

SHINING A LIGHT ON..... ARTEMIS STRATEGIC BOND FUND

Update....

This fund was launched in June 2005 and has been managed by James Foster since that date. Its advantage compared to other funds is the size of the fund which provides the manager with greater flexibility. In this update James focused on where he is finding value and where he is less enthused.

We started by looking at Government Bonds and James explained that nearly 30% of government bonds globally are negative and with low inflation and little signs of rising interest rates across the developed world his outlook is pretty negative.

In Europe interest rates have moved to zero with deposit rates at -0.40%, the US has indicated that rates are unlikely to rise more than once this year and in the UK any increase is now likely to be in 2017 at the earliest which supports his negative view. He added the fund does have a small exposure to bunds and gilts to provide some downside protection but he is not looking to add to this.

Turning to the general credit environment there were fears that the global economy was moving into a recession and this would see defaults rise. His view is that these fears were misplaced and the earliest a possible recession could hit is either 2017 or 2018 and even that is not guaranteed. We are seeing default rate rising but this is down in the main to commodities and this is no different to 2004 where telecoms defaulted and then 2008 where everything defaulted!!! The important thing is that this is a small part of the market and unlikely to have a contagion affect.

But this fear has led people to fear banks will fail and although some banks may suffer it is likely to be small and localised. Banks are not in the same place as they were. In 2008 the capital cushion was about 4%, as a minimum it is now 10% but in most cases 12 to 15%. The resilience of banks should not be questioned, they are just out of favour by shareholders and the recent volatility has provided opportunities within the credit market.

Allowing the banks to recover is important to the growth of the economy. The US did this quickly and have seen the benefits of this. Ireland also sorted out their banks and last year saw 6% growth and although the UK has been slow even they have made significant steps whereas Europe hasn't and this has shown through sluggish growth. It means that in periods of volatility there are bargains to be had, at one point yields for Santander were at 14% and it is worth buying at that price.

Another area the fund is finding value is in mining where they are cutting dividends which makes bonds attractive. As an example they were buying BHP as the bond price dropped and now it is at par which has made it an attractive investment.

Generally, the volatility is providing plenty of opportunities, they recently added Aviva which was trading in the 80s range and is now back up to into the 90s range. Other opportunities have been buying bonds at 80p which are due to mature in years' time with a guaranteed 20p uplift. But he feels there still needs to be care, some bonds are trading at 30p and there is a good reason for this!

We covered BREXIT and although the opinion polls are showing 50/50 the best place to see opinion is betting shops like Betfair which is showing 68% will vote to stay in. His feeling is that people will vote with their pockets and although they might not like it, the alternative is too much of a leap in the dark. Having said that two factors could swing the vote in the other direction – immigration and a low

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turnout. Asked what will happen if we vote to leave and he said this would be bad for the fund but there is very little he can do to protect against this.

In summary this is a well-managed fund and the manager is well respected. He believes there is value in the market and expects to achieve around 7 to 8% returns this year but a vote to leave Europe could have a negative impact and this is not something he can protect against. In the space of strategic bond funds therefore this may be one that investors consider.

Fund performance

Performance since 1 January 2011 to 16 March 2016:

	2011	2012	2013	2014	2015	2016
Artemis Strategic Bond Fund	-0.94%	16.71%	8.22%	4.73%	2.27%	0.36%

Performance over 1 year, 3 years and 5 years and since launch (30 June 2005).

	1 Year	3 Years	5 Years	Since Launch
Artemis Strategic Bond Fund	-0.88%	13.82%	30.58%	86.49%

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.

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