PROFIT *hunters*

ARTEMIS UK Special Situations *Fund*

Half-Yearly Report (unaudited)
for the six months ended
30 June 2013

ARTEMIS
The PROFIT Hunter

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 £15.6 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 July 2013.

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.

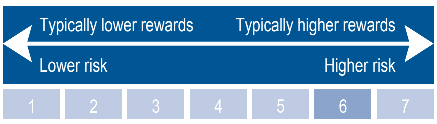
The securities of companies listed, quoted and/or traded in the UK but domiciled elsewhere and the securities of companies traded on ISDX may be included in the portfolio.

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.

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.

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 this page.

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

15 August 2013

- The fund outperforms a volatile market.
- Our holding in Xaar turns from an ugly duckling into a swan.
- Miners turn over a new leaf.

Performance – Solid progress amid the volatility

Over the first six months of 2013 the fund rose by 10.1%*. That compares with an 8.5%* increase in the benchmark. In a volatile market, we view that as solid – if rather unspectacular – progress.

Review – We are equivocal on the economy, but remain clear on stocks

In our last report we stated our belief that stocks had a good chance of producing positive returns in 2013 despite macro-economic headwinds. So far, events have borne out that prediction. From the very start of the year equities were driven higher by a combination of continued quantitative easing, better economic news from the US and the poor returns on offer in other asset classes. In general, corporate results were also supportive.

Things might have continued in that positive direction had it not been for the chairman of the Federal Reserve (the "Fed") (for once it was the Americans who spoiled the party and not the Europeans). Mr Bernanke stated that the Fed might start 'tapering' its bond purchases by the end of 2013 and halt them by the middle of 2014. Cue panic in the bond market. The US 10-year Treasury yield shot up from 1.6% to 2.5%. To old timers (like us), yields still feel very low even after that rise – but the relative change is clearly significant.

On top of this came increasingly poor economic data from China. The combination put equity markets under pressure. While this was most keenly felt in emerging markets, from which hot money flooded out, most markets suffered declines.

Should any of this really have come as a surprise? The US economy has been performing well and unemployment has been falling. An improvement in the economic environment in the US was always going to trigger a rise in rates. So perhaps Mr Bernanke's comments should be seen as a sensible warning to highly leveraged risk takers that the glory days of the 'carry trade' are over. This can be no bad thing.

Has any of this materially changed the outlook? Yes and no (politicians aren't the only ones who can equivocate). Clearly, the long downward trend in interest rates is now over. The extremely low yields at which companies have been able to borrow are a thing of the past. The pain felt by bond investors in June challenged the idea that government bonds are a risk-free asset. And we should be prepared for data on US housing to turn less positive – rising bond yields have a direct impact on mortgage rates for US borrowers.

At the same time, the problematic debt that existed before the crisis is still there. The pressure on growth from banking issues in Europe and the slowing Chinese economy continues. The low earnings-growth environment persists (and increased market volatility will have an impact on management confidence). And, of course, if interest rates do rise, this will stifle economic growth (though we would note that inflation remains weak). So overall, we are left with the feeling that the economic scenario in the West will remain familiar, with very low growth and low interest rates the dominant features.

For all the noise that the Fed's comments provoked, nothing of significance to us really changed in the first half of 2013. We continued to focus on companies. To be more precise, we looked for stocks that are changing their own fortunes through self-help, which is particularly important in a confusing macro-economic environment. And, funnily enough, the fund's big winners – companies such as BT Group, ITV and Micro Focus International – all tended to be self-help situations. First place, however, went to Xaar, a printhead technology company we picked up a few years ago after a profits warning. This former ugly duckling is turning itself into a swan as demand for its printheads takes off. It is benefiting from significant demand from the ceramics industry in Europe and China and has upgraded its profit expectations several times this year already. Credit must go to the management team for managing this ramp up in production.

Not all of the news in the first half was quite so positive, however. Vostok Energy had been in advanced discussions to sell itself to a third party, but had begun to lose faith in the negotiations owing to the long period of time that had elapsed since talks commenced. Consequently, it was considered appropriate to write down the value of the holding, reflecting our appraisal of the discussions and the possible outcomes. Hurricane Energy, meanwhile, had been hoping to list on the London market in the first half of this year, but was unable to due to the poor state of the IPO market for oil-exploration stocks. The revaluation reflected this. Spirent Communications, a telecoms-testing company, was also a frustration. Given the smartphone-inspired rise in data usage, one would have thought that demand for Spirent's services and products would be huge. And it is. But its growth isn't smooth and it hit a rough patch during the reporting period. We retain the holding and will add to it when the valuation is right.

* 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.

Investment review (continued)

Given the rise in the market, we took profits on holdings in BT Group, ITV and Standard Life. Reflecting their valuations, we sold our positions in Devro International and Genus. We invested the proceeds in a number of new areas. Perhaps most notably, we bought into the mining sector, adding Anglo American and increasing our holding in Rio Tinto. The fund has recently benefited from being underweight in the mining sector. That underweight position paid dividends again in the first half of 2013, as the sector was hit by concerns over Chinese economic growth. And while there is a real risk of more weak data from China, we have been encouraged by recent management changes in the sector, which have led to a shift in strategy. Companies such as Rio Tinto are now talking about capital discipline, cashflow and cutting capital expenditure. This is music to our ears. This sector used to be managed by deal junkies whose acquisitions lost shareholders vast amounts of capital. That is changing. The road to rehabilitation for the miners will not be smooth but there are reasons to hope it will eventually prove profitable.

We also made purchases in another volatile sector, buying insurers Aviva and RSA Insurance Group. In both cases we bought our positions after the companies had cut their dividends. Debt-ridden Aviva's management team is shaking it up. This will take time but we believe the cost savings are significant and there is decent upside here. In the case of RSA, the cash saved by cutting the dividend will be invested in more attractive areas of the business.

Outlook – The importance of self help

Investors often portray significant market declines as 'healthy corrections'. But we are far from sure that they do our health much good. That said, the sell off we saw in June may have helped to dispel any over-exuberance that had crept into the market in the first quarter of the year. We have constantly argued that the economic environment will provide headwinds to earnings growth and, in that respect, less may have changed than some people imagine. This is why identifying companies with high degrees of self help is so important.

At the time of writing, the market has rebounded from the losses it made in June. Therefore progress from here may be difficult. The second half of 2013 could potentially bring less positive news on the US housing market and the pressure on earnings growth will persist. Given the low-growth environment, the double-digit return from the equity market so far this year is a great result. But we should not be greedy. Quantitative easing is a game of asset-price manipulation and we will all have to deal with the consequences when it stops. Our response is to focus on those companies that are helping themselves. It is this – rather than such ephemera as economic data, good weather or even Britain's recent sporting successes – that allows us to look forward with cautious optimism.

Derek Stuart & Ruth Keattch
Fund managers

Five largest purchases and sales for the six months ended 30 June 2013

Purchases	Cost £'000	Sales	Proceeds £'000
HSBC Holdings	47,888	BT Group	26,712
IG Group	25,928	Carnival	25,523
Vodafone Group	21,923	AstraZeneca	24,040
RSA Insurance Group	19,997	Ladbrokes	23,193
London Stock Exchange Group	18,510	Standard Life	16,583

Portfolio statement as at 30 June 2013

Investment	Holding	Valuation £'000	% of net assets
United Kingdom – 89.84% (90.02%)			
Basic Materials – 4.37% (3.77%)			
Anglo American	523,009	6,666	0.63
Rio Tinto	1,006,014	27,253	2.59
Victrex	785,774	12,132	1.15
		46,051	**4.37**
Consumer Goods – 5.55% (6.33%)			
Britvic	2,590,544	13,082	1.24
GKN	2,225,636	6,820	0.65
Tate & Lyle	1,704,560	13,952	1.33
The Hut Group (A shares) +	94,998	5,608	0.53
The Hut Group (A2 shares) +	47,588	2,809	0.27
The Hut Group (A3 shares) +	17,306	1,022	0.10
Unilever	562,947	14,986	1.43
		58,279	**5.55**
Consumer Services – 13.49% (16.20%)			
FirstGroup	10,510,955	10,169	0.97
ITV	26,892,270	38,053	3.62
Kingfisher	4,351,375	15,008	1.43
Mitchells & Butlers	7,550,088	27,966	2.66
Reed Elsevier	4,467,832	33,419	3.18
Thomas Cook Group	6,383,866	8,056	0.77
Vertu Motors #	22,561,605	9,025	0.86
		141,696	**13.49**
Financials – 19.22% (6.17%)			
Aviva	5,506,336	18,755	1.78
Brooks Macdonald Group #	234,220	3,279	0.31
HSBC Holdings	6,740,363	46,091	4.39
IG Group	5,158,277	29,892	2.84
Legal & General Group	18,028,626	30,883	2.94
London Stock Exchange Group	3,315,858	44,200	4.21
Man Group	10,801,833	8,928	0.85
ROK Global	66,096	–	–
RSA Insurance Group	16,814,525	19,992	1.90
Third Advance Value Realisation +	1,161,347	–	–
		202,020	**19.22**

Investment information (continued)

Investment	Holding	Valuation £'000	% of net assets
Health Care – 8.16% (12.56%)			
Eco Animal Health Group #	2,615,160	6,172	0.59
GlaxoSmithKline	1,903,782	31,165	2.97
Smith & Nephew	3,755,880	27,456	2.61
Synergy Health	1,873,208	20,942	1.99
		85,735	**8.16**
Industrials – 13.62% (18.54%)			
BAE Systems	5,025,369	19,312	1.84
Chemring Group	3,515,949	9,904	0.94
HellermannTyton Group	6,750,459	16,488	1.57
Lavendon Group	6,723,235	11,446	1.09
May Gurney Integrated Services #	4,410,423	12,912	1.23
Melrose	1,950,317	4,888	0.47
Northgate	3,600,000	12,150	1.16
RPS Group	5,793,576	11,657	1.11
Security Research #	1,770,432	1,469	0.14
Tribal Group	3,313,352	5,848	0.56
WYG #	5,801,833	5,048	0.48
Xaar	1,803,497	14,130	1.34
Xchanging	14,185,012	17,767	1.69
		143,019	**13.62**
Oil & Gas – 9.45% (12.54%)			
BG Group	1,142,024	12,825	1.22
BP	9,312,006	42,160	4.01
Faroe Petroleum #	6,101,496	6,529	0.62
Hurricane Energy +	11,066,660	7,747	0.74
Premier Oil	6,686,391	22,419	2.13
Salamander Energy	3,270,213	4,709	0.45
Sterling Energy #	8,371,745	2,930	0.28
Vostok Energy +	7,514,510	–	–
		99,319	**9.45**
Technology – 9.38% (8.26%)			
Antenova +	2,913,731	–	–
Antenova (preference shares) +	1,505,764	–	–
Computacenter	2,269,472	10,213	0.97
Computacenter (B shares) +	2,386,850	1,162	0.11
Intechnology +	12,937,940	3,149	0.30
Invensys	4,273,633	17,787	1.69
Invensys (B shares) +	5,342,042	4,097	0.39
Micro Focus International	5,625,631	39,548	3.76
SDL	1,570,453	4,476	0.43
Spirent Communications	12,980,844	18,173	1.73
		98,605	**9.38**
Telecommunications – 6.60% (5.65%)			
BT Group	10,476,565	32,561	3.10
Inmarsat	2,322,730	15,713	1.50
Vodafone Group	11,212,745	21,063	2.00
		69,337	**6.60**

Investment	Holding	Valuation £'000	% of net assets
Overseas – 8.40% (8.27%)			
Gibraltar – 0.48% (0.00%)			
Bwin.Party Digital Entertainment	4,420,828	5,022	0.48
		5,022	**0.48**
Guernsey – 2.72% (2.56%)			
Resolution	10,031,692	28,570	2.72
		28,570	**2.72**
Isle of Man – 0.57% (0.16%)			
Lamprell	4,324,523	6,022	0.57
		6,022	**0.57**
Jersey – 2.15% (2.23%)			
Cape	5,040,378	12,135	1.15
Informa	2,143,159	10,463	1.00
		22,598	**2.15**
Luxembourg – 1.18% (2.13%)			
AZ Electronic Materials	4,026,097	12,416	1.18
		12,416	**1.18**
Spain – 0.65% (0.19%)			
International Consolidated Airlines Group	2,618,791	6,874	0.65
		6,874	**0.65**
USA – 0.65% (0.66%)			
Augme Technologies +	77,131	20	–
MBA Polymers (series G preferred stock) +	7,000,000	2,298	0.22
MBA Polymers (senior series G preferred stock) +	613,325	403	0.04
Mycelx Technologies #	770,848	4,085	0.39
ROK Entertainment Group +	410,914	–	–
		6,806	**0.65**
Portfolio of investments		1,032,369	98.24
Net other assets		18,456	1.76
Net assets attributable to unitholders		1,050,825	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%).
Alternative Investment Market traded investments: 4.90% (31 December 2012: 5.46%).
+ Unquoted investments: 2.70% (31 December 2012: 3.82%).

Financial statements

Statement of total return for the six months ended 30 June 2013

	30 June 2013		30 June 2012	
	£'000	£'000	£'000	£'000
Income				
Net capital gains		92,656		36,706
Revenue	17,618		15,773	
Expenses	(7,395)		(7,786)	
Net revenue before taxation	10,223		7,987	
Taxation	1		-	
Net revenue after taxation		10,224		7,987
Total return before distribution		**102,880**		**44,693**
Finance costs: distribution		92		(167)
Change in net assets attributable to unitholders from investment activities		102,972		44,526

Statement of change in net assets attributable to unitholders for the six months ended 30 June 2013

	30 June 2013		30 June 2012	
	£'000	£'000	£'000	£'000
Opening net assets attributable to unitholders		1,009,098		1,023,085
Amounts receivable on issue of units	27,489		69,480	
Amounts payable on cancellation of units	(52,465)		(171,062)	
Amounts payable on in-specie transfers	(35,936)		–	
		(60,912)		(101,582)
Stamp duty reserve tax		(333)		(305)
Change in net assets attributable to unitholders from investment activities		102,972		44,526
Closing net assets attributable to unitholders		1,050,825		965,724

Balance sheet as at 30 June 2013

	30 June 2013		31 December 2012	
	£'000	£'000	£'000	£'000
Assets				
Investment assets		1,032,369		991,810
Debtors	8,663		3,411	
Cash and bank balances	21,635		16,946	
Total other assets		30,298		20,357
Total assets		**1,062,667**		**1,012,167**
Liabilities				
Creditors	11,842		3,069	
Total liabilities		**11,842**		**3,069**
Net assets attributable to unitholders		1,050,825		1,009,098

Notes to the financial statements

1. Basis of preparation

The interim financial statements have been prepared in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in October 2010.

2. Post balance sheet events

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

Since 30 June 2013, the net asset values per unit, on a bid basis, have changed as follows:

	Net asset value per unit (p)		
	14 August 2013	30 June 2013	Movement
R accumulation	475.13	432.60	9.8%
I accumulation	494.81	449.99	10.0%

Comparative tables

Fund sizes & net asset values

Date	Net asset value of fund (£)	Net asset value per unit (p)	Units in issue
31 December 2010	1,167,855,920		
R accumulation		362.49	289,049,263
I accumulation		370.17	32,442,268
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
30 June 2013	1,050,825,281		
R accumulation		432.60	185,326,166
I accumulation		449.99	55,358,291

Net revenue distribution & unit price range

Year	Net revenue per unit (p)	Highest offer price (p)	Lowest bid price (p)
R accumulation			
2008	6.0440	359.88	209.87
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 **	–	486.78	399.31
I accumulation			
2008 *	6.9100	327.03	210.88
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 **	–	485.65	414.01

Net revenue includes all amounts paid and payable in each calendar year.
* From 7 March 2008.
** To 30 June 2013.

Ongoing charges

Expense	30 June 2013
R accumulation	
Annual management charge	1.50%
Other expenses	0.05%
Ongoing charges	1.55%
I accumulation	
Annual management charge	0.75%
Other expenses	0.05%
Ongoing charges	0.80%

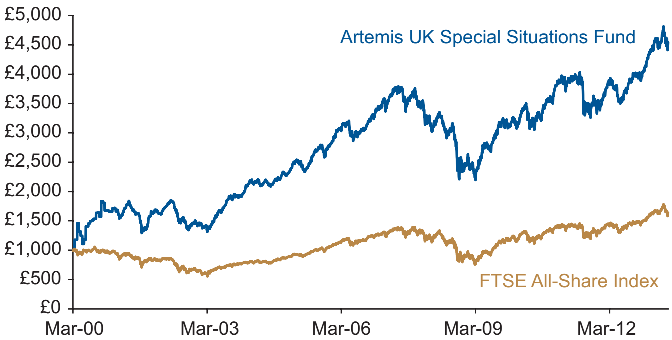
Ongoing charges shows the annual operating expenses of each unit class as a percentage of the average net assets of that class for the preceding 12 months.

Fund performance

	Since launch *	5 years	3 years	1 year	6 months
Artemis UK Special Situations Fund	354.7	48.3	46.7	25.1	10.1
FTSE All-Share Index	63.1	38.2	43.5	17.9	8.5
FTSE 100 Index	50.0	33.4	40.8	15.8	7.6
Sector average	55.3	38.0	44.7	22.2	10.5
Position in sector	1/125	68/237	101/261	90/273	138/275
Quartile	1	2	2	2	2

* Data from 9 March 2000. Source: Lipper Limited, R accumulation, bid to bid basis, in sterling with net income reinvested to 30 June 2013. All performance figures show total return percentage growth. Sector is IMA UK All Companies.

Value of £1,000 invested at launch to 30 June 2013



ARTEMIS
The PROFIT Hunter