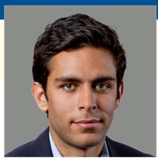
Artemis Strategic Assets Fund

Class I accumulation units, GBP

William Littlewood
Since launch



Kartik Kumar
Since 28 April 2017

August 2017
Data as of 31 July 2017

The fund's aims

The objective of the fund is to achieve long-term growth through investment in a portfolio of UK and international assets. The fund will take a broadly 'multi-asset' approach with the intention to perform well when markets are favourable, and preserve capital when markets are poor. It therefore aims to provide longer term positive returns under most market conditions, outperforming both cash and equities over rolling three-year periods.

Fund update

In July the fund returned 1.3%, just above the FTSE All-Share index. Our shares made a positive contribution of about 1%, our currencies added a further 0.2% while our bond shorts and commodities had a neutral effect.

Equity markets continue to march upwards. On some valuation metrics, the US equity market is now the third most expensive it has been in its history, only exceeded by the market peaks of 1999 and 1929. As is common in the late stages of a bull market, many participants claim that valuations no longer matter.

Take Netflix as an example. Between 2013 and 2017, its share price increased by more than tenfold. The market has focused on subscriber growth which has been fuelled by huge increases in spending on content. The economics of the model, however, are far from clear. Over the same period, Netflix's revenue per subscriber was flat at $81 but the content spend per subscriber rose from $54 to $83. So it now spends more on making new content than it earns in revenues, not including any other central or marketing cost. For the moment, this is not only being ignored but encouraged. As said by CEO Reed Hastings during a recent call, "the negative free cashflow will be an indicator of enormous success".

There is no doubting that, at $7 per month, a Netflix subscription represents good value for its customers. But it remains to be seen whether a valuation of nearly $80bn will prove to be good value for its investors. In a world where competition for video content is intense, we suspect that customers are likely to benefit at the expense of investors.

Performance

Cumulative performance

	Since launch	5 years	3 years	1 year	6 months
Artemis Strategic Assets	88.9%	41.5%	13.8%	13.1%	-1.1%
FTSE All-Share TR	139.2%	65.0%	25.7%	14.9%	7.1%
FTSE WMA Stock Market Growth TR	137.3%	70.2%	35.3%	13.6%	6.1%
IA Flexible Investment NR	109.6%	58.3%	30.0%	13.9%	6.3%
Position in sector	63/75	85/94	106/113	76/124	126/126
Quartile	4	4	4	3	4

'Since launch' data from 26 May 2009. Source: Lipper Limited, bid to bid in sterling to 31 July 2017. All figures show total returns with dividends reinvested. Sector is IA Flexible Investment NR.

Discrete performance to year end

	2016	2015	2014	2013	2012
12 months to 31 December	16.7%	-2.0%	-1.0%	15.3%	11.1%

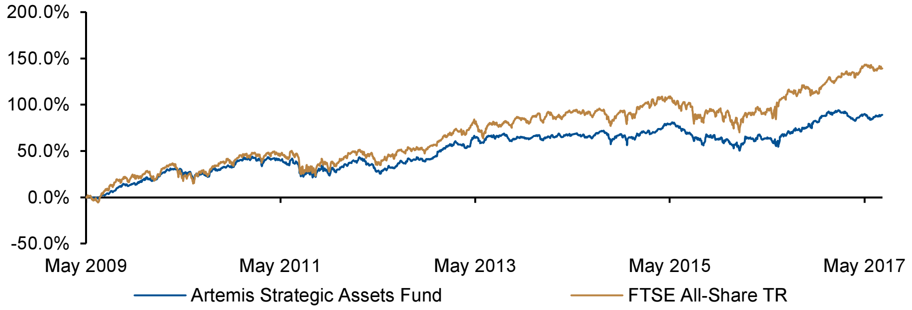
Please remember that past performance is not a guide to the future. Source: Lipper Limited, bid to bid in sterling. All figures show total returns with dividends reinvested.

Discrete performance to quarter end

	2017	2016	2015	2014	2013
12 months to 30 June	17.6%	-9.3%	5.3%	3.4%	22.8%

Please remember that past performance is not a guide to the future. Source: Lipper Limited, bid to bid in sterling. All figures show total returns with dividends reinvested.

Percentage growth



Data from 26 May 2009. Source: Lipper Limited, bid to bid in sterling to 31 July 2017. All figures show total returns with dividends reinvested.

Key facts

Fund type	Unit trust
Focus	Capital growth
Asset class	Multi-Asset
Regional focus	Global
IA sector	IA Flexible Investment NR
SEDOL	B3VDD43
ISIN	GB00B3VDD431
Type	Accumulation
Class currency	GBP
Accumulation date	31 October
Valuation point (UK business days)	12:00
Year end	31 August
Fund launch date	26 May 2009
Class launch date	26 May 2009
Class launch price	50p
SRRI	5
Fund size (mid basis)	£794.1m

Source: Artemis as at 31 July 2017.

Prices and yield

Bid price	89.61p
Offer price	90.94p
Historic yield	0.11%

The historic yield reflects distributions declared over the past twelve months as a percentage of the mid-market unit price, as at the date shown. It does not include any preliminary charge and investors may be subject to tax on their distributions.

Charges

Initial charge	1.00%
Ongoing charge	0.86%

The initial charge is currently waived. The ongoing charge includes the annual management charge of 0.75% and is shown as at the date of the Key Investor Information Document (KIID), where a full explanation of the fund's charges can be found.

Risks and important information

To ensure you understand whether this fund is suitable for you, please read the Key Investor Information Document, which is available, along with the fund's Prospectus, from artemisfunds.com.
The value of any investment, and any income from it, can rise and fall with movements in stockmarkets, currencies and interest rates. These can move irrationally and can be affected unpredictably by diverse factors, including political and economic events. This could mean that you won't get back the amount you originally invested.
The fund's past performance should not be considered a guide to future returns.
The fund may invest in emerging markets, which can involve greater risk than investing in developed markets. In particular, more volatility (sharper rises and falls in unit/share prices) can be expected.
The fund may invest in the shares of small and medium-sized companies. Shares in smaller companies carry more risk than larger, more established companies because they are often more volatile and, under some circumstances, harder to sell. In addition, information for reliably determining the value of smaller companies – and the risks that owning them entails – can be harder to come by.
The fund may use derivatives (financial instruments whose value is linked to the expected price movements of an underlying asset) for investment purposes, including taking long and short positions, and may use borrowing from time to time. It may also invest in derivatives to protect the value of the fund, reduce costs and/or generate additional income. Investing in derivatives also carries risks, however. In the case of a 'short' position, for example, where the fund aims to profit from falling prices, if the price of the underlying asset rises in value, the fund will lose money.
The fund may invest in fixed-interest securities. These are issued by governments, companies and other entities and pay a fixed level of income or interest. These payments (including repayment of capital) are subject to credit risks. Meanwhile, the market value of these assets will be particularly influenced by movements in interest rates and by changes in interest-rate expectations.
The fund may invest in higher yielding bonds, which may increase the risk to your capital. Investing in these types of assets (which are also known as sub-investment grade bonds) can produce a higher yield but also brings an increased risk of default, which would affect the capital value of your investment.
The fund may hold large cash deposits with the aim of protecting the value of the fund. This can mean that, when markets are rising, the return on your investment will be less than if it were fully invested in other types of asset.
The fund may invest in exchange-traded funds (ETFs). These investments track an index, a commodity or a basket of assets much like an index fund, but they trade on an exchange like a company share. The price of an ETF may, at times, deviate from the value of the underlying investments.

Any research and analysis in this communication has been obtained by Artemis for its own use. Although this communication is based on sources of information that Artemis believes to be reliable, no guarantee is given as to its accuracy or completeness.
Any forward-looking statements are based on Artemis' current expectations and projections and are subject to change without notice.
Issued by Artemis Fund Managers Ltd which is authorised and regulated by the Financial Conduct Authority.

Equities

During the month we increased our net exposure from 34% to 36% by increasing our long exposure by about two percentage points, slightly offset by a modest increase in our shorts. At 28.8%, our shorts remain close to their maximum limit of 30%.

We used weakness in the share prices of GSK, Lloyds Bank, Faroe Petroleum, and Dick's Sporting Goods to make modest additions to our existing holdings. Our largest purchase was in Sports Direct. Following full-year results which demonstrated that its new store format was gaining traction with suppliers and is generating good returns, we added to the existing holding, increasing it by 1% to 2.6%. Sports Direct is now a top-10 holding. There are a number of reasons why we like it. The sporting goods and garments market is supported by demographic trends and is supplied by a duopoly (Nike/Adidas), where strong relationships with incumbents make it tougher for new entrants. Within this market, Sports Direct is a low-cost operator with a dominant share. Mike Ashley is a controversial and colourful figure but has a strong 25-year record of success and alignment with shareholders through his 62% holding in the company. He used a recent decline in its share price of more than 50% to buy back 12% of the outstanding shares. We were able to add to our holding at an attractive price which we believe represents just 7x earnings normalised for gross margins that were potentially suppressed by a currency-hedging mistake.

Top ten long equity holdings

Just Group	4.6%
Lloyds Bank	3.9%
BP	3.7%
Tesco	3.5%
Rocket Internet	3.3%
KKR & Co	2.6%
Sports Direct	2.6%
Barclays	1.8%
BT Group	1.8%
Entertainment One	1.6%

Source: Artemis as at 31 July 2017.

Long-only equity breakdown

Large cap	53.1%
Mid cap	35.9%
Small cap	10.7%
Unquoted	0.4%

Artemis as at 31 July 2017. Please note figures have been reweighted to show a percentage of long equity holdings only and may not add up to 100% due to rounding.

Asset allocation - regions

United Kingdom	64.8%
United States	16.8%
Germany	6.7%
Japan	4.1%
Israel	2.3%
Ireland	2.1%
Russian Federation	1.3%
Switzerland	1.0%
Canada	0.9%

Artemis as at 31 July 2017. Please note figures have been reweighted to show a percentage of long equity holdings only and may not add up to 100% due to rounding.

Number of equity holdings

United Kingdom	48
United States	14
Japan	4
Russian Federation	2
Germany	2
Ireland	1
Israel	1
Switzerland	1
Canada	1

Source: Artemis as at 31 July 2017.

Bonds

Bond yields were broadly flat in July. We reduced some of our short in Italy's 10-year bond as its yield spiked to 2.3% during the month and swapped it in to Japanese 10-year bonds yielding virtually nothing. Other than these minor changes, our overall position remains unchanged and continues to be near its maximum levels.

An interesting development during the month that was of relevance to all fixed-income yields was the talk of Gary Cohn as a possible successor to Janet Yellen, whose current term as chair of the US Federal Reserve ends in February 2018. Although it seems like Trump may be considering re-electing Yellen noting that she has "historically been a low rate person...", the following quote from Gary Cohn suggests otherwise, and that the space is worth watching closely:

"[I]f we woke up tomorrow and every central bank in the world raised their interest rates by 300 basis points, the world would be a better place. No currency should move because all the relationships would be the same, but insurance companies would work, pensions would work, savers would work, we would get people out of bank-loan funds, we would get people out of bond funds and they could put their money back in banks and back in government bonds where it belongs."

Elsewhere, Tokyo Metropolitan elections saw Prime Minister Abe's Liberal Democratic Party suffering a defeat. This resulted in calls for a cut in the sales tax and an abandonment of the Japanese government's objective of reaching a primary budget balance in 2020. Japan's budget deficit was 5.7% of GDP in 2016. Here is (yet) another example of democracy and populism being prioritised ahead of fiscal prudence.

Government bond shorts breakdown

Japan	-58.7%
France	-15.4%
United Kingdom	-13.1%
Italy	-11.5%
Total	-98.7%

Source: Artemis as at 31 July 2017.

Currencies

Our activity was limited during the month. Positive gains in currencies were helped by our position in the Swedish krona where the economy had good news in the month. Sweden's real GDP was up 4% (year-on-year) in the second quarter, nearly double the rate that had been forecast. This followed data on industrial production for June showing an 8% increase versus forecasts of 4.5%. Inflation was also modestly above expectations. The Riksbank has remained one of the most dovish of the major central banks, consistently refusing to budge from its negative interest rates and quantitative easing despite Sweden's strong growth. A negative 0.5% interest rate for an economy with a 4% real and 7% nominal GDP growth rate looks increasingly ludicrous.

The euro has been very strong over the year to date, appreciating by 13% against the US dollar to levels not seen since 2014-15. Although we have a 9% short in the euro, our 27% and 6% longs in the Swedish and Norwegian currencies means that we are net 24% long European currencies and have therefore benefited from this move.

As mentioned in recent commentaries, we had been anticipating some strengthening in the euro following robust economic data and favourable political results. Our position has changed considerably since 2014 when our short was 35% and our overall short position in European currencies was 20%. At present, it looks like the euro has been too cheap for Germany with its large current account surplus. But we still harbour long-term concerns about the sustainability of the currency bloc and would expect to increase our short at some point in the future if the current run continues.

Currencies - longs (excluding securities)

Swedish Krona	26.6%
Singapore Dollar	15.1%
US Dollar	12.2%
Taiwan Dollar	9.0%
Norwegian Krone	6.4%

Source: Artemis as at 31 July 2017.

Currencies - shorts (excluding securities)

Japanese Yen	-22.1%
British Pound	-13.4%
Chinese Yuan Offshore	-10.7%
Euro	-8.9%
Canadian Dollar	-7.2%
Australian Dollar	-6.4%
South Korean Won	-0.6%

Source: Artemis as at 31 July 2017.

Commodities

We made no changes to our commodity positions during the month. Gold was up 2.2%, platinum 1.6% and silver 1.2%.

Key holdings

Gold	8.9%
Platinum	4.8%
Silver	1.9%

Source: Artemis as at 31 July 2017.