PROFIT *hunters*

ARTEMIS UK Special Situations *Fund*

Manager's Report and Financial Statements for the year ended 31 December 2013

ARTEMIS
The PROFIT Hunter

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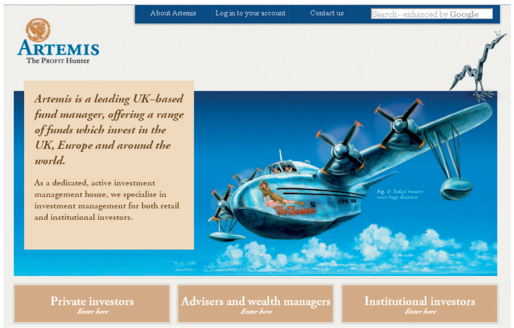


- Monthly fund commentaries and factsheets
- Artemis *filmclub* videos by our fund managers
- Market and fund insights
- Fund briefings and research articles
- *The Hunters' Tails*, our weekly market newsletter
- Daily fund prices
- Fund literature

artemis.co.uk

General information

Company profile

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

The company has grown to the extent that it now manages an asset base of some £17.3 billion*. This is spread across a range of unit trusts, an investment trust, a hedge fund, a venture capital trust and both pooled and segregated institutional portfolios.

The Artemis philosophy requires our fund managers to invest in Artemis funds. This means that our fund managers' interests are directly aligned with our investors.

* Source: Artemis as at 31 January 2014.

Fund status

Artemis UK Special Situations Fund was constituted by a Trust Deed dated 25 & 28 February 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 of the Financial Conduct Authority.

Investment objective

The objective of the fund is to achieve long-term capital growth by exploiting special situations. The fund invests principally in UK equities and in companies which are headquartered or have a significant part of their activities in the UK which are quoted on a regulated market outside the UK.

Investment policy

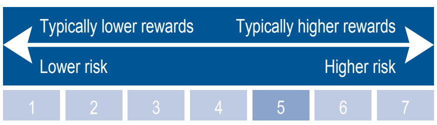
The manager actively manages the portfolio in order to achieve the objective and will not be restricted in respect of investment either by company size or industry. The securities of companies listed, quoted and/or traded in the UK but domiciled elsewhere and the securities of companies traded on ISDX may be included in 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 **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 stockmarket and currency movements.
- Stockmarket 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.
- Investing in small and medium-sized companies can involve more risk than investing in larger, more established companies. Shares in smaller companies are often not as easy to sell as shares in larger companies are. This can cause difficulty in buying, valuing and selling those shares. Also, reliable information for deciding their value or the risks may not be available.

Prospectus

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

New unit class

With effect from 1 July 2013, a new I distribution class was launched. Further information on this class is contained in the prospectus which is available from the manager at the address or website shown on page 2.

General information (continued)

Manager

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

Dealing information:
Unit Trust Department
Artemis Fund Managers Limited
PO Box 9688
Chelmsford CM99 2AE
Telephone: 0800 092 2051
Website: artemis.co.uk

Investment adviser

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

Trustee

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 Financial Conduct Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS.

Statement of the trustee's responsibilities

The trustee is responsible for the safekeeping of all the property of the fund (other than tangible moveable property) which is entrusted to it and for the collection of revenue that arises from that property.

It is the duty of the trustee to take reasonable care to ensure that the fund is managed in accordance with the Financial Conduct Authority's Collective Investment Schemes Sourcebook ('COLL'), as amended, the fund's Trust Deed and Prospectus, in relation to the pricing of, and dealings in, units in the fund; the application of revenue of the fund; and the investment and borrowing powers of the fund.

Report of the trustee

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

(i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the fund's units and the application of the fund's revenue in accordance with COLL, the Trust Deed and Prospectus; and

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

National Westminster Bank Plc
Trustee & Depositary Services

Edinburgh
14 February 2014

Statement of the manager's responsibilities

The Collective Investment Schemes Sourcebook ('COLL') of the Financial Conduct Authority 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 October 2010;

(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 requirements.

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

Report of the manager

This report has been prepared in accordance with the requirements of the Collective Investment Schemes Sourcebook as issued and amended by the Financial Conduct Authority.

R J Turpin
Director

M R J Tyndall
Director

14 February 2014

Independent auditor's report to the unitholders of the Artemis UK Special Situations Fund

We have audited the financial statements of Artemis UK Special Situations Fund (the "fund") for the year ended 31 December 2013 which comprise the statement of total return, the statement of change in net assets attributable to unitholders, balance sheet, the related notes 1 to 17 and the distribution table. 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).

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 (formerly the Financial Services 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 2, 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 31 December 2013 and of the net revenue and the net 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 (formerly the Financial Services 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 (formerly the Financial Services 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
14 February 2014

The maintenance and integrity of the Artemis Fund Managers Limited web site is the responsibility of the directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Investment review

- The fund returned 28.3%* vs 20.8%* for the UK market.
- Stock selection in both large and smaller companies explains why.
- Rather than relying on policymakers, we look for companies that are helping themselves.

Performance – Strong returns, but …

Over the year, the fund returned 28.3%* compared to a 20.8%* increase in the FTSE All-Share Index. On the face of it, this was a fair result. But we still feel there were too many missed opportunities. The outperformance of smaller stocks relative to FTSE 100 companies was significant. And while it is clear in hindsight that we should have had more exposure to that trend, it is interesting to note that a lot of our performance was actually generated by our holdings in larger companies.

Review – Self-help and success …

The UK market joined other developed markets in delivering a strong double-digit return in 2013. A gain of 20.8%* was not bad given that the UK's economic prospects were being written off by most commentators at the start of the year. Stockmarkets, of course, are not slaves to the fortunes of their own economies. That is often just as well. But the UK economy did show form last year. The housing market improved, with an inevitable consequence being an improvement in the national sense of wellbeing. And not only did the much-predicted collapse of sterling not occur, its strength in the second half of the year began to have an impact on the earnings of our many overseas-focused companies.

But it was not the rise in corporate earnings that pushed stockmarkets higher – it was a re-rating of equities as an asset class. After all, if you are earning nothing in the bank and bonds appear overvalued, why wouldn't you buy shares? In this environment, equities almost became the default purchase. And, with bond yields rising and base rates remaining low, why shouldn't this continue?

While this trend could persist, investors will have to consider the irritating issue of valuation at some point. After a two-year period in which equities have been re-rated, we will need to see some proper earnings growth to support further advances. So, while we were confident of a positive return from markets last year, we are more cautious about 2014.

For the fund, we would reiterate that we regard a return of 28.3%* as good rather than outstanding. Why? Because while our margin of outperformance in most years would be creditable, with hindsight it is clear that we missed out on a few opportunities. For example, we should have had more exposure to the recovering UK economy and particularly to the housebuilding sector (any exposure whatsoever would have been nice). With apologies for any cynicism, the reinvigoration of the UK housing market has been perfectly timed for the election in 2015.

Meanwhile, the outperformance of smaller companies was significant and it is clear that we should have had more exposure to this area of the market. At the same time, however, it is interesting to note that a lot of the fund's outperformance actually came from its holdings in larger companies such as BT Group, ITV, London Stock Exchange Group and Reed Elsevier.

The good news for our unitholders is that our focus on finding 'self-help' situations generated returns across the fund. Furthermore, our new holdings in this category produced returns quite quickly. Aviva and Betfair Group, for example, contributed well to the fund's performance in the second half of the year.

In our half-yearly report, we noted that we had established positions in Aviva and RSA Insurance Group, two companies that had cut their dividends. So far, Aviva has been a success. Our holding in RSA has, however, been less profitable. Fraud in Ireland and storm damage have hurt profitability. The capital that the company saved by cutting its dividend, and which it had earmarked for expansion, will now be used to shore up the business. RSA will also need to raise more capital either through making disposals or by issuing equity. Appropriately, the company's chief executive has departed and we are awaiting the results of its strategic review. As a business, RSA retains a number of attractive assets; we are hopeful that some shareholder value will be realised.

Another company in the 'troubled' camp is FirstGroup, in which we took a stake following a rescue rights issue. A lot of shareholder value has been destroyed by FirstGroup since it acquired Laidlaw in 2007. The rights issue was the first step in its rehabilitation but management needs to do more if shareholder value is to be realised. The appearance of an activist shareholder on its share register and the appointment of a new chairman are both steps in the right direction.

Outlook – Investing in internal change …

Other than confessing to our mistakes, writing a review of the year is easy. Writing about the future is, of course, far more difficult. At present, the world is in upbeat mood, with a combination of positive economic news and a newly discovered faith in policymakers helping global market indices to new highs. This belief that central bankers will be able to reduce quantitative

* Source: Lipper Limited, R accumulation, bid to bid basis, in sterling with net income reinvested. Benchmark is the FTSE All-Share Index. Sector is IMA UK All Companies.

easing without having any ill effect on markets represents quite a reversal of opinion. I am reminded of the number of times that I have bought my children's affection by bribing them with sweets – only to be confronted by the subsequent problem of their desire for more. So we feel a bit uneasy in the market's blind faith in the power of quantitative easing. If we assume that there has been a positive effect on asset prices, we must also recognise that its reduction is likely to create some headwinds for the equity market. It is difficult to know what its precise effect will be – but it does mean the outlook is more uncertain.

So, with higher equity prices reflecting raised expectations, we are left with the feeling that the outlook is less attractive than it was a year ago. While the re-rating of equities has been appropriate, we will need to see earnings growth if further advances are to be sustained.

Yet while overall index levels are interesting, it is the fortunes of the individual companies that make up those indices that are of more interest to us. Over the years, there have always been opportunities to invest profitably – even in the toughest of times. And this remains the case today. Companies undergoing change such as Aviva, Betfair, Pace and QinetiQ Group are more reliant on internal change for results than they are on the wider macroeconomic environment. So, rather than depending on policymakers to get things right, we are continuing to back individual management teams to make returns for our unitholders.

We have also experienced some internal change. After five years working on the fund, Ruth Keattch has taken up the full-time role of being Artemis' chief investment officer. In a world of significant regulatory change and increased emphasis on corporate governance, this is a critical job and one that Ruth is already doing extremely well. I would like to thank Ruth for the contribution that she has made to the fund. Andy Gray has taken Ruth's place. He joined Artemis in 2006, manages our VCT and is a partner in our firm. Andy's stock selection has already contributed to the fund's performance. I look forward to working with him in the years ahead.

Whatever the economic uncertainties, it is already clear that 2014 will be an interesting year; in the stockmarket it is rarely otherwise.

Derek Stuart
Fund manager

Investment information

Five largest purchases and sales for the year ended 31 December 2013

Purchases	Cost £'000	Sales	Proceeds £'000
HSBC Holdings	47,888	BT Group	48,639
Vodafone Group	38,813	London Stock Exchange Group	37,337
Barclays	34,269	ITV	34,203
IG Group	30,560	Carnival	25,523
Glencore Xstrata	25,745	Smith & Nephew	24,042

Portfolio statement as at 31 December 2013

Investment	Holding	Valuation £'000	% of net assets
United Kingdom – 88.23% (90.02%)			
Basic Materials – 2.13% (3.77%)			
Rio Tinto	752,257	25,678	2.13
		25,678	**2.13**
Consumer Goods – 3.46% (6.33%)			
Britvic	2,939,210	20,192	1.67
GameAccount Network #	2,661,407	3,619	0.30
Tate & Lyle	1,055,287	8,543	0.71
The Hut Group (A shares) +	94,998	5,608	0.47
The Hut Group (A2 shares) +	47,588	2,809	0.23
The Hut Group (A3 shares) +	17,306	1,022	0.08
		41,793	**3.46**
Consumer Services – 17.12% (16.20%)			
Betfair Group	2,325,728	25,095	2.08
Conviviality Retail #	4,373,000	7,259	0.60
FirstGroup	11,799,750	14,608	1.21
Flybe Group	5,650,000	5,819	0.48
ITV	12,290,937	23,685	1.96
Mitchells & Butlers	7,715,590	32,452	2.69
Reed Elsevier	5,988,065	53,683	4.45
Stagecoach Group	4,175,056	15,540	1.29
Thomas Cook Group	9,089,288	15,070	1.26
Vertu Motors #	22,561,605	13,311	1.10
		206,522	**17.12**
Financials – 19.32% (6.17%)			
3i Group	3,302,415	12,731	1.06
Aviva	6,686,537	30,056	2.49
Barclays	12,332,126	33,587	2.78
Brooks Macdonald Group #	258,419	3,760	0.31
Helphire Group #	88,453,846	4,794	0.40
HSBC Holdings	5,162,560	34,243	2.84
IG Group	5,908,820	36,044	2.99
Legal & General Group	13,363,146	29,800	2.47
London Stock Exchange Group	1,057,761	18,299	1.52
Man Group	16,822,932	14,299	1.18
ROK Global +	66,096	–	–
RSA Insurance Group	16,814,525	15,453	1.28

Investment	Holding	Valuation £'000	% of net assets
Third Advance Value Realisation +	1,161,347	–	–
		233,066	**19.32**
Health Care – 4.98% (12.56%)			
Eco Animal Health Group #	2,179,438	4,577	0.38
GlaxoSmithKline	1,330,037	21,433	1.78
Smith & Nephew	1,952,051	16,768	1.39
Synergy Health	1,435,737	17,229	1.43
		60,007	**4.98**
Industrials – 15.94% (18.54%)			
BAE Systems	3,337,469	14,485	1.20
Chemring Group	1,688,775	3,783	0.31
E2V Technologies	3,385,958	5,079	0.42
G4S	7,745,937	20,434	1.69
Hargreaves Services #	1,684,128	14,138	1.17
HellermannTyton Group	6,750,459	20,096	1.67
Lavendon Group	6,079,028	10,441	0.87
Morgan Advanced Materials	1,277,239	4,022	0.33
Northgate	2,940,354	14,819	1.23
QinetiQ Group	8,233,918	17,876	1.48
RPS Group	3,402,709	11,484	0.95
Security Research #	1,770,432	938	0.08
SIG	5,756,417	12,152	1.01
Tribal Group	1,492,913	2,538	0.21
WYG #	3,993,176	4,233	0.35
Xaar	832,385	9,314	0.77
Xchanging	16,895,754	26,484	2.20
		192,316	**15.94**
Oil & Gas – 7.56% (12.54%)			
BP	10,734,187	52,587	4.36
Faroe Petroleum #	6,101,496	7,230	0.60
Hurricane Energy +	11,066,660	4,759	0.39
Premier Oil	7,328,967	23,020	1.91
Salamander Energy	3,270,213	3,646	0.30
Vostok Energy +	7,514,510	–	–
		91,242	**7.56**
Technology – 9.61% (8.26%)			
Advanced Computer Software Group #	13,575,077	14,152	1.17
Antenova +	1,505,764	–	–
Antenova (preference shares) +	2,913,731	–	–
Computacenter	3,060,194	19,295	1.60
Intechnology +	12,937,940	7,333	0.61
Micro Focus International	5,338,987	41,137	3.41
Pace	4,511,311	14,332	1.19
SDL	3,921,994	14,109	1.17
Spirent Communications	5,452,363	5,600	0.46
		115,958	**9.61**

Investment information (continued)

Investment	Holding	Valuation £'000	% of net assets
Telecommunications – 6.13% (5.65%)			
BT Group	4,036,420	15,278	1.27
Inmarsat	1,702,160	12,860	1.07
Vodafone Group	19,206,068	45,701	3.79
		73,839	**6.13**
Utilities – 1.98% (0.00%)			
Drax Group	2,981,852	23,914	1.98
		23,914	**1.98**
Overseas – 9.85% (8.27%)			
Cayman Islands – 1.70% (0.00%)			
Phoenix Group Holdings	2,830,032	20,504	1.70
		20,504	**1.70**
Gibraltar – 0.98% (0.00%)			
Bwin.Party Digital Entertainment	9,692,703	11,786	0.98
		11,786	**0.98**
Guernsey – 2.22% (2.56%)			
Resolution	7,592,108	26,785	2.22
		26,785	**2.22**
Jersey – 4.41% (2.23%)			
Cape	5,236,106	14,622	1.21
Glencore Xstrata	7,827,021	24,596	2.04
Informa	1,602,408	9,078	0.75
Stanley Gibbons #	1,402,080	4,865	0.41
		53,161	**4.41**
USA – 0.54% (0.66%)			
Hipcricket +	77,131	12	–
MBA Polymers (senior series G preferred stock) +	7,000,000	2,118	0.18
MBA Polymers (series G preferred stock) +	613,325	371	0.03
MBA Polymers (subordinated convertible promissory note) +	668,300	404	0.03
MyCelx Technologies #	770,848	3,623	0.30
ROK Entertainment Group +	410,914	–	–
		6,528	**0.54**
Portfolio of investments		1,183,099	98.08
Net other assets		23,201	1.92
Net assets attributable to unitholders		1,206,300	100.00

All holdings are listed ordinary shares unless otherwise stated.
The figures in brackets represent percentages as at 31 December 2012. At this date the portfolio included an exposure to Canada (0.34%), the Isle of Man (0.16%), Luxembourg (2.13%) and Spain (0.19%).
Alternative Investment Market traded investments – 7.17% (2012: 5.46%).
+ Unquoted investments – 2.02% (2012: 3.82%).

Statement of total return for the year ended 31 December 2013

	Note	31 December 2013 £'000	31 December 2013 £'000	31 December 2012 £'000	31 December 2012 £'000
Income					
Net capital gains	4		255,313		154,783
Revenue	6	35,083		30,549	
Expenses	7	(15,288)		(15,035)	
Net revenue before taxation		19,795		15,514	
Taxation	8	–		(3)	
Net revenue after taxation			19,795		15,511
Total return before distribution			**275,108**		**170,294**
Finance costs: distribution	9		(20,020)		(15,511)
Change in net assets attributable to unitholders from investment activities			255,088		154,783

Statement of change in net assets attributable to unitholders for the year ended 31 December 2013

	31 December 2013 £'000	31 December 2013 £'000	31 December 2012 £'000	31 December 2012 £'000
Opening net assets attributable to unitholders		1,009,098		1,023,085
Amounts receivable on issue of units	52,849		115,399	
Amounts payable on cancellation of units	(93,005)		(298,295)	
Amounts payable on in-specie transfers	(35,866)		–	
		(76,022)		(182,896)
Stamp duty reserve tax		(689)		(508)
Change in net assets attributable to unitholders from investment activities		255,088		154,783
Retained distribution on accumulation units		18,825		14,634
Closing net assets attributable to unitholders		1,206,300		1,009,098

Balance sheet as at 31 December 2013

	Note	31 December 2013 £'000	31 December 2013 £'000	31 December 2012 £'000	31 December 2012 £'000
Assets					
Investment assets			1,183,099		991,810
Debtors	10	3,487		3,411	
Cash and bank balances	11	22,540		16,946	
Total other assets			26,027		20,357
Total assets			**1,209,126**		**1,012,167**
Liabilities					
Creditors	12	1,615		3,069	
Distribution payable on income units		1,211		–	
Total liabilities			**2,826**		**3,069**
Net assets attributable to unitholders			1,206,300		1,009,098

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, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in October 2010.

(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 foreign currency transactions are used for efficient portfolio management and investment purposes. Derivatives are valued at 12 noon on the last working day of the accounting period. 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. Gains and losses on derivative instruments are recognised as either revenue or capital depending on the nature and circumstances of each particular case. 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 UK Real Estate Investment Trusts, 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 dividend is declared. 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. 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.

(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 distribution policy of the fund is to accumulate all available revenue, after deduction of expenses properly chargeable against revenue. 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 unit holders for six years are credited to the capital property of the fund.

3. Risk management policies

The fund's financial instruments comprise equities, cash balances and liquid resources which include debtors and creditors. The fund holds such financial assets in accordance with its investment objective and policy which is provided 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 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 and other price 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 the Collective Investment Schemes Sourcebook, the Trust Deed and the Prospectus. 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. As the majority of the fund's financial assets are non-interest bearing, the fund is not subject to exposure to fair value interest rate risk due to fluctuations in levels of market interest rates.

(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 (see note 15). Therefore, the manager may decide that a proportion of the investments that are not priced in sterling, may be covered by forward foreign exchange contracts, so that the fund's exposure to currency risk is reduced. There were no open forward foreign exchange contracts as at 31 December 2013 or 31 December 2012. 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.

(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 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 as detailed in the portfolio statement 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 ongoing review of the portfolio, the manager monitors and reviews these factors.

(b) Credit and counterparty risk.
Credit and counterparty risk is the risk that a party 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 JP Morgan, the fund's custodian and banker, who holds the fund's investments and maintains the bank accounts. Bankruptcy or insolvency of JP Morgan 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 an annual report on the internal controls in place at JP Morgan. The fund is also exposed to counterparty risk through holding specific financial instruments. There were no significant concentrations of credit risk to counterparties other than to the custodian, or brokers where trades are pending settlement, at 31 December 2013 or 31 December 2012.

(c) Liquidity risk. Some of the fund's financial instruments can include securities that are traded on AIM or are not listed on a recognised stock exchange and which may not always be readily realisable. As a result, the fund may not be able to realise these investments quickly at their fair value to respond to specific events such as deterioration in the creditworthiness of any particular issuer. These holdings are disclosed in the portfolio statement on pages 6 to 8. In order to manage liquidity requirements, the fund seeks to maintain sufficient cash to pay creditors. The fund's overall liquidity risk is managed by the manager in accordance with the requirements stipulated in the Collective Investment Schemes Sourcebook and the Prospectus.

(d) Derivatives. The manager is currently empowered to enter into derivative transactions on behalf of the fund. Transactions will normally only be entered into when conventional stock selection is not the best way to either limit investment risk or maximise investment opportunities.

There were no open derivative contracts at 31 December 2013 or 31 December 2012.

Notes to the financial statements (continued)

4. Net capital gains

	31 December 2013 £'000	31 December 2012 £'000
Non-derivative securities	255,313	154,780
Currency gains	–	3
Net capital gains	255,313	154,783

5. Portfolio transaction costs

	31 December 2013		31 December 2012	
	£'000	£'000	£'000	£'000
Analysis of total purchases costs				
Purchases before transaction costs		670,343		381,055
Commissions	942		702	
Taxes	2,714		1,509	
Total purchases costs		3,656		2,211
Gross purchases total		673,999		383,266
Analysis of total sales costs				
Gross sales before transaction costs		734,878		517,530
Commissions	(952)		(1,004)	
Taxes	(1)		(1)	
Total sales costs		(953)		(1,005)
Total sales net of transaction costs		733,925		516,525

6. Revenue

	31 December 2013 £'000	31 December 2012 £'000
UK dividends	26,662	26,569
Overseas dividends	4,236	3,693
UK stock dividends	4,097	–
Bank interest	88	142
Underwriting commission	–	145
Total revenue	35,083	30,549

7. Expenses

	31 December 2013 £'000	31 December 2012 £'000
Payable to the manager, associates of the manager and agents of either of them:		
Annual management charge	14,648	14,368
Payable to the trustee, associates of the trustee and agents of either of them:		
Trustee fee	139	128
Other expenses:		
Registration fee	232	241
Administration fee	151	189
Operational fees	82	73
Safe custody fees	26	24
Auditor's remuneration: audit fee*	8	8
Printing and postage fee	2	4
Total expenses	15,288	15,035

All expenditure stated above is inclusive of irrecoverable VAT where applicable.
* The amount disclosed above includes VAT at the rate of 20%. The audit fee (excluding VAT) incurred during the period was £7,000 (2012: £7,000).

8. Taxation

	31 December 2013 £'000	31 December 2012 £'000
a) Analysis of the tax charge for the year		
Irrecoverable overseas tax	–	3
Total taxation (note 8b)	–	3
b) Factors affecting the tax charge for the year		
Net revenue before taxation	19,795	15,514
Corporation tax at 20% (2012: 20%)	3,959	3,103
Effects of:		
Unutilised management expenses	3,040	2,950
Irrecoverable overseas tax	–	3
Non-taxable stock dividends	(819)	–
Non-taxable overseas dividends	(847)	(739)
Non-taxable UK dividends	(5,333)	(5,314)
Tax charge for the year (note 8a)	–	3

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 £25,556,000 (2012: £22,516,000) arising as a result of having unutilised management expenses of £127,780,000 (2012: £112,581,000). It is unlikely that the fund will obtain relief for these in the future so no deferred tax asset has been recognised.

9. Finance costs: distribution

	31 December 2013 £'000	31 December 2012 £'000
Final dividend distribution	20,036	14,634
Add: amounts deducted on cancellation of units	660	2,332
Deduct: amounts added on issue of units	(676)	(1,455)
Total finance costs	20,020	15,511
Movement between net revenue and distribution		
Net revenue after taxation	19,795	15,511
Add: amounts received on conversion of units	225	–
	20,020	15,511

The distribution takes account of amounts added on the issue of units and amounts deducted on the cancellation of units. Details of the distribution per unit are set out in the distribution table on page 15.

10. Debtors

	31 December 2013 £'000	31 December 2012 £'000
Accrued revenue	2,619	1,907
Amounts receivable for issue of units	542	720
Sales awaiting settlement	309	766
Overseas withholding tax recoverable	17	17
Prepaid expenses	–	1
Total debtors	3,487	3,411

11. Cash and bank balances

	31 December 2013 £'000	31 December 2012 £'000
Amounts held in JP Morgan Liquidity Fund	22,540	16,946
Total cash and bank balances	22,540	16,946

Notes to the financial statements (continued)

12. Creditors

	31 December 2013 £'000	31 December 2012 £'000
Accrued annual management charge	1,243	1,135
Amounts payable for cancellation of units	218	1,135
Accrued other expenses	142	133
Accrued trustee fee	12	11
Purchases awaiting settlement	–	655
Total creditors	1,615	3,069

13. Contingent liabilities and commitments

There were no contingent liabilities or outstanding commitments at the current or prior year end.

14. Related party transactions

The manager and trustee are deemed to be related parties. All transactions and balances associated with the manager and trustee are disclosed within the statement of total return, statement of change in net assets attributable to unitholders and the balance sheet on page 9 and notes 7, 10 and 12 on pages 12, 13 and 14 including all issues and cancellations where the manager acted as principal. The balance due to the manager as at 31 December 2013 in respect of these transactions was £919,000 (2012: £1,550,000). The balance due to the trustee as at 31 December 2013 in respect of these transactions was £12,000 (2012: £11,000).

15. Risk disclosures – currency risk

Currency	Investments £'000	Net other assets £'000	Total £'000
31 December 2013			
US Dollar	2,905	–	2,905
31 December 2012			
US Dollar	13,653	–	13,653

16. Unit classes

The fund currently has three unit classes: R accumulation, I distribution and I accumulation. The annual management charge on each unit class is as follows:

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

The net asset value per unit and the number of units in each class are given in the comparative tables on page 16. The distribution per unit class is given in the distribution table on page 15. All classes have the same rights.

17. Post balance sheet event

Since 31 December 2013, the net asset values per unit, on a bid basis, have changed as follows:

	Net asset value per unit (p)		
	13 February 2014	31 December 2013	Movement
R accumulation	509.18	503.33	1.2%
I distribution	520.94	514.45	1.3%
I accumulation	532.23	525.64	1.3%

Distribution table

Final dividend distribution for the year ended 31 December 2013.

Group 1 – Units purchased prior to 1 January 2013.
Group 2 – Units purchased from 1 January 2013 to 31 December 2013.

	Net revenue per unit (p)	Equalisation per unit (p)	Distribution per unit (p) 28 February 2014	Distribution per unit (p) 28 February 2013
R accumulation				
Group 1	7.3987	–	7.3987	5.2373
Group 2	3.9629	3.4358	7.3987	5.2373
I distribution				
Group 1	11.1243	–	11.1243	–
Group 2	3.4278	7.6965	11.1243	–
I accumulation				
Group 1	11.0826	–	11.0826	8.2869
Group 2	4.9129	6.1697	11.0826	8.2869

Corporate unitholders should note that:

1. 100.00% of the revenue distribution together with the tax credit is 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 group 2 units and is refunded to the 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

Fund sizes & net asset values

Date	Net asset value of fund (£)	Net asset value per unit (p)	Units in issue
31 December 2011	1,023,085,225		
R accumulation		332.07	279,392,726
I accumulation		341.65	27,893,069
31 December 2012	1,009,097,976		
R accumulation		392.73	214,238,671
I accumulation		407.12	41,194,203
31 December 2013	1,206,299,847		
R accumulation		503.33	168,898,574
I distribution		514.45	10,884,974
I accumulation		525.64	57,108,132

Net revenue distribution & unit price range

Year	Net revenue per unit (p)	Highest offer price (p)	Lowest bid price (p)
R accumulation			
2009	5.5473	329.91	208.62
2010	4.4890	386.51	290.02
2011	4.9607	408.32	309.64
2012	5.2373	420.73	332.82
2013	7.3987	535.32	399.31
I distribution			
2013 *	11.1243	536.41	450.25
I accumulation			
2009	7.6168	320.66	210.22
2010	7.0146	378.70	295.07
2011	7.8047	401.68	318.01
2012	8.2869	418.49	343.50
2013	11.0826	536.48	414.01

Net revenue includes all amounts paid and payable in each calendar year.
* From 1 July 2013.

Ongoing charges

Expense	31 December 2013
R accumulation	
Annual management charge	1.50%
Other expenses	0.06%
Ongoing charges	1.56%
I distribution	
Annual management charge	0.75%
Other expenses	0.06%
Ongoing charges	0.81%
I accumulation	
Annual management charge	0.75%
Other expenses	0.06%
Ongoing charges	0.81%

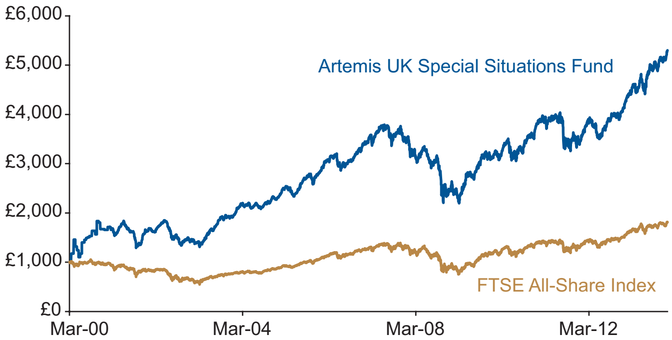
Ongoing charges shows the annual operating expenses of each unit class as a percentage of the average net assets of that class for the preceding 12 months.

Fund performance

	Since launch *	5 years	3 years	1 year	6 months
Artemis UK Special Situations Fund	429.9	108.8	39.1	28.3	16.5
FTSE All-Share Index	81.7	95.2	31.0	20.8	11.3
FTSE 100 Index	65.4	83.1	27.7	18.7	10.3
Sector average	77.3	106.2	34.9	26.2	14.2
Position in sector	1/116	91/238	96/252	93/267	65/270
Quartile	1	2	2	2	1

* Data from 9 March 2000. Source: Lipper Limited, R accumulation, bid to bid basis, in sterling with net income reinvested to 31 December 2013. All performance figures show total return percentage growth. Sector is IMA UK All Companies.

Value of £1,000 invested at launch to 31 December 2013



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