

SHINING A LIGHT ON.....

ARTEMIS US ABSOLUTE RETURN & US EXTENDED ALPHA FUND

At a glance

Threadneedle had developed an excellent reputation as US Fund Managers however, the whole team left and set up again at Artemis. It is now twelve months since the US Absolute Return and Extended Alpha Strategies were launched.

Both have delivered on target in the twelve months since launch. Their approach is slightly different in that they both adopt a Long / Short investment strategy that involves buying equities they expect to increase in value and selling short equities that are expected to decrease in value.

The Absolute Return Strategy aims to deliver a positive return over a three-year period and both strategies aim to provide downside protection. These funds may act as a blend with other strategies and in this update we were looking for a brief update from the manager.

Who are the team behind the fund?

The funds are managed by Stephen Moore. He began his career with First State in 1997 before joining Threadneedle in 2002. In 2004, he became deputy manager of Threadneedle's US hedge fund. Stephen launched the Threadneedle American Extended Alpha Fund in 2007 and became lead manager of Threadneedle's US hedge fund in 2008. In 2010 he launched the Threadneedle American Absolute Alpha Fund. Along with the core US team he moved from Threadneedle to Artemis in 2014 and launched the US Extended Alpha Fund in September 2014 and US Absolute Return Fund in October 2014.

According to trustnet he has outperformed his peer group more often than not and has outperformed 5 years out of seven.

Fund highlights?

We started with a brief outline of what the funds are looking to achieve.

Artemis US Absolute Return Fund – the fund aims to deliver a positive return over a rolling three-year period, irrespective of changing market conditions. Stephen approaches this by combining a traditional long portfolio of US stocks with short positions. The short positions are used to hedge market risk and generate a positive return.

Artemis US Extended Alpha Fund – the fund aims to profit from falling, as well as rising, share prices. Similar to the Absolute Return Strategy it does this by mixing long and short strategies.

Stephen went on to discuss the US economy and he feels the market is focusing on the top line and not looking below the surface. The "market" feels that the increase in interest rates is a reflection of better consumer confidence. He feels that although this might be true the worry is that we are coming out of a central bank experiment where we don't know the outcome.

Most assume that the rate rise will help deliver strong returns but Stephen feels this is an incorrect thesis and that we are coming through a rate cycle already, and returns will be muted going forward.

For this reason, he feels the market is too optimistic with the dollar remaining a headwind for the economy and rising interest rates squeezing liquidity and driving defaults.

It means that at the moment there are more opportunities appearing in the short market and in particular sectors including media, selective retailers and hotels (travel).

In this environment he feels his strategies can benefit where others will naturally struggle. The short strategy means that the funds can benefit from falling as well as rising share prices. The fund is all about picking the right stocks and creating profits by correctly anticipating which stocks which will fall and rise.

The Extended Alpha Fund is more volatile than the Absolute Return Strategy Fund (which is currently around 5% volatility). Stephen did indicate that investors might look to blend the two strategies rather than taking one or the other.

By their very nature the funds have a large number of holdings; the Extended Alpha has 185 holdings and Absolute Return 170 but this reflects the strategies he uses. There could be an argument that it would be hard for the manager to know all the companies and therefore you are relying on his skill. With 12 months' track record this is a tricky call but there is the track record with Threadneedle which is strong and he developed the original strategies. In moving, the whole team came across with him so he is not starting from scratch with a new team.

In summary, a well-managed set of funds which may operate well in an environment where investors want to have exposure to the US but are worried about what will happen when interest rates rise. It may not appeal to investors who don't fully understand long / short strategies.

Fund performance

Threadneedle American Extended Alpha Fund from launch (22 October 2007) to date Stephen left (31 December 2013):

	2007	2008	2009	2010	2011	2012	2013
Threadneedle American Extended Alpha Fund	-0.44%	-6.76%	24.49%	13.68%	8.11%	10.60%	29.74%
iShares MSCI North America ETF	2.01%	-17.08%	15.39%	16.55%	-0.55%	5.15%	27.12%

1, 3 and 5-year performance and since launch up to 31 December 2013.

	1 Year	3 Years	5 Years	Since Launch (22/10/2007)
Threadneedle American Extended Alpha Fund	29.74%	76.34%	104.68%	108.79%
iShares MSCI North America ETF	27.12%	54.93%	48.23%	47.58%

Artemis Extended Alpha Fund from launch (19 September 2014) to 31 October 2015.

	2014	2015
Artemis US Extended Alpha Fund	10.15%	10.47%
iShares MSCI North America ETF	7.48%	0.00%

Threadneedle American Absolute Alpha Fund from launch (15 June 2010) to date Stephen left (31 December 2013):

	2010	2011	2012	2013
Threadneedle American Absolute Alpha Fund	-0.27%	3.81%	4.89%	4.60%
iShares MSCI North America ETF	8.62%	-0.55%	5.15%	27.12%

1 and 3-year performance and since launch up to 31 December 2013.

	1 Year	Since Launch (15/06/2010)
Threadneedle American Absolute Alpha Fund	4.60%	13.60%
iShares MSCI North America ETF	27.12%	44.38%

Artemis Extended Alpha Fund from launch (27 October 2014) to 31 October 2015.

	2014	2015
Artemis US Absolute Return Fund	1.25%	5.71%
iShares MSCI North America ETF	9.07%	0.00%

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.

The source of information in this note has been provided by Artemis and is correct as at November 2015. 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.