PROFIT *hunters*

ARTEMIS UK Smaller Companies *Fund*

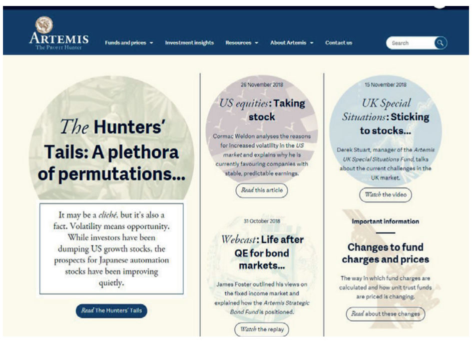
Manager's Report and Financial Statements

for the year ended 31 December 2018

ARTEMIS

The PROFIT Hunter

Keep up to date ...



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

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

artemisfunds.com

General information

Company profile

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

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

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

The firm now manages some £27.5 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 January 2019.

Fund status

Artemis UK Smaller Companies Fund was constituted by a Trust Deed dated 17 March 1998 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 long-term capital growth. The emphasis of the fund will be investment in smaller companies listed, quoted and/or traded in the UK and in smaller 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

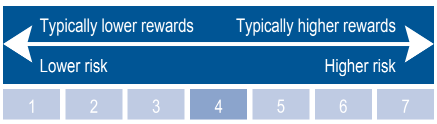
The manager actively manages the portfolio in order to achieve the objective and will not be restricted in respect of investments by industrial sectors. The securities of companies listed, quoted and/or traded in the UK but domiciled elsewhere and the securities of companies traded on ISDX may be included 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 3 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 may not fully take into account the following risks:

- 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 maybe 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.
- There was no change to the indicator in the period.

Prospectus

Copies of the most recent Prospectus are available free of charge from the manager at the address on page 3.

Change of Trustee and Depositary

With effect from 15 January 2018 J.P. Morgan Europe Limited took over the responsibility as Trustee & Depositary of the fund.

Removal of initial charge

The fund's prospectus includes the ability for Artemis to apply an initial charge on investments into the fund. The prospectus also sets out the maximum amount of this charge for different unit classes in the fund, although in almost all cases the initial charge has been waived in its entirety for a number of years. The prospectus was updated on 6 June 2018 to make it clear that no initial charge will be levied in respect of the existing unit classes. For further information please contact our client services team on 0800 092 2051.

General information (continued)

Changes to Artemis' funds from February 2019

With effect from 1 February 2019, Artemis made changes to how its funds operate:

- the way in which fund charges are calculated, moving from variable expenses to an administration fee with a discount applied based on fund size.
- how our unit trust funds are priced, changing from 'bid price' and 'offer price' to a 'single price'.

The prospectus was updated on 4 February 2019 as a result of the changes.

Remuneration

Following an 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 manager to its partners and staff for its financial year.

As the Artemis UK Smaller Companies Fund (the 'fund') is a UCITS scheme, Artemis Fund Managers Limited ('AFML') as manager is required to make these disclosures. Artemis operates its remuneration policies and practices at a group level, which includes both Artemis Investment Management LLP and its subsidiary AFML. Details of the group remuneration policies are available on Artemis' website **artemisfunds.com.** Remuneration levels are set to attract, retain and motivate talented partners and staff and align long-term interests of partners and staff with those of our clients.

The remuneration policies which apply to all partners and staff across the group are overseen by the Remuneration Committee. The members of the Remuneration Committee are all non-executive officers. The Remuneration Committee is responsible for setting and overseeing the implementation of Artemis' remuneration policy, including approving the remuneration of partners and other senior staff. The Remuneration Committee will regularly review the remuneration policy to ensure it remains appropriate. The Remuneration Committee considers inputs from Artemis' Compliance and Risk functions when reviewing remuneration issues, including any risk adjustments or controls considered necessary. The Artemis remuneration period runs from 1 January to 31 December, therefore, the first full performance period subject to the UCITS Remuneration Code started on 1 January 2017 and ended on 31 December 2017. As a consequence, for certain partners and staff who are classified as 'Identified Staff' as their professional activities have a material impact on the risk profile of the firm, the payment of some of the variable remuneration (which may include profit share for partners) is deferred. Further, Artemis has the ability to reduce all or part of deferred variable remuneration that has been previously allocated to Identified Staff, before the end of the vesting period.

No staff are employed by AFML directly but are employed and paid by other entities of Artemis. Artemis has apportioned the total amount of remuneration paid to all 171 Artemis partners and staff in respect of AFML's duties performed for the UCITS schemes based on the number of funds. It has estimated that the total amount of remuneration paid in respect of duties for the fund for the year ended 31 December 2017 is £1,254,507, of which £327,834 is fixed remuneration and £926,673 is variable remuneration. No amount of remuneration, including any performance fees, was paid directly by the fund.

The aggregate amount of remuneration paid to UCITS Remuneration Code and Identified Staff that is attributable to duties for the fund for the year ended 31 December 2017 is £307,248. AFML Remuneration Code and Identified Staff are those senior individuals whose managerial responsibilities or professional activities could influence, and have a material impact on, the overall risk profile of each regulated entity and the funds it manages. For the purposes of UCITS Remuneration Code the AFML Remuneration Code staff are the members of Artemis' Management and Executive Committees, certain fund managers, the General Counsel, the Head of Compliance and the Head of Risk. This includes certain individuals who are partners in Artemis Investment Management LLP.

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 out with 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:
Artemis Fund Managers Limited
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

(to 15 January 2018)
National Westminster Bank Plc †
Trustee & Depositary Services
Younger Building
1st Floor, 3 Redheughs Avenue
Edinburgh EH12 9RH

(from 15 January 2018)
J.P. Morgan Europe Limited †
25 Bank Street
Canary Wharf
London E14 5JP

Registrar

DST Financial Services International Limited *
DST House
St Nicholas Lane
Basildon
Essex SS15 5FS

Auditor

Ernst & Young LLP
Atria One
144 Morrison Street
Edinburgh EH3 8EX

* Authorised and regulated by the FCA, 12 Endeavour Square, London E20 1JN.

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

Statement of the trustee's responsibilities for the period from 1 January 2018 to 15 January 2018

The trustee must ensure that the Artemis UK Smaller Companies 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 of the scheme are 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 UK Smaller Companies Fund for the period from1 January 2018 to 15 January 2018

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
15 January 2018

Statement of the trustee's responsibilities in respect of the scheme and report of the trustee to the unitholders of Artemis UK Smaller Companies Fund ('the Trust') for the period from 15 January 2018 to 31 December 2018

The trustee of Artemis UK Smaller Companies Fund must ensure that the Trust is managed in accordance with the Financial Conduct Authority's Collective Investment Schemes Sourcebook, the Financial Services and Markets Act 2000, as amended, (together 'the Regulations'), the Trust Deed and Prospectus (together 'the scheme documents') as detailed below.

General information (continued)

The trustee must in the context of its role act honestly, fairly, professionally, independently and in the interests of the Trust and its investors. The trustee is responsible for the safekeeping of all custodial assets and maintaining a record of all other assets of the Trust in accordance with the Regulations.

The trustee must ensure that:

- the Trust's cash flows are properly monitored and that cash of the Trust is booked in the cash accounts in accordance with the Regulations;
- the sale, issue, repurchase, redemption and cancellation of units are carried out in accordance with the Regulations;
- the value of units of the Trust are calculated in accordance with the Regulations;
- any consideration relating to transactions in the Trust's assets is remitted to the Trust within the usual time limits;
- the Trust's income is applied in accordance with the Regulations; and the instructions of the Authorised Fund Manager ('the AFM'), which is the UCITS Management Company, are carried out (unless they conflict with the Regulations).

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

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

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

(ii) has observed the investment and borrowing powers and restrictions applicable to the Trust in accordance with the Regulations and the Scheme documents of the Trust.

J.P. Morgan Europe Limited
London
25 February 2019

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 UK Smaller Companies Fund for the year ended 31 December 2018 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
J L Berens — Director
Artemis Fund Managers Limited
London
25 February 2019

Independent auditor's report to the unitholders of the Artemis UK Smaller Companies Fund

Opinion

We have audited the financial statements of the Artemis UK Smaller Companies Fund ('the Fund') for the year ended 31 December 2018 which comprise the statement of total return, statement of change in net assets attributable to unitholders, balance sheet, distribution tables and the related notes 1 to 19, including a summary of significant accounting policies. 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 FRS 102 'The Financial Reporting Standard applicable to the UK and Republic of Ireland'.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Fund as at 31 December 2018 and of the net revenue and the net losses 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 FRS 102 'The Financial Reporting Standard applicable to the UK and Republic of Ireland'.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the manager's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the manager has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The manager is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Opinions 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; and
- 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matter in relation to which the Collective Investment Schemes Sourcebook of the Financial Conduct Authority rules requires us to report to you if, in our opinion:

- we have not received all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

Responsibilities of the manager

As explained more fully in the manager's responsibilities statement set out on page 4, the manager is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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 of the Fund those matters we are required to state to them in an 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 of the Fund as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP
Statutory Auditor
Edinburgh
25 February 2019

Notes:
1. The maintenance and integrity of the Artemis Unit Trusts web site is the responsibility of the manager; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

- The fund returns (12.7)%* versus the benchmark's (15.3)%*.
- Smaller companies affected by wider weakness in the market.
- Uncertainties are leading to attractive valuations.

Performance – Outperforming a weak market …

The fund returned (12.7)% over the year, outperforming its benchmark, which returned (15.3)%.

Review – Contributions from a broad range of stocks …

2018 ended with global stock markets falling amid worries about rising interest rates and growing tensions between the US and China over trade. The UK added concerns over Brexit to that list as the clock counts down to 29 March 2019 with no agreement on the way forward. Having started from higher levels and with greater exposure to domestic demand, the UK's smaller companies fared somewhat more poorly than the wider market.

Our fund fell too, although by less than the benchmark. Nevertheless, we would have hoped that our cautious style of investing would have fared better in the weak market.

We review the biggest movers below. When constructing the portfolio, we aim to invest in a diverse range of companies without a concentration of risks in a specific sector or theme. This means that the drivers behind the good (and the bad) are broad.

Negative contributors …

RPS Group (an environmental consultancy) warned that this year's profit would be a little below last year's and that greater investment would mean profits would be flat next year. Much of the shortfall was due to some key staff leaving the business shortly after receiving their earn-outs. The group is now planning to invest more in staff retention and trying to move from being a collection of local consultancy practices to becoming a global brand. We think management is doing the right thing and the initial 30% fall in its share price was an over-reaction. We added to our holding.

Clothing retailer Bonmarché Holdings warned that its profits would be a lot lower than expected and, as a result, the shares were very weak. We are conscious of the difficult challenges facing retailers: cautious consumers, stiff competition from online competitors, long-term leases and currency headwinds. So we only have two (small) positions in UK clothing retailers (Moss Bros Group is the other). Set against these negatives is the fact that retail stocks are already extremely out of favour and both Bonmarché and Moss Bros have no debt, relatively short leases and are improving their online offerings.

A profit warning from Keller Group was a result of a further disappointment from its Asia Pacific business. Management had previously expressed confidence that the division's problems were behind it – but it now appears that a deteriorating market across south-east Asia, especially Malaysia, will result in further losses. Nevertheless, we felt that the 30% fall in its share price was overdone (the stock was not expensive before the warning; and the vast majority of the business continues to trade satisfactorily). We have added to the holding.

Sportech warned that, after the sale of their Football Pools business the previous year and their VAT refund from HMRC, the group had become smaller and more vulnerable to the timing of new contracts. It was disappointing that several of these contracts were not signed in the year which affected profits. But it was encouraging to see directors buying after this announcement. We await a decision by the state of Connecticut (where Sportech has exclusive contracts to operate horse racing betting venues) on whether sports betting will be legalised – as it has been in New Jersey. This follows the US Supreme Court's decision to allow US states to enact legislation to legalise sports betting. This could be lucrative for the group as Sportech would have a head start on competitors: they already have a state-wide betting business in place.

Positive contributors …

We have held Hurricane Energy for the last 10 years as it has sought funding to drill for oil in the fractured basement rocks that lie under the traditional sandstone fields of the North Sea. So it was gratifying finally to see significant progress towards the company's first production of oil, now expected to start in 2019. The key test will be whether the oil can flow sustainably from the potentially huge reservoir that Hurricane has discovered. During the year the company also got funding for an adjacent project from Spirit Energy (majority owned by Centrica).

Proactis Holdings produced annual results which were in line with revised expectations. After the severe profit warning early in 2018, this was encouraging and the shares responded well from depressed levels. If the group can return to even modest organic growth, the recurring nature of its contracts will generate attractive cashflow. Once this becomes clear, we believe the shares should trade on a premium.

Games Workshop Group (GW), the best performer in the fund in the previous year, once again showed that not all retail formats are struggling. Their customers around the world value the attention to detail in the fantasy figures GW produce, as well as the huge intellectual property the

* Source: Lipper Limited, class I accumulation units, bid to bid basis, in sterling with dividends reinvested. Benchmark is the Numis Smaller Companies (excluding Investment Trusts) Index.

Investment review (continued)

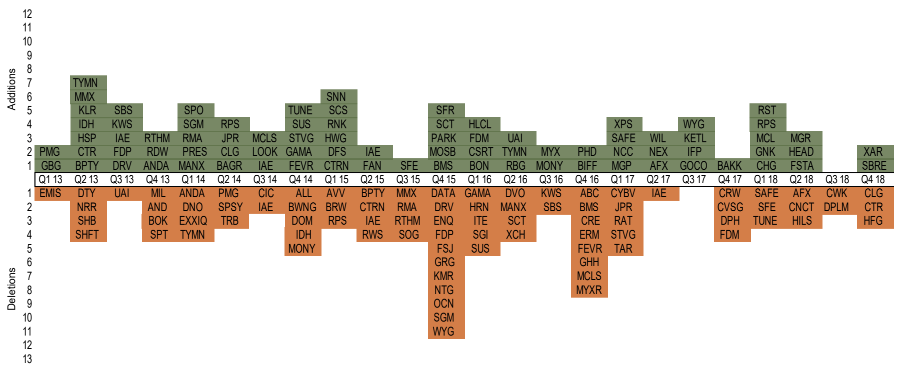
company has built up. Interim results showed an increase in profits over the previous year (which had benefited from a large one-off boost from the revamp of a key game). This augurs well for the future of the company.

Shares in online US promotional products provider, 4imprint Group, rebounded in the second half of the year after being knocked by a broker's note which expressed concern about the threat posed by Amazon and Walmart. Management believe this threat to have been exaggerated. Evidence seems to back their view as revenue growth accelerated over the course of the year and initial trials in a new marketing strategy gave encouraging results.

Transactions …

We judge any investment we make over a three- to five-year horizon. This is consistent with our typical holding period (which in many cases can be significantly longer.) We are therefore looking for 10-15 new ideas each year (out of a universe of over 1,000 companies.) 2018 was no different: we invested in 10 new companies over the course of the year and sold out of 11. Below, so as not to duplicate our interim report, we focus on the transactions that were made in the second half of the year.

Changes to portfolio – average holding period by name 72 months



We were attracted to Sabre Insurance Group, a niche underwriter of UK motor insurance policies, by its long-term record of underwriting at a profit. This stands in contrast to the more usual model of taking on marginally profitable insurance premiums and hoping that investment returns on the float will drive returns. Sabre makes a best-in-class margin of 25%+ on the policies it writes and appears to have good customer service (below-average customer complaints and a 4-star score on Trustpilot). With only 2% market share, there is still plenty of scope for it to grow, even in a more challenging market for motor insurance. The combination of high margins and relatively low capital requirements results in strong free cashflow which the company is able to pay out as dividends.

We also started a modest holding in Xaar, a specialist in inkjet printing, as the shares had fallen to below asset value. This arguably does not capture the intrinsic value of its intellectual property, nor the replacement value of its well-invested (but underutilised) 'clean room' facility. The company had had a series of disappointing earnings – but we feel that its potential strategic value is being overlooked. Xaar's strong balance sheet (it is expected to end the year with around £30m of net cash) provides a degree of insurance if there are further short-term disappointments.

We sold five companies in the second half: Clipper Logistics, Charles Taylor, Hilton Food Group, Diploma and Cranswick. In the case of Cranswick, Hilton Foods and Diploma, the sales were largely a function of valuation. We still think that they are all fantastic companies that we would be very happy to own if the valuation were to change. But with Clipper Logistics and Charles Taylor we had become increasingly concerned about the fundamentals (and accounting).

In order to meet the market's expectations, Clipper Logistics included the profits from a property deal in its underlying profits. This transaction also took place with a related party (the chairman). We were also concerned that return on capital was declining and that its exposure to the struggling retail sector could more than offset the benefits of the growth in online.

Charles Taylor, meanwhile, has become a far riskier proposition than we had originally envisaged. We became concerned by the risks associated with its expansion into new areas (e.g. insurance software implementation in South America), rising debt and some unusual accounting. With the 'risk/reward' pendulum having swung too far towards 'risk', we have sold our position.

As is always the case, most of the trading within the fund relates to increasing our exposure to certain existing holdings (and reducing our exposure to others) as we see the risk/reward balance moving. The largest of the disposals were Games Workshop, Chemring Group and Biffa. Conversely we added to RPS Group, IFG Group and Redrow.

Outlook – Mindful of the risks, but assessing opportunities …

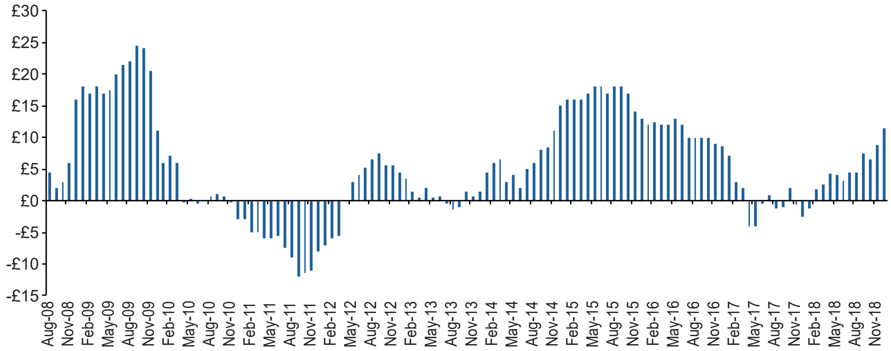
It is easy to make the case for avoiding the UK. We are just weeks away from the date the UK is due to leave the European Union with, as yet, little sign of a majority either for Theresa May's proposal or for any other deal. Betfair puts the odds of a 2019 general election at 40%, with the Conservatives and a Jeremy Corbyn-led Labour Party now running neck-and-neck. Much of the media seems fixated on the death of the high street.

Is there a case for the UK? Unemployment is at close to a record low. Wage inflation is accelerating in nominal terms and inflation has been falling – so real wages are rising again. Austerity is easing. Sterling, according to The Economist's 'Big

Mac' index, is 27% undervalued. A reversal (for the first 10 years of this millennium the pound was overvalued against the dollar on this metric) would be painful for those investors who are increasingly eschewing their home market, especially those who have UK liabilities. It has become worryingly consensual to be overweight overseas earners.

The UK consumer is better off…

Asda Income Tracker (£ change YoY)



Source: Liberum, Datastream

…but UK exposed stocks have continued to struggle (so far).

We enter 2019 far from complacent: there are many risks surrounding the global economy – and the UK. These should not be dismissed; and it is now more than a decade since the stock market troughed. At the same time, we are keen to ensure that these risks do not blind us to the potential opportunities. Valuations in many areas are attractive. Cyclical, domestic focused stocks could benefit from a material re-rating if concerns about Brexit can be allayed. But that remains a big 'if' – so we try to have a modest exposure to these stocks (such as Bonmarché Holdings, Moss Bros Group and Lookers). While they would do very well if the UK economy can muddle through and if a 'hard' Brexit can be avoided, they would likely perform poorly in a full-blown recession.

For the core of the fund, we continue to favour lower-risk companies with less exposure to the economic cycle. We will retain our focus on free cashflow and our preference for companies with strong balance sheets (providing an insurance policy if the environment gets more challenging and options if that insurance is not required.) We will add to these when valuations are pulled down by worries elsewhere. With short-term uncertainty elevated, we take some comfort from the long-term performance of UK smaller companies. Since 1955, small caps have outperformed large caps by 4% p.a. - and have never delivered a negative return over seven years.

Mark Niznik & William Tamworth
Fund managers

Investment information

Five largest purchases and sales for the year ended 31 December 2018

Purchases	Cost £'000	Sales	Proceeds £'000
RPS Group	17,332	Alliance Pharma	12,541
Chemring Group	9,720	Games Workshop Group	12,368
Greene King	8,338	Computacenter	6,615
Morses Club	7,074	Hilton Food Group	6,111
4imprint Group	6,361	Somero Enterprises	5,960

Portfolio statement as at 31 December 2018

Investment	Holding	Valuation £'000	% of net assets
Equities 96.41% (96.05%)			
Basic Materials 0.68% (1.26%)			
Kenmare Resources Warrant 16/11/2019 ^	1,600	–	–
Thistle Mining ^	2,376,532	–	–
Victrex	127,015	2,876	0.68
		2,876	**0.68**
Consumer Goods 7.14% (9.88%)			
Bagir Group #	6,673,571	93	0.02
Bakkavor Group	5,856,735	8,012	1.91
Games Workshop Group	228,120	6,889	1.65
Headlam Group	1,078,346	4,432	1.06
REA Holdings	2,022,530	4,773	1.14
Redrow	1,167,343	5,711	1.36
		29,910	**7.14**
Consumer Services 26.05% (23.68%)			
4imprint Group	666,018	12,221	2.92
Bonmarche Holdings	3,309,527	1,092	0.26
Centaur Media	12,765,155	5,668	1.35
DFS Furniture	913,776	1,676	0.40
Ebiquity #	10,395,328	6,653	1.59
Fuller Smith & Turner A shares	308,255	2,688	0.64
Global Market Group ^	1,138,309	–	–
Gocompare.com Group	10,085,547	7,040	1.68
Greene King	1,236,358	6,488	1.55
Lookers	7,176,188	6,617	1.58
Moneysupermarket.com Group	3,820,175	10,528	2.51
Moss Bros Group	8,954,401	2,328	0.56
National Express Group	2,566,224	9,546	2.28
Rank Group	2,871,465	3,991	0.95
Revolution Bars Group	5,026,741	4,831	1.15
ScS Group	2,138,733	4,278	1.02
Sportech	7,892,430	3,078	0.73
Tarsus Group	4,114,509	10,904	2.60
Wilmington	5,452,233	9,541	2.28
		109,168	**26.05**
Financials 17.14% (13.72%)			
Brooks Macdonald Group #	504,504	6,811	1.63
H&T Group #	3,328,285	8,687	2.07
Hansteen Holdings, REIT	2,746,151	2,514	0.60
Harworth Group	4,571,113	5,165	1.23
Helical	1,255,955	4,006	0.96

Investment	Holding	Valuation £'000	% of net assets
IFG Group	6,732,890	8,618	2.06
Miton Group #	11,589,847	5,215	1.24
Morses Club #	3,787,582	5,871	1.40
Park Group #	12,964,686	9,399	2.24
Polar Capital Holdings #	1,212,637	5,724	1.37
Rok Entertainment Group ^	410,914	–	–
ROK Global ^	66,097	–	–
Sabre Insurance Group	866,010	2,373	0.57
U & I Group	2,499,843	5,100	1.22
XPS Pensions Group	1,447,902	2,317	0.55
		71,800	**17.14**
Healthcare 6.53% (8.79%)			
Advanced Medical Solutions Group #	1,224,322	3,349	0.80
Alliance Pharma #	8,371,024	5,492	1.31
Consort Medical	1,042,573	9,602	2.29
Medica Group	1,667,366	2,004	0.48
Vectura Group	9,856,471	6,909	1.65
		27,356	**6.53**
Industrials 25.09% (26.43%)			
Biffa	4,009,463	7,883	1.88
Chemring Group	2,591,933	4,157	0.99
Hargreaves Services #	2,136,069	5,874	1.40
Keller Group	1,128,511	5,569	1.33
Mears Group	4,182,043	13,675	3.26
Norcros	2,703,898	5,246	1.25
Northbridge Industrial Services #	2,150,663	2,323	0.56
Pressure Technologies #	2,701,956	2,486	0.59
Restore #	1,031,279	3,310	0.79
RPS Group	7,588,569	10,245	2.45
Sanne Group	296,161	1,703	0.41
Senior	1,975,914	3,705	0.88
Severfield	7,891,224	5,445	1.30
Somero Enterprises #	1,979,954	5,940	1.42
Strix Group #	4,685,668	6,607	1.58
Tyman	1,479,035	3,468	0.83
Volution Group	5,191,668	7,294	1.74
WYG #	9,013,344	3,696	0.88
Xaar	1,610,696	2,271	0.54
XP Power	202,411	4,210	1.01
		105,107	**25.09**
Oil & Gas 1.88% (1.44%)			
Energy Equity Resources (Norway) ^	14,000	–	–
Hurricane Energy #	13,255,941	5,793	1.38
Mycelx Technologies #	1,225,223	2,083	0.50
Timan Oil & Gas ^	1,431,667	–	–
		7,876	**1.88**
Technology 10.77% (9.20%)			
Computacenter	852,726	8,544	2.04
GB Group #	760,054	3,223	0.77
NCC Group	3,138,507	5,565	1.33
Proactis Holdings #	7,492,793	10,040	2.40
RM	5,727,100	11,454	2.73

Investment information (continued)

Investment	Holding	Valuation £'000	% of net assets
SDL	1,346,341	6,287	1.50
		45,113	**10.77**
Telecommunications 1.13% (1.65%)			
Telecom Plus	329,920	4,724	1.13
		4,724	**1.13**
Investment assets		403,930	96.41
Net other assets		15,049	3.59
Net assets attributable to unitholders		418,979	100.00

The comparative percentage figures in brackets are as at 31 December 2017.
^ Unlisted, suspended or delisted security.
# Security listed on the Alternative Investment Market ('AIM').

Statement of total return for the year ended 31 December 2018

	Note	31 December 2018 £'000	31 December 2018 £'000	31 December 2017 £'000	31 December 2017 £'000
Income					
Net capital (losses)/gains	3		(74,602)		100,253
Revenue	5	14,371		12,527	
Expenses	6	(5,731)		(5,118)	
Interest payable and similar charges	7	-		(2)	
Net revenue before taxation		8,640		7,407	
Taxation	8	(52)		(106)	
Net revenue after taxation			8,588		7,301
Total return before distributions			**(66,014)**		**107,554**
Distributions	9		(8,599)		(7,317)
Change in net assets attributable to unitholders from investment activities			(74,613)		100,237

Statement of change in net assets attributable to unitholders for the year ended 31 December 2018

	31 December 2018 £'000	31 December 2018 £'000	31 December 2017 £'000	31 December 2017 £'000
Opening net assets attributable to unitholders		474,317		372,467
Amounts receivable on issue of units	46,830		24,485	
Amounts payable on cancellation of units	(36,177)		(30,218)	
		10,653		(5,733)
Change in net assets attributable to unitholders from investment activities		(74,613)		100,237
Retained distribution on accumulation units		8,622		7,346
Closing net assets attributable to unitholders		418,979		474,317

Balance sheet as at 31 December 2018

	Note	31 December 2018 £'000	31 December 2017 £'000
Assets			
Fixed assets			
Investments	10	403,930	455,573
Current assets			
Debtors	11	1,724	1,064
Cash and bank balances	12	13,986	18,365
Total current assets		**15,710**	**19,429**
Total assets		**419,640**	**475,002**
Liabilities			
Creditors			
Distribution payable		36	25
Other creditors	13	625	660
Total creditors		**661**	**685**
Total liabilities		**661**	**685**
Net assets attributable to unitholders		418,979	474,317

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 FRS 102 and the SORP and the Financial Conduct Authority's Collective Investment Schemes Sourcebook ('COLL'). The financial statements have been prepared on a going concern basis.

(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 investment purposes and efficient portfolio management. 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. Returns on derivative instruments are recognised as either revenue or capital depending on the nature and circumstances of each particular case.

(e) Revenue. Dividends receivable from equity and non-equity shares, including 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 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. 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 initially 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 distribute all available revenue, after deduction of expenses properly chargeable against revenue and taxation. The manager and trustee have agreed, for the Distribution class only, that 100% of the annual management charge is to be transferred to capital for the purpose of calculating its distribution, as permitted by COLL. The distribution currently payable reflects this treatment. Gains and losses on non-derivative investments and currencies, whether realised or unrealised, are taken to capital and are not available for 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.

For accumulation units this revenue is not distributed but automatically reinvested in the fund and is reflected in the value of these units.

Distributions which have remained unclaimed by unitholders for six years are credited to the capital property of the fund.

3. Net capital (losses)/gains

	31 December 2018 £'000	31 December 2017 £'000
Capital transaction charges	(5)	(4)
Non-derivative securities	(74,597)	100,257
Net capital (losses)/gains	(74,602)	100,253

4. Direct transaction costs

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

	Year ended 31 December 2018					
	Principal £'000	Commission £'000	Taxes £'000	Total after costs £'000	Commission as a percentage of principal %	Taxes as a percentage of principal %
Purchases						
Equities	151,866	77	574	152,517	0.05	0.38
Sales						
Equities	129,624	63	-	129,561	0.05	-
Total		140	574			
Percentage of fund average net assets		0.03%	0.12%			

	Year ended December 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	124,259	72	447	124,778	0.06	0.36
Sales						
Equities	125,904	88	-	125,816	0.07	-
Total		160	447			
Percentage of fund average net assets		0.04%	0.10%			

During the year the fund incurred £5,000 (2017: £4,000) in capital transaction charges.

Dealing spread

As at the balance sheet date the average portfolio dealing spread was 2.30% (2017: 1.82%). This spread represents the difference between the bid and offer prices of each underlying investment expressed as a percentage of the value determined by reference to its offer price.

5. Revenue

	31 December 2018 £'000	31 December 2017 £'000
UK dividends	13,194	10,497
Overseas dividends	964	1,588
Revenue from UK REITs	150	420
Bank interest	63	20
Underwriting commission	-	2
Total revenue	14,371	12,527

Notes to the financial statements (continued)

6. Expenses

	31 December 2018 £'000	31 December 2017 £'000
Payable to the manager, associates of the manager and agents of either of them:		
Annual management charge	5,379	4,802
Other expenses:		
Registration fees	147	119
Administration fees	105	93
Trustee fees	40	51
Operational fees	38	34
Safe custody fees	12	10
Auditor's remuneration: audit fee*	9	8
Price publication fees	1	1
Total expenses	5,731	5,118

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 £7,250 (2017: £7,000).

7. Interest payable and similar charges

	31 December 2018 £'000	31 December 2017 £'000
Interest payable	-	2
Total interest payable and similar charges	-	2

8. Taxation

	31 December 2018 £'000	31 December 2017 £'000
a) Analysis of the tax charge for the year		
Irrecoverable overseas tax	52	106
Total taxation (note 8b)	52	106
b) Factors affecting the tax charge for the year		
Net revenue before taxation	8,640	7,407
Corporation tax at 20% (2017: 20%)	1,728	1,481
Effects of:		
Unutilised management expenses	1,104	935
Irrecoverable overseas tax	52	106
Non-taxable overseas dividends	(193)	(317)
Non-taxable UK dividends	(2,639)	(2,099)
Tax charge for the year (note 8a)	52	106

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 £19,616,000 (2017: £18,512,000) arising as a result of having unutilised management expenses of £98,080,000 (2017: £92,562,000). It is unlikely that the fund will obtain relief for these in the future so no deferred tax asset has been recognised.

9. Distributions

	31 December 2018 £'000	31 December 2017 £'000
Final dividend distribution	8,658	7,371
Add: amounts deducted on cancellation of units	340	201
Deduct: amounts added on issue of units	(399)	(255)
Distributions	8,599	7,317
Movement between net revenue and distributions		
Net revenue after taxation	8,588	7,301
Annual management charge paid from capital	9	3
Add: revenue received on conversion of units	2	13
	8,599	7,317

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 table on page 21.

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 in accordance with FRS 102 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).

	31 December 2018 Assets £'000	31 December 2017 Assets £'000
Level 1	403,930	455,573
Total	403,930	455,573

11. Debtors

	31 December 2018 £'000	31 December 2017 £'000
Accrued revenue	1,135	1,051
Amounts receivable for issue of units	527	13
Overseas withholding tax recoverable	62	-
Total debtors	1,724	1,064

12. Cash and bank balances

	31 December 2018 £'000	31 December 2017 £'000
Amounts held in JPMorgan Liquidity Funds – Sterling Liquidity Fund (Institutional dist.)	13,976	18,346
Cash and bank balances	10	19
Total cash and bank balances	13,986	18,365

Notes to the financial statements (continued)

13. Other creditors

	31 December 2018 £'000	31 December 2017 £'000
Accrued annual management charge	387	402
Amounts payable for cancellation of units	134	174
Accrued other expenses	104	84
Total other creditors	625	660

14. Contingent liabilities and commitments

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

15. Reconciliation of unit movements

Class	Units in issue at 31 December 2017	Units issued	Units cancelled	Units converted	Units in issue at 31 December 2018
I distribution	56,476	8,713	(5,260)	11,527	71,456
I accumulation	12,920,223	2,185,954	(948,835)	22,887	14,180,229
R accumulation	14,150,221	350,015	(1,176,774)	(35,931)	13,287,531

16. Risk disclosures

In pursuing their investment objectives, the fund may hold a number of financial instruments. These financial instruments comprise equities, bonds, derivatives, cash balances and liquid resources, which include debtors and creditors that arise directly from the funds' operations. The fund only executes derivative contracts where both the derivative instrument and the counter party have been approved by the manager.

The manager has a risk management policy. The processes detailed within are designed to monitor and measure at any time the risk of the fund's positions and their contribution to the overall risk profile of the fund. In addition, our Investment Committee and Risk and Compliance Committee meet monthly and quarterly respectively, and as required to evaluate risk across each of our funds. These policies have been consistent for both the current and prior period to which these financial statements relate.

In the normal course of business, the fund's activities expose it to various types of risk which are associated with the financial instruments and markets in which it invests. These financial risks: market risk (comprising currency risk, interest rate risk, other market and leverage risk), credit and counterparty risk and liquidity risk and the approach to the management of these risks, are set out below and remain unchanged from the previous accounting year. For a detailed explanation of these and further risks involved in investing in the fund, reference should be made to the Prospectus.

(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. 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

As at 31 December 2018 there were no assets or liabilities denominated in currencies other than sterling (2017: £nil).

(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). 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 £20,196,000 (2017: £22,779,000). 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 'sum of the notionals' and 'commitment' methods.

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

As at 31 December 2018 and 31 December 2017 the leverage ratios of the fund were:

	2018	2017
Sum of notionals	103.30%	103.89%
Commitment	100.00%	100.00%

(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 N.A. ('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 a semi-annual report on the internal controls in place at JP Morgan.

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 2018 or 31 December 2017.

(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.

Notes to the financial statements (continued)

17. 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 from the manager as at 31 December 2018 in respect of these transactions was £6,000 (2017: £563,000 due to the manager).

18. Unit classes

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

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

The net asset value per unit and the number of units in each class are given in the comparative table on page 22. The distributions per unit class are given in the distribution table on page 21. All classes have the same rights on winding up.

19. Post balance sheet event

There were no significant post balance sheet events subsequent to the year-end.

Distribution table

Final dividend distribution for the year ended 31 December 2018 (payable on 28 February 2019) in pence per unit.

Group 1 - Units purchased prior to 1 January 2018.
Group 2 - Units purchased from 1 January 2018 to 31 December 2018.

	Net revenue per unit (p)	Equalisation per unit (p)	Distribution per unit (p) 28 February 2019	Distribution per unit (p) 28 February 2018
I distribution				
Group 1	49.7515	-	49.7515	45.0205
Group 2	30.2723	19.4792	49.7515	45.0205
I accumulation				
Group 1	38.6374	-	38.6374	34.0196
Group 2	20.9593	17.6781	38.6374	34.0196
R accumulation				
Group 1	23.6552	-	23.6552	20.8487
Group 2	13.4950	10.1602	23.6552	20.8487

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 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		
	2018	2017	2016	2018	2017	2016
Change in net assets per unit (p)						
Opening net asset value per unit	**1,716.31**	**1,355.17**	**1,290.09**	**1,799.38**	**1,384.11**	**1,226.58**
Return before operating charges *	(206.24)	419.65	96.94	(216.59)	428.53	167.91
Operating charges	(14.15)	(13.49)	(3.62)	(14.84)	(13.26)	(10.38)
Return after operating charges	(220.39)	406.16	93.32	(231.43)	415.27	157.53
Distributions	(49.75)	(45.02)	(28.24)	(38.64)	(34.02)	(25.42)
Retained distributions on accumulation units	-	-	-	38.64	34.02	25.42
Closing net asset value per unit	**1,446.17**	**1,716.31**	**1,355.17**	**1,567.95**	**1,799.38**	**1,384.11**
* after direct transaction costs of	(2.05)	(1.98)	(1.71)	(2.15)	(1.94)	(1.61)
Performance						
Return after charges	(12.84)%	29.97%	7.23%	(12.86)%	30.00%	12.84%
Other information						
Closing net asset value (£'000)	1,034	969	12	222,339	232,484	177,748
Closing number of units	71,456	56,476	900	14,180,229	12,920,223	12,842,075
Operating charges	0.82%	0.82%	0.24%	0.82%	0.82%	0.84%
Direct transaction costs	0.12%	0.12%	0.13%	0.12%	0.12%	0.13%
Prices						
Highest offer unit price (p)	1,850.49	1,817.24	1,431.42	1,939.59	1,856.51	1,432.15
Lowest bid unit price (p)	1,481.51	1,355.70	1,113.76	1,552.84	1,384.35	1,112.16

	R accumulation		
	2018	2017	2016
Change in net assets per unit (p)			
Opening net asset value per unit	**1,702.19**	**1,319.17**	**1,177.82**
Return before operating charges *	(203.35)	407.03	160.18
Operating charges	(26.74)	(24.01)	(18.83)
Return after operating charges	(230.09)	383.02	141.35
Distributions	(23.66)	(20.85)	(15.30)
Retained distributions on accumulation units	23.66	20.85	15.30
Closing net asset value per unit	**1,472.10**	**1,702.19**	**1,319.17**
* after direct transaction costs of	(2.03)	(1.84)	(1.54)
Performance			
Return after charges	(13.52)%	29.03%	12.00%
Other information			
Closing net asset value (£'000)	195,606	240,864	194,706
Closing number of units	13,287,531	14,150,221	14,759,785
Operating charges	1.57%	1.57%	1.59%
Direct transaction costs	0.12%	0.12%	0.13%
Prices			
Highest offer unit price (p)	1,892.03	1,825.78	1,419.01
Lowest bid unit price (p)	1,458.13	1,319.29	1,063.83

* Direct transaction costs are stated after deducting the amounts collected in relation to estimated dealing costs added to issues of units and subtracted from the cancellation of units.
** Launched 14 September 2016.
The operating charges are calculated on an ex-post basis and as such may differ from the ongoing charges figure where the ongoing charge has been annualised for a class that has not been open for a full year.

Ongoing charges

Class	31 December 2018
I distribution	0.82%
I accumulation	0.82%
R accumulation	1.57%

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

Class I performance

	Since launch *	5 years	3 years	1 year	6 months
Artemis UK Smaller Companies Fund	1,549.0	46.3	28.2	(12.7)	(17.0)
Numis Smaller Companies (ex-Inv Trust) Index	441.2	22.0	12.4	(15.3)	(14.3)
Sector average	510.2	36.4	21.3	(11.8)	(16.2)
Position in sector	2/16	19/45	12/45	24/49	28/49
Quartile	1	2	2	2	3

* Data from 3 April 1998. Source: Lipper Limited, data from 3 April 1998 to 1 September 2010 reflects class R accumulation units and from 1 September 2010 reflects class I accumulation units, bid to bid in sterling to 31 December 2018. All performance figures show total returns with dividends reinvested, percentage growth. Sector is IA UK Smaller Companies.

Class R performance

	Since launch *	5 years	3 years	1 year	6 months
Artemis UK Smaller Companies Fund	1,448.2	40.9	25.4	(13.3)	(17.3)
Numis Smaller Companies (ex-Inv Trust) Index	441.2	22.0	12.4	(15.3)	(14.3)

* Data from 3 April 1998. Source: Lipper Limited, class R accumulation units, bid to bid in sterling to 31 December 2018. All performance figures show total returns with dividends reinvested, percentage growth.

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