

# ARTEMIS High Income *Fund*

Half-Yearly Report (unaudited)  
for the six months ended  
7 February 2017



**ARTEMIS**  
The PROFIT Hunter

## Keep up to date ...

... with the performance of this and other Artemis funds throughout the year on Artemis' website

- Monthly fund commentaries and factsheets
- Artemis *Filmclub* videos by our fund managers
- Market and fund insights
- Fund briefings and research articles
- *The Hunters' Tails*, our weekly market newsletter
- Daily fund prices
- Fund literature



[artemis.co.uk](http://artemis.co.uk)

## General information

### Company profile

Artemis is a leading UK-based fund manager, offering a range of funds which invest in the UK, Europe, the US and around the world.

As a dedicated, active investment house, we specialise in investment management for both retail and institutional investors across Europe.

Independent and owner-managed, Artemis opened for business in 1997. Its aim was, and still is, exemplary investment performance and client service. All Artemis' staff share these two precepts – and the same flair and enthusiasm for fund management.

The firm now manages some £25.1 billion\* across a range of funds, two investment trusts, a venture capital trust and both pooled and segregated institutional portfolios.

Our managers invest in their own and their colleagues' funds. This has been a basic tenet of the Artemis approach since the firm started. It means that interests of our fund managers are directly aligned with those of our investors.

\* Source: Artemis as at 28 February 2017.

### Fund status

Artemis High Income Fund was constituted by a Trust Deed dated 26 May 1995 as amended by a supplemental Trust Deed dated 6 September 2002 and is an authorised unit trust scheme under the Financial Services and Markets Act 2000.

The fund belongs to the category of UCITS schemes as defined in the Collective Investment Schemes Sourcebook ('COLL') of the Financial Conduct Authority ('FCA').

### Investment objective

The objective of the fund is to achieve a higher than average initial yield, combined with the prospect of rising income and some capital growth over the long-term.

### Investment policy

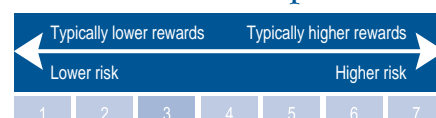
The emphasis of the fund will be investment in UK fixed-interest investments and preference shares, however, the manager has the flexibility to invest in all economic sectors worldwide and in equities.

The fund may also invest in other transferable securities, units of collective investment schemes, money market instruments, warrants, cash and near cash, derivatives and forward transactions and other investments to the extent that each is permitted by the regulations.

### Buying and selling

Units may be bought and sold by contacting the manager by telephone, at the address on page 2 or via the website [artemis.co.uk](http://artemis.co.uk). Valuation of the fund takes place each business day at 12 noon on a forward pricing basis. Investors are reminded that past performance is not a guarantee of performance in the future and that the price of units and the revenue from them can fall as well as rise.

### Risk and reward profile



■ This indicator is based on historical data and may not be a reliable indication of the future risk profile of the fund.

■ The risk category shown is not guaranteed and may change over time.

■ A risk indicator of "1" does not mean that the investment is "risk free".

■ The indicator is not a measure of the possibility of losing your investment.

The risk indicator for the fund is as above because:

■ The price of units, and the income from them, can fall and rise because of stock market and currency movements.

■ Stock market prices, currencies and interest rates can move irrationally

and can be affected unpredictably by diverse factors, including political and economic events.

■ A portion of the fund's assets may be invested in a currency other than the fund's accounting currency (sterling). The value of these assets, and the income from them, may decrease if the currency falls in relation to sterling, in which the fund is valued and priced.

■ Investments in fixed interest securities are subject to market and credit risk and will be impacted by movements in interest rates. Interest rate movements are determined by a number of economic factors, in particular market expectations of future inflation.

■ The fund can invest in higher-yielding bonds, which may increase the risk to your capital due to a higher likelihood of the company issuing the bonds failing to pay returns on investments. Changes to market conditions and interest rates can have a larger effect on the values of higher-yielding bonds than other bonds.

■ The fund holds bonds which could prove difficult to sell. As a result, the fund may have to lower the selling price, sell other investment or forego more appealing investment opportunities.

### Prospectus

Copies of the most recent Prospectus are available free of charge from the manager at the address on page 2.

### Tax information reporting

UK tax legislation requires fund managers to provide information to HM Revenue & Customs ('HMRC') on certain investors who purchase units in unit trusts. Accordingly, the fund may have to provide information annually to HMRC on the tax residencies of those unitholders that are tax resident outwith the UK, in those countries that have signed up to the OECD's ('Organisation for Economic Co-operation and Development') Common Reporting Standard for Automatic Exchange of Financial Account Information (the

## General information (continued)

'Common Reporting Standard'), or the United States (under the Foreign Account Tax Compliance Act, 'FATCA').

All new unitholders that invest in the fund must complete a certification form as part of the application form. Existing unitholders may also be contacted by the Registrar should any extra information be needed to correctly determine their tax residence. Failure to provide this information may result in the account being reported to HMRC.

For further information, please see HMRC's Quick Guide: Automatic Exchange of Information – information for account holders: [gov.uk/government/publications/exchange-of-information-account-holders](http://gov.uk/government/publications/exchange-of-information-account-holders).

### Report of the manager

We hereby approve the Half-Yearly Report of the Artemis High Income Fund for the six months ended 7 February 2017 on behalf of Artemis Fund Managers Limited in accordance with the requirements of COLL as issued and amended by the FCA.

M J Murray  
Director

R J Turpin  
Director

Artemis Fund Managers Limited  
London  
4 April 2017

### Manager

Artemis Fund Managers Limited \*  
Cassini House  
57 St James's Street  
London SW1A 1LD

Dealing information:  
Artemis Fund Managers Limited  
PO Box 9688  
Chelmsford CM99 2AE  
Telephone: 0800 092 2051  
Website: [artemis.co.uk](http://artemis.co.uk)

### Investment adviser

Artemis Investment Management LLP \*  
Cassini House  
57 St James's Street  
London SW1A 1LD

### Trustee and Depositary

National Westminster Bank Plc †  
Trustee & Depositary Services  
Younger Building  
1st Floor, 3 Redheughs Avenue  
Edinburgh EH12 9RH

### Registrar

International Financial Data Services  
(UK) Limited \*  
IFDS House  
St Nicholas Lane  
Basildon  
Essex SS15 5FS

### Auditor

Ernst & Young LLP  
Ten George Street  
Edinburgh EH2 2DZ

\* Authorised and regulated by the FCA, 25 The North Colonnade, Canary Wharf, London E14 5HS.

† Authorised by the Prudential Regulation Authority ('PRA'), 20 Moorgate, London EC2R 6DA and regulated by the PRA and the FCA.

## Investment review

- The fund returned 4.2%\* over the six months.
- Performance is driven by financials and high yield.
- Fundamentals for credit remain strong.

### Performance – Stronger appetite for risk ...

The fund rose by 4.2% over the period. Markets shrugged off political uncertainty to concentrate on strengthening global economic data. This backdrop enabled the fund to outperform peers as its exposure to higher yielding bonds and equities rallied strongly. Government bond yields rose, as inflation ticked up on the back of rising oil prices and the strengthening global economy. The fund has little exposure to interest-rate-sensitive assets, and the so-called 'reflation trade' boosted performance across the board.

### Review – Economic data surprises positively ...

Riskier assets – particularly high yield bonds – started the reporting period strongly. Momentum had already begun to build before August, as commodities rallied from very depressed levels. The Bank of England's announcement that it would buy UK corporate bonds, coupled with a recovery from the initial shock of the vote for Brexit, underpinned good returns from UK credit. These continued throughout the six months.

At the start of the period we took the opportunity to close our overweight position in the US dollar. The fund rarely takes positions in currencies, but after the vote for Brexit we had hedged some of our risk by buying dollars. With hindsight, this proved a little early. However, we are comfortable with maintaining our current neutral position on sterling as we believe a lot of uncertainty is in the price.

The fall in government bond yields

during August failed to hold, and yields began to rise in September. Commentators have talked extensively about Trump's election triggering a 'reflation trade' in the markets, but the move had started some months before. Concerns at the beginning of 2016 about a Chinese-led recession proved unfounded and indeed economic data across the globe surprised to the upside repeatedly during the second half of the year. Additionally, commodity-led inflation started to take hold, hitting the UK hardest because of the collapse of sterling. Government bonds finally cracked under the pressure, with yields rising particularly abruptly in October, a month before Trump's unexpected win.

Before the big move in government bond yields in October, we had rotated out of some of our lower-yielding, longer-dated assets into new issues offering more income. The fund invested in issues from AMC Entertainment Holdings (the new owner of the Odeon cinema chain) and JRP Group, a provider of annuities. The second of these investments came with a yield of 9%. We also invested in new issues from Ardagh (ARD Finance – packaging) and DEA Finance (energy), both of which should benefit over the coming months from the rotation away from interest-rate-sensitive assets.

Trump's election intensified the 'reflation trade'. Yields on US government bonds spiked sharply higher: 10-year yields rose by over 0.5%. Such rapid moves are rare. We saw huge swings in sectors' performance as investors quickly discounted Trump's promises on spending on infrastructure and cuts to taxes. The fund's relatively short duration (a measure of its sensitivity to a change in interest rates) and exposure to high yielding cyclical credit created very strong performance after the election. We added to credit risk by investing a small position in CMA CGM, a French shipping company. Towards the end of 2016, the Italian referendum provided yet another opportunity for politics to unsettle the market. Unlike

the rest of the year, however, the outcome was fully expected and the markets continued to give further impetus to the 'reflation trade'.

The fund has consistently run a large weighting in bonds issued by financials as we have historically found high levels of income relative to risk in this sector. Financials are among the biggest beneficiaries of higher government bond yields at the long end of the curve. Consequently, the fund enjoyed a significant boost from the tilt towards banks and insurers. Indeed, we added to our exposure with new issues from ING Groep (a Dutch bank) and Societe Generale (a French bank) before equities started to rally behind the sector.

Equities rose over the period: the FTSE All-Share Index returned 7%. However, this performance owed much to the collapse of sterling in the uncertainty surrounding Brexit. Our holding in Oxford Lane (investment management) recovered, rising by 30% and has been recently sold. Legal & General Group and Standard Life rallied strongly from their lows after the EU referendum. Both stocks make an important and growing contribution to the fund's income. On the negative side, the main detractors from performance were Royal Mail, which retreated from its highs on the back of weaker numbers and some uncertainty over pensions, and Cobham which continued to report problems. We have been selling Cobham but continue to hold Royal Mail.

During the period we added holdings that we believe will bolster the fund's yield further and provide some capital growth. Given the exposure to financials in both the bond and equity portion of the portfolio, we tried to find this income from other sectors and began to build holdings in Vodafone Group and BT Group. Neither has done well in the short-term as the sector has been languishing and BT released a negative statement. We also bought Imperial Brands and this looks to be better timed.

\* Source: Lipper Limited, class QI distribution units, bid to bid basis, in sterling with interest reinvested. Sector is IA £ Strategic Bond.

## Investment review (continued)

### Outlook – Growth already in the price ...

During 2016, we were cautiously optimistic as we believed that markets seemed overly concerned with the risk of recession (that failed to appear) and also with political risk. Only towards the end of the year did they begin to finally discount the reality of what the economic data was indicating – global growth had picked up. We are now fairly neutral on the market. Stronger economic growth is fully reflected in credit spreads so credit markets are vulnerable to a sharp widening in spreads on any negative political news or faltering growth.

Over the medium-term we believe fundamentals will remain robust. Default rates are set to stay low. The technical background is positive as the ECB ('European Central Bank') is still buying corporate credit. We will use any volatility to add to positions we feel will benefit from stronger growth and inflation. However, that's on the assumption we don't get a political shock in France over the next six months. On equities, while some caution is advisable given recent returns and valuation, the higher yielding areas of the markets have performed comparatively poorly. Dividend yields remain attractive.

**Alex Ralph**  
**Fund manager**



## Investment information

### Five largest purchases and sales for the six months ended 7 February 2017

Purchases	Cost £'000	Sales	Proceeds £'000
Imperial Brands	17,312	BAE Systems	24,001
Direct Line Insurance Group	11,893	RSA Insurance Group, FRN 6.70% Perpetual	15,161
Vodafone Group	11,826	International Game Technology 4.75% 15/02/2023	14,765
Societe Generale, FRN 7.38% Perpetual	11,435	F&C Finance 9.00% 20/12/2016	14,154
Standard Chartered, FRN 2.55% Perpetual	11,261	EnQuest 7.00% 15/04/2022	12,384

### Portfolio statement as at 7 February 2017

Investment	Holding or nominal value	Valuation £'000	% of net assets
<b>Equities 14.84% (14.67%)</b>			
<b>Ireland 0.36% (0.29%)</b>			
Carador Income Fund	6,834,900	4,086	0.36
		<b>4,086</b>	<b>0.36</b>
<b>New Zealand 0.00% (0.22%)</b>			
<b>Spain 0.00% (0.00%)</b>			
Grupo Isolux Corsan Warrant ^	4,798	-	-
		-	-
<b>Sweden 0.23% (0.00%)</b>			
Nordea Bank	272,957	2,665	0.23
		<b>2,665</b>	<b>0.23</b>
<b>United Kingdom 14.25% (13.59%)</b>			
Aberforth Geared Income Trust	4,767,099	10,440	0.91
ACP Mezzanine ^	6,450,000	-	-
Ashmore Group	2,381,663	7,531	0.66
Balfour Beatty Preference 9.68%	2,425,000	2,873	0.25
BT Group	3,587,126	11,109	0.97
Centrica	8,365,405	19,040	1.67
Cobham	4,946,317	6,623	0.58
Direct Line Insurance Group	3,287,147	11,742	1.03
Doric Nimrod Air Three Preference	11,061,420	11,006	0.96
Ecclesiastical Insurance Group Preference 8.63%	4,200,000	5,838	0.51
GLI Finance #	10,400,392	2,444	0.22
Hampton Trust Preference ^	200,000	-	-
Imperial Brands	493,055	18,391	1.61
Legal & General Group	7,000,000	16,884	1.48
New Finsaga ^	135,817	-	-
NextEnergy Solar Fund	10,000,000	11,100	0.97
Royal Mail	1,582,157	6,507	0.57
Speymill Deutsche Immobilien, REIT ^	5,803,310	-	-
Standard Life	3,146,893	11,247	0.98
Vodafone Group	5,210,377	10,111	0.88
		<b>162,886</b>	<b>14.25</b>
<b>United States of America 0.00% (0.57%)</b>			
<b>Equities total</b>		<b>169,637</b>	<b>14.84</b>
<b>Government bonds 4.22% (4.26%)</b>			
<b>Israel 0.26% (0.28%)</b>			
Israel Government Bond 6.88% 21/10/2034	£2,000,000	3,001	0.26
		<b>3,001</b>	<b>0.26</b>

## Investment information (continued)

Investment	Nominal value	Valuation £'000	% of net assets
<b>United Kingdom 3.96% (3.98%)</b>			
UK Treasury 1.00% 07/09/2017	£45,000,000	45,243	3.96
		<b>45,243</b>	<b>3.96</b>
<b>Government bonds total</b>		<b>48,244</b>	<b>4.22</b>
<b>Corporate bonds 77.24% (78.99%)</b>			
<b>Australia 1.36% (1.34%)</b>			
Australia & New Zealand Banking Group, FRN 1.43% Perpetual	\$10,300,000	5,589	0.49
BHP Billiton Finance, FRN 6.50% 22/10/2077	£8,900,000	9,962	0.87
		<b>15,551</b>	<b>1.36</b>
<b>Belgium 0.75% (0.64%)</b>			
Ethias 5.00% 14/01/2026	€10,500,000	8,612	0.75
		<b>8,612</b>	<b>0.75</b>
<b>Bermuda 1.07% (0.82%)</b>			
Catlin Insurance, FRN 7.25% Perpetual	\$17,000,000	12,258	1.07
		<b>12,258</b>	<b>1.07</b>
<b>Bulgaria 0.84% (0.83%)</b>			
Bulgarian Telecommunications 6.63% 15/11/2018	€10,950,000	9,593	0.84
		<b>9,593</b>	<b>0.84</b>
<b>Canada 0.71% (0.70%)</b>			
Entertainment One 6.88% 15/12/2022	£7,500,000	8,130	0.71
		<b>8,130</b>	<b>0.71</b>
<b>France 6.28% (4.48%)</b>			
CMA CGM 7.75% 15/01/2021	€3,910,000	3,225	0.28
Credit Agricole, FRN 6.50% Perpetual	€8,000,000	7,179	0.63
Electricite de France, FRN 6.00% Perpetual	€11,000,000	10,505	0.92
Holdikks 6.75% 15/07/2021	€5,500,000	3,607	0.32
Horizon Holdings 7.25% 01/08/2023	€8,250,000	7,435	0.65
Orange, FRN 5.87% Perpetual	€6,550,000	6,880	0.60
Paprec Holding 7.38% 01/04/2023	€9,900,000	9,042	0.79
SFR Group 7.38% 01/05/2026	\$14,000,000	11,642	1.02
Societe Generale, FRN 7.38% Perpetual	\$15,300,000	12,226	1.07
		<b>71,741</b>	<b>6.28</b>
<b>Germany 2.73% (2.59%)</b>			
DEA Finance 7.50% 15/10/2022	€7,800,000	7,333	0.64
Deutsche Bank Capital Finance Trust I, FRN 1.75% Perpetual	€500,000	337	0.03
RWE, FRN 7.00% Perpetual	£13,300,000	13,873	1.22
Safari Holding Verwaltungs 8.25% 15/02/2021	€10,700,000	9,634	0.84
		<b>31,177</b>	<b>2.73</b>
<b>Ireland 2.68% (2.63%)</b>			
Allied Irish Banks 12.50% 25/06/2035	£6,700,000	4,355	0.38
Bank of Ireland, FRN 4.25% 11/06/2024	€8,979,000	8,033	0.70
Eircom Finance DAC 4.50% 31/05/2022	€6,000,000	5,394	0.47
Lambay Capital Securities 6.25% Perpetual §	£14,000,000	175	0.02
Mutual Securitisation 7.59% 30/09/2022	£2,681,250	2,413	0.21
National Asset Management 5.26% 01/03/2020	€12,000,000	10,294	0.90
		<b>30,664</b>	<b>2.68</b>
<b>Italy 2.70% (2.94%)</b>			
Assicurazioni Generali, FRN 6.42% Perpetual	£8,800,000	8,999	0.79
Enel, FRN 6.62% 15/09/2076	£8,900,000	9,427	0.82
Wind Acquisition Finance 7.38% 23/04/2021	\$14,800,000	12,449	1.09
		<b>30,875</b>	<b>2.70</b>



Investment	Nominal value	Valuation £'000	% of net assets
<b>Jersey 0.57% (0.55%)</b>			
ELAN 4.69% 25/05/2017	€7,500,000	6,531	0.57
		<b>6,531</b>	<b>0.57</b>
<b>Luxembourg 2.36% (2.17%)</b>			
Altice Luxembourg 7.75% 15/05/2022	\$8,000,000	6,847	0.60
ARD Finance 6.63% 15/09/2023	€9,400,000	8,205	0.72
Eurofins Scientific, FRN 7.00% Perpetual	€12,500,000	11,914	1.04
		<b>26,966</b>	<b>2.36</b>
<b>Mexico 1.19% (1.21%)</b>			
America Movil, FRN 6.37% 06/09/2073	£12,800,000	13,568	1.19
		<b>13,568</b>	<b>1.19</b>
<b>Netherlands 4.01% (3.09%)</b>			
Chapel, FRN, Series 2007 'C' 0.39% 17/07/2066	€3,700,000	2,138	0.19
Highbury Finance 7.02% 20/03/2023	£5,605,307	6,448	0.56
ING Groep, FRN 6.87% Perpetual	\$12,000,000	9,810	0.86
Koninklijke KPN, FRN 6.87% 14/03/2073	£10,770,000	11,650	1.02
Lincoln Finance 6.88% 15/04/2021	€6,700,000	6,241	0.55
Nyrstar Netherlands Holdings 8.50% 15/09/2019	€10,060,000	9,533	0.83
		<b>45,820</b>	<b>4.01</b>
<b>Portugal 1.15% (0.43%)</b>			
EDP - Energias de Portugal, FRN 5.37% 16/09/2075	€9,000,000	8,061	0.71
GNB - Cia de Seguros de Vida, FRN 3.18% Perpetual	€9,500,000	5,064	0.44
		<b>13,125</b>	<b>1.15</b>
<b>Spain 2.81% (2.65%)</b>			
Cirsa Funding Luxembourg 5.88% 15/05/2023	€5,900,000	5,294	0.46
Codere Finance 2 Luxembourg 6.75% 01/11/2021	€8,800,000	7,449	0.65
Grupo Isolux Corsan, STEP 3.00% 30/12/2021	€1,237,201	421	0.04
Lecta 6.50% 01/08/2023	€7,900,000	7,045	0.62
Telefonica Europe, FRN 6.75% Perpetual	£11,300,000	11,957	1.04
		<b>32,166</b>	<b>2.81</b>
<b>Switzerland 1.92% (1.26%)</b>			
Credit Suisse Group, FRN 6.25% Perpetual	\$8,800,000	7,041	0.62
Demeter Investments BV for Swiss Re, FRN 5.75% 15/08/2050	\$13,228,000	11,005	0.96
UBS Group, FRN 7.00% Perpetual	\$4,535,000	3,862	0.34
		<b>21,908</b>	<b>1.92</b>
<b>United Arab Emirates 1.11% (1.01%)</b>			
Topaz Marine 8.63% 01/11/2018	\$15,731,000	12,685	1.11
		<b>12,685</b>	<b>1.11</b>
<b>United Kingdom 37.27% (41.34%)</b>			
Aberdeen Asset Management 7.00% Perpetual	\$16,900,000	14,130	1.24
Afren 10.25% 08/04/2019 §	\$4,801,113	1	-
Anglian Water Osprey Financing 5.00% 30/04/2023	£12,160,000	12,853	1.12
Arqiva Broadcast Finance 9.50% 31/03/2020	£6,950,000	7,350	0.64
Barclays, FRN 7.87% Perpetual	£10,750,000	11,040	0.97
BUPA Finance 5.00% 08/12/2026	£8,900,000	9,448	0.83
Burford Capital 6.50% 19/08/2022	£7,700,000	8,409	0.74
Cattles 7.13% 05/07/2017 §	£6,000,000	12	-
Centrica, FRN 5.25% 10/04/2075	£10,400,000	10,842	0.95
Co-Operative Group 20/12/2025	£29,483,917	1,474	0.13
CPUK Finance 7.00% 28/02/2042	£8,100,000	8,563	0.75
Direct Line Insurance Group, FRN 9.25% 27/04/2042	£7,500,000	9,301	0.81
EnQuest, FRN 7.00% 15/10/2023	\$14,172,923	8,962	0.78
Enterprise Inns 6.88% 09/05/2025	£6,160,000	6,453	0.56

## Investment information (continued)

Investment	Nominal value	Valuation £'000	% of net assets
Galaxy Bidco, FRN 5.40% 15/11/2019	£9,111,000	9,113	0.80
Heathrow Finance 5.38% 02/09/2019	£8,208,000	8,937	0.78
HSBC Bank, FRN 1.63% Perpetual	\$12,000,000	7,368	0.64
HSBC Holdings, FRN 6.87% Perpetual	\$7,000,000	6,001	0.53
Iceland Bondco 6.25% 15/07/2021	£6,400,000	6,663	0.58
Infinis 7.00% 15/02/2019	£7,695,000	7,819	0.68
Intermediate Capital Group 5.00% 24/03/2023	£5,850,000	6,128	0.54
Investec Bank 9.63% 17/02/2022	£8,400,000	10,159	0.89
JRP Group 9.00% 26/10/2026	£7,000,000	7,570	0.66
Legal & General Group, FRN 10.00% 23/07/2041	£2,500,000	3,247	0.28
Legal & General Group, FRN 5.87% Perpetual	£6,800,000	7,090	0.62
Lloyds Bank 7.63% 22/04/2025	£9,000,000	11,644	1.02
Lloyds Banking Group, FRN 7.87% Perpetual	£3,898,000	4,192	0.37
Matalan Finance 6.88% 01/06/2019	£5,300,000	4,364	0.38
Mizzen Bondco 7.00% 01/05/2021	£9,292,911	9,725	0.85
Moto Finance 6.38% 01/09/2020	£3,200,000	3,309	0.29
New Look Secured Issuer 6.50% 01/07/2022	£12,300,000	11,187	0.98
NGG Finance, FRN 5.62% 18/06/2073	£11,300,000	12,341	1.08
Nottingham Building Society 7.88% Perpetual	£2,500,000	2,942	0.26
Pennon Group, FRN 6.75% Perpetual	£9,500,000	9,884	0.86
Pension Insurance 6.50% 03/07/2024	£7,000,000	6,936	0.61
PGH Capital 6.63% 18/12/2025	£16,011,000	17,054	1.49
Provident Financial 8.00% 23/10/2019	£650,000	749	0.07
Punch Taverns Finance B 7.75% 30/12/2025	£5,250,000	4,940	0.43
RBS Capital Trust II, FRN 6.42% Perpetual	\$19,000,000	15,550	1.36
Rothsay Life 8.00% 30/10/2025	£10,400,000	10,973	0.96
Rothschild Continuation Finance CI 9.00% Perpetual	£7,382,000	8,895	0.78
RSA Insurance Group, FRN 9.37% 20/05/2039	£1,050,000	1,217	0.11
Skipton Building Society, FRN 6.87% Perpetual	£5,000,000	4,700	0.41
Society of Lloyd's 4.75% 30/10/2024	£400,000	428	0.04
Society of Lloyd's, FRN 7.42% Perpetual	£7,700,000	7,821	0.68
Spirit Issuer 5.47% 28/12/2028	£5,000,000	5,162	0.45
Standard Chartered, FRN 2.55% Perpetual	\$5,350,000	3,428	0.30
TalkTalk Telecom Group 5.38% 15/01/2022	£9,500,000	9,476	0.83
Tesco 6.15% 15/11/2037	\$13,445,000	10,838	0.95
Thames Water Kemble Finance 7.75% 01/04/2019	£5,250,000	5,891	0.52
Thomas Cook Group 6.25% 15/06/2022	€11,750,000	10,508	0.92
Virgin Media Secured Finance 5.13% 15/01/2025	£9,965,000	10,316	0.90
Virgin Money Holdings UK, FRN 7.87% Perpetual	£11,460,000	11,428	1.00
Voyage Care Bondco 6.50% 01/08/2018	£9,086,000	9,172	0.80
Wagamama Finance 7.88% 01/02/2020	£6,000,000	6,242	0.55
West Bromwich B.S., FRN 6.15% Perpetual §	£2,800,000	700	0.06
William Hill 4.88% 07/09/2023	£5,000,000	4,974	0.44
		<b>425,919</b>	<b>37.27</b>
<b>United States of America 5.73% (8.31%)</b>			
AMC Entertainment Holdings 6.38% 15/11/2024	£2,833,000	3,010	0.26
Continental Resources 4.50% 15/04/2023	\$7,900,000	6,291	0.55
Finial Holdings 7.13% 15/10/2023	\$8,250,000	7,776	0.68
Infor US 5.75% 15/05/2022	€8,200,000	7,111	0.62
PSPC Escrow 6.00% 01/02/2023	€10,300,000	9,218	0.81
Seagate HDD Cayman 4.75% 01/01/2025	\$7,500,000	5,842	0.51
State Street, FRN 1.47% 15/05/2028	\$7,486,000	5,367	0.47
Trinseo Materials Operating 6.38% 01/05/2022	€9,372,000	8,644	0.76
USB Realty, FRN 2.17% Perpetual	\$13,500,000	9,189	0.81

Investment	Holding or nominal value	Global exposure*	Valuation £'000	% of net assets
Valeant Pharmaceuticals International 5.38% 15/03/2020	\$4,200,000		2,986	0.26
			<b>65,434</b>	<b>5.73</b>
<b>Corporate bonds total</b>			<b>882,723</b>	<b>77.24</b>
<b>Forward currency contracts (0.77)% ((2.67)%)</b>				
Buy Euro 10,600,000 dated 13/03/2017			9,145	0.80
Sell Sterling 9,005,124 dated 13/03/2017			(9,005)	(0.79)
Buy Sterling 195,691,014 dated 13/03/2017			195,691	17.12
Sell Euro 232,560,000 dated 13/03/2017			(200,625)	(17.55)
Buy Sterling 2,391,953 dated 13/03/2017			2,392	0.21
Sell Swedish Krona 26,300,000 dated 13/03/2017			(2,392)	(0.21)
Buy Sterling 210,390,845 dated 13/03/2017			210,391	18.41
Sell US Dollar 265,650,000 dated 13/03/2017			(214,497)	(18.77)
Buy US Dollar 9,850,000 dated 13/03/2017			7,953	0.70
Sell Sterling 7,840,796 dated 13/03/2017			(7,841)	(0.69)
<b>Forward currency contracts total</b>			<b>(8,788)</b>	<b>(0.77)</b>
<b>Futures (0.01)% (0.00%)</b>				
Long Gilt 29/03/2017	(400)	(50,018)	(130)	(0.01)
<b>Futures total</b>		<b>(50,018)</b>	<b>(130)</b>	<b>(0.01)</b>
Investment assets (including investment liabilities)			1,091,686	95.52
Net other assets			51,207	4.48
Net assets attributable to unitholders			1,142,893	100.00

The comparative percentage figures in brackets are as at 7 August 2016.

^ Unlisted, suspended or delisted security.

# Security traded on the Alternative Investment Market ('AIM').

§ Security is in default.

\* Global exposure has been calculated in line with the guidelines issued by the European Securities and Markets Authority ('ESMA') and represents the market value of an equivalent position in the underlying investment of each derivative contract. For all other asset types the percentage of net assets has been calculated based on the valuation of each holding.

## Credit rating analysis as at 7 February 2017

	7 February 2017		7 August 2016	
	Valuation £'000	% of net assets	Valuation £'000	% of net assets
Investment grade securities	207,742	18.18	273,821	23.97
Below investment grade securities	604,761	52.92	564,580	49.42
Unrated securities	118,464	10.36	112,651	9.86
<b>Total of debt securities</b>	<b>930,967</b>	<b>81.46</b>	<b>951,052</b>	<b>83.25</b>

Source for credit ratings - Artemis Investment Management LLP.

## Financial statements

### Statement of total return for the six months ended 7 February 2017

	7 February 2017		7 February 2016	
	£'000	£'000	£'000	£'000
<b>Income</b>				
Net capital gains/(losses)		21,340		(83,512)
Revenue	33,029		32,861	
Expenses	(4,961)		(5,253)	
Interest payable and similar charges	(7)		(16)	
Net revenue before taxation	28,061		27,592	
Taxation	(121)		(121)	
Net revenue after taxation		27,940		27,471
<b>Total return before distributions</b>		<b>49,280</b>		<b>(56,041)</b>
Distributions		(32,547)		(32,294)
Change in net assets attributable to unitholders from investment activities		16,733		(88,335)

### Statement of change in net assets attributable to unitholders for the six months ended 7 February 2017

	7 February 2017		7 February 2016	
	£'000	£'000	£'000	£'000
Opening net assets attributable to unitholders		1,142,389		1,144,190
Amounts receivable on issue of units	75,031		57,342	
Amounts payable on cancellation of units	(91,260)		(13,354)	
		(16,229)		43,988
Change in net assets attributable to unitholders from investment activities		16,733		(88,335)
Closing net assets attributable to unitholders		1,142,893		1,099,843

### Balance sheet as at 7 February 2017

	7 February 2017	7 August 2016
	£'000	£'000
<b>Assets</b>		
<b>Fixed assets</b>		
Investments	1,100,856	1,122,342
<b>Current assets</b>		
Debtors	20,921	19,590
Cash and bank balances	58,243	59,691
<b>Total current assets</b>	<b>79,164</b>	<b>79,281</b>
<b>Total assets</b>	<b>1,180,020</b>	<b>1,201,623</b>
<b>Liabilities</b>		
Investment liabilities	9,170	34,183
<b>Creditors</b>		
Bank overdraft	-	2
Distribution payable	17,555	20,371
Other creditors	10,402	4,678
<b>Total creditors</b>	<b>27,957</b>	<b>25,051</b>
<b>Total liabilities</b>	<b>37,127</b>	<b>59,234</b>
Net assets attributable to unitholders	1,142,893	1,142,389

## Notes to the financial statements

### 1. Basis of preparation

The interim financial statements have been prepared in accordance with the Statement of Recommended Practice for UK Authorised Funds issued by the Investment Management Association in May 2014 ('SORP').

The accounting policies applied are consistent with those of the annual financial statements for the year ended 7 August 2016 as set out therein.

### 2. Post balance sheet events

Since 7 February 2017, the net asset values per unit, on a bid basis, have changed as follows:

	Net asset value per unit (p)		Movement
	3 April 2017	7 February 2017	
MI distribution *	84.44	83.48	1.1%
QI distribution	84.83	83.46	1.6%
QR distribution	79.67	78.46	1.5%

\* The interim distribution for the MI distribution class declared on 7 March 2017 of 0.4042p has been included in the calculation of the movement in the net asset value per unit.

## Distribution tables

### Interim interest distribution for the month ended 7 September 2016 (paid 7 November 2016) in pence per unit.

Group 1 - Units purchased prior to 8 August 2016.

Group 2 - Units purchased from 8 August 2016 to 7 September 2016.

	Gross revenue per unit (p)	Income tax (20%) per unit (p)	Net revenue per unit (p)	Equalisation per unit (p)	Distribution per unit (p) 7 November 2016	Distribution per unit (p) 6 November 2015
MI distribution						
Group 1	0.3828	0.0766	0.3062	-	0.3062	0.3231
Group 2	0.1820	0.0364	0.1456	0.1606	0.3062	0.3231

### Interim interest distribution for the month ended 7 October 2016 (paid 7 December 2016) in pence per unit.

Group 1 - Units purchased prior to 8 September 2016.

Group 2 - Units purchased from 8 September 2016 to 7 October 2016.

	Gross revenue per unit (p)	Income tax (20%) per unit (p)	Net revenue per unit (p)	Equalisation per unit (p)	Distribution per unit (p) 7 December 2016	Distribution per unit (p) 7 December 2015
MI distribution						
Group 1	0.4324	0.0865	0.3459	-	0.3459	0.3061
Group 2	0.1843	0.0369	0.1474	0.1985	0.3459	0.3061

### Interim interest distribution for the month ended 7 November 2016 (paid 6 January 2017) in pence per unit.

Group 1 - Units purchased prior to 8 October 2016.

Group 2 - Units purchased from 8 October 2016 to 7 November 2016.

	Gross revenue per unit (p)	Income tax (20%) per unit (p)	Net revenue per unit (p)	Equalisation per unit (p)	Distribution per unit (p) 6 January 2017	Distribution per unit (p) 7 January 2016
MI distribution						
Group 1	0.4446	0.0889	0.3557	-	0.3557	0.3306
Group 2	0.1931	0.0386	0.1545	0.2012	0.3557	0.3306

### Interim interest distribution for the quarter ended 7 November 2016 (paid 6 January 2017) in pence per unit.

Group 1 - Units purchased prior to 8 August 2016.

Group 2 - Units purchased from 8 August 2016 to 7 November 2016.

	Gross revenue per unit (p)	Income tax (20%) per unit (p)	Net revenue per unit (p)	Equalisation per unit (p)	Distribution per unit (p) 6 January 2017	Distribution per unit (p) 7 January 2016
Q1 distribution						
Group 1	1.2646	0.2529	1.0117	-	1.0117	0.9636
Group 2	0.5730	0.1146	0.4584	0.5533	1.0117	0.9636
QR distribution						
Group 1	1.1918	0.2384	0.9534	-	0.9534	0.9139
Group 2	0.4611	0.0922	0.3689	0.5845	0.9534	0.9139



#### Interim interest distribution for the month ended 7 December 2016 (paid 7 February 2017) in pence per unit.

Group 1 - Units purchased prior to 8 November 2016.

Group 2 - Units purchased from 8 November 2016 to 7 December 2016.

	Gross revenue per unit (p)	Income tax (20%) per unit (p)	Net revenue per unit (p)	Equalisation per unit (p)	Distribution per unit (p) 7 February 2017	Distribution per unit (p) 5 February 2016
MI distribution						
Group 1	0.3728	0.0746	0.2982	-	0.2982	0.3177
Group 2	0.1229	0.0246	0.0983	0.1999	0.2982	0.3177

#### Interim interest distribution for the month ended 7 January 2017 (paid 7 March 2017) in pence per unit.

Group 1 - Units purchased prior to 8 December 2016.

Group 2 - Units purchased from 8 December 2016 to 7 January 2017.

	Gross revenue per unit (p)	Income tax (20%) per unit (p)	Net revenue per unit (p)	Equalisation per unit (p)	Distribution per unit (p) 7 March 2017	Distribution per unit (p) 7 March 2016
MI distribution						
Group 1	0.4119	0.0824	0.3295	-	0.3295	0.3075
Group 2	0.1776	0.0355	0.1421	0.1874	0.3295	0.3075

#### Interim interest distribution for the month ended 7 February 2017 (payable 7 April 2017) in pence per unit. \*

Group 1 - Units purchased prior to 8 January 2017.

Group 2 - Units purchased from 8 January 2017 to 7 February 2017.

	Gross revenue per unit (p)	Equalisation per unit (p)	Distribution per unit (p) 7 April 2017	Distribution per unit (p) 7 April 2016
MI distribution				
Group 1	0.3715	-	0.3715	0.2852
Group 2	0.1609	0.2106	0.3715	0.2852

#### Interim interest distribution for the quarter ended 7 February 2017 (payable 7 April 2017) in pence per unit. \*

Group 1 - Units purchased prior to 8 November 2016.

Group 2 - Units purchased from 8 November 2016 to 7 February 2017.

	Gross revenue per unit (p)	Equalisation per unit (p)	Distribution per unit (p) 7 April 2017	Distribution per unit (p) 7 April 2016
QI distribution				
Group 1	1.1046	-	1.1046	0.9137
Group 2	0.5548	0.5498	1.1046	0.9137
QR distribution				
Group 1	1.0389	-	1.0389	0.8651
Group 2	0.4484	0.5905	1.0389	0.8651

Equalisation applies only to units purchased during the distribution period (group 2 units). It is the average amount of revenue included in the purchase price of all group 2 units and is refunded to holders of these units as a return of capital. Being capital it is not liable to income tax but must be deducted from the cost of units for capital gains tax purposes.

\* In the 2016 Budget, the UK government announced that the way interest payments from funds are taxed is due to change. Effective from 6 April 2017, interest distributions from UK authorised funds will be paid gross i.e. without deducting basic rate income tax (currently 20%) rather than with the deduction of income tax (i.e. net). As a result of the above change, all net unit classes in Artemis funds that make interest distributions will be priced gross of tax. This means that investors invested in the net unit classes will receive interest payments gross and therefore without any tax deduction from the first fund distribution payment date after 6 April 2017.

## Comparative tables

### Fund sizes & net asset values

Date	Net asset value of fund (£)	Net asset value per unit (p)	Units in issue
<b>7 August 2014</b>	991,273,274		
MI distribution		84.08	909,414
QI distribution		84.07	401,092,392
QR distribution		80.29	813,664,044
<b>7 August 2015</b>	1,144,189,824		
MI distribution		84.07	27,563,559
QI distribution		84.05	756,764,887
QR distribution		79.77	607,866,019
<b>7 August 2016</b>	1,142,389,082		
MI distribution		82.17	78,036,324
QI distribution		82.15	948,622,541
QR distribution		77.48	385,842,253
<b>7 February 2017</b>	1,142,892,500		
MI distribution		83.48	102,463,017
QI distribution		83.46	923,279,379
QR distribution		78.46	365,569,395

### Ongoing charges

Class	7 February 2017
MI distribution	0.69%
QI distribution	0.69%
QR distribution	1.32%

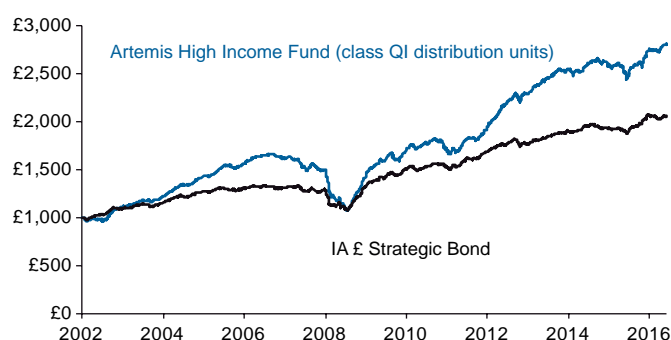
Ongoing charges shows the annual operating expenses of each unit class as a percentage of the average net assets of that class for the preceding 12 months.

### Class I performance

	Since launch *	5 years	3 years	1 year	6 months
Artemis High Income Fund	181.4	56.9	15.8	12.9	4.2
Sector average	106.2	29.2	12.7	8.6	0.6
Position in sector	2/19	1/52	16/66	6/69	4/72
Quartile	1	1	1	1	1

\* Data from 9 September 2002, when Artemis took over management of the fund. Source: Lipper Limited, data from 9 September 2002 to 7 March 2008 reflects class QR distribution units, and from 7 March 2008 to 7 February 2017 reflects class QI distribution units, bid to bid in sterling. All performance figures show total returns with interest reinvested, percentage growth. Sector is IA £ Strategic Bond, universe of funds is those reporting net of UK taxes.

### Value of £1,000 invested at launch to 7 February 2017

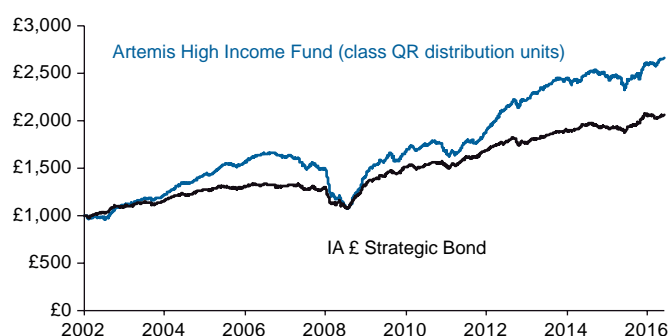


### Class R performance

	Since launch *	5 years	3 years	1 year	6 months
Artemis High Income Fund	166.2	52.1	13.6	12.2	3.9

\* Data from 9 September 2002, when Artemis took over management of the fund. Source: Lipper Limited, class QR distribution units, bid to bid in sterling with net income reinvested to 7 February 2017. All performance figures show total returns with interest reinvested, percentage growth.

### Value of £1,000 invested at launch to 7 February 2017



*This page is intentionally blank*

