PROFIT *hunters*

ARTEMIS Income *Fund*

Manager's Report
and Financial Statements
for the year ended 30 April 2017

ARTEMIS
The PROFIT Hunter

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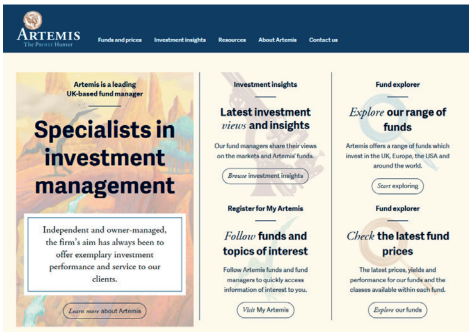

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artemisfunds.com

General information

About Artemis …

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 £26.0 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 31 May 2017.

Fund status

Artemis Income Fund was constituted by a Trust Deed dated 28 April and 4 May 2000 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 rising income combined with capital growth from a portfolio primarily made up of investments in the United Kingdom.

Investment policy

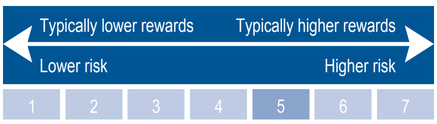
The manager actively manages the portfolio in order to achieve the objective with exposure to ordinary shares, preference shares, convertibles and fixed interest securities. The manager will not be restricted in respect of choice of investments either by company size or industry, or in terms of the geographical split of the portfolio.

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 **artemisfunds.com**. 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.

Prospectus

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

Remuneration

Following the amendment to the UCITS Directive in the UK on 18 March 2016, all UCITS schemes are required to comply with the UCITS Remuneration Code. This includes a requirement to disclose in the annual report of each scheme, details of the total amount of remuneration paid by the authorised fund manager to its staff for its financial year.

The first full financial year for Artemis Fund Managers Limited under the amended regulations will end on 31 December 2017, therefore as this information is not yet available the

General information (continued)

required disclosures have been omitted from the fund's annual report and accounts as permitted by COLL.

Details of Artemis Fund Managers Limited's UCITS remuneration policy is disclosed on Artemis' website.

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 '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.

Manager

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

Dealing information:
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PO Box 9688
Chelmsford CM99 2AE
Telephone: 0800 092 2051
Website: artemisfunds.com

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.

Statement of trustee's responsibilities

The trustee must ensure that the Artemis Income Fund ('the scheme') is managed in accordance with COLL, the Financial Services and Markets Act 2000, as amended, (together 'the Regulations'), the Trust Deed and Prospectus (together 'the scheme documents') as detailed below.

The trustee must in the context of its role act honestly, fairly, professionally, independently and in the interests of the scheme and its investors.

The trustee is responsible for the safekeeping of all custodial assets and maintaining a record of all other assets of the scheme in accordance with the Regulations.

The trustee must ensure that:

- the scheme's cash flows are properly monitored and that cash of the scheme is booked into the cash accounts in accordance with the Regulations;
- the sale, issue, redemption and cancellation of units are carried out in accordance with the Regulations;
- the value of units in the scheme is calculated in accordance with the Regulations;
- any consideration relating to transactions in the scheme's assets is remitted to the scheme within the usual time limits;
- the scheme's income is applied in accordance with the Regulations; and
- the instructions of the manager are carried out (unless they conflict with the Regulations).

The trustee also has a duty to take reasonable care to ensure that the scheme is managed in accordance with the Regulations and the scheme documents in relation to the investment and borrowing powers applicable to the scheme.

Report of the trustee to the unitholders of Artemis Income Fund for the year ended 30 April 2017

Having carried out such procedures as we consider necessary to discharge our responsibilities as trustee of the scheme, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the scheme, acting through the manager:

(i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the scheme's units and the application of the scheme's income in accordance with the Regulations and the scheme documents, and

(ii) has observed the investment and borrowing powers and restrictions applicable to the scheme.

National Westminster Bank Plc
Trustee & Depositary Services
Edinburgh
29 June 2017

Statement of the manager's responsibilities

COLL requires the manager to prepare financial statements for each annual accounting period which give a true and fair view of the financial affairs of the fund and of its revenue and expenditure for the year.

In preparing the financial statements the manager is required to:

(i) select suitable accounting policies and then apply them consistently;

(ii) comply with the disclosure requirements of the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in May 2014 ('SORP');

(iii) follow applicable accounting standards;

(iv) keep proper accounting records which enable it to demonstrate that the financial statements as prepared comply with the above requirements;

(v) make judgements and estimates that are reasonable and prudent; and

(vi) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the fund will continue in operation.

The manager is responsible for the management of the fund in accordance with its Trust Deed, Prospectus and COLL.

The manager is also responsible for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the manager

We hereby approve the Manager's Report and Financial Statements of the Artemis Income Fund for the year ended 30 April 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
29 June 2017

General information (continued)

Independent auditor's report to the unitholders of the Artemis Income Fund

We have audited the financial statements of Artemis Income Fund (the 'fund') for the year ended 30 April 2017 which comprise the statement of total return, the statement of change in net assets attributable to unitholders, the balance sheet, the related notes 1 to 20 and the distribution tables. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard ('FRS') 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland.'

This report is made solely to the unitholders of the fund, as a body, pursuant to paragraph 4.5.12 of the rules of the Collective Investment Schemes Sourcebook of the Financial Conduct Authority. Our audit work has been undertaken so that we might state to the unitholders those matters we are required to state to them in an independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the fund and the unitholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the manager and auditor

As explained more fully in the manager's responsibilities statement set out on page 3, the manager is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the manager; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the manager's report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the fund as at 30 April 2017 and of the net revenue and the net capital gains on the scheme property of the fund for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Opinion on other matters prescribed by the rules of the Collective Investment Schemes Sourcebook of the Financial Conduct Authority

In our opinion:

- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice relating to Authorised Funds, the rules of the Collective Investment Schemes Sourcebook of the Financial Conduct Authority and the Trust Deed;
- the information given in the manager's report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- there is nothing to indicate that proper accounting records have not been kept or that the financial statements are not in agreement with those records; and
- we have received all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

Ernst & Young LLP
Statutory Auditor
Edinburgh
29 June 2017

■ Net asset value up 17.7%* versus benchmark's 20.1%* and sector average's 16.3%*.

■ Low exposure to banks, oils and miners explains the (short-term) underperformance.

■ The opportunities – and threats – from 'disruption' now a critical factor in selecting stocks.

Performance – Of Trump and sterling's struggles ...

The fund rose by 17.7%, net of all costs, over the period. At times, we have found ourselves saying that this return was achieved "notwithstanding the well-documented economic challenges of Brexit and the election of Donald Trump". Yet the reality is that this return was achieved precisely because of these factors: Brexit weakened sterling. That was a positive for the majority of UK companies (by value). Meanwhile equity markets responded with enthusiasm to the reforms advocated by Trump's administration.

Over the year the fund lagged the FTSE All-Share Index, which rose by 20.1%. The reasons for this – and for relative returns over the longer term – are discussed below. The fund's all-important distribution rose by 10.2%. While this was welcome, unitholders should note that sterling's weakness boosted the value of the dollar-denominated dividends we received from some of our holdings. Over the longer term, a growth rate of about 5% per annum seems a more realistic target. Unitholders should also note that, with approximately 20% of our income being received in US dollars, any future volatility in sterling will also lead to some modest variation in our distributions.

Review – Advocating active ...

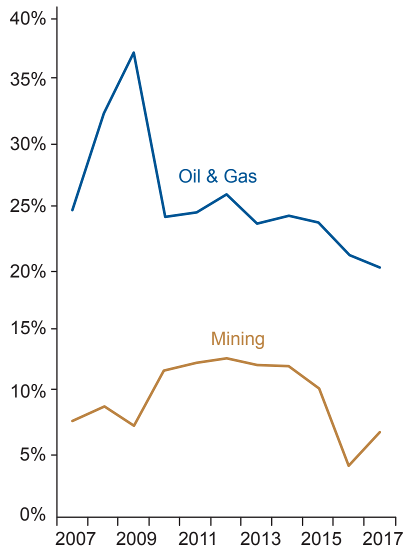
The on-going rise of equity markets continues to provoke more consternation than jubilation. Those who have been cautious about equities for too long keep pointing to their high valuations. For many years, investors have moaned about the lack of economic growth and the absence of growth in corporate earnings. But now there is evidence of positive progress in both; and equity refuseniks should at least acknowledge that.

The weakness of sterling was the main factor affecting the relative performance of stocks and sectors. A combination of rising commodity prices and the strengthening of the dollar (in which bulk commodities are priced) meant mining gained noticeably against the wider market. And in the banking sector, HSBC Holdings – a dollar earner – stood out versus its peers.

Headline returns from the fund in the year might look disappointing relative to the index. In managing the portfolio, however, we are charged not with shadowing the index but with delivering an above-average yield that will grow over time and that is sourced from a diversified list of companies best placed to deliver that aim. This inevitably takes the fund – and its performance – away from the index. Such is the essence of active fund management: from time to time, the fund's performance will differ from the index, sometimes quite markedly. Since launch and over the longer term, not being a slave to the tyranny of an index has delivered better returns in comparison. Furthermore, there is an investment and economic rationale to our portfolio (although that reasoning may not always be correct) - whereas it is difficult to muster any economic rationale for the composition of the index. Instead, it is a reflection of past and happenstance, reinforced by the current popularity of index funds.

The principal source of underperformance over the last 12 months came from the fund's sectoral exposures. It owned less than the market in some key sizeable parts of the market – banks, oils and mining – that performed well. Without wishing to sound dismissive, we do not view this as a long-term concern. We believe we have allocated sufficient capital to these areas. These sectors are both useful sources of cashflows and income but have above-average risk and volatility to their cashflows. This makes us careful about the level of exposure here. For example, if we were to replicate the combined weighting of oil & gas and mining in the FTSE All-Share Index, they would account for about 17.1% of our portfolio and for 20-25% of our income. Given the uncertainties surrounding oil and metal prices, this would mean our unitholders would likely receive a very volatile dividend stream or, in certain circumstances, a cut in their distribution.

Oil & Gas and Mining dividends in FTSE All Share Index (£ as % of total)



Source: Factset as at 10 March 2017.

Our attention is focused on those companies to which we have allocated capital and assessing whether or not those investments are going to plan. Beginning with the bad news, the most notable disappointment this year was Laird. Having been hitherto a successful investment for the fund, unrelated setbacks in three of its businesses contributed to a steep fall in its profits. The opportunity we identified in Laird can be summarised as its expertise in 'connectivity' for vehicles and between devices; and

* Source: Lipper Limited, class I distribution units, bid to bid in sterling with dividends reinvested to 30 April 2017. Benchmark is the FTSE All-Share Index. Sector is IA UK Equity Income.

Investment review (continued)

in the suppression of heat and signal interference in mobile devices. Laird can be said to be a beneficiary of increasing connectivity and the internet of things (the ability to monitor and operate equipment remotely, for example). In 2016, as a result of lower profits, the balance between debt and equity in the business became too skewed towards the former, necessitating a significant issue of equity. To those readers less well acquainted with companies' capital structures, issuing new shares means sharing future rewards with a greater number of shareholders than initially anticipated, diluting their value. With the share issue out of the way, the company is making progress in addressing those aspects of the disappointments that it can control. There has also been a decent recovery in the share price, albeit from a low level.

The other notable decline was in BT Group. Although the accounting problems in its Italian business grabbed the headlines, a tougher environment in the local government market and the stand-off with Ofcom, its regulator, were of more importance to us. The latter is the real long-term issue and prompted us to reduce our holding. BT Group and the regulator cannot agree upon the extent of the need for high-speed broadband, how it should be delivered to homes and businesses and what returns it should be permitted to incentivise this investment. Our view is that broadband pricing and provision has become a political football. In contrast to a normal football match, however, this one has no clear rules. Although politicians and the regulator are probably right to hold BT to account, one is left feeling that the rhetoric goes beyond reason. Ultimately, this could be to the detriment of customers. All of this means that BT Group will have less cashflow to fund and grow its dividends in the coming years. At the very least, this argues for a reduced holding.

Lest unitholders abandon all hope, we should mention that disappointments with Laird and BT Group were offset by our successes, most prominently 3i Group, Melrose Industries and SSP Group. 3i Group has won plaudits from us before. Over the last five years, it has gone from being a private equity fund with too much 'hit and hope' about it, to one that casts a steely eye on how it invests its capital and one that has the strength to say 'no'. A network in Europe enables it to find good investments and one of the main reasons for its strong performance has been its investment in Action, a European discount retailer. This has enjoyed great success, expanded from its core Benelux market and is firmly establishing itself in Germany and France. It has 890 stores today. Given that the format can expand profitably into nearby countries, there is the potential to grow this to 3,000 in the coming years. That will continue to drive the value of 3i Group beyond current expectations.

SSP Group is the company that is – quite literally – behind the outlets that bedeck many airports and railway stations. Their skill is in running a food or retail outlet in an environment where considerations of space or security make life more complicated; and doing so effectively and economically. SSP Group has spent recent years exporting these skills to new locations overseas, so much so that when meeting the company, little mention is made of the UK and more of the focus is on growth in the US and India. Although the shares have done well, this is a US$20 billion market with few competitors of any scale, so the long-term prognosis for SSP Group is attractive.

Meanwhile the most notable new additions to the fund were, among large caps, Tesco and Nordea Bank, the Scandinavian bank. In the mid-cap area we added Berkeley Group Holdings and NEX Group (formerly ICAP but a very different business today).

Tesco is an interesting story. We have been (rightly) wary of the supermarkets for many years and, were it not for Tesco's proposed purchase of Booker, that caution would continue. On its own, Tesco has a credible recovery plan that it is executing well. By driving more volume through its stores it pleases its suppliers who then reward it with better terms, enabling Tesco to offer better prices, attracting shoppers and so increasing sales volumes. Coupled with the help from remedying past mismanagement, this constitutes a good story. But then what? With Amazon prowling around the perimeter fence of most retailers, there needed to be a longer-term attraction. The Booker deal, if it can be completed, will take Tesco from a large share of the £110 billion food retail market and into the broader £200 billion food service market. So it has room to grow and, more than that, make better use of the combined company's existing assets to deliver that growth, making it more profitable in the process. There is still uncertainty to be overcome and, as a result, our holding is incomplete. If the deal fails, then Tesco looks cheap enough - although the longer-term attractions would disappear.

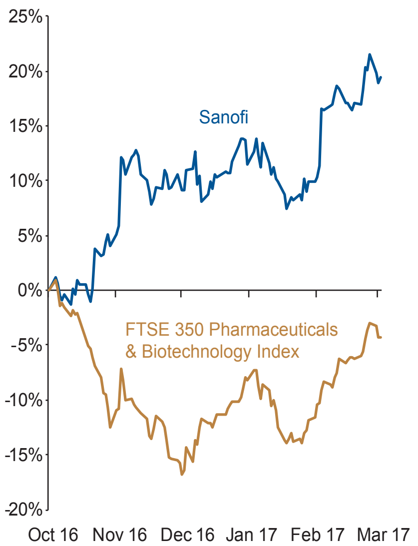
Nordea Bank, the Scandinavian bank, has a very attractive yield and a decent mix of business spread across a number of geographies. In addition, it is domiciled in Sweden where the local regulator's message is that 'you're a big bank relative to the size of our economy so we require you to hold more capital in case life gets tougher'. Moving the domicile elsewhere and coming under the umbrella of the European Central Bank would mean Nordea would require less capital.

In mid-caps, we accumulated a holding of Berkeley Group Holdings in the immediate aftermath of the Brexit vote when domestic stocks in general – and the London housing market in particular – were seen as (well-done) toast. This ignored the value that Berkeley Group Holdings has in its forward sales, its considerable land bank and very strong balance sheet. In recent months, the shares have recovered strongly. As an aside there is and will continue to be debate about London's prospects outside the EU and recurrent stories about businesses being lured to Paris or Frankfurt. It is not easy to say which way this will go, but it would be difficult for either city to match the depth of London's employment pool, infrastructure or its stock of real estate. The opening of Crossrail will also be a positive.

NEX Group, meanwhile, has hived off its old voice broking business. It is now best described as providing the digital financial infrastructure that enables financial institutions to manage risk, meet regulatory requirements and settle transactions.

In the fund's interim report, we featured the purchase of Sanofi, the valuation of whose shares had fallen behind those of other pharmaceutical companies. Latterly, the shares have risen and now are priced at a level similar to its peers. So we have realised this gain.

Sanofi - Value laggard



Source: Bloomberg as at 8 March 2017.

If Brexit provided us with an opportunity to buy the likes of Berkeley Group Holdings, it also presented an opportunity to sell Pearson. As a US dollar earner, it rallied sharply in response to weaker sterling. Although the price we realised looks much better than what would be available today, in truth this was not a successful investment. Over the last four years, we failed fully to appreciate the challenges that confront the education sector as it makes the transition from textbooks to online – for example, the scope for Amazon to disrupt the sales and distribution channel for textbooks by introducing a rental offering through its 'Prime' service. This was not helped by the fact that the buoyant US economy means it is easier for school leavers to find jobs rather than pursue further education, with the result that student enrolments suffered. Pearson has some good assets and in time will find a level at which demand and profits stabilise. For now, however, the shares no longer appeal.

Finally, we lowered our exposure to defence stocks such as Lockheed Martin, BAE Systems and Ultra Electronics Holdings. Although our initial sales were too early (given the boost these stocks subsequently received from Trump's proposals), Trump's commitment to increase defence spending certainly made for better prices as the sales progressed. Our sales were prompted by valuations combined with a belief that the market was taking an overly bullish view of the government's ability to increase the defence budget materially. The UK is already struggling to afford its commitments - despite the programmes having been outlined and costed relatively recently.

Outlook – Disruption's wrecking ball ...

Although experience suggests that unitholders are interested in our views on macroeconomics and political events, last year served as a powerful reminder as to why we restrict our thinking on calculated risk-taking to microeconomic matters. In general, macro-factors such as currencies and commodities are subject to an ebb and flow of news and sentiment that can distract from the bottom-up process of building an informed view on the duration, quality and likely growth of a company's cashflows. That said, there are occasions when changes do diminish the prospects for long-term cashflows; and there is one very strong conclusion that we draw from recent events, which to be fair has been increasingly prevalent for a number of years: political interference in companies and markets is increasing.

Such interventions are no longer the domain of just one party. Put another way, there are no more free marketeers. In some instances, companies or sectors have brought the unwelcome attention on themselves by allowing the perception to take hold that the service they provide is either inadequate or represents poor value for money. As we have already said, we have reduced our holding in BT Group. Before that, we reduced our exposure to Centrica. Political interventions in these industries could prove long-running and at the very least they represent a cap on the prospects of these two companies. Today's market participants have been brought up in a benign environment in which mainstream politicians had faith that the market would deliver the best outcome. That philosophy became dominant shortly after the writer of this report began his investment career in 1979. As a result, nobody in the market today can quite comprehend it when a government proposes a policy that sits easily in its manifesto but which violates most financial models. Increased scrutiny and government intervention in markets seems likely to be the norm for many years. To be clear we are not passing any judgement on the sagacity of these policies, but rather their impact on share prices.

By how much will markets fall, Mr Frost? And when will it happen? When will be the right time to buy back? And where will markets be in five years' time?

In that these things are cyclical, we worry less about them because cycles come and go. We worry more about missing significant opportunities to build long-term value and the possibility of permanently losing some or all of an equity's value. This should be the preoccupation of an investment manager.

We have spoken about the effects of 'disruption' on companies in previous reports. We make no apology for returning, extensively, to the theme. It is already a critical factor in our stock selection, and likely to become even

Investment review (continued)

more so. So bear with us.

As we all know, technology is reshaping our lives and habits. Companies on the receiving end of these changes must feel like they are facing a wrecking ball and in our view the effects of this disruption are becoming increasingly evident. Yet technology is not just a wrecking ball – it can also be an enabler and benefit companies and customers as never before. So there are both prizes and punishment to be had in this period of intense change. Since we are income mangers, we will start with the bad news.

The seemingly malevolent wrecking ball swings gently from a crane yet it is difficult to know when and how hard it will swing and what will survive. Although we confine our comments here to the impact of Amazon, we are also witnessing parallel advances in robotics, artificial intelligence, renewable energy and battery technology. This all makes for an interesting outlook.

Martin Sorrell, the chief executive of marketing giant WPP (and a new father) was recently asked what kept him awake at night. "The answer to the question isn't a three-month-old child," Sorrell said. "It's Amazon." Indeed it is hard to get away from Amazon in these thoughts, in no small part because its ambitions seem constantly to be expanding.

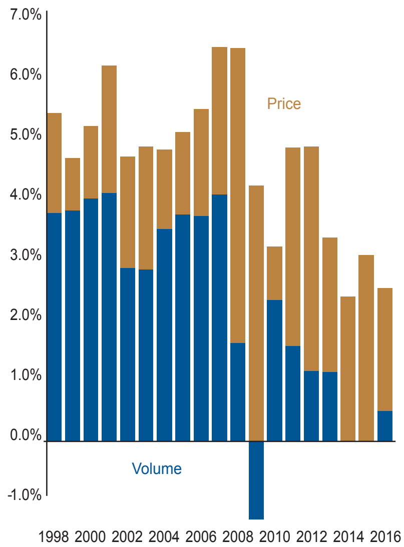
The internet has imparted transparency and convenience to consumers as never before.

Warren Buffet recently spoke about something that had been puzzling us. Why had the world's greatest investor, whose domestic market in the US is home to the likes of Google, Amazon, Facebook and Apple, failed to invest in them? (His investment in Apple has been relatively recent.) He was characteristically frank and said that he had failed to appreciate the nature of the opportunity. On the subject of Amazon's Jeff Bezos, he said: "I was too dumb to realize what would happen … I did not think he would succeed on the scale he has."

Yet perhaps the most interesting thing about this comment to us is that it makes us wonder to what extent he is thinking about the other (unmentioned) side of the conversation. Now that he can see the power of these disruptive companies, what does it mean for his existing portfolio? This is a question we are asking ourselves increasingly.

A broad swathe of brands are under attack. Amazon's ambitions in online groceries are still at an early stage but gaining momentum and the biggest threat in online shopping is price. Online shopping is a 'price flusher' in that is imparts the power of transparency and comparability at the click of a mouse. The chart below shows that consumer goods companies have recently relied more and more on price increases to augment their sales.

Organic growth in consumer staples split between volume & price



Source: Credit Suisse Equity Research; Consumer Staples as at 1 March 2017.

That will become increasingly difficult as more purchasing moves online. In addition, it seems that the price clarity and convenience in online is persuading consumers to be more accepting of own brands or private label.

By way of example, in the US, Amazon's own-label batteries outsell all the other recognisable brands put together. Back to the point about paying attention to what is in the portfolio and may be challenged: Mr Buffet owns Duracell. This is, and will continue to be, a great company. But one suspects that in the face of Amazon's advance, it faces a pretty challenging future.

In the context of the UK stockmarket, staples or consumer goods companies are highly valued, prized for their steady, repeatable growth and are seen as 'bond proxies' in an era of low bond yields. As a result, investors' decisions around these companies focus on bond yields rather than the prospects for the companies themselves. As you have read, we see prospects for many of these companies as being increasingly difficult; and given the expectations of growth embedded in their valuation, we think disappointment beckons.

In such situations what should a management do and does the incentive framework encourage the correct long-term decisions to counter such threats?

One suspects that in the world of consumer goods, mergers & acquisitions and repeated cost-cutting will provide the analgesic to try to counter the structural threats. We have seen some of that already and it was no coincidence that Kraft's move for Unilever came at a time when its sales were soft, to say the least. Similarly, Reckitt Benckiser's move for Mead Johnson seems to have coincided with a lull in sales. These seem to be rational short-term responses. Perhaps the action of the CEO of Colgate Palmolive is the right one. He recently signalled he would be open to selling the company for $100 a share ($74 at the time of writing).

What is the alternative? We will see some surprising moves as managements seek to 'future-proof' their businesses. Tesco's bid for Booker was one such surprise. Sainsbury's has parked its scout car on Amazon's lawn by acquiring Argos. The deal was easy to criticise, but was a sign that management are thinking beyond the typical timeframe of the stockmarket. To be clear, in most cases the threats described constitute a revision of companies' long-term prospects rather than their obliteration. We are not there yet, but there will eventually come a point when these threats are overstated. Remember it used to be thought that printed books would go the way of red telephone boxes in the face of e-readers such as Amazon's Kindle. Today, however, book sales have begun to recover – and a point of equilibrium may have been reached.

In practical terms, the first step is having an awareness of the threats and opportunities that exist. The second step is making sense of such uncertainty. This entails looking at the expected duration, durability and growth of company's profits in the face of such pressures.

There is plenty that technology can do for companies and their customers. Established companies have the opportunity to improve significantly the service they offer – the internet enables a more direct and immediate response. Often this involves simplifying the relationship and bypassing intermediaries (think of travel agents and insurance brokers). For many companies, the foothills of using the internet have been burdened by legacy systems resembling a bowl of spaghetti. But each new iteration of technology allows greater simplification; and this is a recurring theme when we meet companies. All of this enables better, more cost-efficient customer service. But because these improvements are available to all market participants, these benefits need to be reinvested wisely and harvested with caution.

Many companies are still in the very early stages of this change. One company told us that, were it to introduce robotics to its customer service department, the machine could change their clients' details seven times quicker than their best (human) employee. Such changes are far reaching and will cause society and politicians to pause for thought.

So when we look at travel companies, insurers, airlines and telecoms companies, technology could, if properly utilised, presage improved customer satisfaction at a lower cost. If used wisely, the cost savings could engender customer loyalty, less churn – all this adds up to a better investment that what went before.

What does all of the above mean in terms of the day-to-day management of this fund?

Having a heightened awareness of its effect on equity values should enable us both to profit from and avoid costly mistakes – if we are correct in our judgments. Furthermore it could be argued that an active manager can express such threats and opportunities in a portfolio. At the same time in our (admittedly biased) view, a passive fund is buying too much of the past at a time of great change. Within the FTSE All-Share Index there is a not insignificant number of boards whose incentives will be well earned if they can merely preserve the value of their companies in the coming years, such are the challenges that face them. If you have an idle moment, it is worth printing off a list of the top 50 companies in the UK market and thinking about their prospects in the context of some of these pressures – and opportunities.

Adrian Frost & Nick Shenton
Fund managers

Investment information

Five largest purchases and sales for the year ended 30 April 2017

Purchases	Cost £'000	Sales	Proceeds £'000
Tesco	99,413	Lockheed Martin	157,497
Microsoft	98,139	BAE Systems	138,966
Sanofi	96,448	AstraZeneca	132,437
British American Tobacco	92,320	Pearson	112,193
Nordea Bank	84,685	Microsoft	111,429

Portfolio statement as at 30 April 2017

Investment	Holding	Valuation £'000	% of net assets
Collective Investment Schemes 1.71% (1.32%)			
Artemis Global Income Fund class I accumulation units †	86,129,183	110,228	1.71
Collective Investment Schemes total		**110,228**	**1.71**
Equities 96.94% (96.96%)			
Basic Materials 5.55% (5.15%)			
Bayer	1,915,436	183,885	2.85
Rio Tinto	5,649,853	174,694	2.70
		358,579	**5.55**
Consumer Goods 7.36% (6.87%)			
Berkeley Group Holdings	1,840,945	60,328	0.94
British American Tobacco	2,043,534	106,652	1.65
Imperial Brands	6,009,960	228,048	3.53
Orkla	3,140,213	22,097	0.34
Persimmon	2,485,777	58,167	0.90
		475,292	**7.36**
Consumer Services 18.69% (17.37%)			
Card Factory	20,521,227	66,673	1.03
Greene King	6,546,049	48,866	0.76
Halfords Group	9,118,534	34,140	0.53
Informa	31,082,702	199,396	3.09
RELX	15,989,817	251,680	3.89
RELX NV	2,040,518	30,695	0.47
Saga	62,643,106	131,550	2.04
SSP Group	22,247,385	99,001	1.53
Tesco	48,680,187	89,499	1.39
TUI	11,570,907	130,751	2.02
Wolters Kluwer	3,785,454	125,546	1.94
		1,207,797	**18.69**
Financials 34.53% (28.57%)			
3i Group	30,549,426	245,006	3.79
Ashmore Group	6,272,920	21,930	0.34
Assura	105,440,991	64,899	1.00
Aviva	39,946,494	210,718	3.26
Barclays	67,828,984	144,171	2.23
Direct Line Insurance Group	42,682,430	149,218	2.31
Ecofin Global Utilities and Infrastructure Trust	5,937,987	7,185	0.11
HSBC Holdings	24,471,576	155,737	2.41

Investment	Holding	Valuation £'000	% of net assets
IG Group Holdings	14,211,047	77,095	1.19
Legal & General Group	46,043,060	114,049	1.77
Lloyds Banking Group	308,781,163	213,769	3.31
London Stock Exchange Group	2,877,525	97,289	1.51
NEX Group	6,624,838	40,743	0.63
NextEnergy Solar Fund	38,728,779	44,054	0.68
Nordea Bank	8,692,440	81,541	1.26
Phoenix Group Holdings	12,633,804	93,616	1.45
RSA Insurance Group	17,812,560	106,341	1.65
Secure Income, REIT #	27,942,446	97,240	1.50
Segro, REIT	36,820,098	179,056	2.77
Speymill Deutsche Immobilien, REIT ^	14,828,390	-	-
Standard Life	24,147,941	87,874	1.36
		2,231,531	**34.53**
Healthcare 6.85% (9.05%)			
AstraZeneca	3,579,566	166,182	2.57
GlaxoSmithKline	14,880,954	230,729	3.57
Indivior	13,639,105	45,841	0.71
		442,752	**6.85**
Industrials 8.19% (11.48%)			
BBA Aviation	19,103,286	59,602	0.92
Cobham	58,266,678	78,019	1.21
Cobham Rights 04/05/2017	23,306,671	13,693	0.21
Melrose Industries	48,423,280	114,521	1.77
Rentokil Initial	45,063,366	112,613	1.74
Royal Mail	22,127,917	90,238	1.40
SPIE	2,828,797	60,458	0.94
		529,144	**8.19**
Oil & Gas 6.27% (5.82%)			
BP	57,059,914	253,089	3.92
Royal Dutch Shell B shares	7,397,425	152,276	2.35
		405,365	**6.27**
Technology 1.27% (1.57%)			
Laird	54,333,918	81,908	1.27
		81,908	**1.27**
Telecommunications 5.77% (7.19%)			
BT Group	45,901,726	140,115	2.17
Inmarsat	12,906,706	104,931	1.62
Vodafone Group	64,164,781	127,945	1.98
		372,991	**5.77**
Utilities 2.46% (3.89%)			
Centrica	36,852,830	72,784	1.13
Drax Group	12,911,999	41,887	0.65
Enagas	2,174,215	44,217	0.68
		158,888	**2.46**
Equities total		**6,264,247**	**96.94**

Investment information (continued)

Investment	Valuation £'000	% of net assets
Corporate Bonds 0.00% (1.43%)		
Consumer Services 0.00% (0.04%)		
Financials 0.00% (0.63%)		
Utilities 0.00% (0.76%)		
Derivatives 0.25% (0.08%)		
Options 0.00% ((0.01)%)		
Forward currency contracts 0.25% (0.09%)		
Buy Sterling 395,891,612 dated 13/06/2017	395,892	6.14
Sell Euro 453,290,000 dated 13/06/2017	(383,433)	(5.93)
Buy Sterling 20,200,300 dated 13/06/2017	20,200	0.31
Sell Norwegian Krone 211,100,000 dated 13/06/2017	(19,104)	(0.30)
Buy Sterling 72,614,769 dated 13/06/2017	72,615	1.12
Sell Swedish Krona 797,200 dated 13/06/2017	(69,964)	(1.09)
Derivatives total	**16,206**	**0.25**
Investment assets (including investment liabilities)	6,390,681	98.90
Net other assets	70,923	1.10
Net assets attributable to unitholders	6,461,604	100.00

The comparative percentage figures in brackets are as at 30 April 2016.
† Related party.
# Security traded on the Alternative Investment Market.
^ Unlisted, suspended or delisted security.

Statement of total return for the year ended 30 April 2017

	Note	30 April 2017 £'000	£'000	30 April 2016 £'000	£'000
Income					
Net capital gains/(losses)	3		806,883		(409,981)
Revenue	5	274,641		277,114	
Expenses	6	(65,705)		(74,746)	
Interest payable and similar charges	7	(9)		(27)	
Net revenue before taxation		208,927		202,341	
Taxation	8	(3,241)		(3,274)	
Net revenue after taxation			205,686		199,067
Total return before distributions			**1,012,569**		**(210,914)**
Distributions	9		(269,190)		(271,472)
Change in net assets attributable to unitholders from investment activities			743,379		(482,386)

Statement of change in net assets attributable to unitholders for the year ended 30 April 2017

	30 April 2017 £'000	£'000	30 April 2016 £'000	£'000
Opening net assets attributable to unitholders		6,481,428		7,216,043
Amounts receivable on issue of units	186,545		145,778	
Amounts payable on cancellation of units	(1,052,642)		(498,536)	
		(866,097)		(352,758)
Change in net assets attributable to unitholders from investment activities		743,379		(482,386)
Retained distribution on accumulation units		102,892		100,527
Unclaimed distributions		2		2
Closing net assets attributable to unitholders		6,461,604		6,481,428

Balance sheet as at 30 April 2017

	Note	30 April 2017 £'000	30 April 2016 £'000
Assets			
Fixed assets			
Investments	10	6,390,681	6,471,767
Current assets			
Debtors	11	62,795	69,548
Cash and bank balances	12	131,267	59,923
Total current assets		**194,062**	**129,471**
Total assets		**6,584,743**	**6,601,238**
Liabilities			
Investment liabilities	10	-	3,658
Creditors			
Distribution payable		78,923	92,655
Other creditors	13	44,216	23,497
Total creditors		**123,139**	**116,152**
Total liabilities		**123,139**	**119,810**
Net assets attributable to unitholders		6,461,604	6,481,428

Notes to the financial statements

1. Accounting policies

(a) Basis of accounting. The financial statements have been prepared under the historical cost basis, as modified by the revaluation of investments, in accordance with Financial Reporting Standard ('FRS') 102 and the SORP.

(b) Valuation of investments. All investments have been valued at 12 noon on the last working day of the accounting period. Listed investments are valued at fair value which is deemed to be the bid or SETS price. Unquoted investments are valued at fair value which is determined by the investment manager, with reference to the valuation guidelines issued by the International Private Equity and Venture Capital Valuation Guidelines Board.

(c) Foreign exchange rates. Assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates prevailing at 12 noon on the last working day of the accounting period. Revenue and expenditure transactions are translated at the rates of exchange ruling on the dates of the transactions. Exchange differences on such transactions follow the same treatment as the principal amounts.

(d) Derivatives. Where appropriate, certain permitted transactions such as derivatives or forward currency contracts are used for efficient portfolio management and investment purposes. Derivatives are valued at 12 noon on the last working day of the accounting period. Forward currency contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profiles. Exchange traded derivatives are priced at fair value, which is deemed to be the bid price. Over-the-counter derivatives are priced at fair values using valuation models or data sourced from market data providers. Any positions on such transactions open at the year end are reflected in the balance sheet at their marked to market value.

(e) Revenue. Dividends receivable from equity and non-equity shares, including Real Estate Investment Trusts, ('REIT') are credited to revenue, net of attributable tax credits, when the security is quoted ex-dividend. Dividends received as shares (scrip/stock dividends), to the extent that the value of such dividends is equal to the cash dividends, are treated as revenue. Dividends on unquoted stocks are credited to revenue when the right to receive payment is established. Special dividends are reviewed on a case by case basis when determining if the dividend is to be treated as revenue or capital. It is likely that where a special dividend results in a significant reduction in the capital value of a holding, then the dividend will generally be treated as capital, otherwise this will be recognised as revenue. Returns on derivative instruments are recognised as either revenue or capital depending on the nature and circumstances of each particular case. Premiums arising on options are treated as revenue and are amortised on a straight-line basis over the life of the option, unless the option has the immediate effect of generating a capital loss, in which case the premiums are taken to capital. Bank interest is recognised on an accruals basis. Underwriting commission is recognised when the issue underwritten takes place.

(f) Expenses. All expenses (other than those relating to the purchase and sale of investments) are charged against revenue on an accruals basis. Rebates are applied where management fees are incurred by the underlying investment. Costs arising from the filing of European withholding tax reclaims are charged to revenue but deducted from capital for the purpose of calculating the distribution.
On receipt of any withholding tax reclaims, the relevant costs will be transferred back to revenue and deducted from the distribution.

(g) Taxation. Corporation tax is charged at a rate of 20% on the excess taxable revenue of the fund. In general, the tax accounting treatment follows that of the principal amount. Deferred tax is provided for all timing differences that have originated but not reversed at the balance sheet date other than those recorded as permanent differences. Deferred tax is provided for at the average rate of tax expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

2. Distribution policy

The fund shall distribute all available revenue, after deduction of expenses properly chargeable against revenue. The manager and the trustee have agreed that 100% of the annual management charge is to be transferred to capital for the purpose of calculating the distribution, as permitted by COLL. The distribution currently payable reflects this treatment. The manager may from time to time, smooth the distribution payments during the accounting period with the balance of revenue (if any) being paid in respect of the final distribution. Gains and losses on investments, derivatives and currencies, whether realised or unrealised, if taken to capital are not available for distribution. The fund is not more than 60% invested in qualifying investments (as defined in section 468L, Income and Corporation Taxes Act 1988) and where applicable will pay a dividend distribution. With the exception of the manager's annual management charge, which is directly attributable to each unit class, all income and expenses are apportioned to each unit class pro-rata to the value of the net assets of the relevant unit class on the day that the income or expense is recognised. Distributions which have remained unclaimed by unitholders for six years are credited to the capital property of the fund.

3. Net capital gains/(losses)

	30 April 2017 £'000	30 April 2016 £'000
Non-derivative securities	848,423	(378,228)
Management fee rebate	747	637
Currency gains/(losses)	153	(5,026)
Derivative contracts	19	(109)
Capital transaction charges	(9)	(7)
Forward currency contracts	(42,450)	(27,248)
Net capital gains/(losses)	806,883	(409,981)

4. Direct transaction costs

For purchases and sales of equities and derivatives, broker commissions, transfer taxes and stamp duty are paid by the fund on each transaction and are summarised below.

Bonds have no separately identifiable transaction costs; these costs form part of the dealing price.

	Year ended 30 April 2017					
	Principal £'000	Commission £'000	Taxes £'000	Total after costs £'000	Commission as a percentage of principal %	Taxes as a percentage of principal %
Purchases						
Equities	1,262,993	1,285	3,623	1,267,901	0.10	0.29
Sales						
Equities	2,108,787	2,359	8	2,106,420	0.11	-
Bonds	92,480	-	-	92,480	-	-
Derivative purchases and sales		-	13			
Total		3,644	3,644			
Percentage of fund average net assets		0.06%	0.06%			

	Year ended 30 April 2016					
	Principal £'000	Commission £'000	Taxes £'000	Total after costs £'000	Commission as a percentage of principal %	Taxes as a percentage of principal %
Purchases						
Equities	1,481,382	1,320	4,528	1,487,230	0.09	0.31
Bonds	87,630	-	-	87,630	-	-
Sales						
Equities	1,907,603	1,975	6	1,905,622	0.10	0.00
Derivative purchases and sales		54	9			
Total		3,349	4,543			
Percentage of fund average net assets		0.05%	0.07%			

During the year the fund incurred £9,000 (2016: £7,000) in capital transaction charges.

Dealing spread

As at the balance sheet date the average portfolio dealing spread was 0.08% (2016: 0.13%). This spread represents the difference between the values determined respectively by reference to the bid and offer prices of investments expressed as a percentage of the value determined by reference to the offer price.

Notes to the financial statements (continued)

5. Revenue

	30 April 2017 £'000	30 April 2016 £'000
UK dividends	228,216	236,363
Overseas dividends	34,571	31,330
Revenue from UK REITs	6,278	2,732
Franked dividend distributions from collective investment schemes	3,190	2,741
Interest on debt securities	1,071	1,668
Underwriting commission	591	-
Bank interest	364	212
Option premiums	323	2,067
Interest on denkavit reclaims	37	-
Unfranked dividend distributions from collective investment schemes	-	1
Total revenue	274,641	277,114

6. Expenses

	30 April 2017 £'000	30 April 2016 £'000
Payable to the manager, associates of the manager and agents of either of them:		
Annual management charge	63,490	72,385
Other expenses:		
Trustee fees	764	823
Registration fees	590	635
Administration fees	409	444
Operational fees	242	234
Safe custody fees	188	203
Auditor's remuneration: audit fees*	11	9
Printing and postage fees	10	-
Price publication fees	1	-
Auditor's remuneration: non-audit fees (taxation)	-	13
Total expenses	65,705	74,746

All expenditure stated above is inclusive of irrecoverable VAT where applicable.
* The amounts disclosed above includes VAT at the rate of 20%. The audit fee (excluding VAT) accrued during the year was £9,000 (2016: £7,500).

7. Interest payable and similar charges

	30 April 2017 £'000	30 April 2016 £'000
Interest payable	9	27
Total interest payable and similar charges	9	27

8. Taxation

	30 April 2017 £'000	30 April 2016 £'000
a) Analysis of the tax charge for the year		
Irrecoverable overseas tax	3,069	3,274
Denkavit tax reclaims	172	-
Total taxation (note 8b)	3,241	3,274
b) Factors affecting the tax charge for the year		
Net revenue before taxation	209,674	202,978
Corporation tax at 20% (2016: 20%)	41,935	40,596
Effects of:		
Unutilised management expenses	11,261	13,491
Irrecoverable overseas tax	3,069	3,274
Denkavit tax reclaims	172	-
Non-taxable overseas dividends	(6,915)	(6,266)
Non-taxable UK dividends	(46,281)	(47,821)
Tax charge for the year (note 8a)	3,241	3,274

c) Provision for deferred tax
No provision for deferred tax has been made in the current or prior accounting year.

d) Factors that may affect future tax charges
The fund has not recognised a deferred tax asset of £101,445,000 (2016: £90,184,000) arising as a result of having unutilised management expenses of £507,226,000 (2016: £450,922,000). It is unlikely that the fund will obtain relief for these in the future so no deferred tax asset has been recognised.

9. Distributions

	30 April 2017 £'000	30 April 2016 £'000
Interim dividend distribution	131,343	119,358
Final dividend distribution	130,172	148,571
	261,515	267,929
Add: amounts deducted on cancellation of units	9,545	4,882
Deduct: amounts added on issue of units	(1,870)	(1,339)
Distributions	269,190	271,472
Movement between net revenue and distributions		
Net revenue after taxation	205,686	199,067
Annual management charge paid from capital	63,490	72,385
Expenses paid from capital	15	26
Undistributed revenue brought forward	1	1
Less: amounts deducted on conversion of units	(1)	(6)
Undistributed revenue carried forward	(1)	(1)
	269,190	271,472

The distributions take account of amounts added on the issue of units and amounts deducted on the cancellation of units. Details of the distributions per unit are set out in the distribution tables on page 22.

Notes to the financial statements (continued)

10. Fair value hierarchy

All investments are designated at fair value through profit or loss on initial recognition. The following table provides an analysis of these investments based on the fair value hierarchy which reflects the reliability and significance of the information used to measure their fair value.

The disclosure is split into the following categories:
Level 1 – Investments with unadjusted quoted prices in an active market;
Level 2 – Investments whose fair value is based on inputs other than quoted prices that are either directly or indirectly observable;
Level 3 – Investments whose fair value is based on inputs that are unobservable (i.e. for which market data is unavailable).

	30 April 2017		30 April 2016	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Level 1	6,264,247	-	6,293,699	350
Level 2	126,434	-	178,068	3,308
Total	6,390,681	-	6,471,767	3,658

11. Debtors

	30 April 2017 £'000	30 April 2016 £'000
Accrued revenue	55,288	60,802
Overseas withholding tax recoverable	5,233	5,741
Sales awaiting settlement	2,136	2,950
Accrued management fee rebate	136	52
Prepaid expenses	2	3
Total debtors	62,795	69,548

12. Cash and bank balances

	30 April 2017 £'000	30 April 2016 £'000
Amounts held in JPMorgan Liquidity Funds – Sterling Liquidity Fund (Institutional dist.)	131,267	55,605
Cash and bank balances	-	2,465
Amounts held at futures clearing houses and brokers	-	1,853
Total cash and bank balances	131,267	59,923

13. Other creditors

	30 April 2017 £'000	30 April 2016 £'000
Amounts payable for cancellation of units	29,375	13,605
Purchases awaiting settlement	9,729	4,301
Accrued annual management charge	4,774	5,153
Accrued other expenses	338	438
Total other creditors	44,216	23,497

14. Contingent liabilities and commitments

There were no contingent liabilities at the current or prior year end. The fund holds an outstanding commitment to purchase additional shares in Cobham through a rights issue (2016: none).

15. Contingent assets

Following the ruling on Denkavit's case with the European Court of Justice regarding taxation withheld on overseas dividends, the manager has taken steps to make claims with certain European tax authorities for repayment of taxation suffered by the fund on dividend revenue. During the year, the fund received repayments from the French Tax Authorities which have been recognised in the statement of total return and also in notes 5 and 8. These amounts have been included within the net revenue available for distribution.

Due to uncertainty regarding the likely success of claims made in other countries, it is not possible to estimate the potential amount of overseas tax that may be received by the fund, if any. Therefore, the financial statements presented for the year ended 30 April 2017 do not reflect any further amounts that may be received.

16. Reconciliation of unit movements

Class	Units in issue at 30 April 2016	Units issued	Units cancelled	Units converted	Units in issue at 30 April 2017
I distribution	1,318,711,997	50,358,359	(175,499,287)	19,980,148	1,213,551,217
I accumulation	382,872,627	2,110,882	(44,573,383)	2,377,901	342,788,027
R distribution	620,469,904	24,480,813	(185,083,663)	(11,351,110)	448,515,944
R accumulation	315,039,430	3,238,250	(33,971,894)	(8,349,196)	275,956,590

17. Risk disclosures

The fund's financial instruments comprise equities, fixed interest investments, floating rate investments, cash balances and liquid resources which include debtors and creditors. The fund holds such financial assets in accordance with its investment objective and policy as set out on page 1. The fund is exposed to a number of risks that are associated with the financial instruments and markets in which it invests. The most significant risks to which the fund is exposed to are market risk, credit and counterparty risk and liquidity risk.

(a) Market risk

Market risk, which includes interest rate risk, currency risk, other price risk and leverage risk, arises mainly from uncertainty about future values of financial instruments in the fund's investment portfolio. The fund, in order to meet its investment objective and policy, invests predominantly in equities and maintains an appropriate spread of investments in accordance with COLL, the Trust Deed and the Prospectus to seek to reduce the risks arising from factors specific to a particular company or sector. The manager's investment strategy is to select investments for their fundamental value. Stock selection is therefore based on disciplined accounting, market and sector analysis, with the emphasis on long-term investments. There is no material difference between the carrying values and the fair values of the financial assets and liabilities of the fund disclosed in the balance sheet.

(i) Interest rate risk

Changes in interest rates or changes in expectations of future interest rates may result in an increase or decrease in the market value of the investments held. Bond yields (and as a consequence bond prices) are determined by market perception as to the appropriate level of yields given the economic background. Key determinants include economic growth prospects, inflation, governments' fiscal positions, short-term interest rates and international market comparisons. As part of the continuing review of the portfolio, the manager monitors and reviews these factors. As the majority of the fund's financial assets are non-interest bearing, the fund is only subject to limited exposure to fair value interest rate risk due to fluctuations in levels of market interest rates and therefore no sensitivity analysis has been presented.

(ii) Currency risk

A portion of the net assets of the fund are denominated in currencies other than sterling, and therefore the balance sheet and total return can be affected by currency movements. The manager may decide that a proportion of the investments that are not priced in sterling, may be covered by forward currency contracts, so that the fund's exposure to currency risk is reduced. The loss on forward currency contracts for the year was £42,450,000 (2016: £27,248,000).

Revenue received in foreign currencies is converted into sterling on or near the date of receipt. No hedging is undertaken with regard to managing the currency movement risk on accrued revenue.

Notes to the financial statements (continued)

The exposure to each currency is shown in the table below.

Currency	Investments £'000	Net other assets £'000	Forward currency contracts £'000	Total £'000
30 April 2017				
Sterling	5,826,036	62,755	488,707	6,377,498
Euro	444,801	5,471	(383,433)	66,839
Swedish Krona	81,541	-	(69,964)	11,577
Norwegian Krone	22,097	765	(19,104)	3,758
Swiss Franc	-	1,932	-	1,932
30 April 2016				
Sterling	5,761,518	4,741	568,261	6,334,520
Swiss Franc	125,308	4,492	(55,372)	74,428
Euro	381,920	3,504	(334,606)	50,818
US Dollar	193,330	344	(172,250)	21,424
Norwegian Krone	-	238	-	238

A five per cent increase in the value of the fund's foreign currency exposure would have the effect of increasing the return and net assets by £4,205,000 (2016: £7,345,000). A five per cent of decrease would have an equal and opposite effect.

(iii) Other price risk

Other price risk is the risk that the value of an instrument will fluctuate as a result of changes in market prices (other than those relating to interest rate risk, currency risk and credit and counterparty risk), whether caused by factors specific to an investment or wider issues affecting the market generally. The value of equities is dependent on a number of factors, arising from the performance of the company itself and matters arising in the wider market (for example the state of the underlying economy and current government policy). The portfolio is invested in securities domiciled in a number of countries and will be exposed to market movements in the relevant country arising from changes in the local economy and government decisions. As part of the continuing review of the portfolio, the manager monitors and reviews these factors. A five per cent increase in the value of the fund's portfolio would have the effect of increasing the return and net assets by £319,534,000 (2016: £323,405,000). A five per cent decrease would have an equal and opposite effect.

(iv) Leverage risk

Leverage is defined as any method by which the fund can increase its exposure by borrowing cash or securities or from leverage that is embedded in derivative positions. The manager is required to calculate and monitor the level of leverage of a fund, expressed as a percentage of the exposure of the fund and its net asset value under the commitment method.

The fund can use cash borrowing (subject to restrictions as set out in its Prospectus and COLL) and financial derivatives as sources of leverage. A result of 100% indicates that no leverage has been used.

As at 30 April 2017 the amount of leverage used by the fund was 100% (2016: 100%).

(b) Credit and counterparty risk

Credit and counterparty risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment it has entered into with the fund, resulting in a financial loss. From time to time, the fund may be subject to short-term credit risk with counterparties pending settlement of investment transactions. The manager has a pre-approved list of counterparties it uses for investment transactions, which is reviewed on a regular basis. The largest counterparty risk is with J.P. Morgan Chase Bank N.A. ('JPMorgan'), the fund's custodian and banker, who holds the fund's investments and maintains the bank accounts. Bankruptcy or insolvency of JPMorgan may cause the fund's rights with respect to securities and cash held by the custodian to be delayed or limited. The trustee receives and reviews a semi-annual report on the internal controls in place at JP Morgan. The fund is also exposed to counterparty risk through holding specific financial instruments.

The manager is permitted to use one or more separate counterparties for derivative transactions. The fund may enter into transactions in over-the-counter ('OTC') markets that expose it to the credit worthiness of its counterparties and their ability to satisfy the terms of such contracts. Where the fund enters into derivative contracts, it will be exposed to the risk that the counterparty may default on its obligations to perform under the relevant contract. In the event of bankruptcy or insolvency of a counterparty, the fund could experience delays in liquidating the position and may incur significant losses. There may be a risk that a counterparty will be unable to meet its obligations with regard to the return of the collateral and may not meet other payments due to the fund. To minimise such risk the manager will assess the creditworthiness of any counterparty that it engages. On a daily basis the manager assesses the level of assets with each counterparty to ensure that the exposure is within the defined limits in accordance with the requirements stipulated in COLL and the Prospectus.

The derivatives held at the year end are disclosed in the portfolio statement and UBS AG ('UBS') is the counterparty for the forward currency contracts (2016: UBS for the forward currency contracts, J.P. Morgan Securities plc ('J.P. Morgan') for the options). Aside from the custodian, the derivative counterparties and brokers where trades are pending settlement, there were no significant concentrations of credit and counterparty risk as at 30 April 2017 or 30 April 2016.

Counterparty and collateral exposure

The types of derivatives held at the balance sheet date were forward currency contracts. Details of the individual contracts are disclosed separately in the portfolio statement and the total position by counterparty and the collateral pledged, at the balance sheet date, were as follows:

Currency	Options £'000	Forward currency contracts £'000	Total gross exposure £'000	Net collateral pledged £'000
30 April 2017				
UBS	-	16,206	16,206	(15,094)
30 April 2016				
J.P. Morgan	(350)	-	(350)	-
UBS	-	6,033	6,033	(6,270)

Only cash collateral is pledged or held by the fund.

(c) Liquidity risk

Some of the fund's financial instruments can include securities that are not listed on a recognised stock exchange and which may not always be readily realisable. However, from time to time, liquidity in any market or in a specific security can be affected by economic events. As a result, the fund may not be able to realise these investments quickly at their fair value to respond to any further liquidity requirements, or to respond to specific events such as deterioration in the creditworthiness of any particular issuer. In order to manage liquidity requirements, the fund seeks to maintain sufficient cash to pay creditors. Liquidity risk limits are set by reference to two key metrics: market liquidity and investor concentration. These measures will, in combination, identify instances where the fund may be unable to meet investor redemptions. Market liquidity considers a fund's liquidity compared against the daily average liquidity over the previous twelve months. Investor concentration considers the proportion of the fund that is realisable within a redemption cycle measured against the largest unitholder.

18. Related party transactions

The manager is deemed to be a related party. All transactions and balances associated with the manager are disclosed within the statement of total return, statement of change in net assets attributable to unitholders and the balance sheet on page 13 and notes 6, 9, 11 and 13 on pages 16 to 18 including all issues and cancellations where the manager acted as principal. The balance due to the manager as at 30 April 2017 in respect of these transactions was £34,013,000 (2016: £18,706,000).

19. Unit classes

The annual management charge on each unit class is as follows:

I distribution: 0.75%
I accumulation: 0.75%
R distribution: 1.50%
R accumulation: 1.50%

The net asset value per unit and the number of units in each class are given in the comparative tables on page 23.
The distributions per unit class are given in the distribution tables on page 22. All classes have the same rights on winding up.

20. Post balance sheet events

Since 30 April 2017, the net asset values per unit, on a bid basis, have changed as follows:

	Net asset value per unit (p) 26 June 2017	30 April 2017	Movement
I distribution	248.60	238.86	4.1%
I accumulation	445.97	428.51	4.1%
R distribution	229.08	220.36	4.0%
R accumulation	416.51	400.68	4.0%

Distribution tables

Interim dividend distribution for the six months ended 31 October 2016 (paid on 30 December 2016) in pence per unit.

Group 1 - Units purchased prior to 1 May 2016.
Group 2 - Units purchased from 1 May 2016 to 31 October 2016.

	Net revenue per unit (p)	Equalisation per unit (p)	Distribution per unit (p) 30 December 2016	Distribution per unit (p) 31 December 2015
I distribution				
Group 1	4.7317	-	4.7317	3.8059
Group 2	2.0729	2.6588	4.7317	3.8059
I accumulation				
Group 1	8.1447	-	8.1447	6.2935
Group 2	3.8836	4.2611	8.1447	6.2935
R distribution				
Group 1	4.3908	-	4.3908	3.5585
Group 2	1.2047	3.1861	4.3908	3.5585
R accumulation				
Group 1	7.6595	-	7.6595	5.9628
Group 2	4.0138	3.6457	7.6595	5.9628

Corporate unitholders should note that:

1. 100.00% of the revenue distribution received as franked investment income.

2. 0.00% of the revenue distribution is received as an annual payment received after deduction of income tax at the lower rate and may be liable to corporation tax. It is not franked investment income.

Final dividend distribution for the six months ended 30 April 2017 (payable on 30 June 2017) in pence per unit.

Group 1 - Units purchased prior to 1 November 2016.
Group 2 - Units purchased from 1 November 2016 to 30 April 2017.

	Net revenue per unit (p)	Equalisation per unit (p)	Distribution per unit (p) 30 June 2017	Distribution per unit (p) 30 June 2016
I distribution				
Group 1	4.8481	-	4.8481	4.8861
Group 2	3.2213	1.6268	4.8481	4.8861
I accumulation				
Group 1	8.5246	-	8.5246	8.2221
Group 2	5.2623	3.2623	8.5246	8.2221
R distribution				
Group 1	4.4790	-	4.4790	4.5484
Group 2	2.8475	1.6315	4.4790	4.5484
R accumulation				
Group 1	7.9821	-	7.9821	7.7567
Group 2	4.8996	3.0825	7.9821	7.7567

Corporate unitholders should note that:

1. 100.00% of the revenue distribution received as franked investment income.

2. 0.00% of the revenue distribution is received as an annual payment received after deduction of income tax at the lower rate and may be liable to corporation tax. It is not franked investment income.

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.

Comparative tables

	I distribution			I accumulation		
	2017	2016	2015	2017	2016	2015
Change in net assets per unit (p)						
Opening net asset value per unit	**211.42**	**226.02**	**213.67**	**364.00**	**373.78**	**339.94**
Return before operating charges *	38.83	(4.18)	22.66	67.65	(6.89)	36.64
Operating charges	(1.81)	(1.73)	(1.74)	(3.14)	(2.89)	(2.80)
Return after operating charges	37.02	(5.91)	20.92	64.51	(9.78)	33.84
Distributions	(9.58)	(8.69)	(8.57)	(16.67)	(14.52)	(13.77)
Retained distributions on accumulation units	-	-	-	16.67	14.52	13.77
Closing net asset value per unit	**238.86**	**211.42**	**226.02**	**428.51**	**364.00**	**373.78**
* after direct transaction costs of	(0.20)	(0.22)	(0.28)	(0.36)	(0.36)	(0.47)
Performance						
Return after charges	17.51%	(2.61)%	9.79%	17.72%	(2.62)%	9.95%
Other information						
Closing net asset value (£'000)	2,898,640	2,788,039	2,717,485	1,468,881	1,393,653	1,157,512
Closing number of units	1,213,551,217	1,318,711,997	1,202,317,725	342,788,027	382,872,627	309,679,491
Operating charges	0.79%	0.79%	0.79%	0.79%	0.79%	0.79%
Direct transaction costs	0.09%	0.10%	0.13%	0.09%	0.10%	0.13%
Prices						
Highest offer unit price (p)	247.59	227.20	240.63	435.34	382.32	390.09
Lowest bid unit price (p)	201.51	194.57	201.04	347.03	327.43	319.84

	R distribution			R accumulation		
	2017	2016	2015	2017	2016	2015
Change in net assets per unit (p)						
Opening net asset value per unit	**196.53**	**211.70**	**201.66**	**342.91**	**354.79**	**325.11**
Return before operating charges *	35.95	(3.91)	21.28	63.49	(6.57)	34.85
Operating charges	(3.25)	(3.15)	(3.18)	(5.72)	(5.31)	(5.17)
Return after operating charges	32.70	(7.06)	18.10	57.77	(11.88)	29.68
Distributions	(8.87)	(8.11)	(8.06)	(15.64)	(13.72)	(13.12)
Retained distributions on accumulation units	-	-	-	15.64	13.72	13.12
Closing net asset value per unit	**220.36**	**196.53**	**211.70**	**400.68**	**342.91**	**354.79**
* after direct transaction costs of	(0.19)	(0.20)	(0.27)	(0.33)	(0.35)	(0.45)
Performance						
Return after charges	16.64%	(3.33)%	8.98%	16.85%	(3.35)%	9.13%
Other information						
Closing net asset value (£'000)	988,369	1,219,427	1,786,612	1,105,714	1,080,309	1,554,434
Closing number of units	448,515,944	620,469,904	843,916,730	275,956,590	315,039,430	438,132,811
Operating charges	1.54%	1.54%	1.54%	1.54%	1.54%	1.54%
Direct transaction costs	0.09%	0.10%	0.13%	0.09%	0.10%	0.13%
Prices						
Highest offer unit price (p)	238.04	232.91	234.96	424.20	390.30	385.97
Lowest bid unit price (p)	187.09	181.17	189.08	326.53	308.95	304.82

* Direct transaction costs are stated after deducting the amounts collected in relation to dealing costs added to the issue of units and subtracted from the cancellation of units.

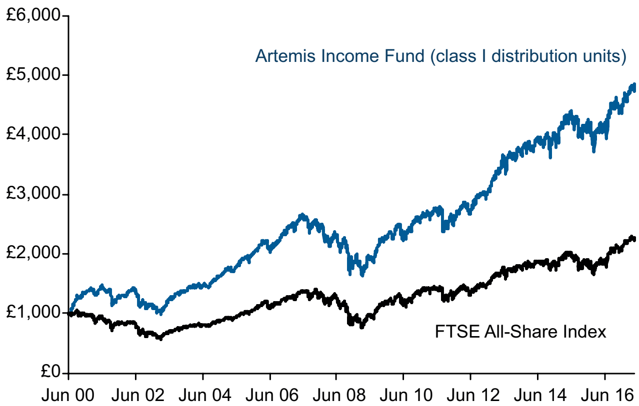
Comparative tables (continued)

Class I performance

	Since launch *	5 years	3 years	1 year	6 months
Artemis Income Fund	385.2	72.4	26.1	17.7	8.2
FTSE All-Share Index	125.0	58.6	21.8	20.1	7.1
FTSE 100 Index	98.6	51.4	18.9	20.0	5.6
Sector average	177.8	68.5	23.2	16.3	8.3
Position in sector	1/26	29/66	27/76	29/84	36/84
Quartile	1	2	2	2	2

* Data from 6 June 2000. Source: Lipper Limited, data from 6 June 2000 to 7 March 2008 reflects class R distribution units and from 7 March 2008 reflects class I distribution units, bid to bid in sterling to 30 April 2017. All performance figures show total return with dividends reinvested, percentage growth. Sector is IA UK Equity Income.

Value of £1,000 invested at launch to 30 April 2017



Ongoing charges

Class	30 April 2017
I distribution	0.79%
I accumulation	0.79%
R distribution	1.54%
R accumulation	1.54%

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.

Three year dividend summary (I distribution) on an accounting period basis

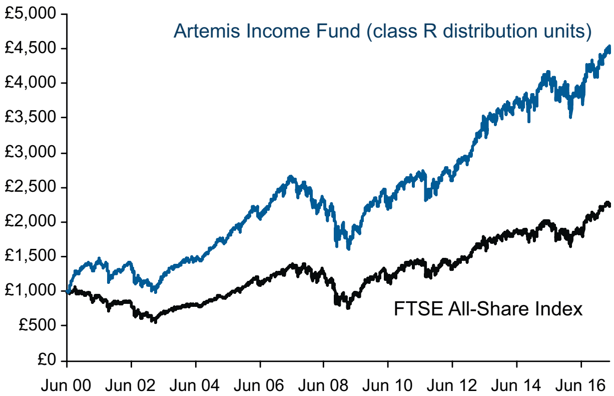
Year ended	Net revenue per unit (p)	Movement
30 April 2015	8.5714	7.2
30 April 2016	8.6920	1.4
30 April 2017	9.5798	10.2

Class R performance

	Since launch *	5 years	3 years	1 year	6 months
Artemis Income Fund	353.9	66.0	23.2	16.8	7.8
FTSE All-Share Index	125.0	58.6	21.8	20.1	7.1
FTSE 100 Index	98.6	51.4	18.9	20.0	5.6

* Data from 6 June 2000. Source: Lipper Limited, class R distribution units, bid to bid in sterling to 30 April 2017. All performance figures show total return with dividends reinvested, percentage growth.

Value of £1,000 invested at launch to 30 April 2017



Performance record

Year to 30 April	Artemis Income Fund *	FTSE All-Share Index	Sector ranking
2013	22.5	17.8	29/67
2014	11.7	10.5	54/76
2015	10.0	7.5	36/76
2016	(2.6)	(5.7)	46/81
2017	17.7	20.1	29/84
3 years to 2017	26.1	21.8	27/76
5 years to 2017	72.4	58.6	29/66
10 years to 2017	87.4	68.9	11/45
Since launch to 2017	385.2	125.0	1/26

* Source: Lipper Limited, data from 6 June 2000 to 7 March 2008 reflects class R distribution units and from 7 March 2008 reflects class I distribution units, bid to bid in sterling. All performance figures show total return with dividends reinvested, percentage growth. Sector is IA UK Equity Income.

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