

11. Creditors: amounts falling due within one year

	Group 2017 £	Group 2016 £	LLP 2017 £	LLP 2016 £
Trade creditors	55,863,467	69,625,248	55,863,467	69,625,248
Other creditors	168,184	2,536,109	168,184	2,536,109
Accruals and deferred income	4,361,363	2,553,894	4,361,363	2,553,893
Amounts due to associate companies	18,215,427	9,579,777	18,215,427	9,579,777
Amounts due to subsidiary	-	-	159,455	164,054
	78,608,441	84,295,028	78,767,896	84,459,081

During the course of 2017, management reassessed their approach to accruing for unclaimed commissions. As a result, management have revised their estimate of the amount payable resulting in a release of £1.3 million from other creditors to the income statement.

12. Financial Instruments

Financial instruments may be analysed as follow:

Financial assets

		Group 2017 £	Group 2016 £	LLP 2017 £	LLP 2016 £
Financial assets that are debt instruments measured at amortised cost	10	75,269,688	82,568,441	75,116,847	82,565,658

Financial liabilities

		Group 2017 £	Group 2016 £	LLP 2017 £	LLP 2016 £
Financial liabilities measured at amortised cost	11	78,608,441	84,295,028	78,767,896	84,459,081

13. 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.

14. Other financial commitments and contingencies

At 31 March 2017, the Partnership had commitments under non-cancellable operating leases as set out below

	2017	2016
Operating lease which expires	£	£
Within two to five years	-	-
Over five years	1,528,615	1,812,846

15. Related party transactions

The Partnership has taken advantage of the exemption in FRS102, 33.1A 'Related Party Disclosures' relating to transactions between 100% controlled subsidiaries, by not disclosing information on related party transactions within entities that are part of the Group.

The LLP is related to Fundsmith Investment Services Limited (FISL) due to common control. During the year, the LLP was charged £57,120,650 (2016: £29,446,038) by FISL.

At the year-end £18,215,427 (2016: £9,579,777) remained payable.

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

PILLAR 3, STEWARDSHIP CODE AND REMUNERATION DISCLOSURE
31 March 2017

The Capital Requirements Directive ('CRD') and Alternative Investment Fund Management Directive ('AIFMD') of the European Union establish a revised regulatory capital framework across Europe, governing the amount and nature of capital that credit institutions and investment firms must maintain.

In the United Kingdom, the CRD and AIFMD have been implemented by the Financial Conduct Authority ('FCA') in its regulations through the General Prudential Sourcebook ('GENPRU'), the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU') and the Interim Prudential Sourcebook for Investment Business ("IPRU (INV)").

The CRD 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, to determine whether it should apply additional capital , processes, strategies or systems to cover any other risks that it may be exposed to; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position to encourage market discipline.

The AIFMD adds further capital requirements based on Alternative Investment Fund ('AIF') assets under management and professional liability risks pertaining to the Firm's management of AIFs.

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 LLP ('the Firm') in accordance with the requirements of BIPRU 11, and is verified by the Firm's Partners. Unless otherwise stated, all figures are as at 31 March 2017, the Firm's financial year-end.

Pillar 3 disclosures will be issued on an annual basis after the year end, and are 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.

Scope and application of the requirements

The Firm is authorised and regulated by the FCA and, as such, is subject to minimum regulatory capital requirements. The Firm is categorised by the FCA as a Collective Portfolio Management Investment Firm ('CPMI') BIPRU Firm for capital purposes.

The Firm is not a member of a group and so is not required to prepare consolidated reporting for prudential purposes.

Governance arrangements, the management body and competence

The Firm's Partners meet on a monthly basis, whilst its risk committee meets quarterly. Such meetings have a formal agenda which countenances enterprise wide issues and the risk appetite of the business. The meetings demonstrate how the Partners oversee, and are accountable for, implementation of necessary governance arrangements. Through such oversight and engagement, the Partners ensure the effective and prudent management of the Firm, with due consideration to the appropriate and proportionate segregation of duties, and the avoidance of conflicts of interest.

The Firm considers that appropriate policies are in place to ensure the fitness and properness of all staff, including the members of the senior management body (i.e. the Partners). All senior personnel are experienced industry professionals, and any senior appointments are subject to the Partners' approval, with due consideration to the reputation, fitness and experience of the candidate as well as the long term strategic goals targets of the business.

All members of the Senior Management Team are full time, and have disclosed any outside business interests.

Initial and ongoing assessments of the competence of staff are conducted, and all members of the senior management team and other FCA approved persons are required to attest to their ongoing compliance with the fitness and properness obligations of the FCA approved persons' process.

On an ongoing basis, all staff, including the Partners, undergo training on a variety of regulatory topics on an annual basis.

Risk management

The Firm has established a risk management policy and procedures to ensure that it has effective systems and controls in place to identify, monitor and manage risks arising in the business. The risk management policy is overseen by the Firm's Chief Financial Officer/Compliance Officer/Chief Risk Officer, with the Partners taking overall responsibility for this process and for the fundamental risk appetite of the firm. The Compliance Officer, Chief Operating Officer, Compliance Manager and Head of Product Control have responsibility for the implementation and enforcement of the Firm's risk principles.

The Firm's Partners meet on a monthly basis and discuss current projections for profitability, cash flow, regulatory capital management, planning, and risk management. The Partners engage with the Firm's risk management process though a framework of policy and procedures, having regard to the relevant laws, standards, principles and rules (including FCA principles and rules), with the aim of maintaining a defined and transparent risk management framework. These policies and procedures are updated as required.

The Firm reviews its risk management policy, procedures and controls on an annual basis to ensure continued effectiveness.

A formal update on risk matters is given to the Partners on a quarterly basis, following the quarterly risk committee meeting. Monthly management accounts, as reviewed by the Partners, demonstrate continued adequacy of the firm's financial resources, whilst the Firm's regulatory capital is reviewed against its regulatory requirement 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.

Business risk

The Firm's revenue is reliant on the performance of the existing funds under management. As such, the risk posed to the firm relates to underperformance and/or adverse market conditions, resulting in a decline in revenue. The Firm also faces a key man risk, namely the loss of its Chief Investment Officer and Founder, Terry Smith. Business risk is mitigated by various factors. For example, the Firm's investment philosophy could be described as "defensive" and our hope is that portfolios under management should perform comparatively well in a downturn. This could result in attractive performance in comparison to its peers, even during times of market turbulence. Key man risk is mitigated by succession planning. The Firm currently has a surplus over its regulatory capital requirement.

Operational risk

The Firm's main operational risks relate to the outsourcing of key functions i.e. transfer agency, and our ability to maintain adequate oversight of outsourcers. The main operational process retained in-house is portfolio dealing and hence an operational risk exists in respect of our ability to maintain effective processes in this regard. Risks associated with outsourcing are mitigated through continual oversight. Internal operational risks are mitigated through rigorous internal processes and monitoring. As a CPMI BIPRU Firm, Fundsmith meets is professional liability risk through the professional negligence capital requirement.

Credit risk

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

Management fees are drawn from the portfolios under management. Given the source of income, the Firm considers there to be little risk of default by its clients.

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 FCA Handbook when calculating risk weighted exposures of 1.6% (Cash in Bank) and 8% in respect of its other assets.

Credit Risk summary

Credit risk exposure	Risk weighting	Risk weighted exposure
Cash in the bank	1.6% or 8% subject to institution and FCA rules	£340,223
Fixed Assets	8%	£752
Current Assets	8%	£94,884
TOTAL CREDIT EXPOSURE	**8%**	**£435,859**

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 on its balance sheet, the primary market risk relates to the effect on its non GBP-denominated revenue of currency movements. The Firm does not consider this risk to be significant as it relates to only a small portion of its revenue, and the Firm does not hedge currency risk.

The Firm calculates its foreign exchange risk by reference to the rules in BIPRU 7.5.1 of the FCA Handbook and applies an 8% risk factor to its foreign exchange exposure.

Professional liability risk

In respect of its AIF business, the Firm has a legal responsibility for risks in relation to investors, products and business practices including, but not limited to; misrepresentations and misleading statements made to the AIF or its investors; acts, errors or omissions; failure by the senior management to establish, implement and maintain appropriate procedures to prevent dishonest, fraudulent or malicious acts; improper valuation of assets and calculation of unit/share prices; and risks in relation to business disruption, system failures, process management. The Firm is aware of, and monitors, a wide range of risks within its business operations and towards its investors. The Firm has in place appropriate internal operational risk policies and procedures to monitor and detect these risks. These procedures and risks are documented, demonstrating how the Firm aims to mitigate these risks. This is reviewed annually.

The Firm meets its professional negligence capital requirement under AIFMD by way of additional own funds of £36,292.89 equating to 0.01% of the total AIF assets under management.

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, and 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 its holds. Additionally, it has historically been the case that all management fee debtors are settled promptly, thus ensuring further liquidity resources are available to the firm on a timely basis. The cash position of the firm is monitored by the Partners on a monthly basis, through a review of the accounts by the Partners.

The Firm maintains a Liquidity Risk Policy, within the wider risk policy, which formalises its approach.

Regulatory capital

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

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

	31/03/2017 **£000**
Tier 1 capital*	£3,618
Tier 2 capital	
Tier 3 capital**	
Deductions from Tiers 1 and 2	
Total capital resources	**£3,618**

The Firm is relatively small with a simple operational infrastructure. Its market risk is limited to foreign exchange risk on accounts receivable in foreign currency, and credit risk in respect of its fee income.

The Firm follows the standardised approach to market risk and the simplified standard approach to credit risk.

As discussed above the firm is a CPMI BIPRU Firm and, as such, its capital requirements are the higher of:

- €125,000 + 0.02% of AIF assets under management over €250m; plus the sum of the market & credit risk requirements; *or*
- The fixed overheads requirement ('FOR') which is essentially 25% of the firm's operating expenses less certain variable costs.

0.02% is taken on the absolute value of all assets of all funds managed by the firm (for which it is the appointed AIFM and / or UCITS operator) in excess of €250m. The FOR is calculated, in accordance with FCA rules, based on the firm's previous years audited expenditure. The firm has adopted the simplified standardised approach to credit and market risk and the above figures have been produced on that basis. The firm is not subject to an operational risk requirement.

Capital requirement

The Firm's Pillar 1 capital requirement has been determined by reference to the Firm's Fixed Overheads Requirement ('FOR') and calculated in accordance with Article 95 and the EBA regulatory technical standards as referenced in IPRU(INV) 11.3.3A. The requirement is based on the FOR since this measure exceeds the total of €125,000 + 0.02% of assets under management over €250m and the sum of the market & credit risk requirements.

UK Financial Reporting Council's Stewardship Code

FCA COBS Rule 2.2.3R requires FCA authorised firms to disclose whether they conform to the requirements of the UK Financial Reporting Council's Stewardship Code (the 'Code'). Whilst adherence to the Code is voluntary, the Firm adheres to the principles of the Stewardship Code and maintains a policy outlining its approach for adhering to the applicable principles.

Remuneration disclosure

The Firm is authorised and regulated by the Financial Conduct Authority as a CPMI BIPRU Firm and is subject to FCA Rules on remuneration. These are contained in the FCA's Remuneration Code located in the Chapter 19B of SYSC Sourcebook in the FCA's Handbook.

The Remuneration Code covers individuals' total remuneration, comprised of both fixed and variable elements. The Firm incentivises employees through a combination of the two. The Firm's Partners (i.e. Code Staff) receive a fixed proportion of the Firm's net profits. They are not paid a bonus.

The Firm is a UCITS Management Firm, an AIFM, and provides additional designated investment services.

The Firm's Remuneration Policy is designed to ensure that it complies with applicable Remuneration Code, and its compensation arrangements:

1. are consistent with and promotes sound and effective risk management;
2. do not encourage excessive risk taking, or risk-taking which is inconsistent with the risk profiles or instruments of incorporation of the AIFs they manage;
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 FCA has sought to apply proportionality in the first instance by instituting two tests. Firstly, a firm that is significant in terms of its size must disclose quantitative information referred to in BIPRU 11.5.18R at the level of senior personnel. Secondly, that a firm must make disclosure that is appropriate to the size, internal organisation and the nature, scope and complexity of their activities.

The firm is not 'significant' that is to say has relevant total assets <£50bn* and so makes this disclosure in accordance with the second test (BIPRU 11.5.20R(2)).

* average total assets on the last three accounting dates.

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.

As the AIFM to an UK AIF which is managed and marketed in the UK (Fundsmith Emerging Equities Trust Plc), a statement on our Remuneration Policy is made by way of the annual report for that AIF. A full copy of the Remuneration Policy may be made available at the request of investors.

1. Summary of information on the decision-making process used for determining the firm's remuneration policy:

   - The Firm's policy has been agreed by the Partners in line with the Remuneration principles laid down by the FCA which, in turn, is derived from UCITS and AIFMD.
   - 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.

2. Summary of how the firm links between pay and performance:

- Employees are rewarded, based on their contribution to the overall strategy and success of the business, whether in terms of.

    a. Investment Generation

    b. Investment Trading

    c. Sales & Marketing

    d. Operations and Compliance

- 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.

The Partners of the Firm are not paid any variable, performance related pay. In other words, the Partners do not receive any bonus payment. The Partners are simply paid a fixed, pre-determined proportion of the Firm's net profits, as it written into the Firm's constitutional document.

3. In accordance with CRD III and CEBS guidance the Firm takes a proportionate approach to its Remuneration Code disclosures in lines 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 four 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 via-a-vis remuneration and performance.

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

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.