

LLP Number OC354233

## Fundsmith LLP

Report and Financial Statements

Year Ended

31 March 2021



## **Report and Financial Statements for the year ended 31 March 2021**

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## **Partnership Information**

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### **Members**

Terry Smith - (Designated Member)  
Mark Laurence - (Designated Member)  
Simon Godwin - (Designated Member)  
International Value Investments Limited  
NoLeLu II, LLC  
Greville Ward – (Executive Member)  
Conrad Rey – (Executive Member)  
Daniel Washburn – (Capital Member)  
Tom Armstrong – (Executive Member)

### **Registered Office**

33 Cavendish Square  
London  
W1G 0PW

### **LLP Number**

OC354233

### **Bankers**

National Westminster Bank  
1 Princes Street  
London  
EC2R 8BP

### **Royal Bank of Scotland International**

1 Princes Street  
London  
EC2R 8BP

### **Auditors**

Deloitte  
1 New Street Square  
London  
EC4A 3HQ

## **Members' Report for the year ended 31 March 2021**

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The Members present their annual report and consolidated financial statements of Fundsmith LLP (the 'Partnership') for the year to 31 March 2021. 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 a number of funds. These include two UK OEIC funds, the Fundsmith Equity Fund and the Fundsmith Sustainable Equity Fund, a Luxembourg-based SICAV, the Fundsmith SICAV, three Delaware based limited partnerships, the Fundsmith Equity Fund, LP, the Fundsmith Sustainable Equity Fund, LP and Smithson, LP, two investment Trusts, the Fundsmith Emerging Equities Trust plc and Smithson Investment Trust plc, 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 9. The profit for the year was £57,723,231 (2020: £48,483,057). The Group's balance sheet as detailed on page 10 shows Members' total interests amount to £29,308,839 (2020: £21,010,314).

### **Political donations**

During the current year and prior year there have been no political donations made by the Partnership.

### **Members' profit allocation**

Any profits are shared among the Members as decided by the Members Meeting and governed by the Partnership Agreement dated 20<sup>th</sup> November 2019.

### **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  
Greville Ward - (Executive Member)  
Conrad Rey - (Executive Member)  
Daniel Washburn - (Capital Member)  
Tom Armstrong - (Executive Member) Appointed 1<sup>st</sup> April 2020

### **Going concern**

The Group and the 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 the Partnership have adequate resources to continue operational activities and to meet their liabilities as they fall due for a period of at least twelve months from the date of the approval of the financial statements. Therefore, the going concern basis is adopted in the preparation of the financial statements.

## Members' Report for the year ended 31 March 2021

### Energy and carbon report

We have reported on all sources of GHG emissions and energy usage as required under the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 as amended.

#### GHG emissions and energy usage

GHG emissions and energy usage data for period 1 April 2020 to 31 March 2021 (UK and offshore)	
Emissions from electricity purchased for own use, including for the purposes of transport	12,736
<b>Total gross CO<sub>2</sub>e based on above</b>	<b>12,736</b>
Energy consumption used to calculate emissions – kwh	49,825
Tonnes of CO <sub>2</sub> e per £m revenue	0.0000456

The reporting boundary used for collation of the above data is operations in the United Kingdom and the United States. We calculated our carbon footprint in accordance with the international Greenhouse Gas ("GHG") Protocol's Corporate Accounting and Reporting Standard. Our data has been gathered in line with requirements of the UK government's Streamlined Energy and Carbon Reporting framework.

No energy efficiency measures were taken in 2021 as Fundsmith maintains a small carbon footprint through its two office locations.

#### 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.

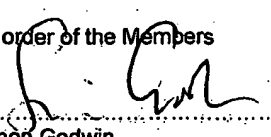
#### Statement as to disclosure of information to auditors

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, Deloitte, 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

  
Simon Godwin  
Designated Member

27 July 2021

## **Statement of Members' Responsibilities**

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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, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"). 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 and;
- 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 to Members of Fundsmith Limited Liability Partnership**

### **Report on the audit of the financial statements**

#### **Opinion**

In our opinion the financial statements of Fundsmith LLP (the 'parent limited liability partnership') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the parent limited liability partnership's affairs as at 31 March 2021 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships.

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated and parent limited liability partnership balance sheets;
- the consolidated statement of cash flows;
- the consolidated and parent limited liability partnership statements of members' interest; and
- the related notes 1 to 17.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent limited liability partnership in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the members' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the parent limited liability partnership's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the members with respect to going concern are described in the relevant sections of this report.

#### **Other Information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The members are responsible for the other information contained in the annual report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## **Independent Auditor's Report to Members of Fundsmith Limited Liability Partnership**

### **(continued)**

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#### **Responsibilities of members**

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, and for such internal control as the members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the members are responsible for assessing the group's and the parent limited liability partnership's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the members either intend to liquidate the group or the parent limited liability partnership or to cease operations, or have no realistic alternative but to do so.

#### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

#### **Extent to which the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the group's and the parent limited liability partnership's industry and its control environment, and reviewed the group's and the parent limited liability partnership's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the group and the parent limited liability partnership operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's or the parent limited liability partnership's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address are described below:

- Existence and accuracy of management fee revenue from segregated accounts: revenue recognition in connection with management fee revenue from segregated accounts was considered to be a significant audit risk due to the risk of fraud associated with revenue recognition. To respond to this risk, we obtained an understanding of the relevant internal controls and evaluated the effectiveness of the design and implementation of these controls. We agreed the completeness and accuracy of the inputs, specifically the net asset value and agreed fee rates to supporting documentation. We recalculated the management fee revenue. We inspected the company's board minutes and discussed potentially related party transactions with management.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:



**Independent Auditor's Report to Members of Fundsmith Limited Liability Partnership**  
**(continued)**

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- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance

**Report on other legal and regulatory requirements**

**Matters on which we are required to report by exception**

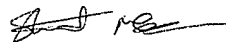
Under the Companies Act 2006 as applied to limited liability partnerships we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

**Use of our report**

This report is made solely to the limited liability 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. 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.



Stuart McLaren (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom  
27 July 2021

Deloitte LLP is a limited liability partnership registered in England and Wales (with registered number OC303675).

## **Consolidated Statement of Comprehensive Income for the year ended 31 March 2021**

	Notes	2021 £	2020 £
<b>Turnover</b>	<b>2</b>	<b>279,264,181</b>	<b>228,410,550</b>
<b>Administrative expenses</b>	<b>3</b>	<b>(221,460,224)</b>	<b>(179,917,816)</b>
		<hr/>	<hr/>
<b>Group operating profit</b>	<b>4</b>	<b>57,803,957</b>	<b>48,492,734</b>
<b>Other income</b>		<b>-</b>	<b>-</b>
		<hr/>	<hr/>
<b>Profit before taxation</b>		<b>57,803,957</b>	<b>48,492,734</b>
<b>Taxation on profit</b>	<b>8</b>	<b>(80,726)</b>	<b>(9,677)</b>
		<hr/>	<hr/>
<b>Profit for the financial year available for allocation to Members</b>		<b>57,723,231</b>	<b>48,483,057</b>
		<hr/>	<hr/>

All amounts relate to continuing operations.  
There is no other comprehensive income in the prior or current year.

The notes on pages 14 to 24 form part of these financial statements.

# Consolidated Balance Sheet at 31 March 2021

	Notes 17	2021 £	Restated 2020 £
<b>Fixed assets</b>			
Investments	7	613	613
Tangible fixed assets	9	352,336	318,263
		<u>352,949</u>	<u>318,876</u>
<b>Current assets</b>			
Debtors	10	303,000,444	150,797,359
Cash at bank and in hand		80,743,062	62,630,319
		<u>383,743,506</u>	<u>213,427,678</u>
<b>Creditors: Amounts falling due within one year</b>	11	(354,787,616)	(192,736,240)
<b>Net current assets</b>		<u>28,955,890</u>	<u>20,691,438</u>
<b>Net assets attributable to Members</b>		<u>29,308,839</u>	<u>21,010,314</u>
<b>Represented by</b>			
<b>Members' interests</b>			
Members' capital classified as equity		7,017,677	7,000,000
Other reserves classified as equity		19,972,121	13,090,835
Amounts due to/(from) members		2,319,041	919,479
		<u>29,308,839</u>	<u>21,010,314</u>

The financial statements of Fundsmith LLP (with registered number OC354233) were approved by the Members and authorised for issue

  
 Simon Godwin  
 Designated Member

27 July 2021

The notes on pages 14 to 24 form part of these financial statements.

# **Consolidated Statement of Cash Flows for the year ended 31 March 2021**

	<b>Notes 17</b>	<b>2021 £</b>	<b>Restated 2020 £</b>
<b>Cash flows from operating activities</b>			
<b>Profit for the financial year before Members' remuneration and profit shares</b>		57,723,231	48,483,057
Adjustments for:			
Depreciation of fixed assets	9	143,787	112,852
(Increase) in trade and other debtors		(152,209,210)	(18,084,506)
Increase in trade and other creditors		162,021,108	45,395,929
Taxation paid		80,726	9,677
<b>Cash from operations</b>		<u>67,759,642</u>	<u>75,917,009</u>
Tax paid		<u>(80,726)</u>	<u>(9,677)</u>
<b>Net cash generated from operating activities</b>		<u>67,678,916</u>	<u>75,907,332</u>
<b>Cash flows from investing activities</b>			
Purchase of tangible fixed assets	9	<u>(179,892)</u>	<u>(151,275)</u>
		<u>(179,892)</u>	<u>(151,275)</u>
<b>Cash flows from financing activities</b>			
Distributions to Members		<u>(49,382,508)</u>	<u>(43,766,956)</u>
		<u>(49,382,508)</u>	<u>(43,766,956)</u>
Net increase in cash and cash equivalents		18,116,516	31,989,101
Cash and cash equivalents at beginning of year		62,630,319	30,641,218
Foreign exchange movement		(3,773)	
<b>Cash and cash equivalents at end of year</b>		<u>80,743,062</u>	<u>62,630,319</u>
<b>Cash and cash equivalents comprise:</b>			
Cash at bank and in hand		<u>80,743,062</u>	<u>62,630,319</u>

The notes on page 14 to 24 form part of these financial statements.

# **LLP Balance Sheet at 31 March 2021**

	Notes 17	2021 £	Restated 2020 £
<b>Fixed assets</b>			
Investments	7	614	614
Tangible fixed assets	9	338,431	298,190
		<u>339,045</u>	<u>298,804</u>
<b>Current assets</b>			
Debtors	10	302,946,086	150,736,876
Cash at bank and in hand		80,685,588	62,593,051
		<u>383,631,674</u>	<u>213,329,927</u>
<b>Creditors: Amounts falling due within one year</b>	11	(355,142,173)	(193,035,175)
<b>Net current assets</b>		<u>28,489,501</u>	<u>20,294,752</u>
<b>Net assets attributable to Members</b>		<u>28,828,546</u>	<u>20,593,556</u>
<b>Represented by:</b>			
<b>Members' Interests</b>			
Members' capital classified as equity		7,017,677	7,000,000
Other reserves		19,491,828	12,674,077
Amounts due to/(from) members		2,319,041	919,479
		<u>28,828,546</u>	<u>20,593,556</u>

The profit for the financial year dealt with in the financial statements of the Partnership was £57,617,498 (2020: £48,192,260).

The financial statements of Fundsmith LLP (with registered number OC354233) were approved by the Members and authorised for issue:

  
 .....  
 Simon Godwin  
 Designated Member

27 July 2021

The notes on page 14 to 24 form part of these financial statements.

# Statement of Members' Interest for the year ended 31 March 2021

## Group:

Notes	Members' Capital classified as Equity £	Other Reserves £	Amounts due to/(from) members £	Members' Interest £	Restated 2020 £
Balance Brought forward				21,010,314	16,930,904
Foreign exchange adjustment				(42,198)	(15,111)
As at 31 March 2020	7,000,000	13,048,637	919,479	20,968,116	16,915,793
Adjustment 17					(621,580)
Profit for the year	-	57,723,231		57,723,231	48,483,057
Allocation of profits to Members	17,677	(50,799,747)	50,782,070	-	
Distributions			(49,382,508)	(49,382,508)	(43,766,956)
As at 31 March 2021	7,017,677	19,972,121	2,319,041	29,308,839	21,010,314

## Partnership:

	Members' Capital classified as Equity £	Other Reserves £	Amounts due to/(from) members £	Members' Interest £	2020 £
As at 31 March 2020	7,000,000	12,674,077	919,479	20,593,556	16,168,252
Profit for the year	-	57,617,498		57,617,498	48,192,260
Allocation of Profits to Members	17,677	(50,799,747)	50,782,070	-	
Distributions			(49,382,508)	(49,382,508)	(43,766,956)
As at 31 March 2021	7,017,677	19,491,828	2,319,041	28,828,546	20,593,556

The notes on page 14 to 24 form part of these financial statements.

## Notes forming part of the financial statements for the year ended 31 March 2021

### 1. Accounting policies

Fundsmith LLP is a Limited Liability Partnership ('LLP') incorporated in England and Wales under the Limited Liability Partnership Act 2000. 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 members' 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 (2018), 'Accounting by Limited Liability Partnerships' and under the historical cost convention.

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 a period of at least twelve months from the date of the approval of the financial statements. Therefore, the going concern basis is adopted in the preparation of the financial statements.

There are no significant judgements in accounting policies and no key sources of estimation uncertainty.

#### Parent LLP disclosure exemptions

In preparing the separate financial statements of the parent LLP, the parent LLP has taken advantage of the following disclosure exemptions available in FRS 102 for qualifying entities, which are presented alongside the consolidated financial statements:

- No cash flow statement has been presented for the parent LLP and;
- 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 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 £57,617,498 (2020: £48,192,260).

#### Tangible Fixed Assets

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 Improvements	-	The term of the lease
Furnitures & Fixtures	-	3 years
Computers Equipment	-	3 years

#### 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.

## **Notes forming part of the financial statements for the year ended 31 March 2021 (continued)**

### **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. 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', and allocated profits in excess of drawings are included within 'Amounts due to Members'.

### **Members' capital**

Initial capital contributions 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 capital contribution account except for in specific circumstances as detailed in the LLP deed and approved by the Members. Members' 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. As at 31<sup>st</sup> March the total balance on designated client bank accounts was £20,627,198.98 (2020: £37,773,785.05). These amounts are not included in cash and cash equivalents as the LLP does not have title or right to the monies.

### **Financial assets**

Financial assets, other than investments and derivatives, are initially measured at transaction price (including transaction costs) and subsequently held at cost, less any impairment.

### **Financial liabilities and equity**

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form. Financial liabilities, excluding convertible debt and derivatives, are initially measured at transaction price (after deducting transaction costs) and subsequently held at amortised cost.

### **Cash**

Cash refers to cash at bank as at balance sheet date.



**Notes forming part of the financial statements for the year ended 31 March 2021 (continued)**

**2. Analysis of Turnover**

	2021 £	2020 £
Turnover	<u>279,264,181</u>	<u>228,410,550</u>

Turnover is attributable to one continuing activity, the provision of regulated investment management services provided in the United Kingdom to funds domiciled in the UK, US and Luxembourg. 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**

	2021 £	2020 £
This is arrived at after charging/(crediting):		
Depreciation of tangible assets	143,787	112,852
Operating lease rentals	575,083	576,243
Fees payable to the LLP's auditor and its associates for the audit of the LLP's annual accounts	50,000	50,000
Fees payable to the LLP's auditors and its associates for other services	62,712	100,831
Foreign Exchange gains/(losses)	<u>(24,502)</u>	<u>(29,727)</u>

Non-audit services comprise the provision of other assurance services

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:

	2021 £	2020 £
Sale of units	6,900,446,218	5,474,061,408
Repurchase of units	(5,766,150,444)	(5,123,470,885)
Creation of units	(2,785,318,070)	(1,999,787,095)
Liquidation of units	1,650,970,355	1,649,178,733
Bank charges and interest	<u>(358,798)</u>	<u>(190,715)</u>
	<u>(410,739)</u>	<u>(208,554)</u>

**Notes forming part of the financial statements for the year ended 31 March 2021 (continued)**

**5. Employees**

	2021 £	2020 £
Staff costs consist of:		
Wages and salaries	15,084,771	10,357,573
Social security costs	1,617,951	1,303,303
Pension contributions	231,327	166,631
	<u>16,934,049</u>	<u>11,824,207</u>

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

	2021 Number	2020 Number
Administration	<u>26</u>	<u>23</u>

**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.

	2021 Number	2020 Number
Average number of members during the year	<u>9</u>	<u>8</u>
	£	£
Profit attributable to the Member with the largest entitlement	<u>35,661,351</u>	<u>29,737,328</u>

**7. 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 2021 and 31 March 2020	<u>613</u>	<u>614</u>

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

**Notes forming part of the financial statements for the year ended 31 March 2021 (continued)**

The Partnership has a £1 investment in a wholly owned subsidiary, Fundsmith Partners (US) LLC (the 'US Operating Company'), a company incorporated in Connecticut, USA. The US Company provides research services to the Group 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.

The above are all registered at 46 Southfield Ave, Suite 205 Stamford, CT 06902.

**8. Taxation on profit**

The profit of the partnership is not subject to UK corporation tax. The £80,726 (2020: £9,677) in the consolidated statement of comprehensive income is the amount of tax paid by the US subsidiaries during the financial year.

**9. Tangible fixed assets**

<b>Group</b>	<b>Leasehold Improvements</b>	<b>Furniture &amp; Fixtures</b>	<b>Computer Equipment</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<i>Cost or valuation</i> At 1 April 2020	250,418	171,792	224,817	647,027
Revaluation of US assets at 31 March 2021 exchange rate		(1,207)	(825)	(2,032)
Revalued opening balance	250,418	170,585	223,992	644,995
Additions	70,678	52,433	56,781	179,892
At 31 March 2021	<b>321,096</b>	<b>223,018</b>	<b>280,773</b>	<b>824,887</b>
<i>Depreciation</i> At 1 April 2020	108,148	83,552	137,064	328,764
Depreciation in year	21,159	59,494	63,134	143,787
Depreciation at 31 March 2021	<b>129,307</b>	<b>143,046</b>	<b>200,198</b>	<b>472,551</b>
<i>Net book value</i> At 31 March 2021	<b>191,789</b>	<b>79,972</b>	<b>80,575</b>	<b>352,336</b>
At 31 March 2020	<b>142,270</b>	<b>88,240</b>	<b>87,753</b>	<b>318,263</b>

**Notes forming part of the financial statements for the year ended 31 March 2021 (continued)**

<b>LLP</b>	<b>Leasehold Improvements</b>	<b>Furniture &amp; Fixtures</b>	<b>Computer Equipment</b>	<b>Total</b>
	£	£	£	£
<i>Cost or valuation</i>				
At 1 April 2020	250,418	146,035	206,379	602,832
Additions	70,678	50,473	52,889	174,040
<b>At 31 March 2021</b>	<b>321,096</b>	<b>196,508</b>	<b>259,268</b>	<b>776,872</b>
<i>Depreciation</i>				
At 1 April 2020	108,418	69,718	126,776	304,642
Depreciation in year	21,159	53,603	59,037	133,799
<b>Depreciation at 31 March 2021</b>	<b>129,307</b>	<b>123,321</b>	<b>185,813</b>	<b>438,441</b>
<i>Net book value</i>				
<b>At 31 March 2021</b>	<b>191,789</b>	<b>73,187</b>	<b>73,455</b>	<b>338,431</b>
<b>At 31 March 2020</b>	<b>142,270</b>	<b>76,317</b>	<b>79,603</b>	<b>298,190</b>

**10. Debtors**

	<b>Group 2021 £</b>	<b>Group 2020* £</b>	<b>LLP 2021 £</b>	<b>LLP 2020* £</b>
Management fee receivable	27,688,602	21,768,166	27,688,602	21,768,166
Other debtors	22,000	22,000	18,022	18,022
Rent deposit	50,380	56,505	-	-
	<b>27,760,982</b>	<b>21,846,671</b>	<b>27,706,624</b>	<b>21,786,188</b>
Prepayments and accrued income	439,721	685,111	439,721	685,111
Trade debtors**	274,799,741	128,265,577	274,799,741	128,265,577
	<b>303,000,444</b>	<b>150,797,359</b>	<b>302,946,086</b>	<b>150,736,876</b>

\*2020 Debtors and Cash have been reclassified. Schedule of changes included in Note 17.

\*\* Trade debtors and creditors represent the debtors and creditors of the manager's box that the LLP operates as the ACD of the Fundsmith Equity Fund and the Fundsmith Sustainable Equity Fund.

**Notes forming part of the financial statements for the year ended 31 March 2021 (continued)**

**11. Creditors: amounts falling due within one year**

	Group 2021 £	Group 2020* £	LLP 2021 £	LLP 2020* £
Other creditors	393,731	326,878	393,731	326,878
Accruals and deferred income	14,398,664	9,323,388	14,399,168	9,323,948
Amounts due to associate companies	67,993,896	56,781,316	67,993,896	56,781,316
Amounts due to subsidiary	-	-	354,053	298,375
	<u>82,786,291</u>	<u>66,431,582</u>	<u>83,140,848</u>	<u>66,730,517</u>
Trade creditors**	272,001,325	126,304,658	272,001,325	126,304,658
	<u>354,787,616</u>	<u>192,736,240</u>	<u>355,142,173</u>	<u>193,035,175</u>

\*2020 Creditors have been reclassified. Schedule of changes included in Note 17.

\*\* Trade debtors and creditors include the debtors and creditors of the manager's box that the LLP operates as the ACD of the Fundsmith Equity Fund and the Fundsmith Sustainable Equity Fund.

**12. Financial Instruments**

Financial instruments may be analysed as follow:

**Financial assets**

		Group 2021 £	Group 2020 £	LLP 2021 £	LLP 2020 £
Financial assets	10	<u>27,760,982</u>	<u>21,846,671</u>	<u>27,706,624</u>	<u>21,786,188</u>

**Financial liabilities**

		Group 2021 £	Group 2020 £	LLP 2021 £	LLP 2020 £
Financial liabilities	11	<u>82,786,291</u>	<u>66,431,582</u>	<u>83,140,848</u>	<u>66,730,517</u>

**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.

**Notes forming part of the financial statements for the year ended 31 March 2021 (continued)**

**14. Other financial commitments and contingencies**

At 31 March 2021, the Partnership had commitments under non-cancellable operating leases as set out below.

	2021	2020
	£	£
Expected future lease payments for the following period		
Within one year	509,925	509,925
Within two to five years	1,846,024	2,037,428
Over five years	673,694	992,214

**15. Related party transactions**

The Partnership has not disclosed as per 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 £188,134,293 (2020: £156,039,520) by FISL in respect of delegated services.

At the year-end £67,993,896 (2020: £56,781,316) remained payable.

**16. Subsequent events**

There were no subsequent events.

**17. Reclassified Balance Sheet Items**

Comparative amounts for 2020 have been restated to reflect amendments made to change the presentation of receivables, payables, cash and reserves. The Cash Flow Statement for the year to 31 March 2020 has also been restated accordingly.

**Notes forming part of the financial statements for the year ended 31 March 2021 (continued)**

<b>Consolidated Balance Sheet</b>	<b>2020</b>	<b>Adj 1</b>	<b>Adj 2</b>	<b>Adj 3</b>	<b>Adj 4</b>	<b>Revised 2020</b>
<b>Fixed assets</b>						
Investments	613					613
Tangible fixed assets	<u>318,263</u>					<u>318,263</u>
<b>Current assets</b>	<b>318,876</b>					<b>318,876</b>
Debtors	168,607,526	(621,580)	(34,598,704)	(1,712,486)	19,122,603	150,797,359
Cash at bank and in hand	<u>60,917,833</u>			1,712,486		<u>62,630,319</u>
	<u>229,525,359</u>					<u>213,427,678</u>
<b>Creditors: Amounts falling due within one year</b>	<b>(173,613,637)</b>				<b>(19,122,603)</b>	<b>(192,736,240)</b>
<b>Net current assets</b>	<b>55,911,722</b>					<b>20,691,438</b>
<b>Total assets less current liabilities</b>	<b><u>56,230,598</u></b>					<b><u>21,010,314</u></b>
<b>Net assets attributable to Members</b>	<b><u>56,230,598</u></b>					<b><u>21,010,314</u></b>
<b>Represented by</b>						
Members other interest Members' capital classified as equity	7,000,000					7,000,000
Members' other interests - other reserves classified as equity	49,230,598	(621,580)	(35,518,183)			13,090,835
Amount due to / (from) Members	<u>56,230,598</u>		919,749			<u>919,749</u>
						<u>21,010,314</u>
<b>Total Members' Interest Amounts due to / (from) Members</b>	<b>(34,598,704)</b>		<b>35,518,183</b>			<b>919,479</b>
Members' other interests	56,230,598	(621,580)	(35,518,183)			20,090,835
	<u>21,631,894</u>					<u>21,010,314</u>

**Notes forming part of the financial statements for the year ended 31 March 2021 (continued)**

LLP Balance Sheet	2020	Adjustment 2	Adjustment 3	Adjustment 4	Revised 2020
<b>Fixed assets</b>					
Investments	614				614
Tangible fixed assets	<u>298,190</u>				<u>298,190</u>
Current assets	298,804				298,804
Debtors	167,925,463	(34,598,704)	(1,712,486)	19,122,603	150,736,876
Cash at bank and in hand	<u>60,880,565</u>		1,712,486		<u>62,593,051</u>
	<u>228,806,028</u>				<u>213,329,927</u>
Creditors: Amounts falling due within one year	(173,912,572)			(19,122,603)	(193,035,175)
Net current assets	54,893,456				20,294,752
Total assets less current liabilities	<u>55,192,260</u>				<u>20,593,556</u>
Net assets attributable to Members	<u>55,192,260</u>				<u>20,593,556</u>
<b>Represented by</b>					
Members' other interest					
Members' capital classified as equity	7,000,000				7,000,000
Members' other interests - other reserves classified as equity	48,192,260	(35,518,183)			12,674,077
Amount due to / (from) Members	<u>-</u>	919,749			<u>919,479</u>
	<u>55,192,260</u>				<u>20,593,556</u>
<b>Total Members' Interest</b>					
Amounts due from Members	(34,598,704)	35,518,183			919,479
Members' other interests	55,192,260	(35,518,183)			19,674,077
	<u>20,593,556</u>				<u>20,593,556</u>



**Notes forming part of the financial statements for the year ended 31 March 2021 (continued)**

- **Adjustment 1**  
Consolidated reserves have been adjusted to correct an error made in prior years.
- **Adjustment 2**  
Amounts previously presented as Amounts due from Members have been reclassified as Distributions of allocated Profit. Under the Limited Liability Partnership Agreement, the Members approve profit allocations on a quarterly basis, however the prior year accounts had accounted for all profit as unallocated until subsequent to year-end. The impact on the current year accounts are a decrease in Debtors for £34,598,704 and a decrease to Other reserves for £35,518,183 to reflect profit allocated and an increase in Amounts due to members for £919,479 to reflect profit allocated but not distributed.
- **Adjustment 3, 4**  
In prior years the Corporate dealing bank account balance and creditor balance relating to the manager's box was included and netted under Debtors. In the current year the company has recognised its constituents separately. Therefore, the cash balance of £1,712,486 has been moved from Debtors to Cash in bank and in hand and the creditors balances of £19,122,603 have been moved from Debtors to Creditors: Amounts due within one year in the 2020 comparative statement.

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

## FUNDSMITH LLP PILLAR 3 DISCLOSURE

31 March 2021

The Capital Requirements Directive ('CRD') and Alternative Investment Fund Management Directive ('AIFMD') of the European Union establish a 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 must be held by the Firm;
- 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 the Firm's risk profile, and information about the Firm's risk management framework and capital position.

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 the Firm's 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 reviewed and approved by the Firm's Management Committee. Unless otherwise stated, all figures are as at 31 March 2021, the Firm's financial year-end.

Pillar 3 disclosures are issued on an annual basis after the year end and are published with the annual report and financial statements.

The Firm is permitted to omit required disclosures if it believes 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, the Firm may omit required disclosures where it believes that the information is regarded as proprietary or confidential. Proprietary information is that which, if it were shared, would undermine the Firm's competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers, suppliers and counterparties. No required disclosures have been omitted for these reasons.

### 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.

## **GOVERNANCE**

The Firm maintains a Governance Framework that sets out the governance structure operated the Firm.

The Management Committee is the ultimate governing body of the Firm and is responsible for all aspects of the Firm's business including setting the strategy and direction of the business, overseeing the day to day management of the business, setting the Firm's risk appetite, and for ensuring that the Firm fulfils all its regulatory obligations.

The Management Committee delegates the day to day management of the business to individual senior managers, as set out in the business's organisation structure and job descriptions. The business's organisation structure chart sets out the line management responsibilities for Fundsmith's business activities. The Management Committee approves any changes to, the organisation structure.

The Management Committee delegates certain oversight activities and policy approval authorities to its sub-Committees, the Investment Risk Committee, the Stewardship and Sustainability Committee, and the Risk and Compliance Committee. Each sub-Committee is chaired by a member of the Management Committee who reports on the sub-Committees activities to the Management Committee. The role of each Committee is set out in the section on risk management below.

This structure allows the Management Committee to focus on the overall management of the business and on the oversight of the strategic risks faced by the Firm.

The Firm outsources a number of activities to third-party service providers. The Firm delegates certain investment management and related activities to Fundsmith Investment Services Limited (FISL), a company under common ownership.

The Management Committee holds the overall responsibility the determination of the risk appetite of the Firm and for the identification and management of risk. The Management Committee has responsibility for setting the 'tone at the top' and for ensuring that the Firm operates in a manner consistent with its risk principles.

The Management Committee is responsible for ensuring that the Firm operates in compliance with applicable legal and regulatory requirements, and regulatory guidance.

The Firm considers that appropriate policies are in place to ensure all staff, including the members of the Management Committee are 'fit and proper'. All senior personnel are experienced industry professionals, and any senior appointments are subject to the Management Committee's approval, with due consideration to the reputation, fitness and experience of the candidate as well as the long term strategic goals 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 staff holding Senior Manager Functions and other SMCR Certificated persons are formally assessed on an annual basis to ensure that they remain competent to fulfil their job functions and prescribed responsibilities (All staff, including the Partners, undergo training on a variety of regulatory topics each year.

## **RISK MANAGEMENT FRAMEWORK**

The Firm maintains an Enterprise Risk Management Framework to identify, measure, manage and monitor the risks faced by the Firm, and the risks faced by the Funds and the investors in them. This includes the risk the Firm's conduct may pose to the achievement of fair outcomes for investors or to the sound, stable, resilient and transparent operation of the financial markets.

The development and ongoing review of this Framework seeks to ensure that the risks faced by the Firm and the investors in its Funds are understood and are managed in accordance with agreed appetite and tolerance levels. It provides the basis for enabling the Firm's ongoing assessment, control, monitoring and reporting of risk management. The Framework is a key input to the Firm's Internal Capital Adequacy Assessment Process (ICAAP), through which the Firm makes an ongoing, and formal annual, assessment of the capital necessary to absorb potential losses from the risks it faces.

The risk management process is overseen by the Management Committee.

## **Identification of Risk**

The Firm determines its Risk Universe through a top down assessment of the risks faced by the Firm. These risks are then defined and categorised into six risk areas reflecting the nature of the risks and how those risks are monitored, mitigated, and managed, to form the Risk Taxonomy.

The Risk Taxonomy aims to capture the major risks within each of those six areas, reflecting the view of senior management, the heads of the Firm's business functions, and members of the Firm's control functions.

The Risk Universe and Taxonomy are assessed and reviewed at least annually, as part of the Management Committee's review and approval of the Enterprise Risk Management Framework.

The six risk areas are:

**Strategic Risk** – the risks to the success and development of the business including the risks arising from changes in the external environment. These risks are mitigated and managed by the senior management of the Firm and are monitored by the Management Committee.

**Stewardship and ESG Risk** – the risks to the success and development of the business arising from the failure to incorporate ESG considerations into the research and investment process, or from the failure to engage with investee company management. These risks are mitigated and managed by the research team and the portfolio managers, with oversight through the Stewardship and Sustainability Committee.

**Investment Risk** – the risks relating to the investment portfolios and to the investors in them. These risks are mitigated and managed by the portfolio managers, the research team, and the front office and product control team, and are monitored by management throughout the Firm and by Compliance. Oversight is exercised by the Investment Risk Committee. The Firm's approach to the management of Investment Risk is set out in the Investment Risk Management Policy.

**Business Model Risk** – the risks to the Firm arising from the nature of its business and its business model. These risks include credit risk, market risk, liquidity risk and regulatory capital risk, and are mitigated and managed by the Firm's finance function, with oversight exercised by Compliance and by the Risk and Compliance Committee.

**Operational Risk** – the risk of loss to the Firm or to investors in the Funds arising from inadequate or failed processes or systems, human error, or as a result of external events, including the failure of outsourced service providers to deliver an effective service. These risks are mitigated and managed by the senior management of the Firm, with oversight exercised by Compliance and by the Risk and Compliance Committee.

**Conduct and Compliance Risk** – the risk to the Firm and to the financial markets arising from failure to comply with regulatory requirements, poor staff conduct, and financial crime. All staff employed by the Firm and by its outsourced service providers are responsible for their good conduct and for adhering to the Firm's legal and regulatory obligations. The framework for the management of these risks is set out in the Compliance Manual. These risks are monitored by Compliance, with oversight exercised by the Risk and Compliance Committee.

## **Risk Management Structure**

The Firm operates a 'three lines of defence' risk management structure.

### **First Line of Defence**

An 'owner' has been identified for each risk in the taxonomy. The owner is the senior manager responsible for the business function or activity to which the risk relates. This is the First Line of Defence ('1 LoD'). The 1 LoD is responsible for risk management – the identification, assessment, control and reporting of the risks in their function or activity. The 1 LoD is also responsible for the policies and procedures in place to facilitate the management of the risks.

### **Second Line of Defence**

The Second Line of Defence (2 LoD) in the Firm exercises oversight of the risk management activities undertaken by the 1 LoD, and provides support, advice, and guidance to the 1 LoD.

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The Firm's 2 LoD comprises the day to day review of activities by senior management, the Firm's Compliance function, and the sub-Committees of the Management Committee.

The Firm's senior management play an active role in monitoring business activities day to day, thereby exercising real time monitoring of risk management. For example, senior management are copied on all trades requested by the portfolios managers, the portfolios of each Fund including weightings and liquidity are circulated each day to senior management, and reports on Fund inflows and outflows and the Firm's cash balances are circulated each day to senior management. The compliance monitoring reports produced by an independent third party are also copied to senior management. This allows senior management to identify issues arising and to ensure that any issues are being managed.

The Firm's Compliance function has an important role in the Firm's risk management processes and provides oversight and challenge to ensure understanding and alignment of the Risk Management Framework with the business strategy. The Compliance function provides independent guidance to the business, escalates risk management gaps, issues, and concerns, and defines and assists the business with embedding policies and standards.

The Compliance function is also responsible for overseeing the compliance of the Firm's processes with laws and regulations and performs the testing necessary to ensure the compliance of the business with laws and regulations.

The Firm's Management Committee is the ultimate governing body and holds the overall responsibility for the identification and management of risk. In order to allow the Management Committee to focus on strategic and commercial matters it has established a sub-Committee structure and has delegated some of its responsibilities for the oversight of risk management. There are three sub-Committees of the Management Committee.

- The Investment Risk Committee which exercises oversight of the investment risks.
- The Risk and Compliance Committee which exercises oversight of the business model, operational, and Conduct and Compliance risks.
- The Stewardship and Sustainability Committee which exercises oversight of the Firm's stewardship activities and responsible investment processes.

Each of the sub-Committees is chaired by a member of the Management Committee, and each reports on its activities to the Management Committee.

## **Third Line of Defence**

The Management Committee has determined that the size, complexity, and nature of the Firm does not warrant the Firm having an internal audit function.

The Firm therefore seeks independent assurance from oversight by its auditors, and from other third parties including its depositaries, independent directors of the investment trusts, and the independent value assessment members of the Management Committee. The Firm also engages third parties to perform specific reviews of its activities.

## **Risk Appetite and Key Risk Indicators**

Risk appetite is the level of risk the Firm is willing to take to meet its objectives as a Firm, and to deliver the best outcomes for investors in its Funds.

The Firm seeks to articulate its risk appetite to facilitate objective monitoring to assess whether the Firm is operating within its risk appetite.

The assessment of whether the Firm is operating within its 'appetite' for the Strategic risks and the Stewardship and ESG risks faced by the Firm is highly subjective, and the Firm therefore does not articulate its risk appetite in these areas. These risks are assessed and monitored by the Management Committee and the Sustainability Committee respectively, and these Committees determine any actions required for the Firm to reduce the risk it faces in these areas.

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For Investment Risk, Business Model Risk, and Operational Risk, the Firm seeks to articulate its risk appetite through numerical metrics where possible to facilitate objective assessment. For the risks where numerical metrics are not appropriate the risk appetite is expressed through a narrative statement, and the assessment is subjective. This is then used to determine the Key Risk Indicators (KRIs) for management reporting.

## **REGULATORY CAPITAL**

The Firm is a Limited Liability Partnership and its capital arrangements are established in its Partnership Agreement.

The Firm's regulatory capital resources are calculated in accordance with GENPRU 2 Annex 4 and comprise the Members' Capital, Other reserves (unallocated profit) and Amounts due to Members (allocated profit that has not been distributed). All the Firm's capital is tier one capital.

At 31 March 2021 the Firm's regulatory capital totalled £27.0 million comprising the Members' capital accounts and other reserves classified as equity.

## **REGULATORY CAPITAL REQUIREMENTS**

### **Pillar 1**

The Firm calculates its Pillar 1 requirements as the higher of the requirement calculated under IPRU-INV and under GENPRU.

Under IPRU-INV the Firm must maintain own funds which equal or exceed the higher of the Funds under Management (FuM) requirement and the Fixed Overhead Requirement (FOR), plus the professional indemnity insurance (PII) requirement.

The FuM requirement is the sum of the base own funds requirement (€125,000) plus 0.02% (2 bps) of FuM in excess of €250m.

The FOR is 25% of the Firm's fixed overheads of the preceding year.

The PII requirement is 0.01% (1 bp) of the value of the portfolios of the alternative investment funds (AIFs) managed.

Under GENPRU the Firm must maintain capital resources equal to or in excess of the variable capital requirement which is the higher of the sum of the credit risk capital requirement (CRCR) and the market risk capital requirement (MRCR), and the FOR.

As a CPMI firm the calculation of the CRCR and the MRCR is in respect of "designated investment business", which for this purpose excludes managing AIFs and UK UCITS.

### **The requirement calculated under IPRU-INV**

The relevant FuM at 31 March 2021 were £27.7 billion, resulting in a regulatory capital requirement of £5.6 million (2 bps plus base own funds).

The FOR at that date was £2.8m.

As the FuM requirement is higher than the FOR, under IPRU-INV the Firm's Pillar 1 capital requirement is £6.0 million (the FuM requirement plus the PII requirement).

### **The requirement calculated under GENPRU**

The FOR under GENPRU at 31 March 2021 was £2.8m.

The sum of the CRCR and MRCR which are calculated on items relating to the Firm's designated investment business (which excludes the management of UCITS and AIFs) at that date was £0.9m.

# Fundsmith

As the FOR is higher than the sum of the CRCR and MRCR, under GENPRU the Firm's Pillar 1 capital requirement is £2.8 million.

## Conclusion on Pillar 1

As the requirement calculated under IPRU-INV is higher than the requirement calculated under GENPRU, at 31 March 2021 the Firm's Pillar 1 regulatory capital requirement was £6.0 million.

## **Pillar 2**

The Firm makes its own assessment of its capital requirements and resources (Pillar 2) through an Internal Capital Adequacy Assessment Process (ICAAP) to identify and assess the risk of the Firm being unable to meet its liabilities as they fall due, and the amount and nature of the financial resources the Firm considers necessary. This process includes carrying out stress tests and scenario analysis for the risks identified and to establish the financial resources needed in each of the circumstances and events.

The Firm's current assessment of its capital requirements is lower than the minimum capital requirements under Pillar 1.

## **REMUNERATION DISCLOSURE**

The Firm is a UK UCITS Management Firm, an AIFM, and provides additional designated investment services and is subject to the FCA's Rules on remuneration set out in chapters 19B and 19E of the SYSC Sourcebook in the FCA's Handbook (the Remuneration Codes).

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

1. are consistent with and promote 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 funds managed by the Firm;
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.

## **Application of the requirements**

The Firm is required, subject to the application of proportionality, to disclose qualitative and quantitative information on at least an annual basis relating to remuneration. The Firm is not a significant BIPRU firm, and makes disclosure that are appropriate to the size, internal organisation and the nature, scope and complexity of its activities, in accordance with the general guidance on proportionality applicable to remuneration disclosures.

The Firm may omit required disclosures where we believe that the information could be regarded as prejudicial to our compliance with the UK retained law version of the General Data Protection Regulation (GDPR) on the protection of individuals with regard to the processing of personal data and on the free movement of such data.

## **Disclosures**

1. Summary of information on the decision-making process used for determining the Firm's remuneration policy:
  - The Firm's policy has been approved by the Management Committee in line with the Remuneration principles laid down by the FCA in SYSC 19B and SYSC 19E.
  - Due to the size, nature and complexity of the Firm, the Management Committee has concluded that it is not necessary to appoint an independent remuneration committee.
  - The Firm's policy is reviewed as part of the annual process or following a significant change to the business requiring an update to the Firm's internal capital adequacy assessment.
  - The Management Committee determines the partners and staff who are Remuneration Code Staff.



2. Summary of how the Firm links pay and performance:

The Firm distinguishes the approach to remuneration between the founding partners, the new partners, and other staff.

- The founding partners do not receive any form of remuneration from the Firm other than their fixed partnership profit share.
- The new partners are remunerated in the same way as other staff, and as they have an ownership interest in the Firm they also receive their fixed share of the profits.
- Other staff (including the new partners) receive a salary, certain benefits, and are eligible for an award of a discretionary bonus.

Staff salaries are set at a competitive level and aim to be sufficiently high to allow for a fully flexible approach to the award of a discretionary bonus.

The award of a discretionary bonus is entirely at the Management Committee's discretion and will depend on both the financial position of the firm and the outcome of the individual's performance review which is undertaken at the end of each financial year. The performance review process takes into account a range of factors including the individual's performance and their broader contribution to the business. Those employees working in control functions such as risk management or compliance have their personal objectives set by reference to their specific functions and will be rewarded according to the achievement of those objectives, rather than the performance of the business more generally.

3. Aggregate quantitative information on remuneration, broken down by business area:

The Firm takes a proportionate approach to its Remuneration disclosure in line with the nature, scale and complexity of the Firm and as such has chosen not to disclose remuneration broken down by business area.

4. Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the Firm (Remuneration Code Staff):

The Management Committee has determined that its Remuneration Code Staff are those individuals undertaking Senior Management Functions that require approval by the FCA and any employee who is the lead investment manager of a fund.

For the year to 31 March 2021 as the only Remuneration Code Staff who are not founding partners are the two portfolio managers of the investment trusts, the Firm has chosen not to disclose their aggregate remuneration on the basis of confidentiality.