

**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=FOGBR04SCW

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

FUND PERFORMANCE

Performance from 1st January 2015 to 31st January 2021:

	2015	2016	2017	2018	2019	2020	2021
Artemis UK Select Fund	11.38%	1.18%	20.39%	-20.30%	31.65%	4.92%	-1.84%
FTSE All Share	0.98%	16.75%	13.10%	-9.47%	19.17%	-9.82%	-0.81%

Performance over 12 months, 3 years, 5 years and since fund manager inception:

	1 year	3 years	5 years	Since fund manager inception
Artemis UK Select Fund	3.99%	7.64%	40.71%	31.30%
FTSE All Share	-7.55%	-1.60%	31.47%	26.81%

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
12.79	81.94	152.54	134.74	52.78	1.53	5.19	Mid/Value

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Volatility Measurements	
3-Yr Std Dev (volatility)	26.84%
3-Yr Mean Return (average)	2.48%

Investment Style Details	
Giant	11.66%
Large	21.33%
Medium	33.75%
Small	23.56%
Micro	3.06%

Top 5 Holdings – 54 Equity Holdings		
3i	-	5.96%
BAT	Consumer Defensive	4.78%
Barclays PLC	Financial Services	4.69%
Tesco PLC	Consumer Defensive	4.59%
AstraZeneca PLC	Healthcare	4.48%

Top 5 Sectors	
Financial Services	30.47%
Consumer Cyclical	28.04%
Industrials	20.17%
Consumer Defensive	9.98%
Healthcare	4.77%

UPDATE....

This update covered both the UK Select Fund (managed by Ed) and the UK Special Situations Fund which is managed by Derek Stuart. There is some crossover between the strategies; the Special Situations Fund focuses primarily on self-help and management change stories whereas the UK Select Fund looks to provide alpha (growth above the benchmark) across all market cycles, and can also use shorting strategies of up to 10%.

Ed has built up an excellent reputation as a fund manager previously working at ASI. In rising markets he has outperformed 4 out of 6 years but in falling markets has underperformed 2 years out of 3. That might reflect that this has more of a value tilt and therefore these types of companies tend to fall more in times of market dislocation.

This is also reflected in the upside and downside capture. To achieve the returns this fund is considered as around 50% more volatile than the index. It is worth adding that although the tracking error is high (this is the degree of movement in relation to the benchmark) the alpha (i.e., the outperformance) supports this. So effectively this will be carrying greater volatility than a fund that tracks the index, but investors are being rewarded for this.

The UK is very much unloved as an asset class and therefore a manager can argue the case for their fund, but ultimately investors need to believe in the opportunities in the UK market. Both Ed and Derek are extremely positive seeing the vaccine programme as a clear exit strategy from lockdown for both the UK and the global economy. The UK is particularly well placed and likely to be one of the first economies to come out of this. The portfolios are positioned towards the consumer recovery to reflect this.

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Brexit has also been a drag but combined with the good news on the vaccine, now is a great time to be looking at the UK again. Although the strategy has a value bias, they are not just value managers. They are investing in growing companies which are likely to take market share, especially as the UK emerges out of lockdown.

There are many positives; in the UK 70% of GDP is driven by the UK consumer. The UK consumer has not been able to spend and therefore there is pent demand and they expect this to come through. UK equities remain cheap compared to the rest of the world and largely ignored by overseas investors. Coming into 2021, they are seeing a slight shift in sentiment and increased M&A activity.

In terms of risk, one of the biggest risks is the call for another Scottish Independence referendum. There is a great deal of support for this and it is likely that after all the legal arguments a vote could be called in 2 or 3 years. If Labour take ground on the SNP, then this may slow this down. If a vote does happen then there will be stocks that will not want to hold.

Across both funds some examples of themes and holdings include:

Accelerated structural change – IG Group, BT, 888 Casino, Flutter, Computacenter, Oxford Instruments

Reduced capacity:

- Retail – 3i, Associated British Food, Watches of Switzerland, WH Smith
- Airlines – Jet2, Ryanair
- Hospitality – Johnson Service Group Plc, Wetherspoon

Benefiting from fiscal policy – Balfour Beatty, Grafton Group, Persimmon, Hill and Smith Holdings, Ashtead, Anglo American

In summary, the two managers are positive for the UK. They believe interest rates will remain low for some time and although there will be pockets of inflation there will not be a significant rise. Where parts of the global market are frothy, especially around tech, the UK market still offers great value.

Although the funds have a value tilt, they are investing in great companies, and likely to benefit not only from the government support but also the success of the UK vaccine programme. In terms of the fund, Ed has continued to be able to deliver strong performance even with a style that is out of favour. Investors will have greater volatility but are currently being rewarded for this. If Ed is correct and the tide is turning for the UK, then this could be a fund for investors to consider. It is important to understand that in times of market dislocation this fund is likely to underperform.

The source of information in this note has been provided by Artemis and is correct as at February 2021. 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.