SHINING A LIGHT ON……
ARTEMIS GLOBAL INCOME FUND

At a glance

For new investors choosing the right sector or country can be daunting. Often they are drawn to the best performers, and those being advertised. This strategy could work but the reverse is also true with investors being disappointed because they haven't fully understood the investment strategy.

We have reviewed several Global Growth and Income Funds. Some have a heavy bias to the US, some are more globally diversified and some like Baillie Gifford Global Discovery and Scottish Mortgage are more suited to higher risk investors.

We recently reviewed the M&G Global Dividend Fund, our conclusion was that it was a well-run fund which is defensive in nature and wouldn't significantly outperform the index. This is no-way negative and in fact blended with high risk global funds this could act as a good safety net.

There are however alternative options and one such fund which may have slipped under people's radar is the Artemis Global Income Fund.

Comparing the two one can see the performance from the Artemis Fund is strong but the volatility is slightly higher 11.14% against 10.68%. Other factors to consider includes the fund size which is £1.4 billion against £9.4 billion with M&G which means there are areas it can invest that perhaps M&G would find it harder. M&G is skewed towards the mega cap space whereas Artemis is mid to large cap with around 10% of the fund in the small cap space.

Two other interesting facts for investors to consider is that the Artemis Fund has around 30% in the US and 46% in Europe whereas M&G have 60% in the US and Canada and 16% in Europe. Turning to the holdings the Artemis Fund has 96 holdings whereas M&G is 44.

So there are slight variants. Speaking to the manager he pointed out that many investors choose the fund to sit aside UK Income Funds because it avoids large cap UK dividend players. For us we would see this in our portfolios as a volatility dampener against some of the more volatile global funds. It has a shorter track record to M&G and this may deter some investors but for investors prepared to take slightly more risk this is a fund to consider.

We met the manager shortly after the fund was launched and have followed since. This update looks at the fund four years on from its launch.

Who are the team behind the fund?

The fund is managed by Jacob de Tusch-Lec. Jacob started his investment career in 1998 working for BankInvest, Merrill Lynch and joining Artemis in 2005. Not only is he the manager of the Global Income Fund but he is also the co-manager of the Monthly Distribution Fund. His style of management tends to show outperformance in a rising market but underperformance in a falling market.

Fund highlights?

The comments below are taken from a recent interview with the manager:

"Underpinning the manager's approach is a solid process, based on that developed by Adrian Frost and Adrian Gosden's £6.3bn Artemis Income fund. This places free cashflow at its heart, seeking to identify stocks with a free cashflow yield of more than 6 per cent to narrow down the investable universe.

Jacob, however, has made changes to the process to reflect the subtleties of global equity income investing - such as a less developed dividend culture than the UK - and the impact of macro events on the portfolio.

"When you go global there are so many things that are not necessarily an issue for UK income. For example, a lot of foreign companies don't pay progressive dividends, they have a fixed payout ratio," he explains. "You therefore have to model earnings much more strictly because the dividend is a result of the earnings, whereas in the UK a lot of companies manage to eke out higher dividends even in a year where they are loss-making." "

When I first met Jacob what made me nervous about the fund was his comment that he couldn't manage it in the way he wanted. Speaking to him again it became clear that this is part of his style. That is the flexibility to respond to market variants. So by this he means that the situation we are in now is not dissimilar to that of 2010 / 2011 where large caps were doing better and he skewed the portfolio in that direction. So having a solid process is crucial but also a process that enables him to respond to what the market is doing.

The fund itself is a good mix of well-known names and less known. This is important because at the moment a lot of the big names are expensive and therefore to focus on one area might miss opportunities so it is about finding a blend. An example of an unlikely holding is an Italian Insurance Company which is currently trading at 8x PE with a yield of 8%. The fund is made of quality yield, cyclical yield and value yield. It varies from region to region as to where he finds those opportunities but for example in the US cyclical yield is cheap and in Europe value yield.

In the US some of the companies he has favoured or is still favouring are the likes of GE and Ryder.

He explained that the market is data driven and no-one can predict what will happen 12 days ahead but there are opportunities. Russia is cheap but there are policy risks, there are question marks around the real growth in China and where now for Emerging Markets. Interestingly we discussed the use of hedging currency in Japan and he believes with the policy of weakening the Yen it means that the only way to make money is to have a hedge. What he went onto say is that at some point investors may have a similar situation in Europe. If he is correct in his thinking then this could widen further where to capture growth investors need to consider a hedge back into sterling.

We touched on his concerns with emerging markets and he explained that it is not all bad, in fact there are some great opportunities in his view. Bank of Georgia was one which has grown organically by 15 to 20% a year and is listed in the UK.

The M&G Global Dividend seems the safe pair of hands against this fund but the more I meet Jacob and understand what he is doing I can see this as a worthy replacement to M&G. There are risks, this is more volatile and will underperform in down markets. There is also not the breadth and depth in the team should Jacob leave and these are things investors need to consider.

He may not have been able to invest in the way he wants to but it reflects a process which is flexible enough to adapt to the market. Although there are a large number of holdings it doesn't strangle or hold back performance and a small weighting to the US makes this an interesting fund to consider.

For us it is worth considering as a volatility dampener against more volatile global funds however for others they may consider this as an income fund against a UK Fund. The danger with M&G is that as it gets bigger performance is squeezed, this fund is still relatively small in comparison.

In summary a well-managed fund which could be considered as an alternative to the M&G Global Dividend Fund. It has a strong track record but is slightly more volatile.

Fund performance

Performance vs M&G Global Dividend Fund and DB X-Trackers FTSE All World Ex UK since launch on 19 July 2010 to 31 October 2014 is shown below:

	2010	**2011**	**2012**	**2013**	**2014**	**Since launch**
Artemis Global Income Fund	19.14%	-4.40%	16.18%	34.37%	8.77%	16.64% p.a.
M&G Global Dividend Fund	17.25%	-1.26%	12.36%	24.71%	3.82%	12.93% p.a.
DB X-Trackers FTSE All World Ex UK	17.37%	-8.33%	9.75%	20.98%	8.82%	10.84% p.a.

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

Conclusion

This fund has a solid process but one that is adaptable to reflect an ever uncertain market. The manager is prepared to change the tilt of the fund to reflect the market. Volatility is still fairly low and therefore it could be considered defensive and would act well as a blend with a more volatile global fund or as an income fund against a UK Income Fund.

The source of information in this note has been provided by Artemis and is correct as at November 2014. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well rise.