

SHINING A LIGHT ON THE..... Artemis UK Select Fund

AT A GLANCE

Investment Objective
The objective of the Fund is to grow capital over a five year period. The Fund invests 80%-100% in company shares and up to 20% in bonds, cash and near cash, other transferable securities, other funds (up to 10%) managed by Artemis and third party funds, money market instruments, and derivatives.

Inception Date	3 rd April 1998
Fund Factsheet Link	https://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F0GBR04SCW

Management	
Manager Name	Start Date
Ed Legget	31 December 2015
Ambrose Faulks	31 December 2015

FUND PERFORMANCE

Performance from 1st January 2016 to 30th September 2020:

	2016	2017	2018	2019	2020
Artemis UK Select Fund	1.18%	20.39%	-20.30%	31.65%	-18.71%
FTSE All Share	16.75%	13.10%	-9.47%	19.17%	-19.92%

Performance over 12 months, 3 years, and since launch:

	1 year	3 years	Since fund manager inception
Artemis UK Select Fund	-9.44%	-10.43%	3.63%
FTSE All Share	-16.59%	-9.33%	13.52%

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.

Tracking Error	Active Share	Upside Capture Ratio	Downside Capture Ratio	Batting Average	Beta	Alpha	Equity Style
11.47	81.45	138.43	129.66	52.78	1.43	2.44	Mid/Value

Volatility Measurements	
3-Yr Std Dev (volatility)	23.04%
3-Yr Mean Return (average)	-3.61%

Investment Style Details	
Giant	12.12%
Large	20.62%
Medium	30.20%
Small	26.19%
Micro	4.63%

Top 5 Holdings – 53 Equity Holdings, 4 Other Holdings		
British American Tobacco PLC	Consumer Defensive	5.96%
3i Ord	-	5.41%
AstraZeneca PLC	Healthcare	5.13%
Barclays PLC	Financial Services	5.06%
Tesco PLC	Consumer Defensive	4.72%

Top 5 Sectors	
Financial Services	29.73%
Consumer Cyclical	27.73%
Industrials	18.51%
Consumer Defensive	11.32%
Healthcare	4.72%

UPDATE....

These updates have been written at the time of the Coronavirus Pandemic of 2020, which has impacted the global financial markets in a way that has never been seen before.

The manager took over this fund at the end of 2015. Ed had an excellent track record at his previous company. Since taking on this strategy the fund has struggled to outperform the benchmark. The fund has a high active share class. An active share score of 100 indicates that the equity portion of the fund and its benchmark have no common holdings. Looking at the high-level data it seems that although the fund captures significantly on the upside, it does not protect on the downside. In 2020 at the lowest point the fund was down nearly 40% against a benchmark down just over 30%. Although the fund has recovered some of those losses it has had to work harder to catch up with the benchmark.

Taking this a step further the volatility measure over three years is 23.04% compared to the benchmark of 14.67%. This means investors are taking on more risk/volatility to get the returns, and the ride will be bumpy. The fund appears to have a bias to value stocks. This might not be value in the true sense, but it may be unloved areas of the markets. As an example, Barclays is a top-5 holding and a strong bias to areas like this will make it harder for the fund to outperform. On the flip side, if there is a recovery in these areas then this fund could do very well in a short period of time.

The fund is looking to generate outperformance across all market conditions across the full UK market cap. It will look to hold around 40 to 50 long holdings but can “short” between 3 and 10 holdings. Ed argued that the short holdings protected the fund in February and March although this was down more than the benchmark. The starting point for any company is the share price and this is based on two factors, a change in earnings estimates based on detailed analysis, and a change in sentiment which is where their judgement comes in.

An example of a recent holding is National Express. This has been a relatively good investment for them. It has businesses in the UK, Spain, and the US. The share price dropped from around £3 to £1.20 as the market started to worry about cash flow. What the market has missed is the discussion with Governments to keep the services running, the fact they have raised capital this year and that it is still cash flow positive. They believe the ability to survive is high. The company is trading on 4 to 5 times earnings and they think this will go back to 10 to 15 times. They do not know when but as a long term holding, they believe this offers significant opportunities for investors.

COVID-19 is driving the top down concerns across the globe but from a bottom up perspective, UK equities remain cheap vs global equities. UK domestic continues to drift against the broader market. Even within the UK growth has outperformed value and there is a sharp diversion on performance. BAT and L&G both have earnings resilience, but the multiples are under pressure. They are trading cheaply, and Ed believes that the price you pay is key. Other examples of holdings they like include Barclays where they think the market is missing some of the opportunities, and Dart Group PLC where they see long term growth opportunities.

In summary, they describe this as a value growth fund. The gap between the winners and losers is extreme and they see opportunities within great businesses like National Express, Barclays and the Dart Group, but the market currently is focusing on short term factors. The re-rating will come, they just do not know when. This fund does carry significantly more volatility for investors and currently they are not being rewarded for this. If there is a vaccine, and Brexit is resolved, then these companies could benefit from a positive change in market sentiment and this could change the performance of the fund.

The source of information in this note has been provided by Artemis and is correct as at October 2020. 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. We would also recommend that you receive advice before following up on any decision.