

# ARTEMIS Strategic Bond *Fund*

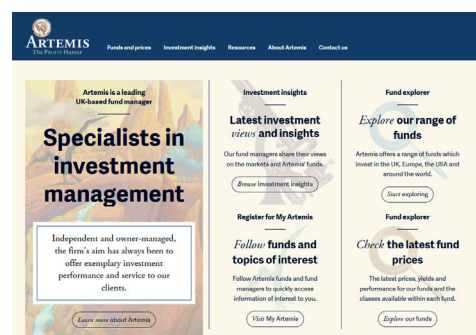
Half-Yearly Report (unaudited)  
for the six months ended  
30 September 2018



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**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 Strategic Bond Fund was constituted by a Trust Deed dated 26 May 2005 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 fund seeks to achieve a combination of income and capital growth by investing predominantly in fixed income markets.

### Investment policy

The fund aims to achieve its objective by investment predominantly in fixed income markets but may selectively invest in other markets. Equal emphasis is given to the security of capital and income although from time to time one may take prominence over the other in accordance with the strategy being pursued.

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.

■ Investments in fixed interest securities are subject to market and credit risk and will be impacted by movements in interest rates. Interest rate movements are determined by a number of economic factors, in particular market expectations of future inflation.

■ The fund may hold derivatives with the aim of profiting from falling prices. If the related assets rise in value the fund will lose money.

■ The fund can invest in higher-yielding bonds, which may increase the risk to your capital due to a higher likelihood of the company issuing the bonds failing to pay returns on investments. Changes to market conditions and interest rates can have a larger effect on the values of higher-yielding bonds than other bonds.

■ The fund holds bonds which could prove difficult to sell. As a result, the fund may have to lower the selling price, sell other investments or forego more appealing investment opportunities.

### Prospectus

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

## General information (continued)

### 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-informationaccount-holders](http://gov.uk/government/publications/exchange-of-informationaccount-holders).

### Report of the manager

We hereby approve the Half-Yearly Report of the Artemis Strategic Bond 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

Artemis Fund Managers Limited  
London  
28 November 2018

J L Berens  
Director

### Manager

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

Dealing information:  
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Chelmsford CM99 2AE  
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Website: [artemisfunds.com](http://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

- Fund's return of 0.1%\* compares with a nil return for the sector average.
- In mixed markets, stock selection has been more critical than ever.
- To protect capital, we will be using the fund's strategic flexibility more and more.

### Performance – Coming to a cusp ...

In our last report in April, we pointed out that our strategy had become a little more concentrated. We said that our positions in financials and high-yield bonds were quite high and that if sentiment turned against those areas, our performance would suffer. As it happened, high-yield bonds outperformed in the six months under review, while financial bonds just about washed their face. So broadly speaking, our strategy worked, if only in a relative sense. The mood in bond markets has been poor. Government bonds in particular had a difficult six months and that set the tone for all bond markets. So while we outperformed our peer group, we only produced a return of 0.1% over the six months. That feels disappointing, but highlights the difficult backdrop for bond markets at the moment.

We say more about the outlook below, but bond markets are probably nearing an inflection point, where some of those areas we have relied upon in the past are reaching their limits. We are not changing our strategy radically just yet, but we feel a change over the next year is likely. Just as they benefited bond markets on their way down, interest rates are gradually taking their toll as they gradually go up again.

### Review – A curate's egg ...

We start with government bonds. The backdrop is poor. The US has cut taxes, providing a fiscal stimulus at a time when the economy is already performing well. Monetary policy is

therefore having to take up the slack. Interest rates have risen consistently every quarter and there is no reason to expect this to stop for the next year or so. Bond yields, inevitably, are following the trend.

In Europe, Italy was the major story. Growth has been anaemic for many years and a populist government is aiming to placate a restless electorate grown tired of what it sees as EU-imposed austerity. Yields on Italian bonds rose sharply through the summer as a showdown between the EU and Italy brewed. When bond yields rise, Italian banks suffer and reduce their lending, which only exacerbates the problem.

Italian high-yield bonds make up 15% of the ICE BofAML Euro High Yield Index. Our exposure to them is very limited. Any holdings we did have, we sold. We do own a few investment-grade positions, Telecom Italia and Enel, for instance, but they add up to only a small percentage of the portfolio.

Yields on European government bonds have also risen, but not as markedly. The European Central Bank ('ECB') is signalling that rates are due to rise and while growth isn't sparkling and unemployment is still high, the necessity for the slackest of monetary policy with sustained quantitative easing is debatable. The ECB is indicating that it agrees.

We have been short of bunds (German government bonds) and US Treasuries. We reduced these shorts as bond yields have risen. Further, our exposure to short-dated gilts and quite high cash weightings have kept our overall duration (the sensitivity of the portfolio to rising interest rates and bond yields) very low.

Our positioning in high-yield bonds has been beneficial. Defaults have stayed low. After all, rising interest rates are a sign that economies are performing well. Defaults are therefore less likely. Moreover, we have been more focused towards the US high-yield market which has

been performing well. Similarly we have plenty of oil-related issuers, with the strong oil price helping their performance.

The poor area has been our staunch favourite: financial bonds. Some of this weakness was related to a change in perception about the likelihood of some of our perpetual bonds being called. As regulations change, UK banks are discouraged (prohibited) from issuing debt through their operating companies. This is for regulatory reasons: if the bank gets into trouble, the regulator can refinance the operating company and leave the debt in the holding company. Ultimately this is to protect consumers and their deposits, and the government from having to intervene should a bank get into trouble. This is why we envisage some of this old operating company debt will be retired.

The timetable for changes is quite long and subject to the views of the regulator and the lobbying being undertaken by the banks. But in many jurisdictions, the end of 2021 is when the new rules are to be implemented.

Forgive us some technicalities. In practice, it is not quite as simple as this, because there are lots of interpretations of the rules and variations for different jurisdictions, with lobbying adding the occasional complexity. The upshot is that HSBC has interpreted the rules in one way, suggesting that its perpetual bonds may count as capital for longer. This has made investors re-evaluate all banks' outstanding securities. In practice, we won't know what impact these new rules will have until 2021 at the earliest. The short-term consequence has been the underperformance of some of our perpetual bank bonds. However, we are confident about the broad thrust of the regulator's aims and policy and we believe that these bonds will get refinanced at some stage. Overall, we feel the yields are attractive on this basis.

\* Source: Lipper Limited, class QI accumulation units, bid to bid basis in sterling with interest reinvested to 30 September 2018. Peer group is IA Sterling Strategic Bond.

## Investment review (continued)

### Outlook – A strategic future ...

The main concern for bonds, at the moment, is the US Federal Reserve ('Fed'). By how much is it looking to raise interest rates, and over what period? We believe its statements that it intends to raise once more in 2018 and another three or four times in 2019, taking US interest rates up to around 3.5%.

There are two factors pushing the Fed to respond. First, the tax cuts in the US have given a boost to the economy. Fiscal policy is being boosted at entirely the wrong time and monetary policy is taking up the slack. Second, the Fed's focus is on wages and their inflationary consequences. Wages are creeping up. Amazon has announced that its minimum wage will be \$15 per hour. This has wider consequences beyond Amazon's employees, as workers in all other areas will look to their employers to match this. With unemployment reaching 50-year lows, the Fed is probably right that inflationary pressures are building and that higher interest rates will be necessary.

Government bond yields are likely to rise further too. But precisely how much further is debatable. Arguably, US 10-year bond yields may have travelled much of their distance. They currently yield 3.2%. Once interest rates reach 3.5% or so, expectations will rise that they have reached their peak. Bond yields will reflect that. So anticipating a flat yield curve at that point in the future doesn't seem unreasonable. This is conjecture for quite a long time in advance and needs lots of 'health warnings'. However, while we feel yields are rising, our conviction about significant further increases is starting to diminish. At the moment, we would guess a peak of 3.75% (perhaps 4% if in overshooting territory) – and this is not a million miles away from current levels.

Higher interest rates also have implications for all other markets. Emerging markets are not an area where we have been investing. Higher

interest rates make it much tougher for these economies to finance themselves. Companies based there have also financed themselves in US dollars, and will be finding themselves paying more as the dollar and US interest rates rise. We don't think emerging markets will find favour while US interest rates are rising. Therefore, we are unlikely to be increasing exposure for a while.

The fundamentals for high-yield bonds are still looking good. But there are challenges to come as markets absorb higher interest rates. Furthermore, default rates may well start to increase towards the end of 2019. The market will pre-empt this. We are letting many of our positions mature and are not looking to recycle the capital into the sector. As such, it is likely that in a year's time our exposure to high-yield bonds will be lower. Our initial sales have been in the least liquid (highest beta) more difficult areas. While liquidity is currently good (though difficult to measure accurately), we feel now is the time to be selling these positions.

Investment-grade bonds feel like the worst place to be, especially in the US, where leverage is still increasing. Companies are gearing up to pay their shareholders. Bondholders are not being rewarded for the additional risk. In Europe, spreads (the extra yield that riskier borrowers must pay relative to 'risk free' government bonds) had been forced lower by quantitative easing. This is disappearing. The exception to this rule is sterling bonds, where the uncertainty of Brexit and a potential radical left-wing Labour government mean that there is a fair discount, relative to bonds denominated in other currencies. We are not going overboard, but we do feel there is some value here.

In summary, government bonds, which have been our least favourite asset class for a while, may well be coming back into favour over the next 12 months, particularly if yields in the US go as high as 4%. Investment-grade bonds are not our favourite and we are likely to be quite selective. Within

that, though, financials will remain a core element. While high-yield bonds are still fundamentally sound, we are being more cautious and using opportunities to reduce weightings when we can. We believe this is what a strategic fund is meant to do: shifting between the different asset classes. While we won't be entirely accurate with our timings, we hope to protect capital in potentially more challenging times, maintaining our strong record.

**James Foster and Alex Ralph**  
Fund managers



## Investment information

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

Purchases	Cost £'000	Sales	Proceeds £'000
UK Treasury 0.75% 22/07/2023	79,092	UK Treasury 1.75% 22/07/2019	60,616
UK Treasury 1.50% 22/01/2021	40,563	Bulgarian Telecommunications 6.63% 15/11/2018	8,001
Tele Columbus 3.88% 02/05/2025	10,437	Investec Bank 9.63% 17/02/2022	7,048
Grainger 3.38% 24/04/2028	10,309	Unitymedia Hessen 4.63% 15/02/2026	6,777
Assura Financing, REIT 3.00% 19/07/2028	10,028	Anglian Water Osprey Financing 4.00% 08/03/2026	6,388

### Portfolio statement as at 30 September 2018

Investment	Holding or nominal value	Valuation £'000	% of net assets
<b>Equities 0.00% (0.00%)</b>			
<b>Cayman Islands 0.00% (0.00%)</b>			
NVP ^	1,301	—	—
		—	—
<b>Norway 0.00% (0.00%)</b>			
Oceanteam ^	373,558	—	—
		—	—
<b>Spain 0.00% (0.00%)</b>			
Grupo Isolux Corsan Warrant 22/12/2021 ^	3,572	—	—
		—	—
<b>Equities total</b>		—	—
<b>Government bonds 8.75% (4.96%)</b>			
<b>United Kingdom 8.75% (4.96%)</b>			
UK Treasury 1.50% 22/01/2021	£40,000,000	40,589	2.98
UK Treasury 0.75% 22/07/2023	£80,000,000	78,479	5.77
		<b>119,068</b>	<b>8.75</b>
<b>Government bonds total</b>		<b>119,068</b>	<b>8.75</b>
<b>Corporate bonds 80.27% (84.13%)</b>			
<b>Australia 1.96% (2.22%)</b>			
Australia & New Zealand Banking Group, FRN 2.67% Perpetual	\$12,100,000	6,809	0.50
BHP Billiton Finance, FRN 6.50% 22/10/2077	£9,000,000	10,130	0.75
Westpac Banking, FRN 2.74% Perpetual	\$17,200,000	9,696	0.71
		<b>26,635</b>	<b>1.96</b>
<b>Belgium 1.35% (1.37%)</b>			
KBC Group, FRN 5.63% Perpetual	€11,000,000	9,886	0.73
Nyrstar Netherlands Holdings 8.50% 15/09/2019	€10,240,000	8,430	0.62
		<b>18,316</b>	<b>1.35</b>
<b>Bermuda 0.80% (0.88%)</b>			
XLIT, FRN 3.25% 29/06/2047	€12,250,000	10,829	0.80
		<b>10,829</b>	<b>0.80</b>
<b>Bulgaria 0.00% (0.66%)</b>			
<b>Denmark 1.16% (0.68%)</b>			
Danske Bank, FRN 6.13% Perpetual	\$11,600,000	8,177	0.60
DKT Finance ApS 7.00% 17/06/2023	€8,100,000	7,675	0.56
		<b>15,852</b>	<b>1.16</b>
<b>France 5.08% (5.96%)</b>			
Altice France 7.38% 01/05/2026	\$11,000,000	8,333	0.61
Credit Agricole, FRN 6.63% Perpetual	\$6,000,000	4,641	0.34
Electricite de France, FRN 6.00% Perpetual	£13,000,000	13,290	0.98
Horizon Parent Holdings 8.25% 15/02/2022	€6,600,000	6,124	0.45
Orange, FRN 5.88% Perpetual	£9,600,000	10,318	0.76

## Investment information (continued)

Investment	Holding or nominal value	Valuation £'000	% of net assets
Societe Generale, FRN 7.38% Perpetual	\$13,500,000	10,661	0.78
Total, FRN 3.88% Perpetual	€5,700,000	5,474	0.40
Vallourec 6.63% 15/10/2022	€11,000,000	10,311	0.76
		<b>69,152</b>	<b>5.08</b>
<b>Germany 4.10% (5.89%)</b>			
Bayer, FRN 2.38% 02/04/2075	€10,300,000	8,992	0.66
Deutsche Pfandbriefbank, FRN 5.75% Perpetual	€5,600,000	4,814	0.35
EnBW Energie Baden-Wuerttemberg, FRN 3.38% 05/04/2077	€10,000,000	9,341	0.69
Kirk Beauty One 8.75% 15/07/2023	€7,563,000	3,626	0.27
Raffinerie Heide 6.38% 01/12/2022	€9,400,000	8,027	0.59
RWE, FRN 7.00% Perpetual	£11,100,000	11,295	0.83
Tele Columbus 3.88% 02/05/2025	€11,900,000	9,625	0.71
		<b>55,720</b>	<b>4.10</b>
<b>Ghana 0.89% (0.70%)</b>			
Tullow Oil 7.00% 01/03/2025	\$16,125,000	12,070	0.89
		<b>12,070</b>	<b>0.89</b>
<b>Ireland 2.43% (2.84%)</b>			
Allied Irish Banks, FRN 7.38% Perpetual	€6,750,000	6,541	0.48
Bank of Ireland Group, FRN 4.12% 19/09/2027	\$15,000,000	10,891	0.80
eircom Finance DAC 4.50% 31/05/2022	€5,000,000	4,534	0.34
Lambay Capital Securities 6.25% Perpetual §	£12,000,000	—	—
National Asset Management 5.26% 01/03/2020	€12,000,000	11,059	0.81
		<b>33,025</b>	<b>2.43</b>
<b>Italy 2.15% (3.45%)</b>			
Assicurazioni Generali, FRN 6.42% Perpetual	£6,500,000	6,689	0.49
Enel, FRN 6.62% 15/09/2076	£9,400,000	10,164	0.75
Guala Closures, FRN 0.00% 15/04/2024	€1,400,000	1,250	0.09
Intesa Sanpaolo, FRN 7.75% Perpetual	€4,900,000	4,663	0.34
Telecom Italia 3.63% 25/05/2026	€7,000,000	6,482	0.48
		<b>29,248</b>	<b>2.15</b>
<b>Jersey 0.63% (0.65%)</b>			
LHC3 4.12% 15/08/2024	€9,700,000	8,592	0.63
		<b>8,592</b>	<b>0.63</b>
<b>Luxembourg 2.91% (2.36%)</b>			
Altice Luxembourg 7.75% 15/05/2022	\$8,200,000	6,073	0.44
ARD Finance 6.63% 15/09/2023	€7,600,000	6,948	0.51
DEA Finance 7.50% 15/10/2022	€6,400,000	6,076	0.45
Eurofins Scientific, FRN 3.25% Perpetual	€14,000,000	11,799	0.87
Safari Verwaltungs 5.38% 30/11/2022	€9,600,000	8,671	0.64
		<b>39,567</b>	<b>2.91</b>
<b>Mexico 0.73% (0.83%)</b>			
America Movil, FRN 6.37% 06/09/2073	£9,300,000	9,881	0.73
		<b>9,881</b>	<b>0.73</b>
<b>Netherlands 4.42% (4.72%)</b>			
Cooperatieve Rabobank 4.63% 23/05/2029	£9,350,000	10,226	0.75
ING Bank, FRN 4.12% 21/11/2023	\$15,300,000	11,739	0.86
Koninklijke KPN, FRN 7.00% 28/03/2073	\$12,100,000	9,864	0.73
Lincoln Finance 6.88% 15/04/2021	€5,200,000	4,781	0.35
NN Group, FRN 4.38% Perpetual	€11,000,000	10,291	0.76
VIVAT, FRN 6.25% Perpetual	\$17,000,000	13,186	0.97
		<b>60,087</b>	<b>4.42</b>



Investment	Holding or nominal value	Valuation £'000	% of net assets
<b>Norway 0.45% (0.36%)</b>			
Petroleum Geo-Services 7.38% 15/12/2020	\$7,900,000	6,078	0.45
		<b>6,078</b>	<b>0.45</b>
<b>Russia 0.80% (0.93%)</b>			
Gazprom 4.25% 06/04/2024	£11,000,000	10,958	0.80
		<b>10,958</b>	<b>0.80</b>
<b>South Africa 0.15% (0.18%)</b>			
Investec, FRN 6.75% Perpetual	£2,100,000	2,097	0.15
		<b>2,097</b>	<b>0.15</b>
<b>Spain 1.78% (1.64%)</b>			
Banco Santander, FRN 6.25% Perpetual	€8,000,000	7,386	0.54
eDreams ODIGEO 5.50% 01/09/2023	€8,500,000	7,574	0.56
Gas Natural Fenosa Finance, FRN 4.13% Perpetual	€10,000,000	9,318	0.68
		<b>24,278</b>	<b>1.78</b>
<b>Sweden 1.20% (0.85%)</b>			
Svenska Handelsbanken, FRN 5.25% Perpetual	\$8,000,000	6,035	0.44
Vattenfall, FRN 3.04% 19/03/2077	€11,900,000	10,328	0.76
		<b>16,363</b>	<b>1.20</b>
<b>Switzerland 3.02% (2.85%)</b>			
Credit Suisse Group, FRN 6.25% Perpetual	\$16,400,000	12,398	0.91
Kongsberg Actuation Systems 5.00% 15/07/2025	€5,700,000	5,028	0.37
Swiss Re, FRN 5.75% 15/08/2050	\$16,000,000	12,397	0.91
Zurich Insurance, FRN 4.25% 01/10/2045	\$15,500,000	11,265	0.83
		<b>41,088</b>	<b>3.02</b>
<b>United Arab Emirates 1.13% (1.02%)</b>			
Shelf Drilling Holdings 8.25% 15/02/2025	\$10,586,000	8,306	0.61
Topaz Marine 9.13% 26/07/2022	\$9,000,000	7,073	0.52
		<b>15,379</b>	<b>1.13</b>
<b>United Kingdom 35.69% (35.85%)</b>			
Ardonagh Midco 3 8.38% 15/07/2023	£6,550,000	6,347	0.47
Arqiva Broadcast Finance 6.75% 30/09/2023	£1,900,000	1,945	0.14
Assura Financing, REIT 3.00% 19/07/2028	£10,000,000	9,992	0.74
Aviva, FRN 3.38% 04/12/2045	€10,700,000	9,579	0.70
Bank of Scotland, FRN 7.28% Perpetual	£5,000,000	5,783	0.43
BUPA Finance 5.00% 08/12/2026	£10,150,000	10,907	0.80
Burford Capital 6.13% 26/10/2024	£4,000,000	4,329	0.32
Cabot Financial Luxembourg 7.50% 01/10/2023	£9,000,000	8,786	0.65
Cattles 7.13% 05/07/2017 §	£3,700,000	–	–
Centrica, FRN 5.25% 10/04/2075	£4,800,000	5,001	0.37
Co-operative Group Holdings 2011, STEP 6.88% 08/07/2020	£8,640,000	9,220	0.68
CPUK Finance 4.25% 28/02/2047	£8,700,000	8,698	0.64
Direct Line Insurance Group, FRN 4.75% Perpetual	£10,800,000	9,169	0.67
Drax Finco 4.25% 01/05/2022	£9,200,000	9,381	0.69
EnQuest, FRN 7.00% 15/10/2023	\$14,582,787	10,698	0.79
Fidelity International 7.13% 13/02/2024	£8,100,000	9,740	0.72
Galaxy Bidco, FRN 5.30% 15/11/2020	£7,400,000	7,301	0.54
GKN Holdings 5.38% 19/09/2022	£5,600,000	6,045	0.44
Grainger 3.38% 24/04/2028	£10,300,000	10,157	0.75
HBOS Sterling Finance Jersey, FRN 7.88% Perpetual	£6,600,000	9,434	0.69
Heathrow Finance 3.88% 01/03/2027	£11,000,000	10,441	0.77
Hiscox, FRN 6.12% 24/11/2045	£9,000,000	9,574	0.70
HSBC Bank, FRN 2.81% Perpetual	\$19,600,000	11,479	0.84

## Investment information (continued)

Investment	Holding or nominal value	Valuation £'000	% of net assets
Iceland Bondco 6.75% 15/07/2024	£7,743,000	8,038	0.59
InterContinental Hotels Group 3.75% 14/08/2025	£8,300,000	8,748	0.64
Intermediate Capital Group 5.00% 24/03/2023	£5,281,000	5,500	0.40
Investec Bank, FRN 4.25% 24/07/2028	£6,700,000	6,567	0.48
Ithaca Energy 8.13% 01/07/2019	\$11,400,000	8,699	0.64
KCA Deutag UK Finance 9.88% 01/04/2022	\$13,000,000	9,839	0.72
Kelda Finance No. 3 5.75% 17/02/2020	£10,350,000	10,645	0.78
Legal & General Group, FRN 5.38% 27/10/2045	£10,500,000	11,125	0.82
Liverpool Victoria Friendly Society, FRN 6.50% 22/05/2043	£7,800,000	8,428	0.62
Matalan Finance 6.75% 31/01/2023	£4,514,000	3,987	0.29
Miller Homes Group Holdings, FRN 5.99% 15/10/2023	£8,100,000	8,148	0.60
Mizzen Bondco 7.00% 01/05/2021	£8,131,889	8,251	0.61
Nationwide Building Society, FRN 6.88% Perpetual	£11,500,000	11,706	0.86
Neptune Energy Bondco 6.63% 15/05/2025	\$12,000,000	9,135	0.67
NGG Finance, FRN 5.63% 18/06/2073	£12,000,000	13,130	0.97
NWEN Finance 5.88% 21/06/2021	£8,900,000	9,446	0.69
Pennon Group, FRN 2.87% Perpetual	£11,233,000	11,233	0.83
Phoenix Group Holdings 4.13% 20/07/2022	£11,200,000	11,287	0.83
Provident Financial 7.00% 04/06/2023	£5,600,000	5,699	0.42
Prudential, FRN 0.00% 20/10/2048	\$5,200,000	4,029	0.30
Quilter, FRN 4.48% 28/02/2028	£9,000,000	8,979	0.66
RAC Bond 5.00% 06/05/2046	£9,600,000	9,028	0.66
Rothsay Life 8.00% 30/10/2025	£8,100,000	9,717	0.71
Royal Bank of Scotland Group, FRN 7.65% Perpetual	\$9,089,000	8,697	0.64
RSA Insurance Group, FRN 5.13% 10/10/2045	£9,500,000	9,998	0.74
Society of Lloyd's 4.75% 30/10/2024	£8,100,000	8,543	0.63
Stonegate Pub Co. Financing 4.88% 15/03/2022	£6,400,000	6,310	0.46
TalkTalk Telecom Group 5.38% 15/01/2022	£8,000,000	7,992	0.59
Tesco 6.15% 15/11/2037	\$14,500,000	11,604	0.85
Thomas Cook Group 6.25% 15/06/2022	€9,000,000	8,284	0.61
Virgin Media Secured Finance 5.13% 15/01/2025	£6,435,000	6,582	0.48
Viridian Group FinanceCo 4.75% 15/09/2024	£8,600,000	8,343	0.61
Voyage Care BondCo 5.88% 01/05/2023	£8,800,000	8,612	0.63
Whitbread Group 3.38% 16/10/2025	£10,600,000	10,772	0.79
William Hill 4.88% 07/09/2023	£4,200,000	4,430	0.33
		<b>485,537</b>	<b>35.69</b>
<b>United States of America 7.44% (7.24%)</b>			
Alliance Data Systems 5.25% 15/11/2023	€10,900,000	9,990	0.73
AMC Entertainment Holdings 6.38% 15/11/2024	£8,300,000	8,431	0.62
Burford Capital 5.00% 01/12/2026	£3,700,000	3,797	0.28
Burford Capital Finance 6.13% 12/08/2025	\$3,900,000	3,020	0.22
BWAY Holding 4.75% 15/04/2024	€8,050,000	7,322	0.54
Continental Resources 4.50% 15/04/2023	\$13,200,000	10,269	0.76
Financial & Risk US Holdings 4.50% 15/05/2026	€7,500,000	6,591	0.48
Infor US 5.75% 15/05/2022	€5,850,000	5,302	0.39
Ingles Markets 5.75% 15/06/2023	\$10,450,000	8,091	0.60
LKQ European Holdings 3.63% 01/04/2026	€7,700,000	6,938	0.51
PSPC Escrow 6.00% 01/02/2023	€8,500,000	7,902	0.58
Scientific Games International 5.00% 15/10/2025	\$9,000,000	6,530	0.48
Seagate HDD Cayman 4.75% 01/01/2025	\$6,278,000	4,603	0.34
USB Realty, FRN 3.49% Perpetual	\$18,000,000	12,387	0.91
		<b>101,173</b>	<b>7.44</b>

Investment	Holding or nominal value	Global exposure* £'000	Valuation £'000	% of net assets
<b>Corporate bonds total</b>			<b>1,091,925</b>	<b>80.27</b>
<b>Forward currency contracts 0.45% (0.57%)</b>				
Buy Sterling 303,079,595 dated 10/12/2018			303,080	22.28
Sell Euro 335,960,000 dated 10/12/2018			(299,070)	(21.98)
Buy Sterling 198,031,948 dated 10/12/2018			198,032	14.56
Sell US Dollar 256,420,000 dated 10/12/2018			(195,962)	(14.41)
<b>Forward currency contracts total</b>			<b>6,080</b>	<b>0.45</b>
<b>Futures 0.03% ((0.07)%)</b>				
Euro-Bund 06/12/2018	(200)	(28,243)	240	0.02
US 10 Year Note 19/12/2018	(200)	(18,238)	204	0.01
<b>Futures total</b>		<b>(46,481)</b>	<b>444</b>	<b>0.03</b>
Investment assets			1,217,517	89.50
Net other assets			142,878	10.50
<b>Net assets attributable to unitholders</b>			<b>1,360,395</b>	<b>100.00</b>

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

^ Unlisted, suspended or delisted security.

§ Security is currently in default.

\* Global exposure has been calculated in line with the guidelines issued by the European Securities and Markets Authority ('ESMA') and represents the market value of an equivalent position in the underlying investment of each derivative contract. For all other asset types the percentage of net assets has been calculated based on the valuation of each holding.

Bond rating	30 September 2018		31 March 2018	
	Valuation £'000	% of net assets	Valuation £'000	% of net assets
Investment grade securities <sup>†</sup>	479,944	35.30	294,875	24.07
Below investment grade securities	666,105	48.95	732,487	59.79
Unrated securities	64,944	4.77	64,023	5.23
<b>Debt securities total</b>	<b>1,210,993</b>	<b>89.02</b>	<b>1,091,385</b>	<b>89.09</b>

<sup>†</sup> Source Artemis. Investment grade refers to a company's credit rating. A rating of 'BBB' or higher is considered to be investment grade.

## 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		(25,964)		16,019
Revenue	30,151		23,865	
Expenses	(4,291)		(3,729)	
Interest payable and similar charges	(223)		(7)	
Net revenue before taxation	25,637		20,129	
Taxation	-		-	
Net revenue after taxation		25,637		20,129
<b>Total return before distributions</b>		<b>(327)</b>		<b>36,148</b>
Distributions		(25,643)		(20,168)
Change in net assets attributable to unitholders from investment activities		(25,970)		15,980

### 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		1,224,964		1,020,521
Amounts receivable on issue of units	178,223		144,108	
Amounts payable on cancellation of units	(32,256)		(27,785)	
		145,967		116,323
Change in net assets attributable to unitholders from investment activities		(25,970)		15,980
Retained distributions on accumulation units		15,434		11,503
Closing net assets attributable to unitholders		1,360,395		1,164,327

### Balance sheet as at 30 September 2018

	30 September 2018	31 March 2018
	£'000	£'000
<b>Assets</b>		
<b>Fixed assets</b>		
Investments	1,217,517	1,098,315
<b>Current assets</b>		
Debtors	22,994	22,575
Cash and bank balances	145,243	122,896
<b>Total current assets</b>	<b>168,237</b>	<b>145,471</b>
<b>Total assets</b>	<b>1,385,754</b>	<b>1,243,786</b>
<b>Liabilities</b>		
Investment liabilities	-	858
<b>Creditors</b>		
Bank overdraft	7,204	8,090
Distribution payable	2,342	2,327
Other creditors	15,813	7,547
<b>Total creditors</b>	<b>25,359</b>	<b>17,964</b>
<b>Total liabilities</b>	<b>25,359</b>	<b>18,822</b>
Net assets attributable to unitholders	1,360,395	1,224,964

## 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 UK 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 events

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	
MI distribution *	54.66	55.85	(2.1)%
MI accumulation	64.89	66.07	(1.8)%
QI distribution	82.41	83.90	(1.8)%
QI accumulation	97.60	99.37	(1.8)%
MR distribution *	54.54	55.75	(2.2)%
MR accumulation	93.40	95.17	(1.9)%
QR distribution	54.66	55.69	(1.8)%
QR accumulation	93.57	95.34	(1.9)%

\* The monthly distributions declared on 31 October 2018 of 0.1988p (class MI distribution) and 0.2955p (class MR distribution) have been included in the calculation of the movement in the net asset value per unit.

## Distribution tables

### Interim interest distribution for the month ended 30 April 2018 (paid on 31 May 2018) in pence per unit.

Group 1 - Units purchased prior to 1 April 2018.

Group 2 - Units purchased from 1 April 2018 to 30 April 2018.

	Gross revenue per unit (p)	Equalisation per unit (p)	Distribution per unit (p) 31 May 2018	Distribution per unit (p) 31 May 2017
<b>MI distribution</b>				
Group 1	0.2076	-	0.2076	0.1376
Group 2	0.0949	0.1127	0.2076	0.1376
<b>MI accumulation</b>				
Group 1	0.2406	-	0.2406	0.1535
Group 2	0.1035	0.1371	0.2406	0.1535
<b>MR distribution</b>				
Group 1	0.1822	-	0.1822	0.1154
Group 2	0.1288	0.0534	0.1822	0.1154
<b>MR accumulation</b>				
Group 1	0.3052	-	0.3052	0.1872
Group 2	0.1544	0.1508	0.3052	0.1872

### Interim interest distribution for the month ended 31 May 2018 (paid on 29 June 2018) in pence per unit.

Group 1 - Units purchased prior to 1 May 2018.

Group 2 - Units purchased from 1 May 2018 to 31 May 2018.

	Gross revenue per unit (p)	Equalisation per unit (p)	Distribution per unit (p) 29 June 2018	Distribution per unit (p) 30 June 2017
<b>MI distribution</b>				
Group 1	0.1916	-	0.1916	0.2122
Group 2	0.0916	0.1000	0.1916	0.2122
<b>MI accumulation</b>				
Group 1	0.2230	-	0.2230	0.2375
Group 2	0.0913	0.1317	0.2230	0.2375
<b>MR distribution</b>				
Group 1	0.1674	-	0.1674	0.1859
Group 2	0.0286	0.1388	0.1674	0.1859
<b>MR accumulation</b>				
Group 1	0.2809	-	0.2809	0.3018
Group 2	0.1684	0.1125	0.2809	0.3018

### Interim interest distribution for the month ended 30 June 2018 (paid on 31 July 2018) in pence per unit.

Group 1 - Units purchased prior to 1 June 2018.

Group 2 - Units purchased from 1 June 2018 to 30 June 2018.

	Gross revenue per unit (p)	Equalisation per unit (p)	Distribution per unit (p) 31 July 2018	Distribution per unit (p) 31 July 2017
<b>MI distribution</b>				
Group 1	0.1828	-	0.1828	0.1849
Group 2	0.0922	0.0906	0.1828	0.1849
<b>MI accumulation</b>				
Group 1	0.2134	-	0.2134	0.2076
Group 2	0.0941	0.1193	0.2134	0.2076
<b>MR distribution</b>				
Group 1	0.1599	-	0.1599	0.1607
Group 2	0.0778	0.0821	0.1599	0.1607
<b>MR accumulation</b>				
Group 1	0.2700	-	0.2700	0.2623
Group 2	0.1240	0.1460	0.2700	0.2623



**Interim interest distribution for the quarter ended 30 June 2018 (paid on 31 July 2018) in pence per unit.**

Group 1 - Units purchased prior to 1 April 2018.

Group 2 - Units purchased from 1 April 2018 to 30 June 2018.

	Gross revenue per unit (p)	Equalisation per unit (p)	Distribution per unit (p) 31 July 2018	Distribution per unit (p) 31 July 2017
<b>Q1 distribution</b>				
Group 1	0.8781	-	0.8781	0.8060
Group 2	0.4599	0.4182	0.8781	0.8060
<b>Q1 accumulation</b>				
Group 1	1.0180	-	1.0180	0.9003
Group 2	0.4510	0.5670	1.0180	0.9003
<b>QR distribution</b>				
Group 1	0.5103	-	0.5103	0.4628
Group 2	0.2445	0.2658	0.5103	0.4628
<b>QR accumulation</b>				
Group 1	0.8579	-	0.8579	0.7529
Group 2	0.4045	0.4534	0.8579	0.7529

**Interim interest distribution for the month ended 31 July 2018 (paid on 31 August 2018) in pence per unit.**

Group 1 - Units purchased prior to 1 July 2018.

Group 2 - Units purchased from 1 July 2018 to 31 July 2018.

	Gross revenue per unit (p)	Equalisation per unit (p)	Distribution per unit (p) 31 August 2018	Distribution per unit (p) 31 August 2017
<b>MI distribution</b>				
Group 1	0.1965	-	0.1965	0.1729
Group 2	0.0893	0.1072	0.1965	0.1729
<b>MI accumulation</b>				
Group 1	0.2301	-	0.2301	0.1948
Group 2	0.1084	0.1217	0.2301	0.1948
<b>MR distribution</b>				
Group 1	0.1715	-	0.1715	0.1481
Group 2	0.0634	0.1081	0.1715	0.1481
<b>MR accumulation</b>				
Group 1	0.2900	-	0.2900	0.2422
Group 2	0.1338	0.1562	0.2900	0.2422

**Interim interest distribution for the month ended 31 August 2018 (paid on 28 September 2018) in pence per unit.**

Group 1 - Units purchased prior to 1 August 2018.

Group 2 - Units purchased from 1 August 2018 to 31 August 2018.

	Gross revenue per unit (p)	Equalisation per unit (p)	Distribution per unit (p) 28 September 2018	Distribution per unit (p) 29 September 2017
<b>MI distribution</b>				
Group 1	0.1945	-	0.1945	0.2144
Group 2	0.0875	0.1070	0.1945	0.2144
<b>MI accumulation</b>				
Group 1	0.2285	-	0.2285	0.2422
Group 2	0.0987	0.1298	0.2285	0.2422
<b>MR distribution</b>				
Group 1	0.1701	-	0.1701	0.1894
Group 2	0.0715	0.0986	0.1701	0.1894
<b>MR accumulation</b>				
Group 1	0.2887	-	0.2887	0.3106
Group 2	0.1725	0.1162	0.2887	0.3106

## Distribution tables (continued)

### Interim interest distribution for the month ended 30 September 2018 (paid on 31 October 2018) in pence per unit.

Group 1 - Units purchased prior to 1 September 2018.

Group 2 - Units purchased from 1 September 2018 to 30 September 2018.

	Gross revenue per unit (p)	Equalisation per unit (p)	Distribution per unit (p) 31 October 2018	Distribution per unit (p) 31 October 2017
MI distribution				
Group 1	0.1671	-	0.1671	0.1583
Group 2	0.0732	0.0939	0.1671	0.1583
MI accumulation				
Group 1	0.1971	-	0.1971	0.1796
Group 2	0.0865	0.1106	0.1971	0.1796
MR distribution				
Group 1	0.1452	-	0.1452	0.1351
Group 2	0.0785	0.0667	0.1452	0.1351
MR accumulation				
Group 1	0.2471	-	0.2471	0.2222
Group 2	0.1144	0.1327	0.2471	0.2222

### Interim interest distribution for the quarter ended 30 September 2018 (paid on 31 October 2018) in pence per unit.

Group 1 - Units purchased prior to 1 July 2018.

Group 2 - Units purchased from 1 July 2018 to 30 September 2018.

	Gross revenue per unit (p)	Equalisation per unit (p)	Distribution per unit (p) 31 October 2018	Distribution per unit (p) 31 October 2017
Q1 distribution				
Group 1	0.8411	-	0.8411	0.8226
Group 2	0.4202	0.4209	0.8411	0.8226
Q1 accumulation				
Group 1	0.9860	-	0.9860	0.9272
Group 2	0.4243	0.5617	0.9860	0.9272
QR distribution				
Group 1	0.4876	-	0.4876	0.4732
Group 2	0.2192	0.2684	0.4876	0.4732
QR accumulation				
Group 1	0.8274	-	0.8274	0.7765
Group 2	0.4112	0.4162	0.8274	0.7765

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

### 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>	860,709,932		
MI distribution		53.33	497,633,466
MI accumulation		57.44	49,609,273
QI distribution		80.13	55,514,499
QI accumulation		86.31	335,767,947
MR distribution		53.23	97,807,146
MR accumulation		83.72	51,196,498
QR distribution		53.18	25,200,990
QR accumulation		83.81	148,206,200
<b>31 March 2017</b>	1,020,521,464		
MI distribution		56.50	560,554,877
MI accumulation		63.07	82,855,505
QI distribution		84.91	69,617,581
QI accumulation		94.87	386,361,746
MR distribution		56.40	101,681,078
MR accumulation		91.54	45,900,443
QR distribution		56.35	19,732,519
QR accumulation		91.71	125,817,970
<b>31 March 2018</b>	1,224,964,454		
MI distribution		56.92	619,657,633
MI accumulation		65.99	155,312,303
QI distribution		85.53	96,003,305
QI accumulation		99.26	470,329,222
MR distribution		56.82	108,339,252
MR accumulation		95.30	40,326,277
QR distribution		56.77	16,641,615
QR accumulation		95.47	116,613,200
<b>30 September 2018</b>	1,360,394,943		
MI distribution		55.85	685,707,944
MI accumulation		66.07	211,872,617
QI distribution		83.90	112,227,716
QI accumulation		99.37	514,139,050
MR distribution		55.75	119,763,073
MR accumulation		95.17	39,627,406
QR distribution		55.69	16,137,679
QR accumulation		95.34	124,727,309

### Ongoing charges

Class	30 September 2018
MI distribution	0.56%
MI accumulation	0.56%
QI distribution	0.56%
QI accumulation	0.56%
MR distribution	1.06%
MR accumulation	1.06%
QR distribution	1.06%
QR accumulation	1.06%

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 Strategic Bond Fund	98.8	26.9	17.3	1.1	0.1
Sector average	69.2	19.3	11.3	0.0	0.0
Position in sector	4/28	9/62	7/65	13/72	27/72
Quartile	1	1	1	1	2

\* Data from 30 June 2005. Source: Lipper Limited, data from 30 June 2005 to 7 March 2008 reflects class QR accumulation units and from 7 March 2008 to 30 September 2018 reflects class QI accumulation units, bid to bid in sterling. All figures show total returns with net interest reinvested, percentage growth. Sector is IA Sterling Strategic Bond.

### Class R performance

	Since launch *	5 years	3 years	1 year	6 months
Artemis Strategic Bond Fund	90.7	24.0	15.7	0.6	(0.1)

\* Data from 30 June 2005. Source: Lipper Limited, class QR accumulation units, bid to bid in sterling to 30 September 2018. All figures show total returns with net interest reinvested, percentage growth.

