

TCFD Report 2024

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# Introduction

Welcome to Fundsmith LLP's 2024 Task Force on Climate-related Financial Disclosures (TCFD) Report. This report, reflecting the TCFD's Recommendations<sup>1</sup> and the entity- and product-level requirements as detailed in section 'ESG 2' of the Financial Conduct Authority's (FCA) Environmental, Social and Governance sourcebook<sup>2</sup>, details how Fundsmith integrates climate-related risks and opportunities into its governance, strategy, and risk management processes. This report also details the metrics and targets used to assess and manage these risks and opportunities.

Climate change poses a significant risk to every company. Over the course of the next decade concerted action by both regulators and consumers to reduce emissions and bring about the transition to a lower carbon economy will impact every business. Fundsmith is no exception to this. However, as a small business based in a single location with fewer than 50 employees, our degree of exposure to these risks across our operations is low.

The investment funds we manage on behalf of our investors own shares in businesses which have a greater degree of exposure to the risks that result from climate change. As such, much of this report is focused on how we manage these risks and opportunities to ensure that we deliver the performance our investors expect over the long term.

Fundsmith's funds do not use UK sustainable investment labels as they do not have a sustainability goal. Sustainable investment labels help investors find products that have a specific sustainability goal.

**This report was considered and approved by Fundsmith's Stewardship and Sustainability Committee.**



**Signed Julian Robins**

Chair of the Stewardship & Sustainability Committee  
and Head of Research.

<sup>1</sup> <https://assets.bbhub.io/company/sites/60/2021/10/FINAL-2017-TCFD-Report.pdf>

<sup>2</sup> <https://www.handbook.fca.org.uk/handbook/ESG.pdf>

## Governance

**Describe the board's oversight of climate-related risks and opportunities.**

**Describe management's role in assessing and managing climate-related risks and opportunities.**

Fundsmith LLP's Management Committee is the Firm's ultimate governing body and is responsible for all aspects of Fundsmith's business. The Management Committee exercises oversight of the activities of the Firm. The intended outcome is to ensure that the Firm is being run in compliance with applicable regulatory rules, that it is acting in the best interests of investors in its funds, and that it operates within an appropriate risk management framework. The Management Committee comprises executive and independent members.

The Management Committee has delegated responsibility for overseeing stewardship and engagement risk and responsible investment risk to the Firm's Stewardship and Sustainability Committee (S&S Committee). The S&S Committee is chaired by the Head of Research and its members comprise representatives from portfolio management, the Chief Compliance Officer, the Head of Sustainability, and the Firm's Stewardship Analyst. The Committee meets twice a year, and its conclusions are reported to the Management Committee.

The S&S Committee was established in 2020 to provide a forum to discuss stewardship and sustainability matters relevant to Fundsmith and its funds, including our current and potential investments' sustainability-related risks and opportunities and the development and application of our firm-wide Responsible Investment Policy which is applied to all funds. The Policy is in place to ensure that the risks resulting from sustainability-related factors are integrated into our pre-investment research and investment monitoring processes. The assessment and monitoring of climate-related risks are key components of this.

Responsible investment has always been a component of our investment strategy. We look to invest in high-quality businesses and hold those investments for the long term, ideally forever. Integrating the assessment of a company's performance in the widest possible sense is key to achieving this goal, including the analysis of a business's sustainability-related performance, as this can significantly impact long-term performance. Our research team is responsible for applying our responsible investment approach during our research and investment monitoring process. That is identifying and assessing material sustainability-related (including climate) risks and opportunities for each company admitted to our funds' investible universes and monitoring those companies throughout the time they remain within our investible universes.

As part of its responsibility in relation to the Responsible Investment Policy, the S&S Committee is informed of any potentially material sustainability-related risks relevant to any company within our investible universes. The S&S Committee is also informed of any material sustainability-related events or concerns the research team has identified within existing investments, which can influence the relevant portfolio manager's decision to engage with the company if they deem the risk material.

In relation to the Firm and its operations, the materiality of climate-related risks and opportunities is low. However, there is still a responsibility to ensure that they are appropriately considered. Over the short-term, the most likely material impact climate change will have on us as a firm will be through the growing cost of complying with climate-related regulation of our business and its products. Fundsmith's compliance team monitors the Firm's regulatory compliance and tracks relevant regulatory developments. Their role is to ensure that the Firm is appropriately informed and positioned to comply with all regulations, including regulations relating to climate change. The Management Committee is responsible for overseeing the Firm's regulatory risks.

## Strategy

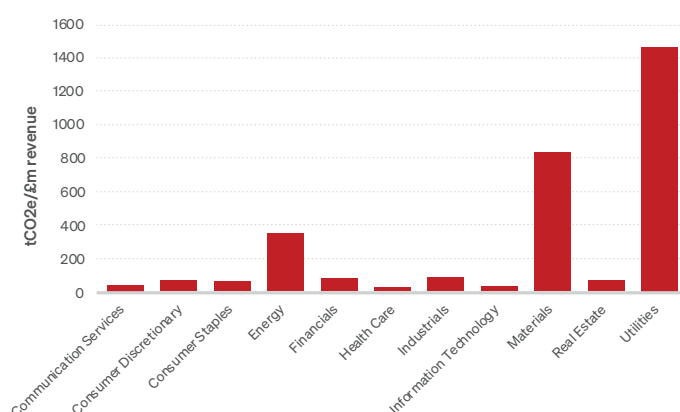
Fundsmith LLP was founded in 2010 and launched its first Fund, the Fundsmith Equity Fund, in the same year. At the time, we said that we aimed to run the best fund there has ever been and provide retail investors with the best fund they have ever owned. By “best fund,” we mean the one with the highest return over a long period of time, adjusted for risk. Our aim remains the same today.

Fundsmith’s investment strategy is designed to help us achieve our aims. Our three strategies (Fundsmith Equity Fund [FEF], Fundsmith Stewardship Fund [FSF], and Smithson Investment Trust [SSON]) follow the same investment approach, focused on identifying and buying high quality companies. We have strict criteria for what we classify as “high quality” companies. We are only interested in investing in businesses that can deliver consistent performance and growth over the long term.

The companies we seek to invest in are predictable businesses with defensive characteristics. We look for companies that invest their capital at rates of return substantially above their cost of capital and make a high return on that invested capital. The good companies we want can sustain these high returns over the long term, which is a rare quality; across the universe of over 94,000 investible companies, only around 180 qualify as “good”, according to our criteria. We seek sustainable high returns as, over the long term, a company’s share price should compound at around the same rate of return at which it invests its capital. This generates the long-term value we aim to provide our investors with.

Our investment strategies’ focus on high and sustainable returns means that we start from a strong position in terms of climate-related risks. We are unlikely ever to invest in some of the most carbon-intensive sectors, such as Utilities, Materials, and Energy, due to the fact they are either not able to generate or because they are unable to sustain a high return on the capital they invest. These carbon-intensive sectors are those that will have the highest degree of exposure to the risks resulting from the low-carbon transition over the short and medium-term as the world pivots away from the fuel sources that power their businesses.

We typically prefer to invest in businesses operating in sectors such as Consumer Staples, Consumer Discretionary, Health Care, and Information Technology. These industries typically have higher and more sustainable returns and are significantly less carbon intensive as the table below indicates.



Source: Fundsmith LLP

Regardless of the relative carbon intensity of the above sectors, climate change can have a material impact on every business. Companies failing to mitigate the risk climate change poses, and those failing to capitalise on the opportunities it presents, will likely see their returns reduce, if not immediately, over the longer term. The costs companies are exposed to may increase as regulators act to put a price on emissions and fine those not complying with climate-related regulations. Equally, profits may fall as sustainability-minded consumers look for more sustainable alternatives. Identifying these risks and opportunities is an important part of our investment research process and key to identifying the companies likely to sustain a high return on the capital they invest.

## Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

The climate-related risks our companies are exposed to change depending upon the degree to which society manages to reduce carbon emissions over the coming years. Over the short term (0-5 years), transition-related risks are likely to be the most material if we are to achieve a so-called 'orderly transition' to a low carbon economy.

Under this scenario, regulators are effective at slowing the growth in emissions and begin to reduce the concentration of greenhouse gases in the Earth's atmosphere in the short- to medium-term. Our companies' highest exposure to climate-related risk in this scenario is from policy and legal factors as regulators implement strong and effective policies to force significant emission reductions. The success of this process dictates the risks our companies are subsequently exposed to over the medium (5-15 years) and long (>15 years) term. Should we successfully achieve an orderly transition in line with the Paris Agreement (less than 2°C higher than the preindustrial average global temperature) or, more optimistically, the so-called 'Business Ambition for 1.5°C' threshold, the most material physical impacts of climate change are likely to be avoided.

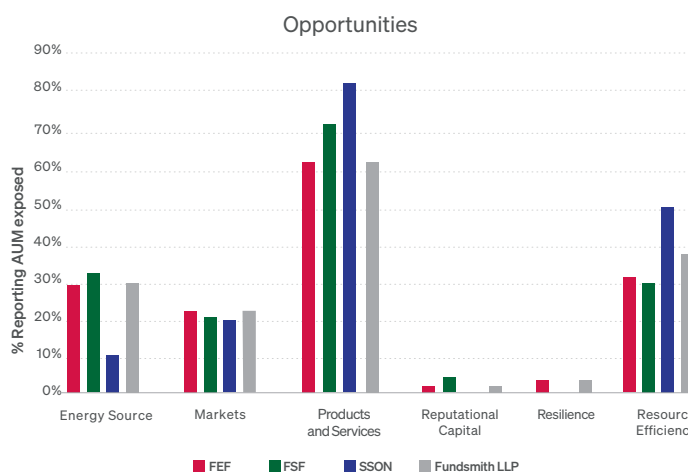
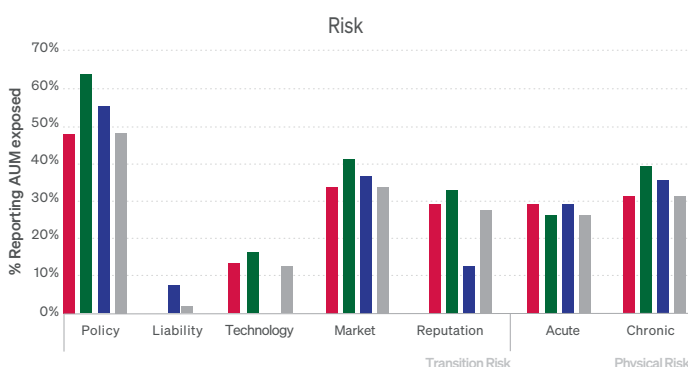
However, we may fail to achieve an orderly transition and are forced into a 'disorderly transition'. Under this scenario, temperature rise is contained within 2°C, but action is initially delayed or ineffective. The transition risks are mild in the short term under this scenario, largely as climate policies are not stringent enough to slow and reduce carbon emissions to the degree necessary. However, legal and policy-related risks are amplified in the medium term as regulators act to reduce emissions rapidly. The acute physical impacts of climate change also become increasingly significant in the medium term under this scenario as the warming climate disrupts global weather systems. As with an orderly transition, climate change's worst long-term physical impacts can be avoided by keeping warming within 2°C, and some of the onsetting chronic impacts may be reversed.

There is the risk that we fail to keep emissions within the 2°C threshold. There is potential that a so-called 'hothouse scenario' may occur if emissions reduction commitments are missed and atmospheric greenhouse gas concentrations continue to rise. Over the medium and long term, the increasing severity of acute climatic events, such as extreme weather (hurricanes, flooding, or heat domes), may cause severe disruption to our companies' value chains. Over the long term, the chronic impacts associated with climate change may pose a significant and constantly increasing risk. These chronic impacts can cause significant variability in weather patterns, combined with the rising global temperatures, which may result in increasing areas of the planet becoming inhospitable. These risks are particularly relevant to our consumer staples stocks, some of whom are reliant on supply chains covering regions of the globe with high exposure to climate change.

The companies we hold investments in may also benefit from climate change. The most material climate-related opportunity for our companies is gaining market share from less sustainable competitors. Investing in the research and development of more sustainable products or services and improving the operational sustainability of their businesses can allow our companies to capture the growing number of sustainability-conscious consumers from competitors, benefiting their topline.

We use the data companies report to the CDP (formerly known as the Carbon Disclosure Project) to help identify our companies' exposure to climate-related risks and opportunities. The CDP is a charity operating a voluntary global disclosure system, assisting companies in understanding and managing their environmental impact. Under the CDP's 'Climate Change' disclosure framework, companies can disclose the climate-related risks and opportunities most material to their operations. As a firm, 88% of our AUM discloses this information, with 91% of the Fundsmith Equity Fund's invested assets disclosing, 87% for Fundsmith Stewardship Fund and 52% for Smithson Investment Trust. The proportion of assets disclosing this information is significantly lower in Smithson as the companies the Fund invests in are small and mid-market capitalisation range companies. Emissions are less material for these companies, and the costs associated with making these disclosures are relatively higher. The material areas of climate-related risk, following the risk definitions provided by the TCFD<sup>3</sup> are detailed for each of our UK funds and for Fundsmith LLP in the graphs opposite. The graphs show the proportion of each funds' reporting AUM that identifies each category of climate-related risk and opportunity as material to their operations.

Our funds, via the companies they invest in, have the highest exposure to climate-related risk via the 'Policy' and 'Market' changes associated with the low carbon transition. These are the short- to medium-term risks generated by regulators as they put growing costs on carbon emissions, and the growing risk of consumers abandoning the products and services our companies offer as they seek more sustainable alternatives. Despite our companies identifying this as one of their key climate-related risks, it is also one of their largest opportunities, as discussed above. Our companies are also aware of the potential acute and chronic physical impacts of climate change. These will become increasingly material over the medium- to long-term if policy measures fail to keep the planet's temperature within the 2°C threshold.



Source: CDP & Fundsmith LLP

<sup>3</sup> <https://www.tcfhub.org/Downloads/pdfs/E06%20-%20Climate%20related%20risks%20and%20opportunities.pdf>



## Operations

As a small company with less than 50 employees based in a single location, our exposure to the physical impacts of climate change is low. Over the short term, the majority of our climate-related risk comes from transition-related factors. Most of this risk relates to policy and legal matters as regulators impose growing costs on us as a firm to reduce our emissions, improve reporting so that national targets can be met, and impose sustainability-related regulations on our products.

### **Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.**

Most of Fundsmith LLP's climate-related risks and opportunities come from the funds we manage. As a result of our investment philosophy, focusing on identifying companies with a high return on capital invested, our funds comprise companies with a high degree of resilience to climate change and are well-positioned to benefit from its opportunities. Consequently, we have not found it necessary to make significant changes to the way we approach investment or our investment research process. However, we have significantly improved how we identify and assess climate-related risks and opportunities within our research process and ongoing monitoring of companies. The rapid progress in the quality, quantity and consistency of climate related data reported by companies and climate-related institutions, such as the CDP and Science-Based Targets initiative (SBTi), has been key in facilitating these advancements. This has allowed us to refine how we identify a business's climate-related performance and impact and better assess the risks they may face.

Our investments have yet to experience significant material impacts from climate-related risks. Our companies are generally ahead of the curve regarding emissions performance and target setting, and we have not experienced any changes to our assessment of their long-term performance in relation to climate-related factors. Our companies have, however, changed the way they operate to minimise their risk exposure and capitalise on opportunities over the longer term.

Most of our AUM is invested in large to mega market capitalisation companies ( $\geq \$15\text{bn}$ ). These companies, given their scale, are under a high degree of scrutiny and pressure to align to a standard and reduce their emissions. Most of our companies have done just that; at the end of 2024, over 70% of our AUM had SBTi-approved emissions reduction goals aligned with the 1.5°C transition pathway, and around 50% had committed to, or had already set, net zero targets with the SBTi. To achieve the targets they have set themselves, our companies are committing a significant amount of time and resources towards sustainability-related research and development for their products and services, as well as investing in programs to reduce energy consumption and increase renewable energy use, and to identify effective carbon offsetting schemes.

The effectiveness of our companies' investments and the practicality of the climate goals they have set are under further scrutiny by regulators and consumers who have become highly aware of corporate greenwashing. Given its growing prevalence and repercussions, we are acutely aware of this risk. As a result, we are engaging more frequently with our companies to understand their climate plans and emission reduction activities so we can assess the quality of a business's target setting and reduction plans. We are also using engagement to encourage companies to establish emission reduction plans where climate-related risks are material, and we consider it necessary.

## Operations

The impact of climate change has become increasingly evident over recent years, particularly through instances of extreme weather across the globe. As the visibility and tangibility of these events have grown, so too has the interest from investors in so-called “ESG” investment funds. This was particularly prevalent during the years affected by the coronavirus pandemic. This change in consumer behaviour was an opportunity for us, given our low exposure to the sectors contributing the most to climate change.

We expanded our research team by adding a stewardship and sustainability analyst to take advantage of this. We hired the analyst to help us better communicate both qualitative and quantitative climate-related information to our existing and prospective investors and to communicate the climate-related benefits of our investment strategy. In January 2022, we added the first climate-related performance indicators to the Fundsmith Stewardship Fund’s monthly ‘Sustainability Factsheet’ and published our first ‘Annual Sustainability Summary’ documents for the Fundsmith Equity and Stewardship Funds. The sustainability summaries contain a range of data relating to various environmental, social, governance, and innovation factors, with a specific section dedicated to climate-related performance.

We established an internal Stewardship and Sustainability Committee in 2020. The Committee was created to centralise the discussion of climate-related risks and opportunities in our investment process, oversee the implementation of our Responsible Investment Policy, and ensure that the Firm remains abreast of the latest developments and best practices in relation to responsible investment, including climate-related matters.

## **Describe the resilience of the organisation’s strategy, taking into consideration different climate-related scenarios, including a 2 degree C or lower scenario.**

As mentioned throughout this section, most of the Firm’s exposure to climate-related risk comes from our investment portfolios. As a result of our investment approach, we are confident that our portfolios have a high degree of resilience to climate change across orderly, disorderly, and hothouse scenarios. Nonetheless, the companies we hold within our strategies must adapt to these changes. Our companies are businesses that use their capital effectively, and as the risks and impacts of climate change grow, they are the companies that will allocate capital to mitigate these risks and manage the impacts.

We have not completed climate-related scenario analysis as a firm. We do not undertake this analysis as we believe that scenario analysis is a blunt tool across its use cases, and particularly so for climate change. Scenario analysis relies on a series of assumptions and projections that attempt to remove real-world events’ inherent complexity and unpredictability. Its process relies on a limited number of scenarios constructed using historical data selected on a subjective basis. Given the incredible complexity of the earth system, any attempt to precisely predict possible outcomes is not considered worthwhile, particularly using scenario analysis. Instead, we prefer to be more risk-averse in our approach and reduce our exposure to climate-related risk at its source, investing in companies that can sustain a high return on the capital they invest.

## Risk Management

### **Describe the organisation's processes for identifying and assessing climate-related risks.**

Fundsmith LLP's principal exposure to climate-related risks comes from our investment funds and their underlying investments. The climate-related risks our investments and prospective investments are exposed to are identified and assessed as part of the fundamental, bottom-up research process conducted by our research team. Every company that enters our funds' investible universes is subject to this assessment. Our research process uses publicly available information collected directly from the company itself or institutions such as the CDP and Science-Based Targets Initiative. If a company does not report their emissions, we use estimates calculated internally or, if necessary, collected from Bloomberg. We may also engage with a company during the research process to understand why it doesn't report climate-related data and assess its approach to climate-related risk.

Given that we are focused on high-quality companies and, for the majority of our AUM, large- to mega-market cap stocks, it is increasingly rare that emissions are not reported. Every company held in the Fundsmith Equity and Fundsmith Stewardship funds disclosed its operational carbon emissions (scopes 1 & 2) in 2024, either within its own sustainability report (or equivalent), or to the CDP, or both.

Our climate-related analysis of a business is focused on identifying and assessing the risks that may impact the company's ability to sustain a high return on the capital they invest. Our analysts have two main goals: first, assess the materiality of climate-related risk to the company; second, assess the company's plans and progress in reducing its emissions and, therefore, exposure, should it be a present and material risk. Our assessment uses the following logic:

## Are the company's greenhouse gas emissions excessive?

- This judgement is based on assessing a business's emissions across scopes 1, 2, and 3 on an absolute and intensity basis. We compare the business to companies we deem similar in scale and operation, our existing investments and wider investible universes, and a reference index (typically the MSCI World and S&P 500 Indices).
- If a company's emissions are low in an absolute sense or significantly lower than those of its comparators, we would conclude that it has lower exposure to climate risk, particularly regarding the short and medium-term transition risks.

## What commitments has the company made about its greenhouse gas emissions?

- While high emissions indicate increased exposure to climate-related risks, it is important to account for the business's approach to managing its emissions.
- Every company must reduce their carbon emissions to some degree if we are to ensure an orderly transition, even those emitting low levels of carbon. However, those having an outsized impact must do more. Companies with excessive emissions could see increasingly punitive measures from regulators to force emission reductions over the short and medium term, imposing high costs on the business. We look to see the commitments a business has made as this gives us a better understanding of the direction in which its emissions should head in the short to medium term. It also allows us to assess how exposed it may be to fines or taxes from regulators.
- Our assessment looks not only at the commitments companies have made but also at the quality of these commitments. External validation of the targets set by businesses is important. This means that the targets businesses have set are assessed by an organisation independent of the business. This is important for two reasons: first, it gives a greater degree of reliability to the targets set and eventual outcome, which, second, reduces the risks of accusations of greenwashing by the business. The Science-Based Targets initiative is the standard body for this

and provides an independent, science-based assurance of the targets set by businesses. Where company emissions are higher than our comparators, we would prefer to see these businesses either in the process of or already having emission reduction targets approved by the SBTi and aligned with at least 2°C, preferably the more ambitious 1.5°C goal.

## Is the company making progress in reducing their emissions?

- Assessing the direction of travel in a business's emissions is the final step of our analysis. As mentioned, having approved targets is important and adds credibility to companies' emissions reduction goals. However, only some companies choose this route. Companies may be making significant progress in reducing emissions without validated targets and those with validated targets may well be heading in the wrong direction.
- Assessing how a company's emissions have changed can ensure that we gain a more accurate understanding of the company's climate performance and commitment for every company, SBTi-aligned or otherwise.

For most companies that meet our investment criteria, carbon emissions are not a material risk. This means that our exposure through investments is relatively low in terms of transition-related risk over the short and medium term. However, we still want to ensure that our investees are mitigating their carbon emissions to ensure they are positioned to deal with the increasing regulation of emissions and to take advantage of changing consumer sentiment.

The impacts of longer-term physical climate-related risks are harder to identify. For most of our companies, the high returns they can generate enable them to invest sufficiently over the next few years to add resilience to their operations. They are also companies that reinvest their returns in the research and development of the products and services they offer, continually improving the efficiency and longevity of their offerings, staying ahead of changing consumer preferences and offering increasingly sustainable solutions.

Should global warming targets be missed and warming breach the 2°C threshold, the physical impacts of climate change become an increasing risk no matter how productively a company can invest its capital. These risks are particularly material to the consumer staples stocks we analyse. These companies rely on foodstuffs produced in regions of the globe with a high degree of exposure to climate change, namely drought. One of our investees, Unilever, identifies this, concluding that “climate change could result in increased costs, reduced profit and reduced growth”. Many companies are aware of this risk and are researching methods of sustainable crop production and investing in the research of drought-resistant crops. In such cases, our risk management process seeks to assess the degree of exposure a company has to this via their ingredients, how aware of the risks they are, and their approach to reducing their exposure.

### **Describe the organisation’s processes for managing climate-related risks.**

We make a concerted effort to minimise our exposure to climate-related risk as part of our investment research process. It is unlikely that we would invest in a business that had exposure to unmitigated climate-related risk. This would be identified during our research process and integrated into our initial assessment of the sustainability of returns. Regardless, we continually monitor every company admitted to our funds’ investible universes to ensure our initial assessment remains accurate. We monitor climate-related news published by the company and about the company from reputable news sources and integrate this into our qualitative assessment. We also update our quantitative climate assessment of the company when the latest carbon emissions data is published and emissions targets are set/updated.

Should we identify something in the data, quantitative or qualitative, that we deem to be a material climate-related risk, we would follow the engagement approach we detail in our Responsible Investment Policy. This response is the same for any potential risk we identify at an investee business. After identifying the risk, our first response would be to initiate an engagement with the company. We would meet with management to understand their assessment and response. Usually, the company has a significantly better understanding of the issue than us and is already acting to manage the risk. Should we be unsatisfied with management’s response, we may escalate our engagement by speaking to increasingly senior members of company management or by voting against items at the company’s AGM. If management ignores our engagement and fails to mitigate a material climate-related risk we have drawn attention to, we may ultimately choose to divest our holding.

### **Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation’s overall risk management.**

Fundsmith LLP classifies the risks it faces within its Enterprise Risk Management Framework, which consists of a series of top-level, or ‘Level 1’, risks and underlying ‘Level 2’ risks. Climate-related risks are classified as a component of ‘Sustainable Investment Risks’, a Level 2 risk, sitting under the Level 1 risk category of ‘Investment Risk’ in our risk taxonomy. Fundsmith’s portfolio managers and research team manage the investment risks associated with portfolio holdings. Investment compliance is monitored by the compliance and risk teams. As described in the ‘Governance’ section of this report, climate-related risks are a matter that the Management Committee has given Fundsmith’s Stewardship & Sustainability Committee oversight of.

# Metrics and targets

## Metrics

### Fundsmith LLP

The table below discloses Fundsmith LLP's carbon emissions for the calendar years 2023 and 2024. We do not own the London office from which our operations are based, nor do we own any vehicles for use within our business. Therefore, we do not produce scope 1 emissions. All our direct emissions are from the electricity used by our London office during the year, i.e., scope 2 emissions.

As shown in the table below, the emissions resulting from our direct operations are insignificant compared to the emissions generated by our investment portfolios and their underlying investments (i.e., our scope 3 'investment' emissions). These emissions carry significantly more material risks and opportunities for us as a firm, which is why they have been focused on throughout the report.

Fundsmith LLP Greenhouse Gas Emissions	2023	2024
Scope 1 & 2 (tCO <sub>2</sub> e)	14	14
Scope 3 - Investments (tCO <sub>2</sub> e)	137,777*	172,915

Source: Fundsmith LLP

\*Scope 3 has been recalculated to reflect improved disclosure

Climate-Related Metrics	FEF		FSF		SSON	
	2023	2024	2023	2024	2023*	2024
Scope 1 & 2 emissions (tCO <sub>2</sub> e)	126,076	161,370	4,680	5,932	7,017	5,613
Scope 3 emissions (tCO <sub>2</sub> e)	1,657,272	1,939,376	91,449	66,157	466,268	675,606
Total carbon emissions (tCO <sub>2</sub> e)	1,783,348	2,100,745	96,129	72,089	473,285	681,220
Carbon footprint (tCO <sub>2</sub> e/\$m invested)	5.4	7.2	6.8	9.5	2.8	2.6
WACI (tCO <sub>2</sub> e/\$m revenue)	16.8	17.9	21.3	21.6	10.5	8.3
Weighted average implied temperature rise	1.6	1.4	1.6	1.4	N/A	N/A
% Reporting scope 1 & 2	100%	100%	100%	100%	71%	80%
% Reporting scope 1, 2 & 3	100%	96%	100%	92%	50%	66%

Source: Fundsmith LLP

\*Smithson metrics have been recalculated to reflect improved disclosure

## Investment Portfolios

We are disclosing our funds' direct emissions (scopes 1 and 2), value chain emissions (scope 3), carbon footprint, and weighted average carbon intensity (WACI), all of which are metrics that the TCFD recommend for disclosure. Reporting by Smithson companies is lower than our other funds. This reflects the smaller size of the companies held within the fund and the increased challenges they have in calculating emissions and establishing SBTI-approved targets, largely due to their relative costs.

We are also disclosing the implied temperature rise for the Fundsmith Equity Fund and Fundsmith Stewardship Fund. To

calculate this metric, we use the CDP and World Wildlife Fund's temperature scoring methodology<sup>4</sup> to translate our companies' emission reduction targets into an estimate of their temperature alignment. For example, companies with SBTI-approved short, medium and net zero targets would have a temperature alignment of 0°C, and companies with no reduction goals are classified as being aligned with a 3.4°C warming scenario. We then create our weighted average temperature alignment for the portfolio from the individual company results. We are not disclosing the implied temperature rise for the Smithson Investment Trust as coverage for the companies held by the Trust is currently too low.

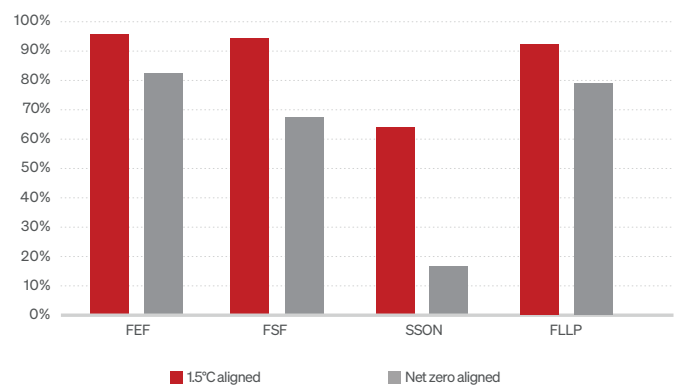
<sup>4</sup> <https://wwfint.awsassets.panda.org/downloads/cdp-wwf-temperature-scoring-methodology---september-2024.pdf>

## Targets

We have not set a target in relation to our carbon emissions. We consider that, as an entity, the Firm's operational emissions are low (equivalent to the average use of three petrol cars for a year<sup>5</sup>) and immediate action to reduce them is not yet necessary. As the UK has committed to become a net zero economy by 2050, it is likely that the UK Government will introduce measures to encourage businesses to reduce their emissions. Acknowledging this, it is likely that within the next few years we will develop and pursue an emissions reduction target, at least covering our direct emissions.

Over 90% of our financed emissions (scope 3 investment emissions) have SBTi-approved 1.5°C aligned targets and almost 80% have SBTi-validated net zero targets. As such, we feel that we are performing strongly and will continue to do so provided that our companies' emissions perform as we would expect. Our focus remains on engaging with companies that are lacking emissions targets to understand their reasoning and to encourage target setting when we feel it is a necessary step to mitigate climate-related risk.

In the graph on the right we break down the proportion of each funds' and Fundsmith LLP's emissions that are committed to the 1.5°C target and to achieving net zero emissions, as at the end of 2024. Both the Fundsmith Equity Fund and Fundsmith Stewardship Fund had over 90% of their emissions covered by a target aligned with keeping warming within 1.5°C. Both funds also had a high proportion of their emissions committed to reaching net zero. Over 80% of FEF's emissions were committed to reaching net zero by 2050 at the latest, with FSF at almost 70%. Commitments made by the companies held in Smithson are significantly lower. Again, this reflects the smaller size of the companies the Fund invests in and the lower materiality emissions have to the operations of these companies.



Source: Fundsmith LLP

<sup>5</sup> <https://www.epa.gov/energy/greenhouse-gas-equivalencies-calculator>



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