

# ARTEMIS European Growth *Fund*

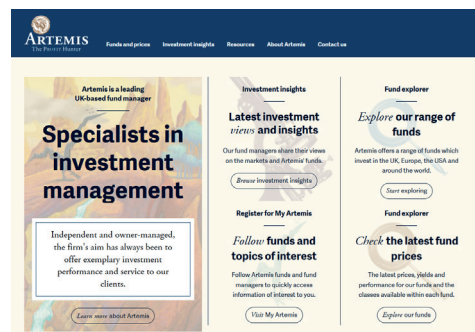
Half-Yearly Report (unaudited)  
for the six months ended  
30 September 2018



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[artemisfunds.com](https://www.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 £28.1 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 October 2018.

### Fund status

Artemis European Growth Fund was constituted by a Trust Deed dated 28 April and 4 May 2000 and is an authorised unit trust scheme under the Financial Services and Markets Act 2000. The fund belongs to the category of UCITS schemes as defined in the Collective Investment Schemes Sourcebook ('COLL') of the Financial Conduct Authority ('FCA').

### Investment objective

The objective of the fund is to achieve long-term capital growth through investment principally in companies in Europe (excluding the United Kingdom).

### Investment policy

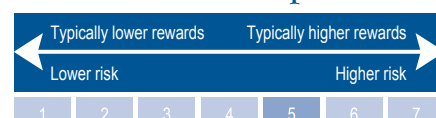
The manager actively manages the portfolio in order to achieve the objective and will not be restricted in the choice of investments either by company size or industry, or in terms of the geographical split of the portfolio.

The fund may also invest in other transferable securities, units of collective investment schemes, money market instruments, warrants, cash and near cash, derivatives and forward transactions and other investments to the extent that each is permitted by the regulations.

### Buying and selling

Units may be bought and sold by contacting the manager by telephone, at the address on page 2 or via the website [artemisfunds.com](http://artemisfunds.com). Valuation of the fund takes place each business day at 12 noon on a forward pricing basis. Investors are reminded that past performance is not a guarantee of performance in the future and that the price of units and the revenue from them can fall as well as rise.

### Risk and reward profile



■ This indicator is based on historical data and may not be a reliable indication of the future risk profile of the fund.

■ The risk category shown is not guaranteed and may change over time.

■ A risk indicator of "1" does not mean that the investment is "risk free".

■ The indicator is not a measure of the possibility of losing your investment.

The risk indicator for the fund is as above because:

■ The price of units, and the income from them, can fall and rise because of stock market and currency movements.

■ Stock market prices, currencies and interest rates can move irrationally

and can be affected unpredictably by diverse factors, including political and economic events.

■ A portion of the fund's assets may be invested in a currency other than the fund's accounting currency (sterling). The value of these assets, and the income from them, may decrease if the currency falls in relation to sterling, in which the fund is valued and priced.

### Prospectus

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

### Tax information reporting

UK tax legislation requires fund managers to provide information to HM Revenue & Customs ('HMRC') on certain investors who purchase units in unit trusts. Accordingly, the fund may have to provide information annually to HMRC on the tax residencies of those unitholders that are tax resident outwith the UK, in those countries that have signed up to the OECD's ('Organisation for Economic Co-operation and Development') Common Reporting Standard for Automatic Exchange of Financial Account Information (the 'Common Reporting Standard'), or the United States (under the Foreign Account Tax Compliance Act, 'FATCA'). All new unitholders that invest in the fund must complete a certification form as part of the application form. Existing unitholders may also be contacted by the Registrar should any extra information be needed to correctly determine their tax residence. Failure to provide this information may result in the account being reported to HMRC. For further information, please see HMRC's Quick Guide: Automatic Exchange of Information – information for account holders: [gov.uk/government/publications/exchange-of-information-account-holders](http://gov.uk/government/publications/exchange-of-information-account-holders).

## General information (continued)

### Report of the manager

We hereby approve the Half-Yearly Report of the Artemis European Growth Fund for the six months ended 30 September 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  
28 November 2018

### 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

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.

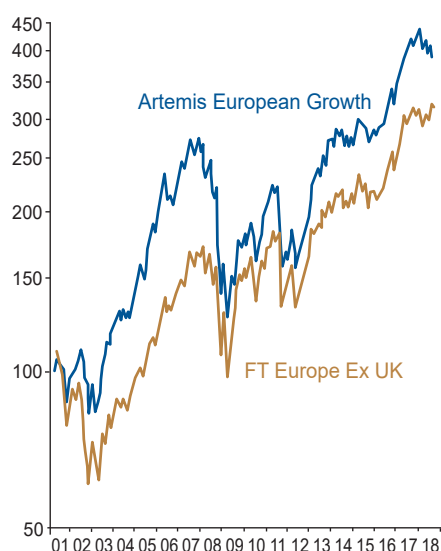
## Investment review

- The fund fell 3.5%\* versus the Index up 6.6%\*.
- Our holdings' superior growth is not (yet) reflected in their share prices.
- We stick to our proven process for selecting stocks.

### Performance – Growth does not find its reward ...

It was a poor six months for performance: the fund fell by 3.5% while the market returned 6.6%. Since its inception, the fund has returned 282.7% compared to an index return of 184.6%. We run an active fund and take very different positions from the index. Over the years, our stocks have delivered superior growth and this has been reflected in the fund's superior performance. Over the past half year, our stocks have delivered the requisite growth – but this has not been reflected in their share prices. In some ways this simply means that future returns should be higher, as our stocks' share prices catch up with their earnings. Nevertheless, it is disconcerting whenever this happens; and so in this report we review this divergence.

#### Artemis European Growth (TRE) & FT Europe ex UK



Source: Datastream

### Review and outlook – Waiting for the 'weighing machine' ...

*"In the short run, the market is a voting machine but in the long run it is a weighing machine."*

This is how Benjamin Graham, a value investor, allegedly described the stockmarket. His point is that rising share prices in the short term indicate what investors currently think will be tomorrow's winners: more votes mean higher share prices, and fewer votes mean lower share prices. Over a longer time-frame, however, it is not perceptions that count – but reality. It is the companies that deliver the best growth which ultimately end up with the strongest share prices.

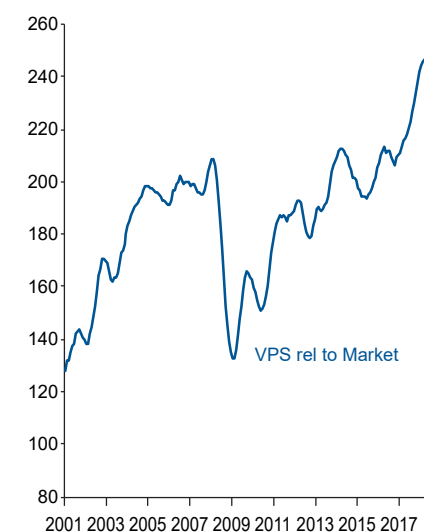
It would be delightful if share prices constantly reflected the best guess of the future profits of companies. In that way, stocks would always be 'fairly' priced. In truth, share prices move far more violently than they should in theory. Investors tend to extrapolate from small bits of information and, as a result, end up oscillating between despair and joy. These oscillations represent inefficiencies and provide an opportunity for those prepared to exploit them. That is what we attempt to do in this fund.

I believe we have developed a process for systematically separating long-term winners from losers. It is not a process that always works from one month to the next, but it has been successful over the years. We believe share price returns are a function both of current valuations and subsequent growth (in earnings). Current valuations are the easy bit – estimating future growth is the bit that everyone can argue about. Lots of people like to think of themselves as being above average at predicting the future. We are sceptical of such a skill being persistently repeatable. Instead, we argue that tomorrow's winners tend to share certain measurable characteristics. They will, for example, have a tendency to see profit forecasts being upgraded, conservative accounting practices, share buying by their directors, rising share prices – and a host of other

things. We take these characteristics and use them to rank all the stocks in the European market. This ranking helps us to build a portfolio of stocks that appear likely to be (eventual) winners.

If someone were to argue that they had above-average skill in predicting the future, it would be a good idea to verify the success (or otherwise) of their previous predictions. In our case, we think that the stocks we own have a good chance of outgrowing the market. If our system for picking stocks was no better than tossing a coin, then you would expect the profits of our companies subsequently to move in line with the market's average. But if our system does have predictive power, we ought to see the profits of our holdings rising faster than the market. The following chart illustrates how a wide range of metrics of value for our portfolio have grown, compared to the average for European companies. Among these measures are: earnings per share, cashflow per share, dividends per share, book value per share and operating profits per unit of equity + debt. Collectively, we refer to this measure as value per share (or VPS). It would appear that while we freely confess to being unable to divine the future, our system seems to be good at picking stocks whose value per share subsequently outgrows the market.

#### Relative value per share – Artemis European Growth versus FT Europe ex UK



Source: Artemis

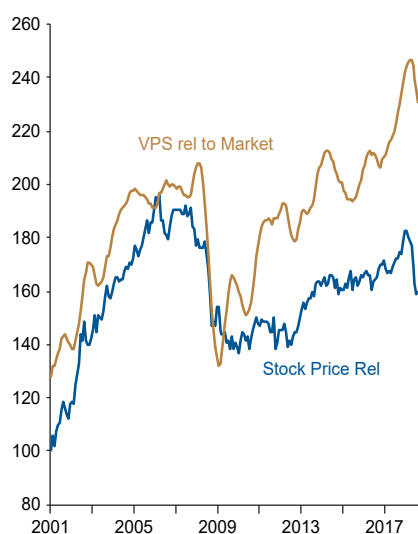
\* Source: Artemis/Lipper Limited, class I accumulation units, bid to bid basis in sterling with dividends reinvested to 30 September 2018. Benchmark is the FTSE World Europe (ex-UK) Index.

## Investment review (continued)

I have run the fund since its launch in March 2001 and our process, while evolving, is largely unchanged. Although we went through a poor period from 2007-09, growth in our holdings' value per share over time has been just over 3% more than the market. As such, we have demonstrated a skill that believers in efficient markets think could only happen by chance.

The real question, though, is whether the portfolio's performance responds to this excess growth in value per share. Below, we illustrate how the price of our portfolio of stocks performs against the index when compared to our measure of relative value per share growth.

### Gross return of fund and value per share vs FT Europe ex UK



Source: Artemis

It is clear that the two are connected. When we pick losers and the VPS line goes down, our fund's relative performance also suffers. This is what we saw in 2007-09. The rest of the time, the fund's VPS has risen, albeit erratically, and our fund has tended to do well. What is irritating is that our fund's VPS has been trending up at about 3.3% per annum, but the share price performance of our holdings has been nearer to 2.7% per annum. While this is not a huge difference, the compound effect has been enough to mean that our stocks have been getting cheaper and cheaper against

the market. So far this year, the gap has widened further and our fund's valuation versus the market is close to an all-time low.

The background to this trend has been that investors have been keen to focus on stocks whose share prices are less volatile than the market; and on growth stocks (which are bought for their long-term potential, rather than present-day earnings). In part, this is a hangover from the financial crisis and the subsequent long period of low bond yields. Lower bond yields mean investors award a premium to safety and are also keen on equities that pay out later, rather than sooner. The puzzle is that bond yields have spent most of the past year heading upwards. This should mean that our type of stocks (those that deliver their profits sooner, rather than later) ought to become more valuable. For now, however, we find ourselves in a world where our process is evidently delivering superior growth (in VPS) but the voting machine is insisting (for now) that this is irrelevant.

We thank unitholders for their continued patience. We shall politely decline to follow the crowds and continue to focus on our process, which has worked very well over the past 17 years, as we wait for the 'weighing machine' of the market to do its work.

**Philip Wolstencroft**  
Fund manager

## Investment information

### Five largest purchases and sales for the six months ended 30 September 2018

Purchases	Cost £'000	Sales	Proceeds £'000
Roche Holding	6,365	Deutsche Lufthansa	6,452
Peugeot	4,372	Fiat Chrysler Automobiles	5,817
ArcelorMittal	3,986	Renault	4,828
ACS Actividades de Construcción y Servicios	3,248	Leoni	4,473
Euronext	3,127	BE Semiconductor Industries	3,527

### Portfolio statement as at 30 September 2018

Investment	Holding	Valuation £'000	% of net assets
<b>Equities 100.13% (94.80%)</b>			
<b>Austria 2.98% (4.67%)</b>			
Raiffeisen Bank International	207,300	4,607	2.47
Wienerberger	50,000	954	0.51
		<b>5,561</b>	<b>2.98</b>
<b>Belgium 0.00% (1.19%)</b>			
<b>Denmark 0.00% (1.09%)</b>			
<b>Finland 5.33% (4.51%)</b>			
Cramo	80,000	1,365	0.73
Ramirent	275,000	1,695	0.91
Stora Enso R shares	370,000	5,386	2.88
UPM-Kymmene	50,000	1,508	0.81
		<b>9,954</b>	<b>5.33</b>
<b>France 18.60% (15.64%)</b>			
Alten	10,000	787	0.42
Arkema	64,400	6,096	3.27
Bouygues	79,200	2,617	1.40
Eiffage	60,000	5,111	2.74
Electricite de France	150,000	2,012	1.08
Faurecia	50,000	2,326	1.25
Metropole Television	31,000	475	0.25
Peugeot	210,000	4,360	2.34
Television Francaise 1	270,000	2,209	1.18
Total	55,000	2,726	1.46
Trigano	34,000	2,874	1.54
Vinci	42,960	3,115	1.67
		<b>34,708</b>	<b>18.60</b>
<b>Germany 9.13% (13.77%)</b>			
Allianz	29,000	4,971	2.66
Covestro	76,400	4,750	2.54
Deutz	370,000	2,521	1.35
RWE	40,000	750	0.40
Siltronic	8,000	756	0.41
TAG Immobilien	100,000	1,808	0.97
Vonovia	40,000	1,491	0.80
		<b>17,047</b>	<b>9.13</b>



## Investment information (continued)

Investment	Holding	Valuation £'000	% of net assets
<b>Greece 2.90% (5.00%)</b>			
Eurobank Ergasias	1,304,000	741	0.39
FF Group ^	102,300	—	—
Mytilineos Holdings	151,800	1,189	0.64
Safe Bulkers	500,000	1,081	0.58
Star Bulk Carriers	230,000	2,407	1.29
		<b>5,418</b>	<b>2.90</b>
<b>Hungary 1.26% (1.92%)</b>			
OTP Bank	85,000	2,352	1.26
		<b>2,352</b>	<b>1.26</b>
<b>Israel 1.99% (0.72%)</b>			
Mellanox Technologies	50,000	2,789	1.49
Teva Pharmaceutical Industries	55,293	930	0.50
		<b>3,719</b>	<b>1.99</b>
<b>Italy 8.65% (9.01%)</b>			
Enel	1,404,400	5,452	2.92
ENI	70,000	1,010	0.54
Iren	493,000	910	0.49
Mediobanca Banca di Credito Finanziario	310,000	2,363	1.26
Prysmian	40,000	722	0.39
Societa Iniziative Autostradali e Servizi	240,000	2,647	1.42
UniCredit	160,000	1,826	0.98
Unione di Banche Italiane	400,000	1,215	0.65
		<b>16,145</b>	<b>8.65</b>
<b>Luxembourg 2.05% (0.00%)</b>			
ArcelorMittal	160,000	3,817	2.05
		<b>3,817</b>	<b>2.05</b>
<b>Monaco 0.21% (0.00%)</b>			
Navios Maritime Partners	300,000	391	0.21
		<b>391</b>	<b>0.21</b>
<b>Netherlands 3.73% (6.30%)</b>			
Euronext	65,000	3,220	1.72
Koninklijke Ahold Delhaize	35,000	615	0.33
Royal Dutch Shell A shares	120,000	3,134	1.68
		<b>6,969</b>	<b>3.73</b>
<b>Norway 6.85% (3.47%)</b>			
BW Offshore	550,000	3,294	1.76
Elkem	450,000	1,685	0.90
Equinor	220,000	4,733	2.54
Leroy Seafood Group	100,000	627	0.34
Marine Harvest	70,000	1,240	0.66
SpareBank 1 SMN	50,000	426	0.23
TGS NOPEC Geophysical	25,000	775	0.42
		<b>12,780</b>	<b>6.85</b>
<b>Poland 0.00% (0.25%)</b>			
<b>Portugal 0.92% (0.86%)</b>			
Banco Comercial Portugues R shares	7,500,000	1,712	0.92
		<b>1,712</b>	<b>0.92</b>



Investment	Holding	Valuation £'000	% of net assets
<b>Russia 7.47% (5.38%)</b>			
Gazprom, ADR	1,500,000	5,673	3.04
Lukoil, ADR	102,124	5,929	3.18
Surgutneftegas, ADR	724,900	2,331	1.25
		<b>13,933</b>	<b>7.47</b>
<b>Spain 6.18% (2.41%)</b>			
ACS Actividades de Construcción y Servicios	100,000	3,276	1.75
CaixaBank	550,000	1,906	1.02
Ence Energia y Celulosa	490,000	3,805	2.04
Global Dominion Access	32,854	152	0.08
Liberbank	5,600,000	2,404	1.29
		<b>11,543</b>	<b>6.18</b>
<b>Sweden 11.25% (5.42%)</b>			
Dometic Group	550,000	3,759	2.01
Hexpol	59,414	506	0.27
Intrum Justitia	90,000	1,784	0.96
Sandvik	144,300	1,980	1.06
Skandinaviska Enskilda Banken A shares	250,000	2,125	1.14
SKF B shares	100,000	1,519	0.81
Swedish Orphan Biovitrum	150,000	3,365	1.80
Volvo B shares	440,400	5,967	3.20
		<b>21,005</b>	<b>11.25</b>
<b>Switzerland 6.99% (3.83%)</b>			
Credit Suisse Group	450,000	5,184	2.78
Resurs Holding	70,000	402	0.21
Roche Holding	34,000	6,350	3.40
STMicroelectronics	80,000	1,118	0.60
		<b>13,054</b>	<b>6.99</b>
<b>Turkey 3.27% (3.68%)</b>			
Eregli Demir ve Celik Fabrikalari	1,050,000	1,480	0.79
TAV Havalimanlari Holding	750,000	2,921	1.57
Turk Hava Yollari	250,000	612	0.33
Turkiye Is Bankasi C shares	906,000	513	0.27
Turkiye Vakiflar Bankasi D shares	1,179,500	576	0.31
		<b>6,102</b>	<b>3.27</b>
<b>United Kingdom 0.37% (4.20%)</b>			
OneSavings Bank	171,800	693	0.37
		<b>693</b>	<b>0.37</b>
<b>United States of America 0.00% (1.48%)</b>			
Investment assets		186,903	100.13
Net other liabilities		(251)	(0.13)
Net assets attributable to unitholders		186,652	100.00

The comparative percentage figures in brackets are as at 31 March 2018.

^ Unlisted, suspended or delisted security.

## Financial statements

### Statement of total return for the six months ended 30 September 2018

	30 September 2018		30 September 2017	
	£'000	£'000	£'000	£'000
<b>Income</b>				
Net capital (losses)/gains		(10,340)		19,734
Revenue	4,373		3,825	
Expenses	(1,213)		(1,162)	
Interest payable and similar charges	-		(4)	
Net revenue before taxation	3,160		2,659	
Taxation	(23)		(73)	
Net revenue after taxation		3,137		2,586
<b>Total return before distributions</b>		<b>(7,203)</b>		<b>22,320</b>
Distributions		(147)		(49)
Change in net assets attributable to unitholders from investment activities		(7,350)		22,271

### Statement of change in net assets attributable to unitholders for the six months ended 30 September 2018

	30 September 2018		30 September 2017	
	£'000	£'000	£'000	£'000
Opening net assets attributable to unitholders		207,613		182,628
Amounts receivable on issue of units	3,035		1,580	
Amounts payable on cancellation of units	(16,646)		(6,617)	
		(13,611)		(5,037)
Change in net assets attributable to unitholders from investment activities		(7,350)		22,271
Closing net assets attributable to unitholders		186,652		199,862

### Balance sheet as at 30 September 2018

	30 September 2018	31 March 2018
	£'000	£'000
<b>Assets</b>		
<b>Fixed assets</b>		
Investments	186,903	196,814
<b>Current assets</b>		
Debtors	2,052	2,430
Cash and bank balances	-	8,822
<b>Total current assets</b>	<b>2,052</b>	<b>11,252</b>
<b>Total assets</b>	<b>188,955</b>	<b>208,066</b>
<b>Liabilities</b>		
<b>Creditors</b>		
Bank overdraft	732	205
Other creditors	1,571	248
<b>Total creditors</b>	<b>2,303</b>	<b>453</b>
<b>Total liabilities</b>	<b>2,303</b>	<b>453</b>
Net assets attributable to unitholders	186,652	207,613

## 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 May 2014.

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2018 as set out therein.

### 2. Post balance sheet event

Since 30 September 2018, the net asset values per unit, on a bid basis, have changed as follows:

	Net asset value per unit (p)		Movement
	27 November 2018	30 September 2018	
I accumulation	321.21	363.67	(11.67)%
R accumulation	296.49	336.10	(11.79)%

## Comparative tables

### Fund sizes & net asset values

Date	Net asset value of fund (£)	Net asset value per unit (p)	Units in issue
<b>31 March 2016</b>	275,283,616		
I accumulation		267.12	74,632,780
R accumulation		251.52	30,187,065
<b>31 March 2017</b>	182,627,588		
I accumulation		336.05	30,986,086
R accumulation		314.08	24,992,934
<b>31 March 2018</b>	207,612,930		
I accumulation		376.77	33,566,694
R accumulation		349.52	23,214,985
<b>30 September 2018</b>	186,651,970		
I accumulation		363.67	31,443,539
R accumulation		336.10	21,511,708

### Ongoing charges

Class	30 September 2018
I accumulation	0.89%
R accumulation	1.64%

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 European Growth Fund	282.7	58.2	47.0	(3.8)	(3.5)
FTSE World Europe (ex UK) Index	184.6	59.1	51.6	2.0	6.6
Sector average	186.8	59.2	47.4	1.8	5.3
Position in sector	6/40	39/83	53/92	90/97	101/102
Quartile	1	2	3	4	4

\* Data from 7 March 2001. Source: Artemis/Lipper Limited, data from 7 March 2001 to 7 March 2008 reflect class R accumulation units, and from 7 March 2008 to 30 September 2018 class I accumulation units, bid to bid in sterling. All performance figures show total return with dividends reinvested percentage growth. Sector is IA Europe (ex-UK), universe of funds is those reporting net of UK taxes.

### Class R performance

	Since launch *	5 years	3 years	1 year	6 months
Artemis European Growth Fund	253.7	52.4	43.7	(4.5)	(3.8)
FTSE World Europe (ex UK) Index	184.6	59.1	51.6	2.0	6.6

\* Data from 7 March 2001. Source: Artemis/Lipper Limited, class R accumulation units, bid to bid in sterling to 30 September 2018. All performance figures show total return with dividends reinvested percentage growth.



