

Fat Prophets take Profits

The Fundsmith Emerging Equities Trust (LSE.FEET), was initially recommended as a Buy in 2015 mainly for Members to (i) gain an exposure to the Consumer Staples sector as well as (ii) having the benefit of little to no duplication with the Fat Prophets Portfolio at the time given its mandate to invest in the Emerging Markets. Since that time the fund's share price has increased in value, but has been a disappointment having mostly underperformed against its benchmark. With some differences also becoming apparent between the fund's strategy and our own investment themes we are recommending Members sell their holdings.

Fundsm Emer Eq Accum.Shs GBP - FEET (LSE) - 1 Day CandleStick Chart - GBP



Performance Review (Note: Equities is the MSCI Emerging & Frontier Markets Index)

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price has increased in value, but has been a disappointment, having mostly underperformed against its benchmark as shown in the graphic below.

Performance Overview, % Return

| | Mar 2018 | 2018 to 29.3 | 2017 | 2016 | 2015 | 2014* | Since Inception to 29.03.18 | Annualised to 29.03.18 |
|-----------------------|----------|--------------|-------|-------|-------|-------|-----------------------------|------------------------|
| FEET NAV ¹ | -2.2 | -4.9 | +21.2 | +12.0 | -7.0 | +0.1 | +20.4 | +5.1 |
| FEET Share Price | -1.2 | -7.9 | +24.5 | +10.5 | -10.9 | +7.2 | +21.0 | +5.2 |
| Equities ² | -3.7 | -2.3 | +25.3 | +32.4 | -10.0 | +0.5 | +46.7 | +10.7 |
| UK Bonds ³ | +0.9 | -1.1 | +1.4 | +6.5 | +1.0 | +7.4 | +15.8 | +4.0 |
| Cash ⁴ | +0.1 | +0.1 | +0.4 | +0.5 | +0.6 | +0.3 | +1.9 | +0.5 |

¹Starting NAV 995.5 ²MSCI Emerging & Frontier Markets Index, £ Net (source: www.msci.com) ³Bloomberg/Barclays Bond Indices UK Govt 5-10yr (source: Bloomberg)

⁴Month £ LIBOR Interest Rate (source: Bloomberg) *From 25.6.14

Source: 29 March 2018 Fund Factsheet

Closer analysis of the fund's portfolios show that the significant lag is mainly due to the Fund's mandate itself which avoids (or minimises) sectors exposures in IT and Financials while also avoiding China with the Fund stating concerns of corporate governance, accounting standards and general antipathy of Chinese consumer companies. This has led to the fund missing out given that China was the best performing emerging market during the period.

That said, our review of the detailed breakdown in the portfolio (only disclosed in Interim and Annual reports) also showed that the fund had minimal to no exposure to high potential consumer plays like Vietnam and the Philippines which also displayed superior performances over the time period.

Though that is in the past and there is no point in crying over spilt milk. That said, looking to the near future, we also note that there are some additional headwinds that, in our view, bar the Fund closing the gap with the benchmark.

Notably, the recent announcement where shareholders voted against removing the regional exposure limit of 40% implying that investments in India remain capped. We view that as highly limiting given that the demonetisation initiative by PM Modi along with the Goods and Services Tax (GST) has already passed its anniversary and the negative effects to likely have faded away.

That aside we also note a lack of exposure to the new up and comer Saudi Arabia which has potential given the reforms pushed by the Crown Prince Mohammed bin Salman, who is trying to wean off the country's dependence on oil while simultaneously attract foreign investment to solve the country's deficit.

Our verdict is that alternatives in our portfolios such as the **JP Morgan Indian Investment Trust** (UK portfolio), Aberdeen **India Fund** (USA) and even the **China A-Shares ETF** (AUS) to be much better choices. While for more aggressive Members, there are also numerous individual consumer picks in the Asia Portfolio such as the **Puregold Price Club**, **Seven & I Holdings** and even **Kao Corporation** to name a few.

All in all, we believe that the Fund is no longer an adequate exposure given that its strategy doesn't align with our investment themes and accordingly we recommend Members sell their holdings in the Fundsmith Emerging Equities Trust. Coverage will cease immediately.

FEET portfolio breakdown

Moving on, just a quick update on the Fund and as at the end of March 2018 the Fundsmith Emerging Equity Trust had reduced its 54 holdings from our last coverage back in November 2017 (October 2017 Factsheet) to now 48 stocks, which is fairly diversified given that no single stock exceeds 5% in weighting.

The last twelve-month portfolio yield was 1.8% with this more than covering the annual management charge of 1.25%. The median company in the portfolio was founded in 1964 (previously 1959) implying increased exposure to relatively younger companies yet having proven track records. The median market capitalisation has also risen to £2.8 billion (previously: £2.1bn). FEET has therefore focused on long-established companies that are of a reasonable size.

FEET portfolio highlights

Key Facts

As at 29 March 2018 by Listing

| | |
|------------------------|------------|
| LTM Portfolio Yield | 1.8% |
| No. Holdings | 48 |
| Median Company Founded | 1964 |
| Median Market Cap | £2.8bn |
| Gearing | None |
| No. Shares in Issue | 25,650,056 |
| Market Capitalisation | £310m |

Source: 29 March 2018 Fund Factsheet

Looking at the sector exposure and at the end of March, the fund still has a large exposure to Consumer Staples at 68.2% (previously: 74.2%) of assets and followed by Healthcare at 13.4% of assets and Consumer Discretionary come in at 5.9%.

As we've noted above, the substantial allocation in Consumer Staples and underweighting in Financials and IT are the main causes for the underperformance.

On a geographic basis, Asia remains the largest region for the fund at 68.4% of assets with majority of this in India at circa 40% and followed by China at less than 12% with the remainder spread across other Southeast Asian countries. This is then followed with the Europe, Middle East and Africa region having 22.2% of assets with Egypt and South Africa covering more than half (~16.0%)

FEET at a Glance (as of 29 March 2018)

Geographic Split

| As at 29 March 2018 by Listing | % |
|--------------------------------|------|
| Asia | 68.4 |
| Europe, Middle East, Africa | 22.2 |
| Latin America | 7.4 |
| Cash incl. Money Market a/c's | 2.1 |

Sector Split

| As at 29 March 2018 by NAV - GICS | % |
|-----------------------------------|------|
| Categories | |
| Consumer Staples | 68.2 |
| Healthcare | 13.4 |
| Consumer Discretionary | 5.9 |
| Technology | 3.9 |
| Industrials | 3.6 |
| Materials | 2.8 |
| Cash incl. Money Market a/c's | 2.1 |

Top 10 Holdings

- Eastern Tobacco
- Britannia Industries
- Godrej
- Vitasoy
- Marico
- Vietnam Dairies
- Foshan Haitian
- Philippine Seven
- Hypera
- Travelsky

Source: 29 March 2018 Fund Factsheet

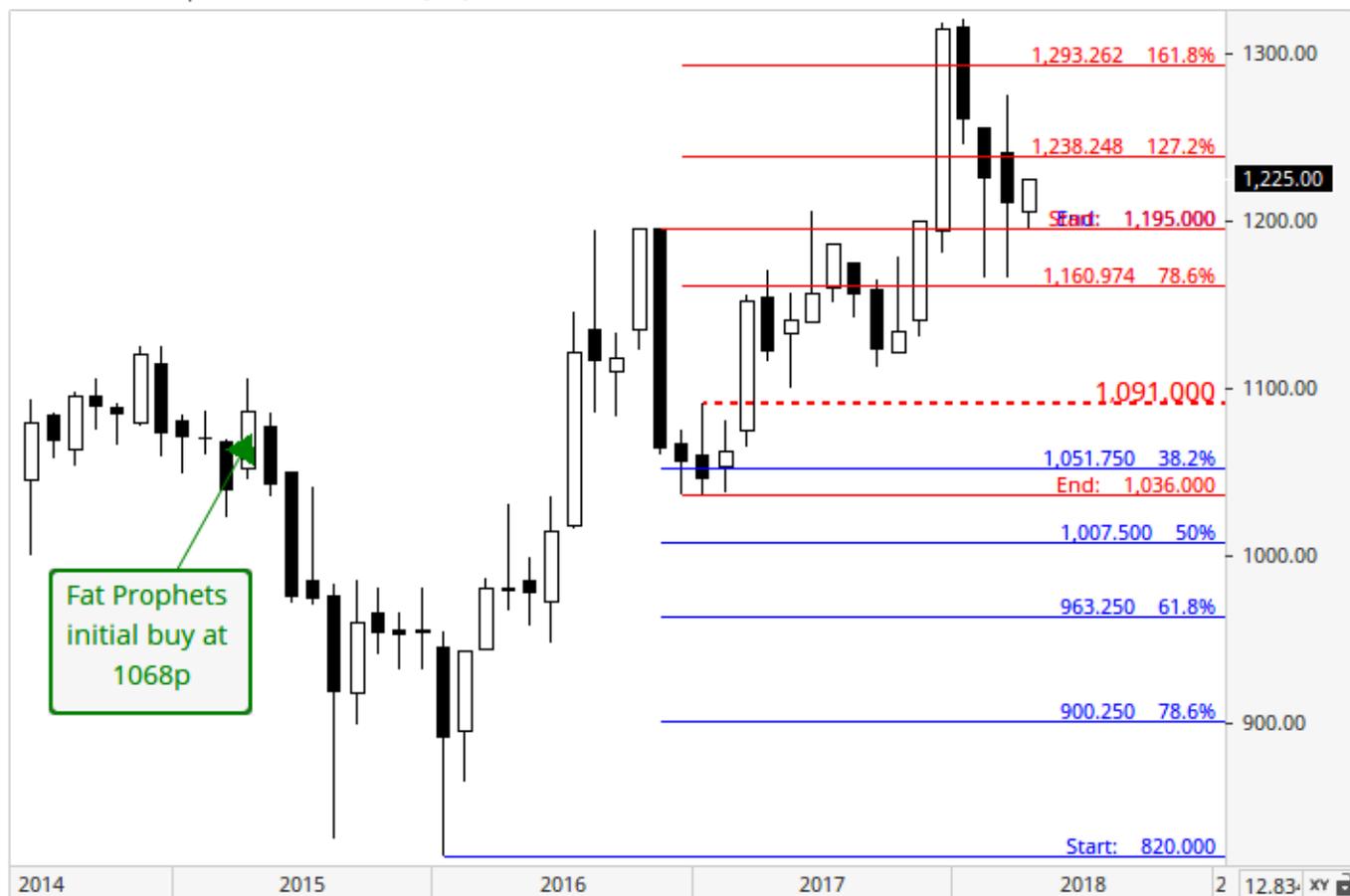
FEET's top ten holdings

A quick glance at the top ten, we see that a substantial portion of these are Indian consumer staple players which we expect to benefit the most from the recently implemented GST regime. **Britannia Industries** is the second largest position and is an Indian food business with brands that include Britannia and Tiger biscuits. **Godrej** is also an Indian personal care focused group covering hair care, home care and personal care.

The largest position of the fund, however, is Egypt-based **Eastern Tobacco** with its shares surging almost sixfold since November 2016 when the country floated its currency freely and implemented an economic reform program as well as increased its privatisation efforts pushing investor confidence up.

That said, the company has also benefitted from the increases in price with the most recent hike at circa 40% while cigarette demand hasn't even inched down at all. Note that based on statistics from the World Health Organisation, over 50% of Egyptian men aged 15 and above regularly consumer tobacco and is forecasted to hit over 63% by 2025.

Unsurprisingly the company has likewise raised its production capacity to meet rising demand with the recently announced five-year joint production agreement with Al Mansour International Distribution Company. The company has also been quite the beneficiary from increased smoking trends over the past couple of years.



Summary

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Snapshot FEET

Fundsmith Emerging Equity Trust

Latest Closing Price: £12.25

Fundsmith Emerging Equity Trust (FEET) invests in companies that derive the majority of their revenue or operations in developing economies. The focus is on gaining direct exposure to the rise of the consumer class in emerging markets.

Sectors that are avoided include financials, manufacturing, utilities, resources, transport, resources and heavy cyclical sectors. The key focus is almost entirely on consumer stocks or companies benefitting from the rising consumer class.

Market Capitalisation:£314.86m

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