



Artemis UK Select Fund

Ed Legget & Ambrose Faulks

Select Conference, June 2018



Agenda



Artemis UK Select Fund



UK Market Outlook

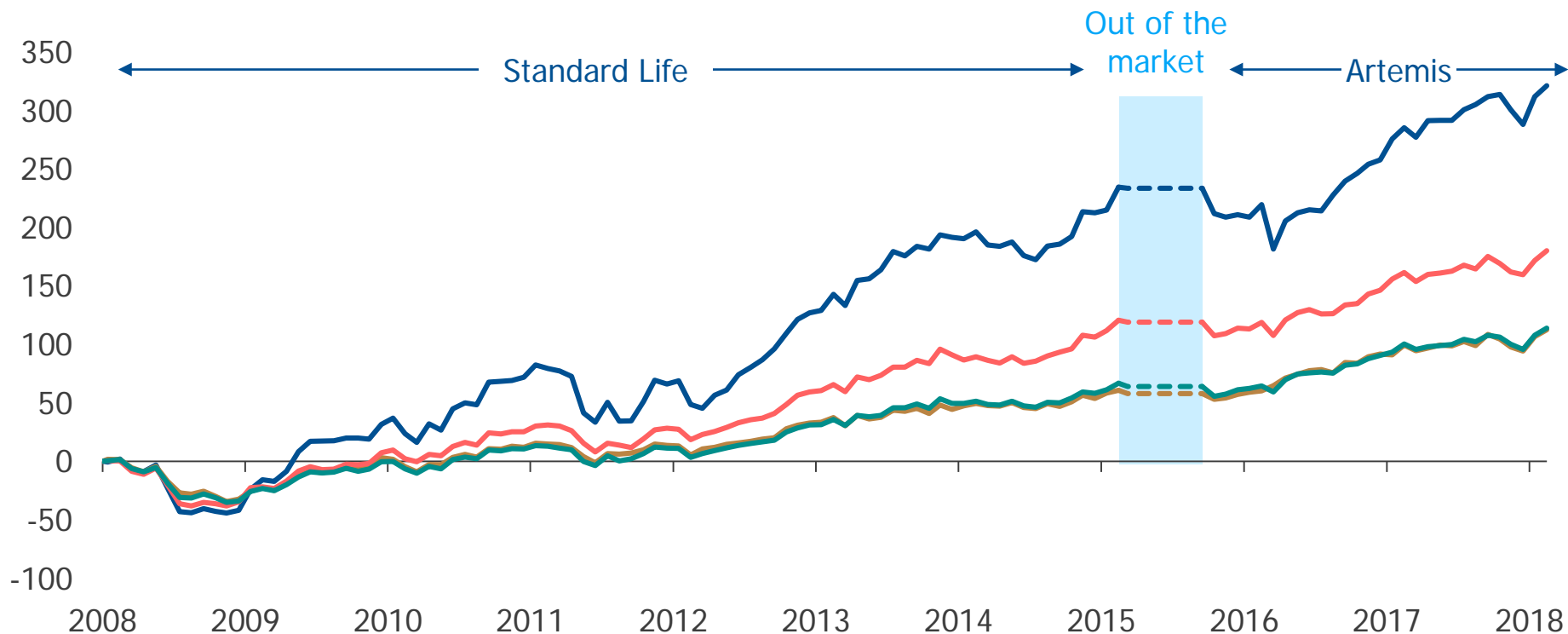


Current positioning



Conclusion

Ed Legget's track record



Ed Legget Track record FTSE All-Share TR IA UK All Companies TR FTSE 250 TR

Source: Lipper Limited as at 31 May 2018. From April 2008 to June 2015 the performance is from Standard Life in GBP. From December 2015 the performance is from the Artemis UK Select Fund in Sterling. All funds shown were managed by Ed Legget and base share classes are used. Dotted lines represent the 6 month period in which Ed Legget was not managing funds.

Artemis UK Select Fund

Summary

- Concentrated multi-cap 'best ideas' UK equity fund targeting long-term capital growth
 - Actively seeking to generate alpha in all market conditions
 - Free of market cap bias
 - Limited shorting capability offers potential for better risk adjusted returns

Portfolio guidelines

- Typical number of positions: 40-50 long, 3-10 short
- Benchmark: FTSE All-Share
- Cash typically: 2-5%
- Position limits – 5% absolute at initiation long, 2.5% absolute limit on short
- Average holding period: Long >12 months, Short <12 months
- Short book – max of 10% of the fund's net asset value



Investment philosophy

Change in company expectations drives share prices

The share price of a company

=

Earnings (£m) /
number of shares

x

Multiple market is willing
to pay for them (PE ratio)

Change in earnings
estimates

Change in
sentiment

Analysis

Judgement

UK market outlook 2018

Top down – likely to continue to dominate

- Main themes
 - Global growth improving – bringing a return to conventional monetary policy
 - UK – Brexit/political risk remains elevated
 - Commodities

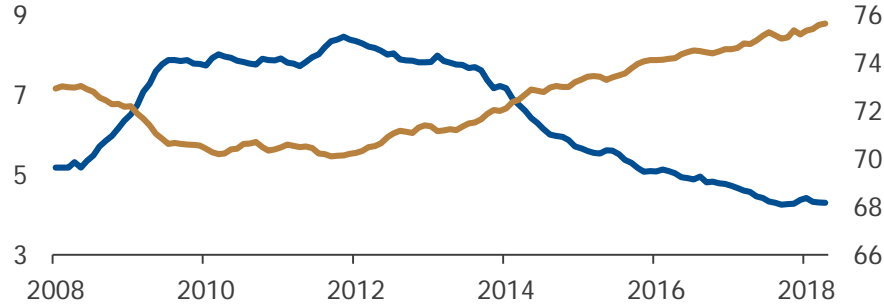
Bottom up

- Main themes
 - Relative valuation
 - Equities remain cheap vs other asset classes
 - UK equities cheap within global equities
 - UK domestic focused equities even cheaper
 - Absolute valuation – ok versus history
 - UK earnings – momentum improving
 - Dispersion – sharp divergence between stocks and sector performance

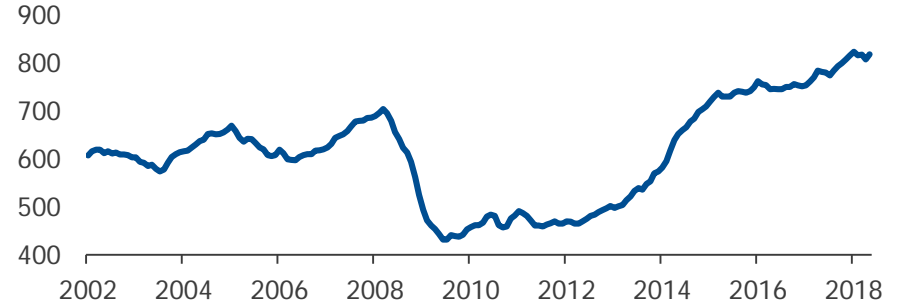
UK macro outlook

UK consumer – past the point of maximum pessimism?

Employment rate (RHS) and unemployment rate (LHS) (%)



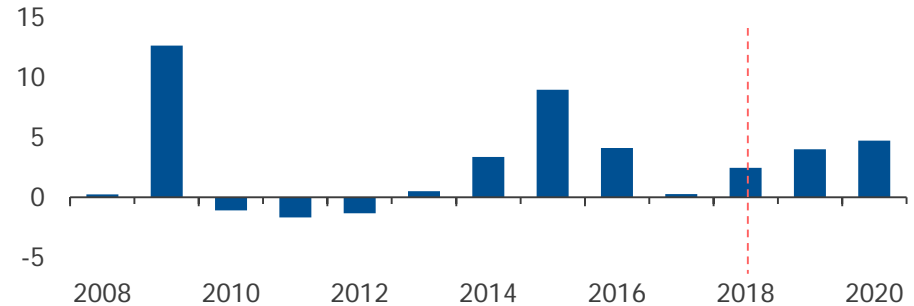
Job Vacancies (000)



Consumer price inflation (% change on previous year)



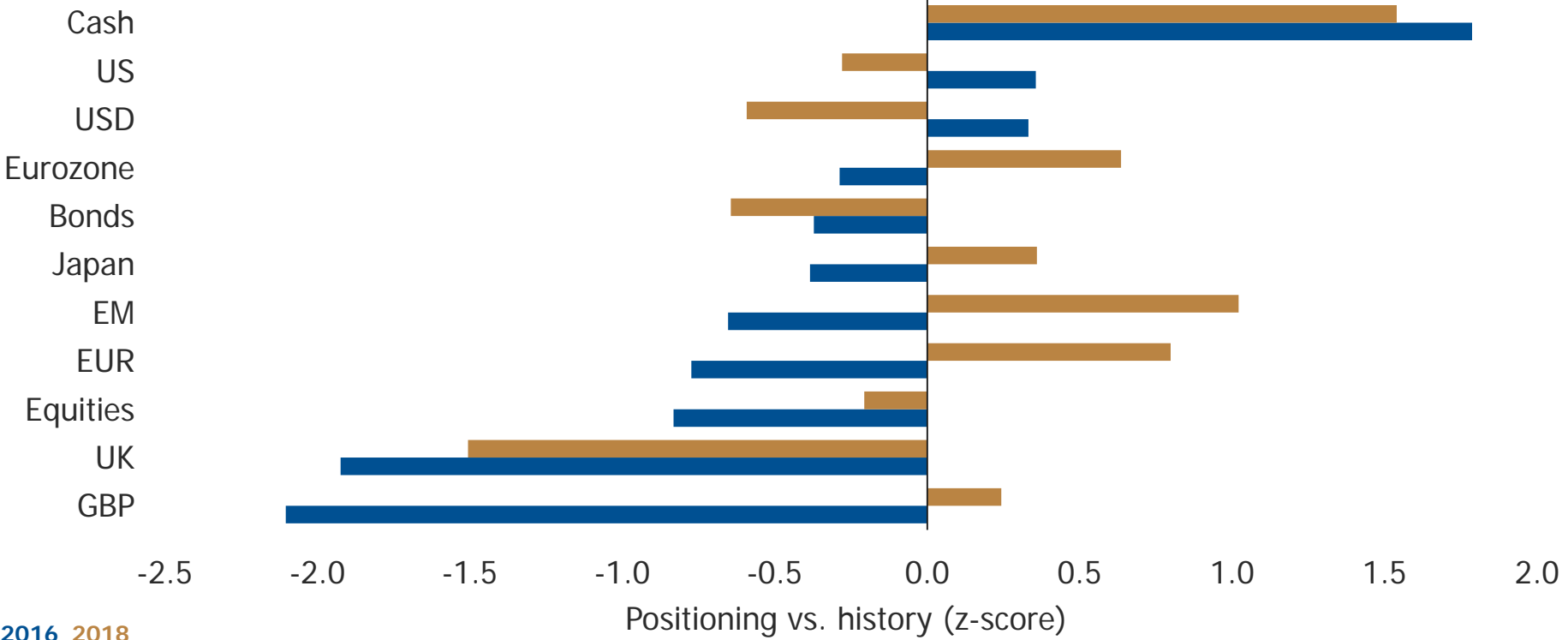
Household cashflow (% change on a year earlier)



Source: Top left: Office for National Statistics as at 1 April 2018. Top right: Office for National Statistics as at 1 May 2018.

Bottom left and right: Lazarus as at 12 June 2018.

Investors already underweight the UK

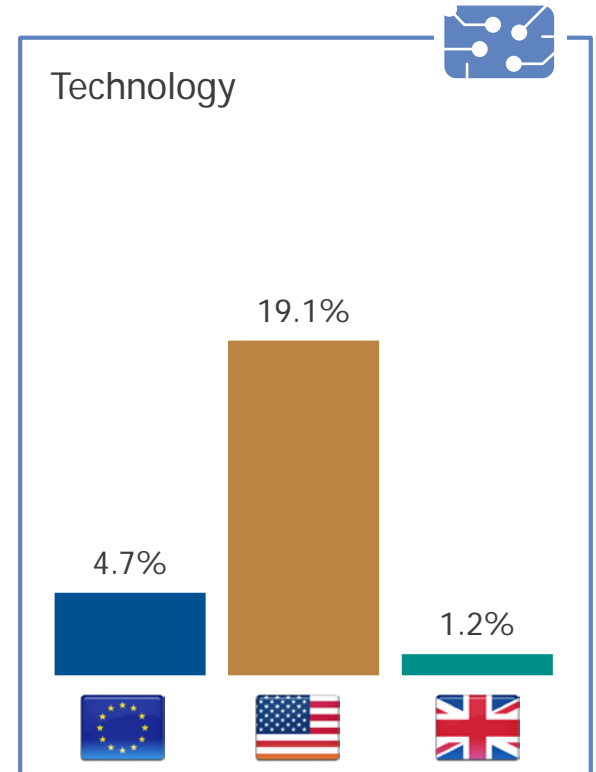
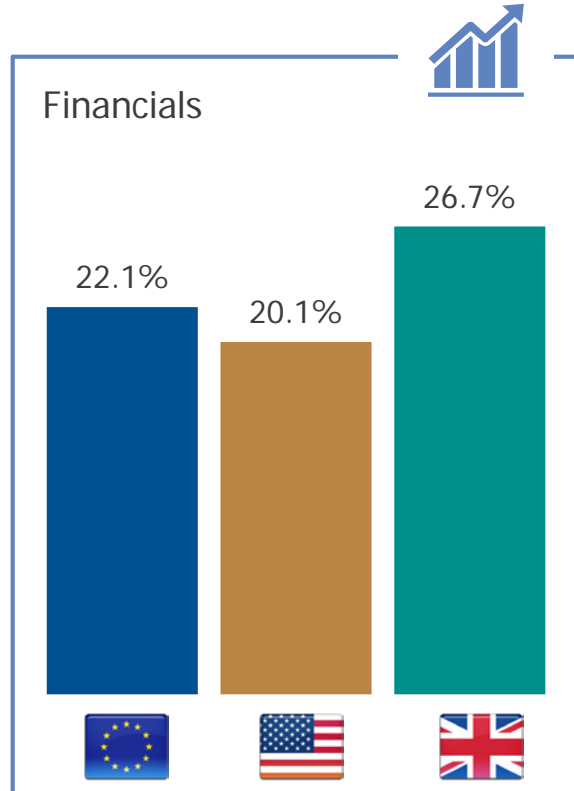
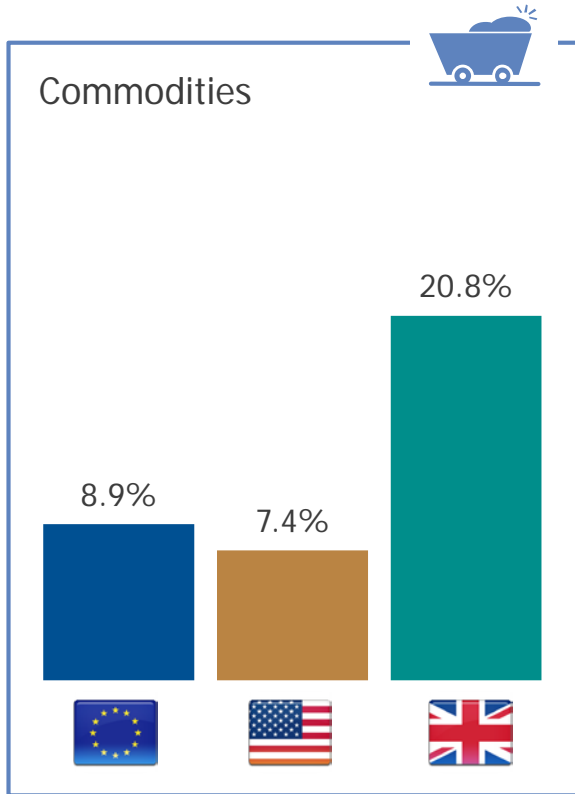


2016 2018

Source: BofA Merrill Lynch Global Investment Strategy, Global Fund Manager Survey as at April 2018.

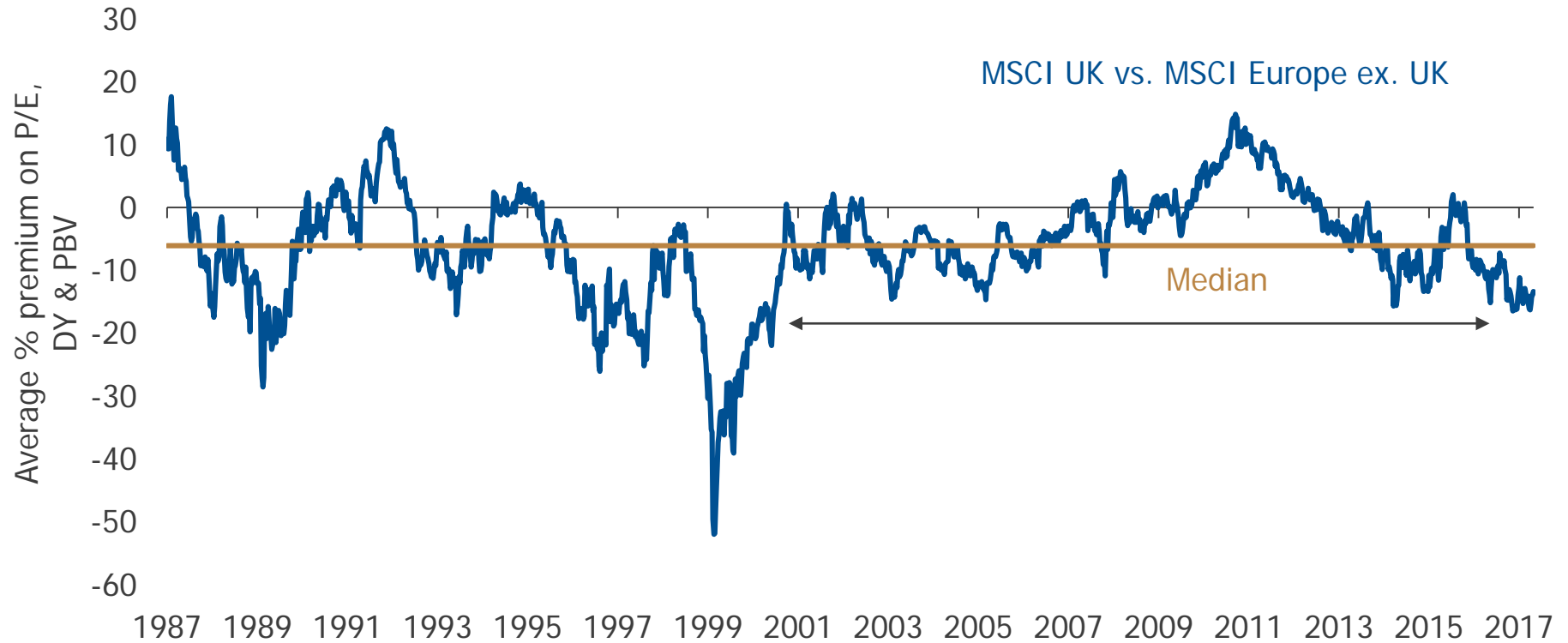


UK sector exposure



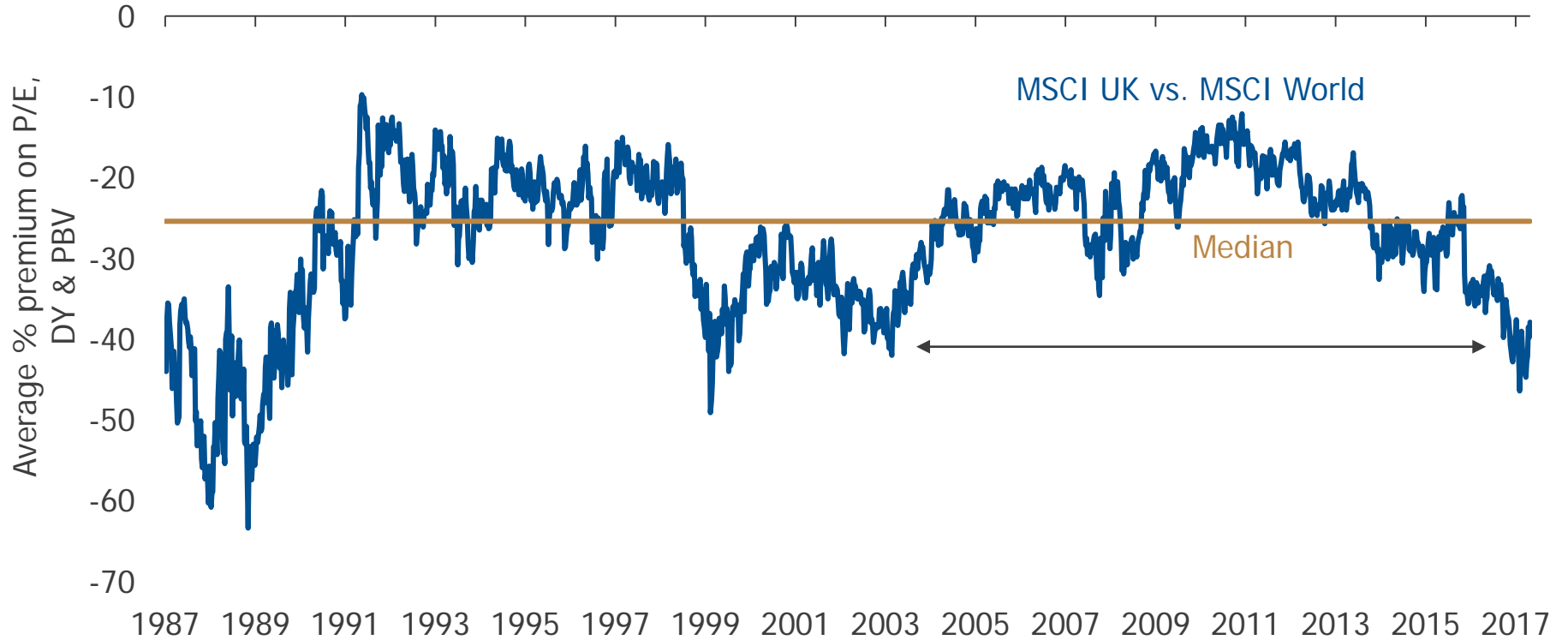
Source: Datastream as at 31 December 2017.

UK equities offer value relative to Europe ...



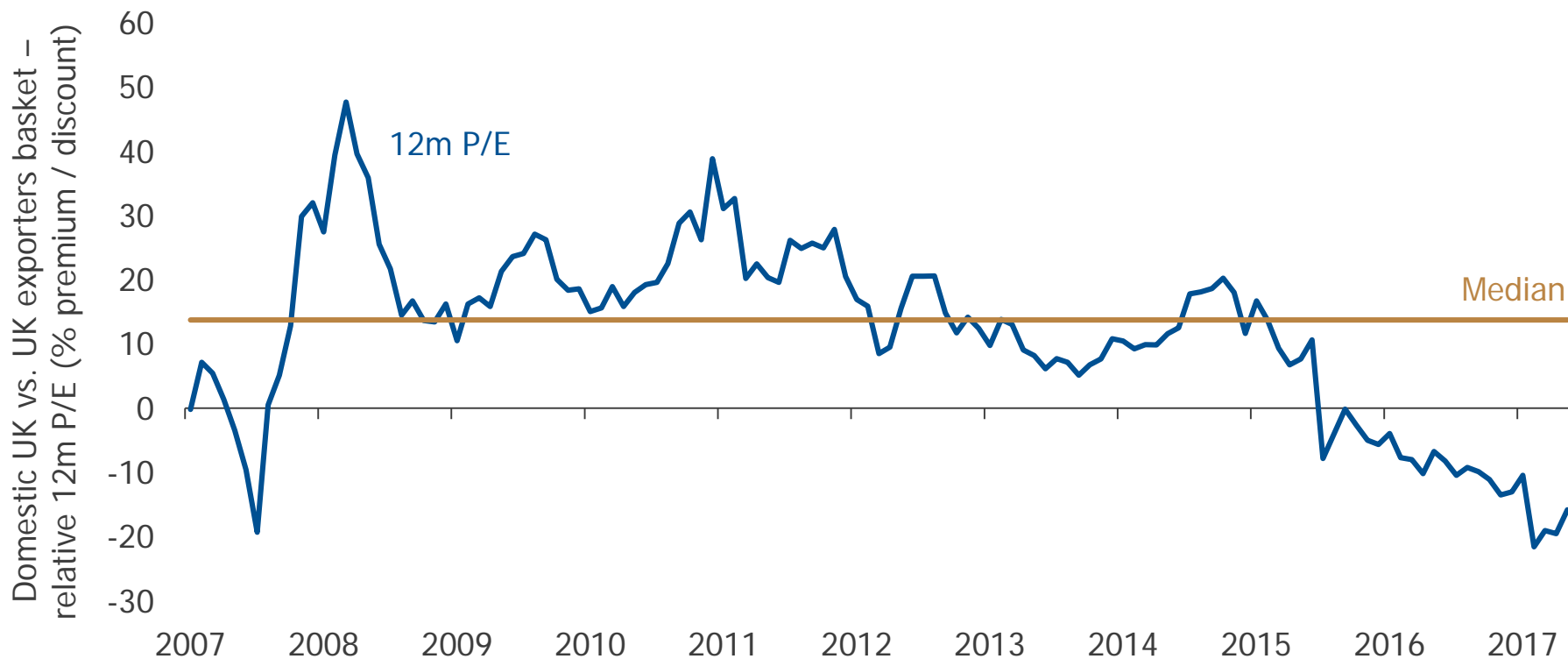
Source: MSCI, IBES, Morgan Stanley Research as at 20 April 2018.

... And vs. global equities



Source: MSCI, IBES, Morgan Stanley Research as at 20 April 2018.

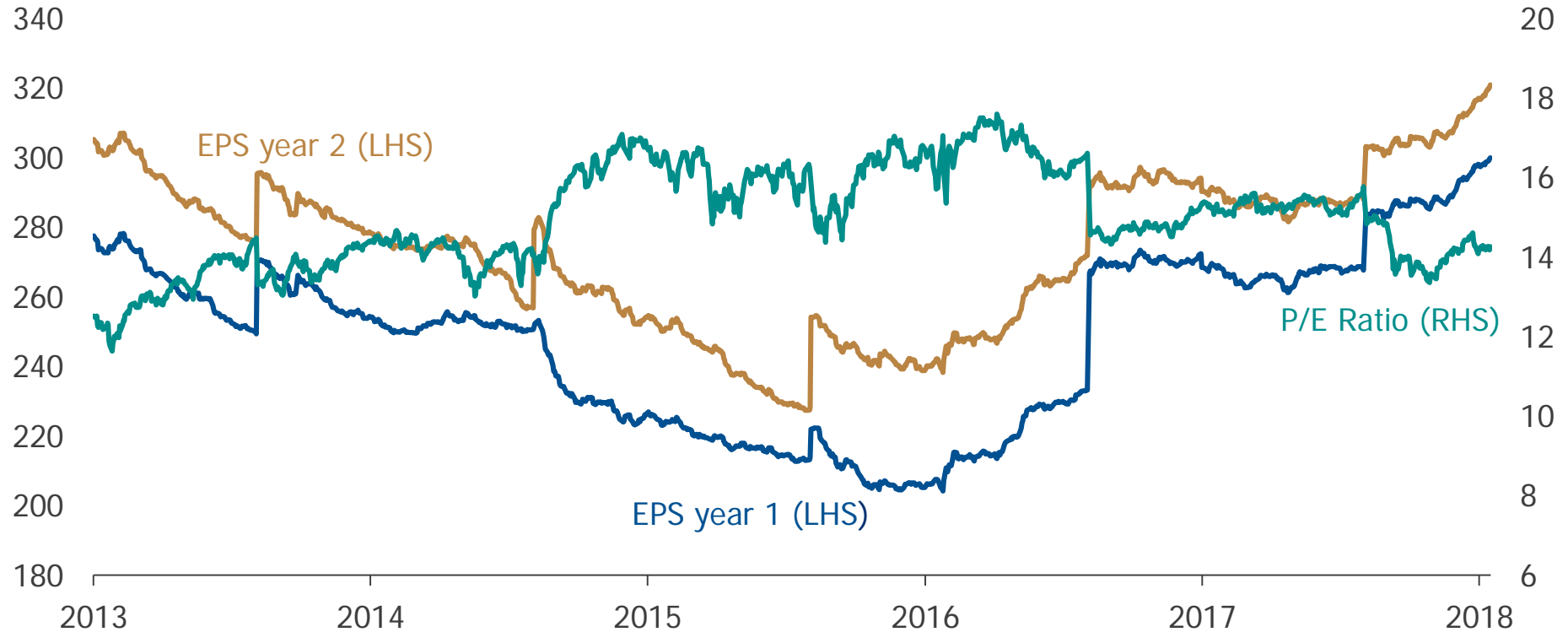
UK domestic stocks are even cheaper ...



Source: MSCI, IBES, Morgan Stanley Research as at 20 April 2018.

UK equities – Earnings momentum

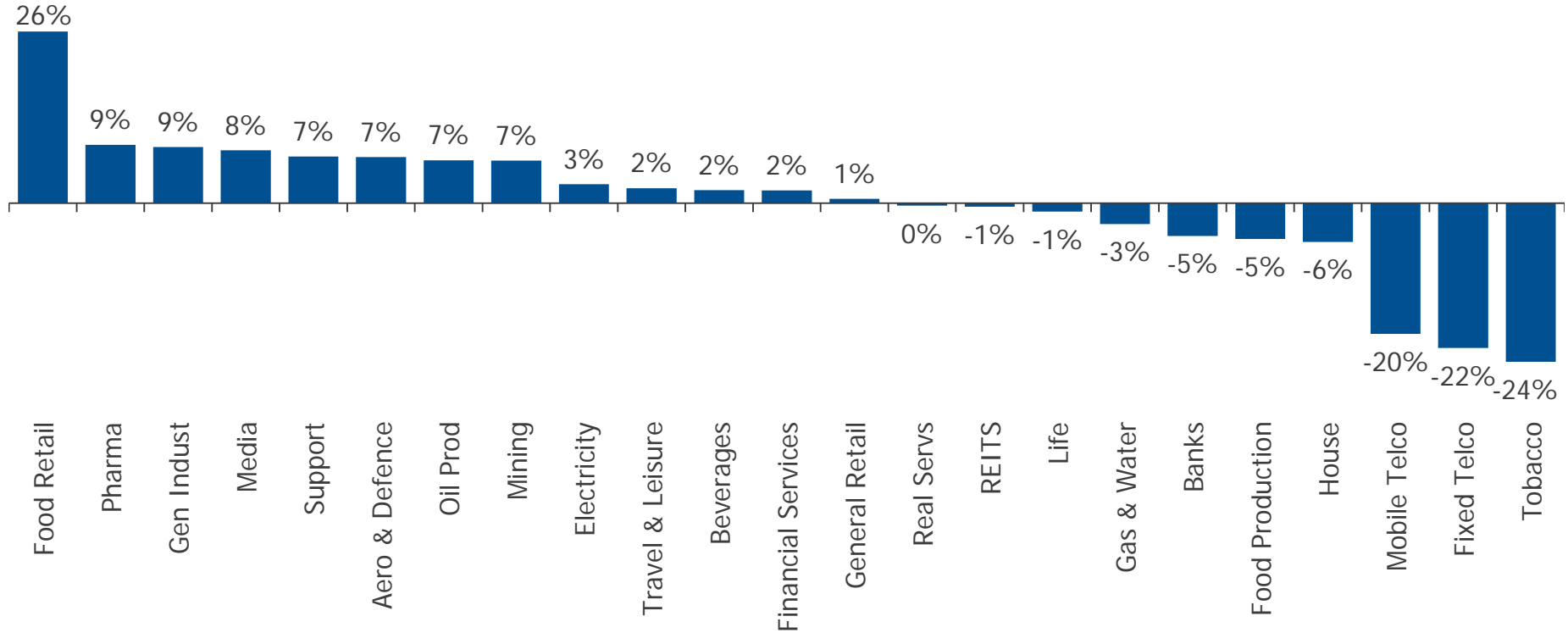
FTSE All Share P/E (RHS), Forecast earnings 1 year fwd, 2 years fwd (LHS)



Source: Bloomberg as at 14 June 2018.

Sector dispersion remains very wide

Absolute sector performance (% change), 1 January 2018 to 12 June 2018



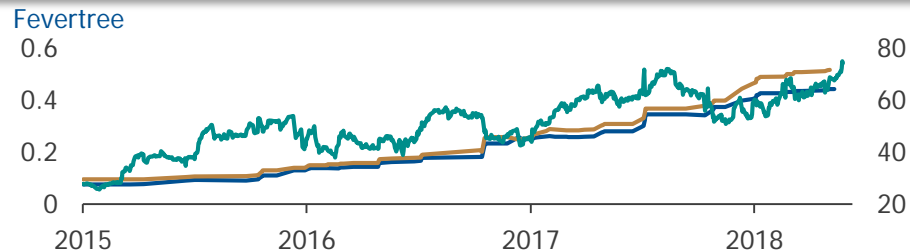
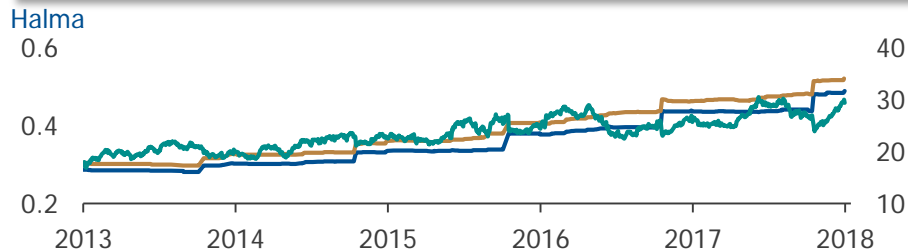
Source: FTSE, Lazarus as at 12 June 2018.

Factors more important than fundamentals? Market leadership becoming increasingly narrow ...

Growth stocks with upgrade momentum re-rating back to all time highs

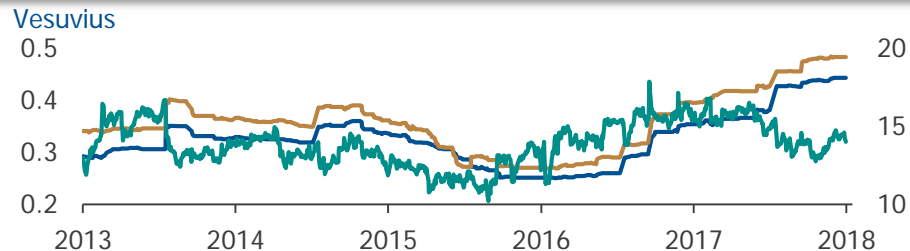
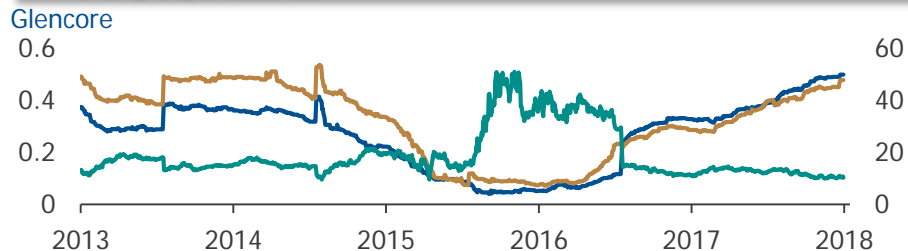
- FTSE 100 – Experian, Halma, Intertek, LSE, NMC, Rentokil
- FTSE 250 – Aveva, Dechra, Genus, Homeserve, Renishaw, SSP, Victrex

- AIM – Asos, Blue Prism, Boohoo, FDM, Fevertree, Purple Bricks



International cyclical stocks starting to de-rate into upgrades

- Miners, Oil, Industrials

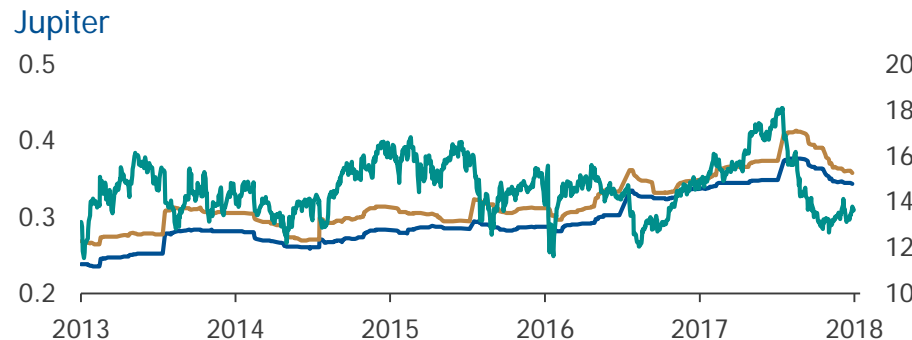
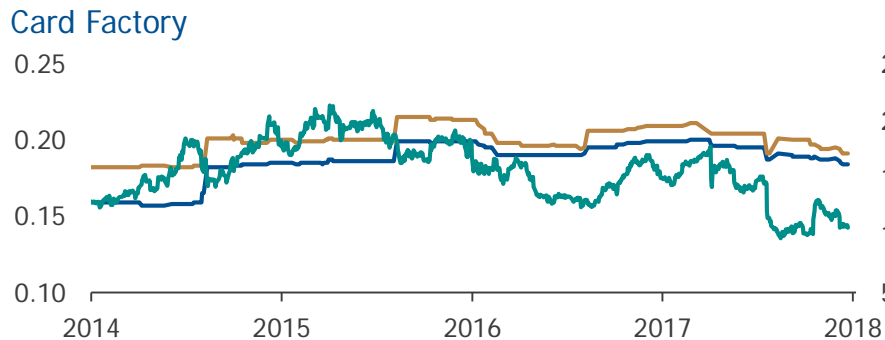
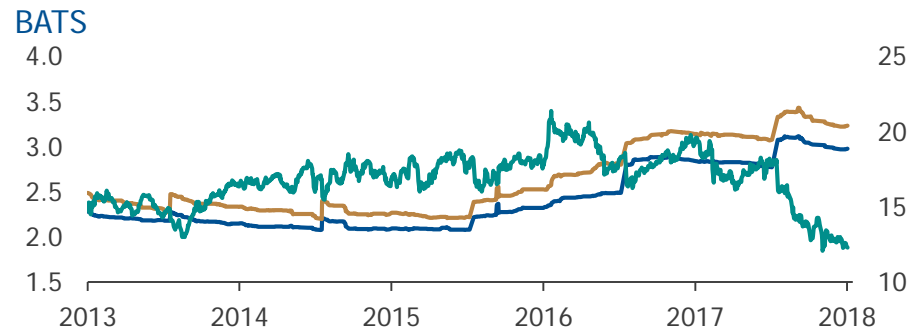
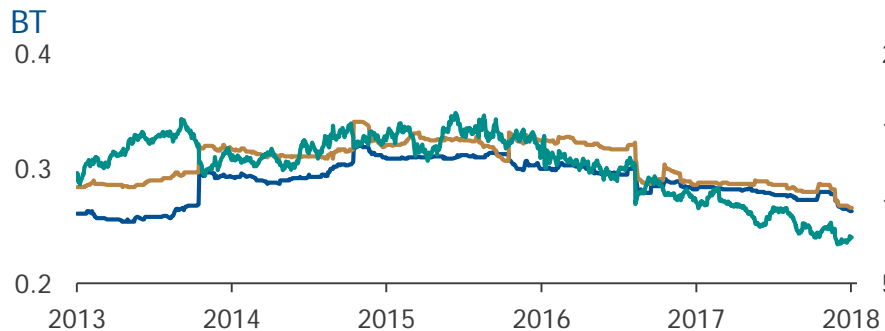


EPS year 1 (LHS) EPS year 2 (LHS) P/E Ratio (RHS)

Source: Bloomberg as at 15 June 2018.

Factors more important than fundamentals? Almost no price for an earnings downgrade

Majority of shares de-rating further on earnings downgrades



EPS year 1 (LHS) EPS year 2 (LHS) P/E Ratio (RHS)

Source: Bloomberg as at 15 June 2018.

Stock view – Prudential Plc – Asian, US and UK life Assurance

Why we like it?

- 2/3rd of the valuation is in Asia (half that of profits), as wealth creation occurs, so do savings/pensions
- Demographics in Asia moving in their favour
- Regular premium business in Asia underpins growth
- Asia's high ROE (>30%) can fund growth and remit capital for dividend
- US business also growing strongly
- UK business transitioning to higher ROCE model
- Recent decision to de-merge UK business should help close discount to constituent peers

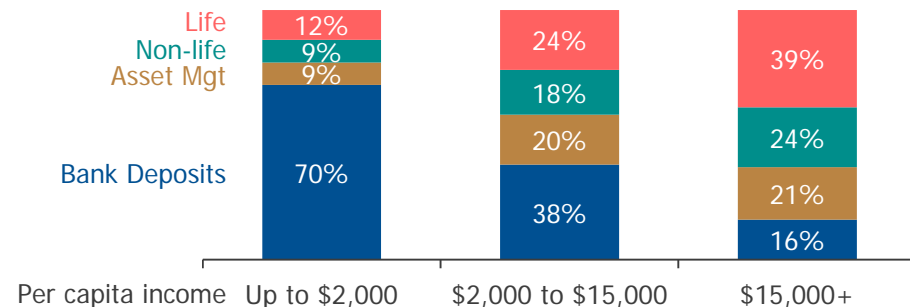
Valuation

- PE of 12.6x 2018 and 11.4x 2019 – discount to market despite stronger growth track record
- Strong balance sheet provides scope for special dividends

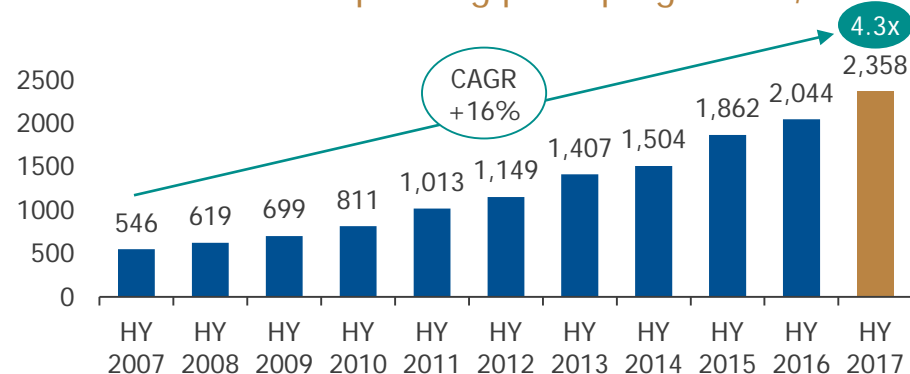
Risks

- Errant regulation
- Collapse in corporate credit market

Breakdown of personal financial assets in Asia*



Prudential H1 IFRS operating profit progression, £m**



Source: Artemis as at 31 May 2018. *Prudential Investor Day 16 November 2016. **Prudential Interim Results 16 August 2017.

Stock view – 3i Plc

Why we like it?

- Action a European discount is their largest holding at 30% of NAV
- Action is growing revenues at c.30% p.a. (6-8% lfl growth)
- Opening 200 stores p.a. with on average a payback of 10-12 months
- Implied ROCE >100% = self funded growth + capital returns
- We haven't found a business like this anywhere – implied 16x EBITDA in valuation is too low
- We think Action is nearer 50% of the NAV
- Other assets (Scandlines, Atesto, Anglian Water) sold at significant (50%+ premia to book value highlighting conservative nature of portfolio valuation)

Valuation

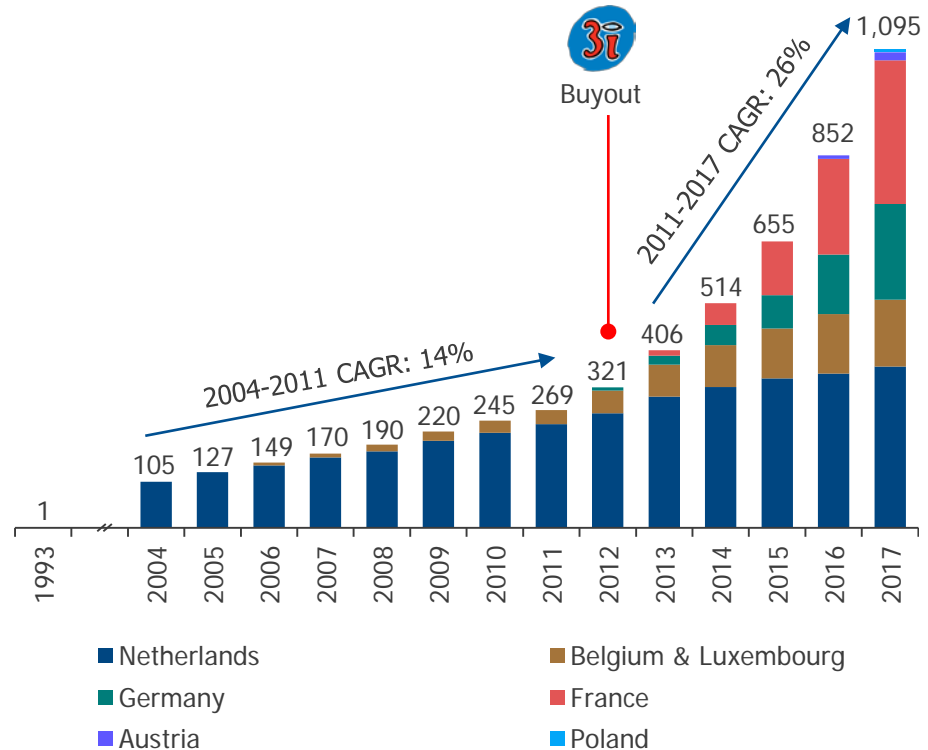
- 1.2x March 2019 P/B – we think medium term book value forecasts are materially too low
- Strong balance sheet provides growing 3% yield with scope for excess returns on top

Risks

- Life after Action
- Sourcing new assets could become harder in 'hot' PE market

Source: Artemis as at 31 May 2018. *3i 'Action' Capital Markets Seminar 09 March 2018.

Action – number of stores*



Stock view – DS Smith – Europe’s second largest box manufacturer

Why we like it?

- Packaging market growing being driven by E-commerce
- High exposure to FMCG (70%) provides revenue stability
- Consolidating market – winner taking all – Amazon UK (DS Smith exclusive supplier), Mondelez EU (DS Smith exclusive)
- International Paper approach for Smurfit Kappa kicks off trans-continental consolidation
- All driving consistent earnings and dividend growth
- Recently moved into the US market where returns are higher
 - But packaging is behind the EU
 - Large customers encouraging them to bring their offering to the US
 - We think revenue synergies will exceed expectations

Valuation

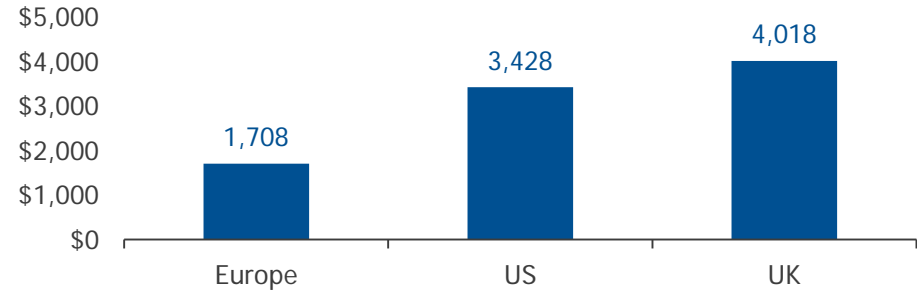
- PE to April 2019 15x, and April 2020 14x
- Dividend 3.1% and 3.4%
- These look cheap given (i) FMCG/defensive nature of customers, (ii) revenue synergies to come

Risks

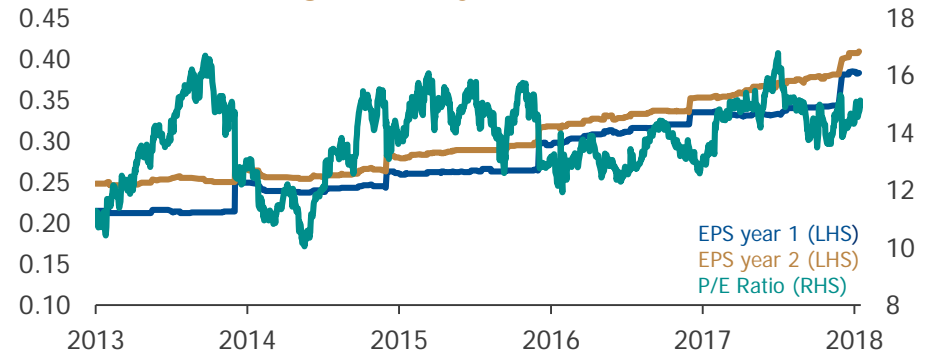
- Management highly regarded
- Paper price fluctuations – although good track record for passing on

E-commerce opportunity*

Average annual e-commerce spend per e-shopper



Consistent earnings delivery**



Source: Artemis as at 31 May 2018. *DS Smith Full Year results. **Bloomberg as at 15 June 2018.

Artemis UK Select – Current positions

| | 2018 P/E | 2019 P/E | 2018 dividend yield | 2019 dividend yield |
|--|----------|----------|---------------------|---------------------|
| Airlines | | | | |
| Intl Consolidated Airline | 7.3 | 6.9 | 3.6 | 3.8 |
| Ryanair Holdings | 12.5 | 12.7 | 0.4 | 0.5 |
| Apparel Retail | | | | |
| Superdry | 11.4 | 10.4 | 3.2 | 3.4 |
| Building Products | | | | |
| Tyman | 11.9 | 10.7 | 3.6 | 3.9 |
| Casinos & Gaming | | | | |
| Playtech | 11.6 | 9.9 | 4.4 | 5.0 |
| Diversified Banks | | | | |
| Lloyds Banking Group | 8.4 | 8.3 | 5.5 | 6.0 |
| Barclays | 9.9 | 8.5 | 3.4 | 4.2 |
| Diversified Metals & Mining | | | | |
| Glencore | 10.2 | 10.6 | 4.4 | 4.5 |
| Environmental & Facilities Services | | | | |
| Biffa | 12.9 | 12.1 | 2.7 | 2.9 |
| Food Retail | | | | |
| Tesco | 16.7 | 15.7 | 1.9 | 2.7 |
| Homebuilding | | | | |
| Redrow | 7.1 | 6.5 | 4.4 | 5.1 |
| Countryside Properties | 9.7 | 8.1 | 3.2 | 4.0 |
| Integrated Oil & Gas | | | | |
| BP | 14.2 | 13.6 | 5.3 | 5.4 |
| Life & Health Insurance | | | | |
| Legal & General Group | 9.6 | 9.0 | 6.2 | 6.6 |
| Prudential | 12.6 | 11.3 | 2.7 | 3.0 |
| Multi-line Insurance | | | | |
| Aviva | 8.9 | 8.3 | 6.0 | 6.6 |
| Paper Packaging | | | | |
| DS Smith | 15.0 | 13.9 | 3.1 | 3.3 |
| Tobacco | | | | |
| British American Tobacco | 12.4 | 11.4 | 5.5 | 5.9 |
| Trading Companies & Distributors | | | | |
| Ashtead Group | 15.7 | 13.6 | 1.5 | 1.7 |

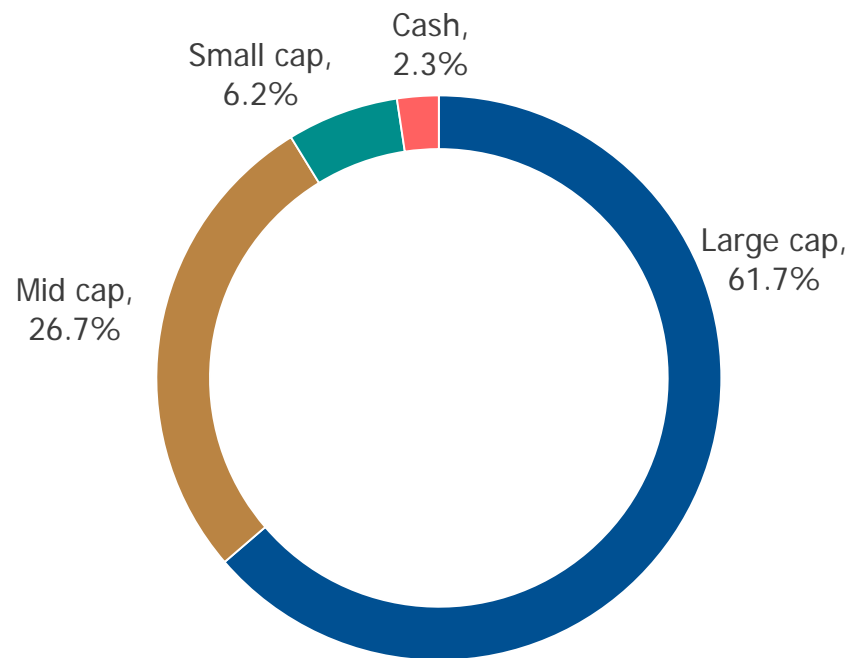
Source: Artemis as at 15 June 2018.

Artemis UK Select – Positioning

Valuation metrics versus benchmark*

| | Artemis UK Select Fund | FTSE All-Share |
|----------------|---------------------------|----------------|
| P/B Ratio | 1.6 | 1.8 |
| P/E Ratio | 11.2 | 13.8 |
| Dividend yield | 3.7% | 4.1% |
| EV/EBITDA | 6.9 | 8.5 |

Market cap breakdown**



Source: *Bloomberg as at 6 May 2018. **Artemis as at 31 May 2018.

Note: As per Bloomberg's Index Method which is only available only for certain equity fields, such as price ratios and growth ratios, with the Index Method, calculation of the aggregate Price to Earnings ratio includes companies with negative earnings.

Artemis UK Select – Positioning

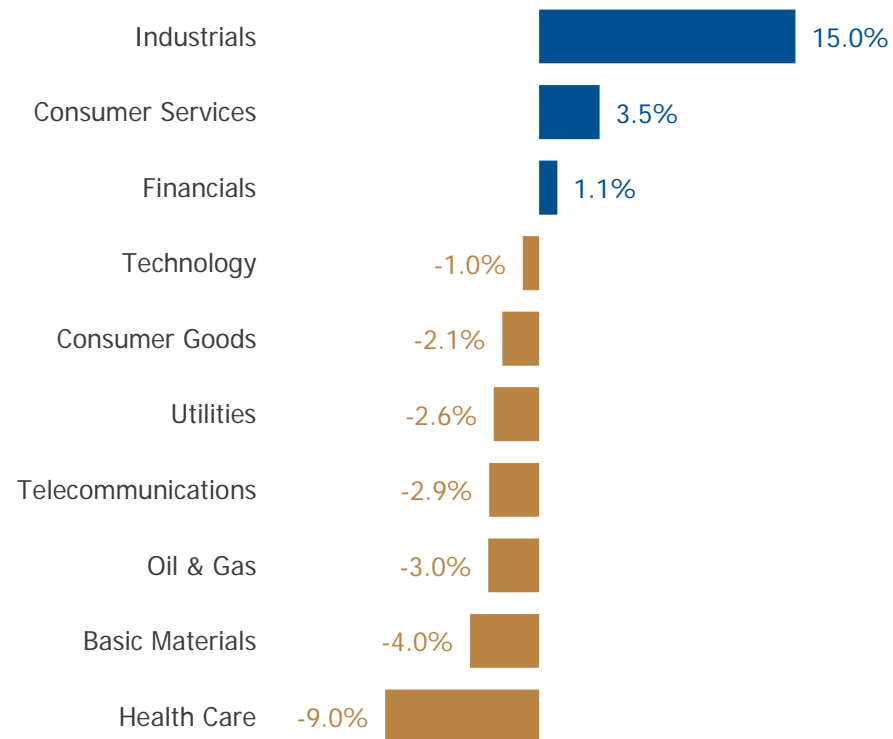
Top 10 holdings

| Stock | % |
|-------------------------------------|-----|
| 3i Group | 5.1 |
| BP | 4.8 |
| DS Smith | 4.8 |
| Prudential | 4.7 |
| Tesco | 4.6 |
| Royal Dutch Shell | 4.4 |
| Ashtead Group | 3.2 |
| International Consolidated Airlines | 3.0 |
| Weir Group | 3.0 |
| Bodycote | 2.9 |

Top 10 positions relative to the FTSE All-Share

| Stock | % |
|-------------------------------------|-----|
| 3i Group | 4.7 |
| DS Smith | 4.6 |
| Tesco | 3.6 |
| Bodycote | 2.9 |
| Prudential | 2.8 |
| Weir Group | 2.8 |
| Ashtead Group | 2.7 |
| International Consolidated Airlines | 2.6 |
| Countryside Properties | 2.4 |
| Superdry | 2.3 |

Sector breakdown relative to the FTSE All-Share



Source: Artemis as at 31 May 2018.

Artemis UK Select – Performance

| | 3 months % | 6 months % | 1 year % | 3 years % | 5 years % |
|---------------------------------|------------|------------|----------|-----------|-----------|
| Artemis UK Select I Acc | 5.1 | 4.0 | 9.4 | 25.7 | 62.2 |
| FTSE All-Share TR | 7.4 | 6.7 | 6.5 | 24.3 | 45.4 |
| UK All Companies Sector Average | 6.8 | 5.7 | 6.7 | 22.5 | 50.5 |
| Position in sector | 221/249 | 210/249 | 60/247 | 70/234 | 60/222 |
| Quartile | 4 | 4 | 1 | 2 | 2 |

Source: Artemis, class I accumulation, bid to bid basis, UK net, as at 31 May 2018.

Conclusion

- Global economic outlook improving
- UK earnings momentum to turn positive
- Investors chasing good news – some parts of the market now starting to look stretched
- FX, bond yields and commodities will drive market rotation
- UK market potentially well placed – sector exposure/investor positioning
- Rigorously maintaining investment philosophy
- Concentrated fund structure combined with limited shorting ability leaves us well placed to capitalise on the opportunities we identify

Appendix



UK Select investment team



Ed Legget
Fund Manager

Ed joined Artemis in December 2015 to manage the Artemis UK Select Fund. He graduated in manufacturing engineering from Cambridge and began his career in asset management at Standard Life Investments (SLI) in 2002. There he managed several UK equity funds, including the SLI UK Equity Unconstrained Fund. Ed is a CFA charterholder.



Ambrose Faulks
Fund Manager

Ambrose works with Ed Legget managing the Artemis UK Select Fund. He graduated from Oxford in 2005 with a masters in chemistry and joined the research department at Odey Asset Management. As an equity analyst, he focused first on banks, diversified financials, property and housebuilders, then on software and IT services. Ambrose moved to Artemis in 2013 and is a CFA charterholder.

Transactions

Top 10 purchases – 3 months

| | % Trans. |
|---------------------|----------|
| Bodycote | 1.05% |
| Tesco | 0.95% |
| Weir Group | 0.82% |
| Man Group | 0.79% |
| Financial Services* | 0.76% |
| Vesuvius | 0.76% |
| AIB Group | 0.62% |
| BP | 0.51% |
| Premier Oil | 0.37% |
| Crest Nicholson | 0.36% |

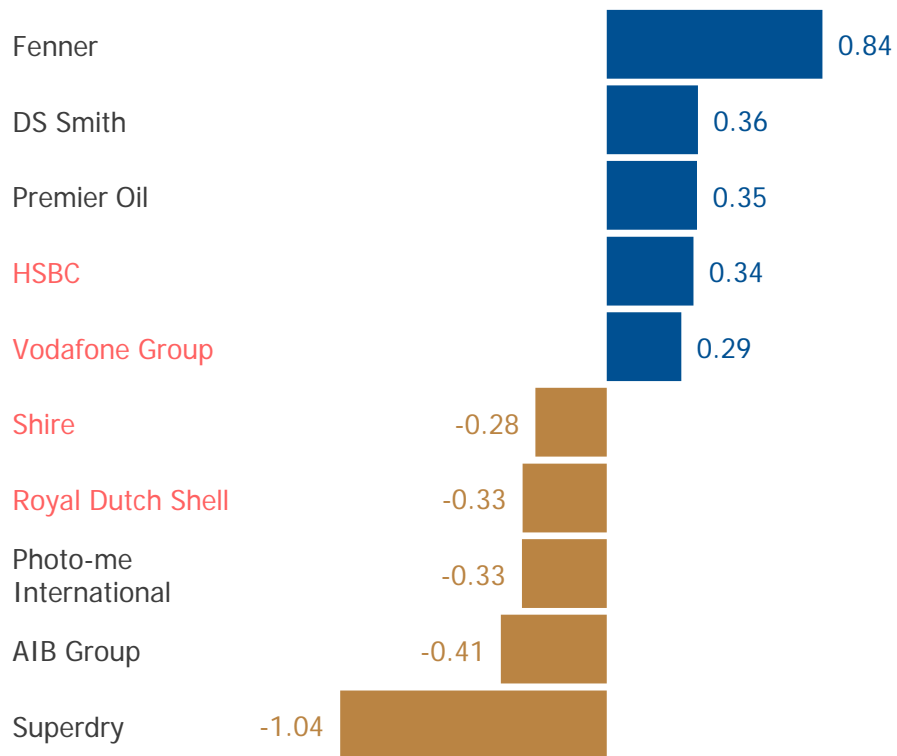
Top 10 sales – 3 months

| | % Trans. |
|----------------------|----------|
| Fenner | -3.36% |
| Melrose Industries | -1.28% |
| Just Eat | -0.70% |
| Lloyds Banking Group | -0.69% |
| Anglo American | -0.68% |
| Keller Group | -0.55% |
| Financial Services* | -0.53% |
| Financial Services* | -0.42% |
| Retailer* | -0.30% |
| Biffa | -0.19% |

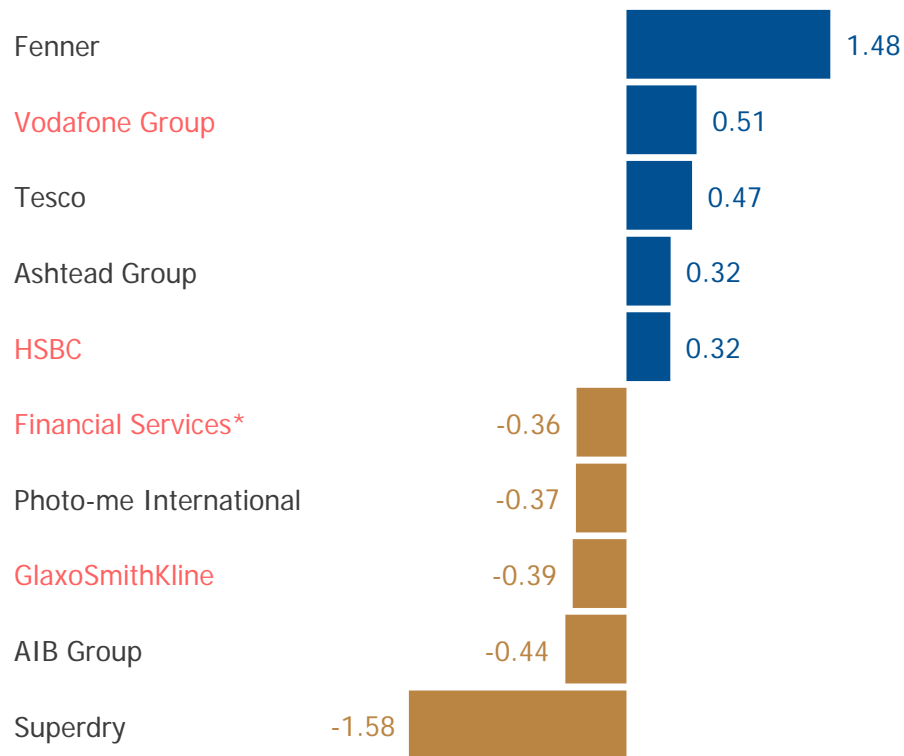
Source: Artemis as at 31 May 2018. *Indicate a short position, stock names are not disclosed.

Relative stock attribution (%)

3 months



6 months

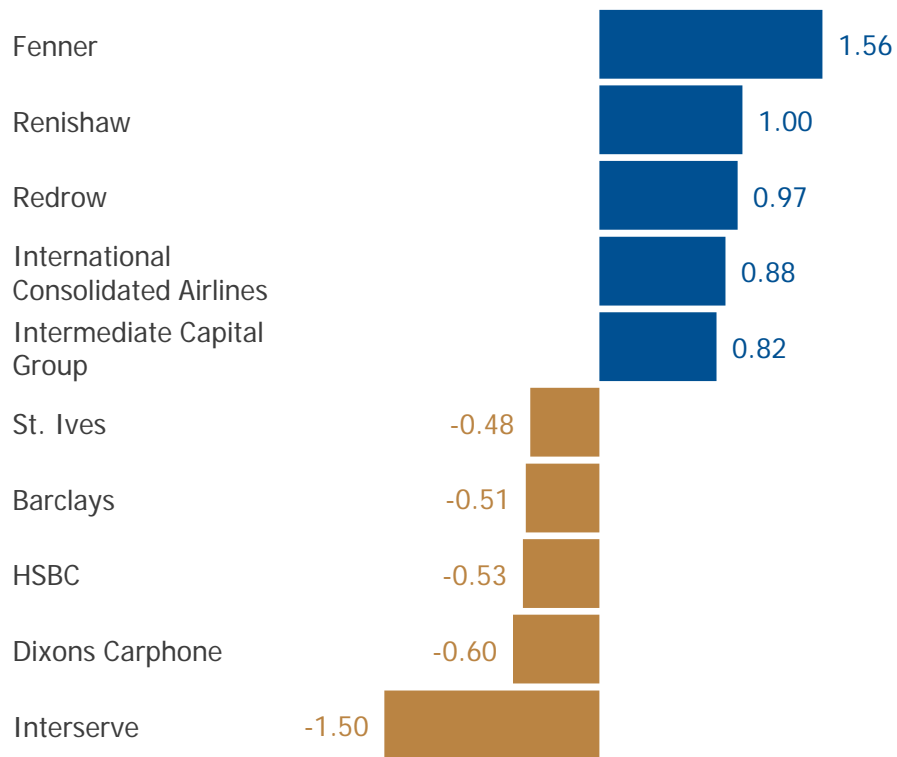


Source: Artemis as at 31 May 2018; benchmark is the FTSE All-Share Index; the underweight positions are highlighted in red.

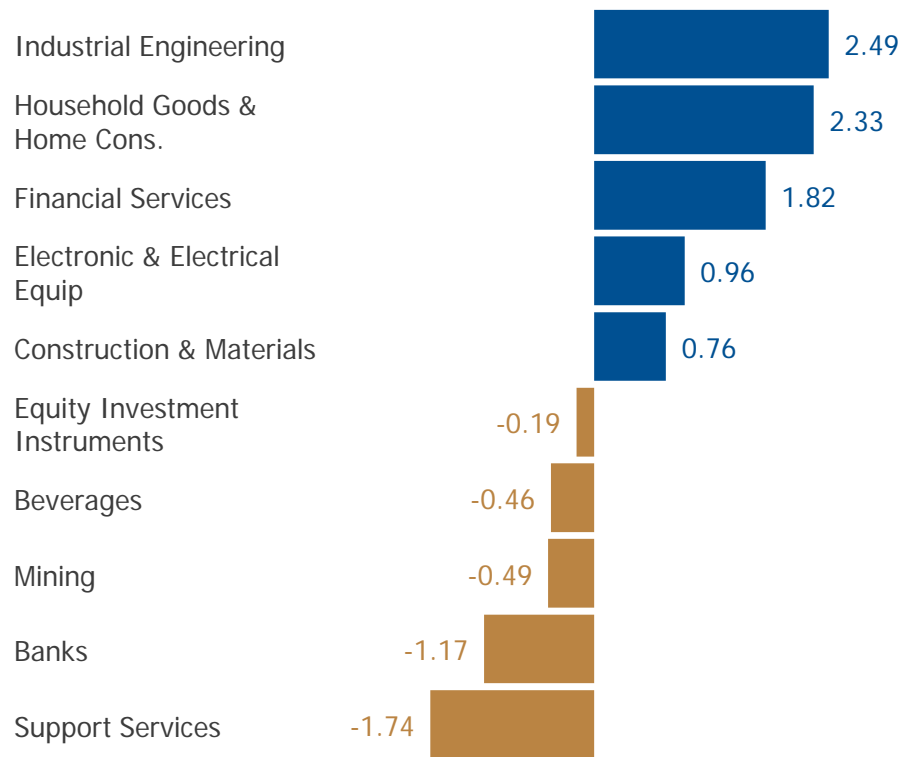
*Indicate a short position, stock names are not disclosed.

2017 attribution

Stocks

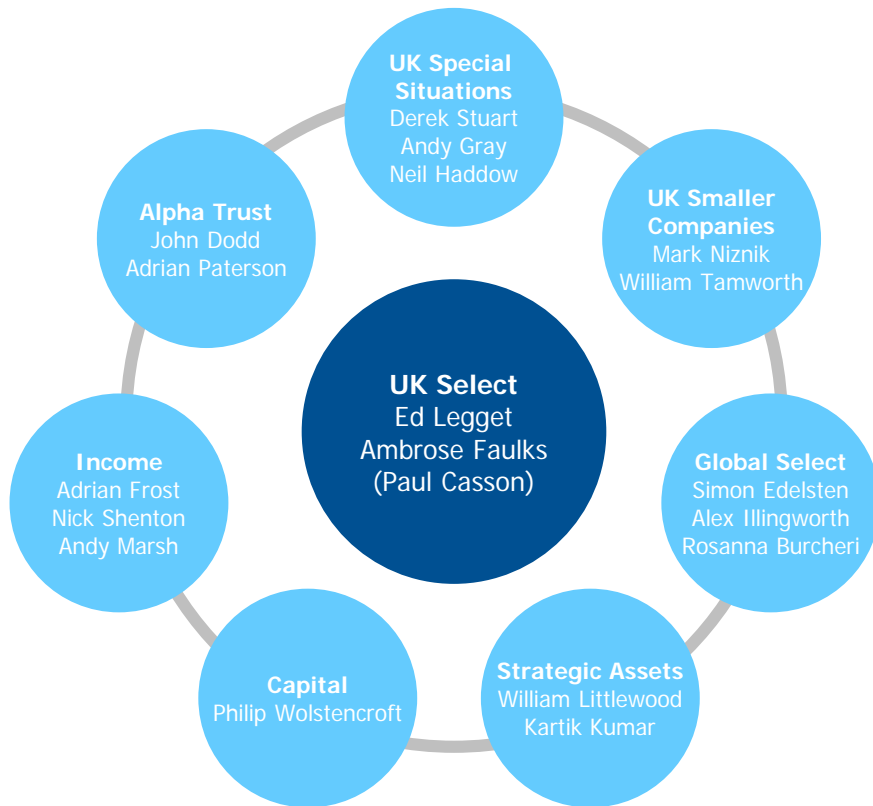


Sectors



Source: Artemis as at 31 December 2017; benchmark is the FTSE All-Share Index; the underweight positions are highlighted in red.

Artemis teams investing in UK equities



Investment philosophy

Change in company expectations drives share prices

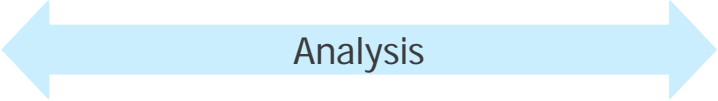


- Information flow is key to identifying non-consensus investment insights
- Systematic approach is required to collect, collate and act upon insights
- Seek to identify both top down and bottom up insights
- Business analysis – cash flow key



- Time horizon
- Follow management with good track record
- Match position size with risk/reward
- Maintain investment philosophy under pressure
- Act on new information

Investment process




Analysis

- Internal analysis
- Company meetings, visits
- Sell-side (brokers, boutiques)
- Macroeconomic factors



Judgement

- Future catalysts
- Management track record
- Valuation upside



Idea generation

Business analysis

Stock selection

Portfolio construction

- Fundamental approach
- Cashflow analysis
- Stress test key assumptions
- Industry and sector dynamics
- Focus on balance sheet

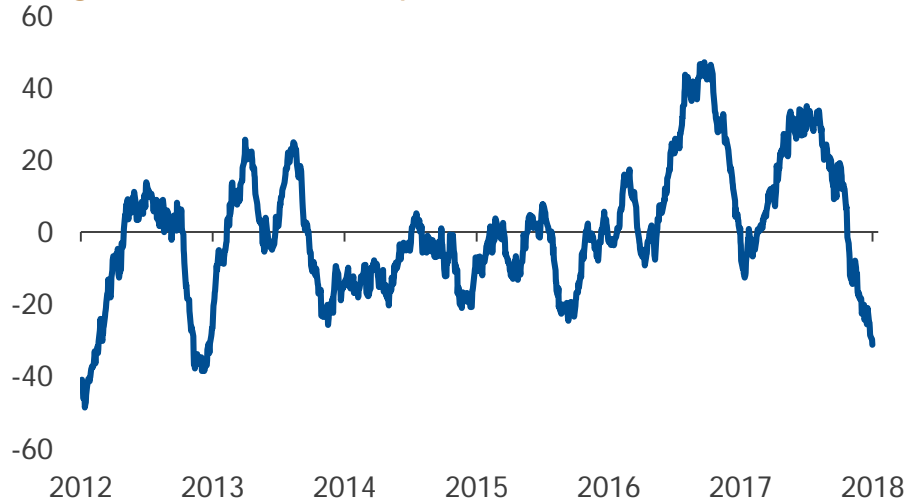
- Diversified
- Free of market cap bias
- Match conviction with position size

Global macro outlook

Top down – main themes

- Strong global growth – IMF forecasting 3.9% in 2018 and 2019, vs 3.7% in 2017 and 3.2% in 2016
- Economic surprise indicators roll over as forecasters catch up and data in EU starts to show weakness.

Citi global economic surprise indicator



Source: Bloomberg as at 14 June 2018.

- Fiscal Policy
 - + From drag to stimulus as limits of monetary policy are reached
- Monetary policy – stimulus starting to be withdrawn
 - New FED Chair appears more hawkish – expect four rate hikes this year
 - ECB QE to end this year
 - Bank of England to follow
- Global trade
 - Trump rhetoric vs reality
- Commodity prices
 - + Oil – OPEC agreement a positive, strong demand and shale capacity constraints see oil in the \$60-75 range
 - Bulk Commodities (Iron Ore/Coal) – environmental controls in China have supported prices, expect them to drift down from here. Prefer base metals
 - Higher commodity prices to feed through into higher inflation

We expect faster growth, higher inflation and gradual normalisation of monetary policy to lead to higher long dated bond yields

US macro outlook

Sharp rise in US consumer and corporate confidence post election

US consumer confidence



NFIB Small business optimism survey



- Corporate spending showing signs of picking up – tax cuts, capital repatriation could accelerate further
- Any fiscal stimulus likely to prove inflationary – economy already at full employment
- Stronger growth + rising employment = FED continues to normalise monetary policy
- Trade policies remain unclear
- Fund maintains significant exposure to an improving US economy – through our holdings in Industrials (BBA, Bodycote, Vesuvius, Renishaw) and Construction (Ashtead and Tyman)

Source: Bloomberg as at 24 April 2018.

UK macro outlook

Brexit continues to dominate ...

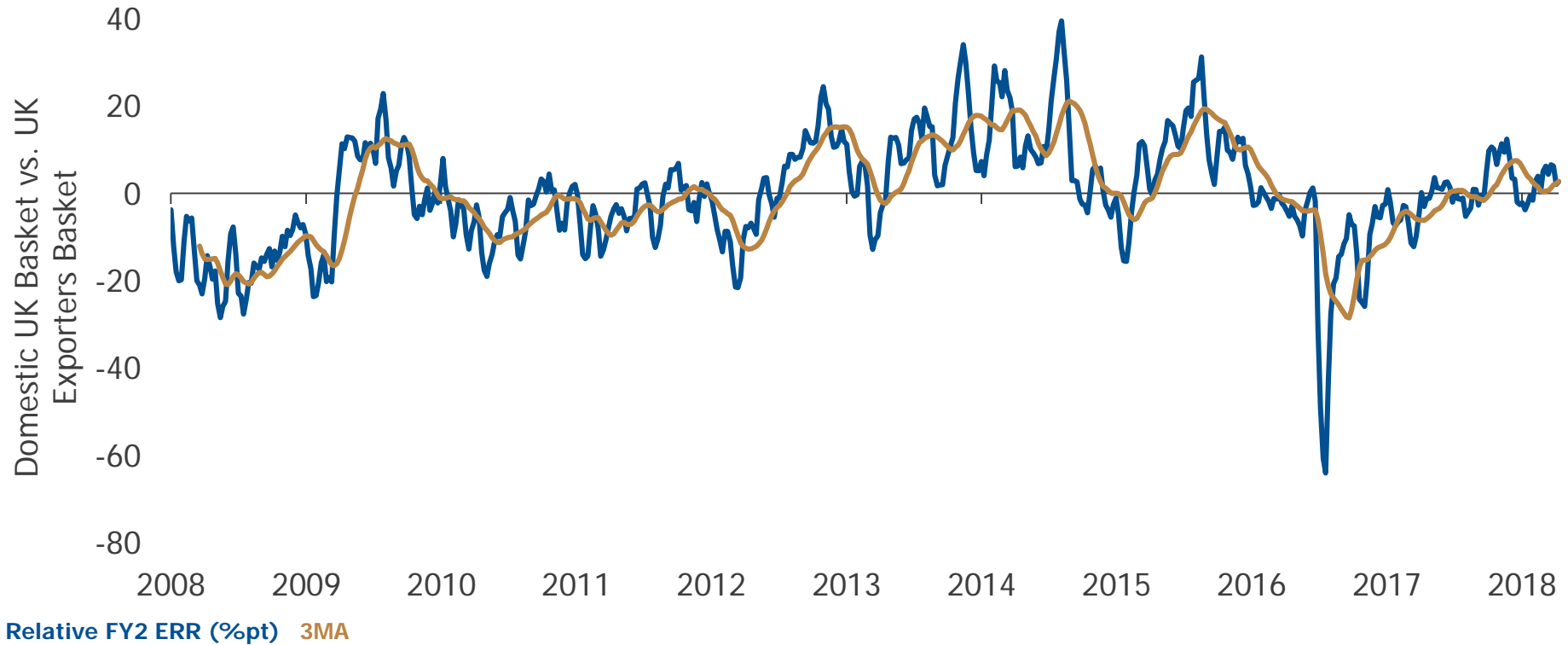


- £ goes up
- Inflation goes down
- Consumer & corporate confidence rises
- Political risk falls
- Investors return to domestic focused assets



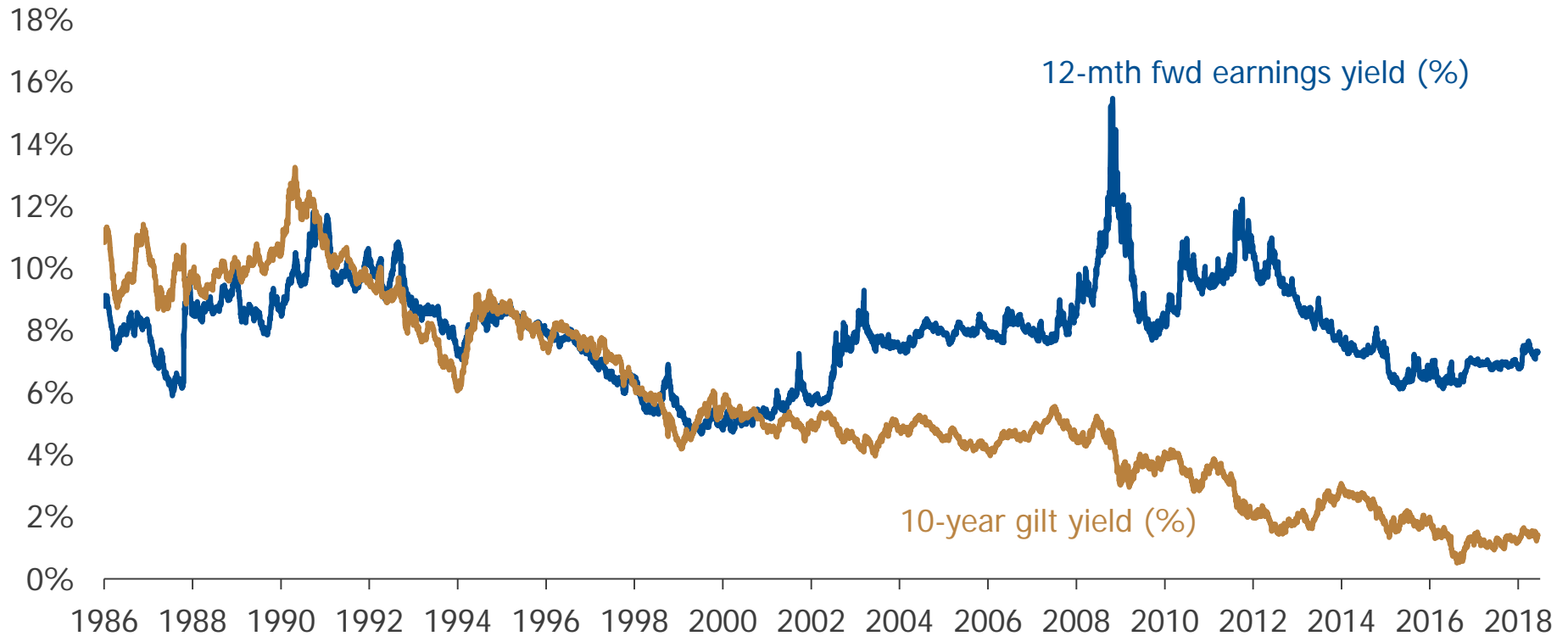
- £ goes down
- Inflation goes up
- Consumer & corporate confidence falls
- Political risk rises
- Investors exit domestic focused asset

UK Domestic stock relative earnings momentum turns positive



Source: Morgan Stanley Research as at 20 April 2018.

UK equities – Relative valuation



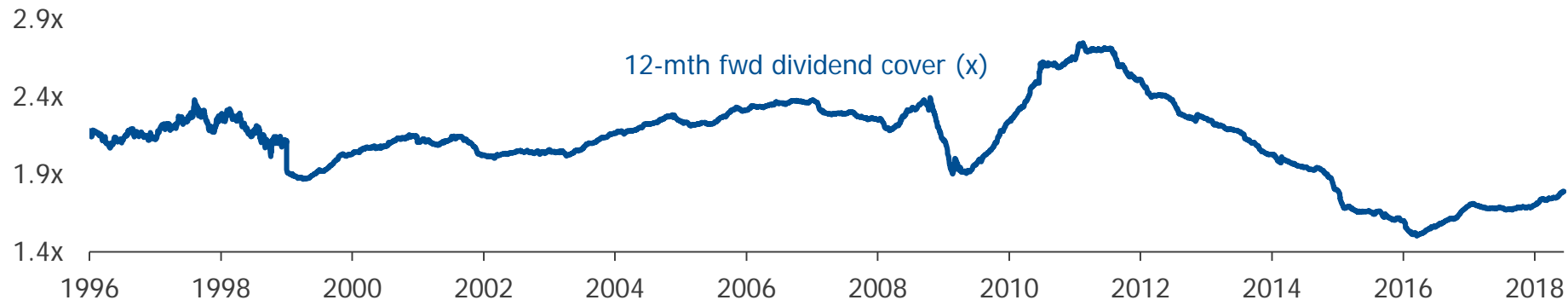
Source: Lazarus Partnership as at 12 April 2018.

UK equities – Absolute value

Earnings multiple (P/E ratio)

| Value summary | PE (x) | | Dividend yield (%) | | EV/EBITDA (x) | | Median earnings growth (%) | |
|------------------------------------|--------|------|--------------------|------|---------------|------|----------------------------|------|
| | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 |
| FTSE 100 | 13.9 | 13.2 | 4.12 | 4.32 | 9.1 | 8.7 | 6.0% | 7.1% |
| FTSE 100 ex financials & resources | 15.7 | 14.6 | 3.72 | 3.91 | 9.4 | 8.9 | 9.9% | 5.7% |
| FTSE 250 | 15.9 | 14.6 | 2.77 | 3.03 | 11.5 | 10.5 | 7.2% | 8.7% |
| FTSE Small Cap | 15.3 | 13.1 | 2.87 | 2.96 | 8.7 | 7.7 | 4.1% | 8.0% |

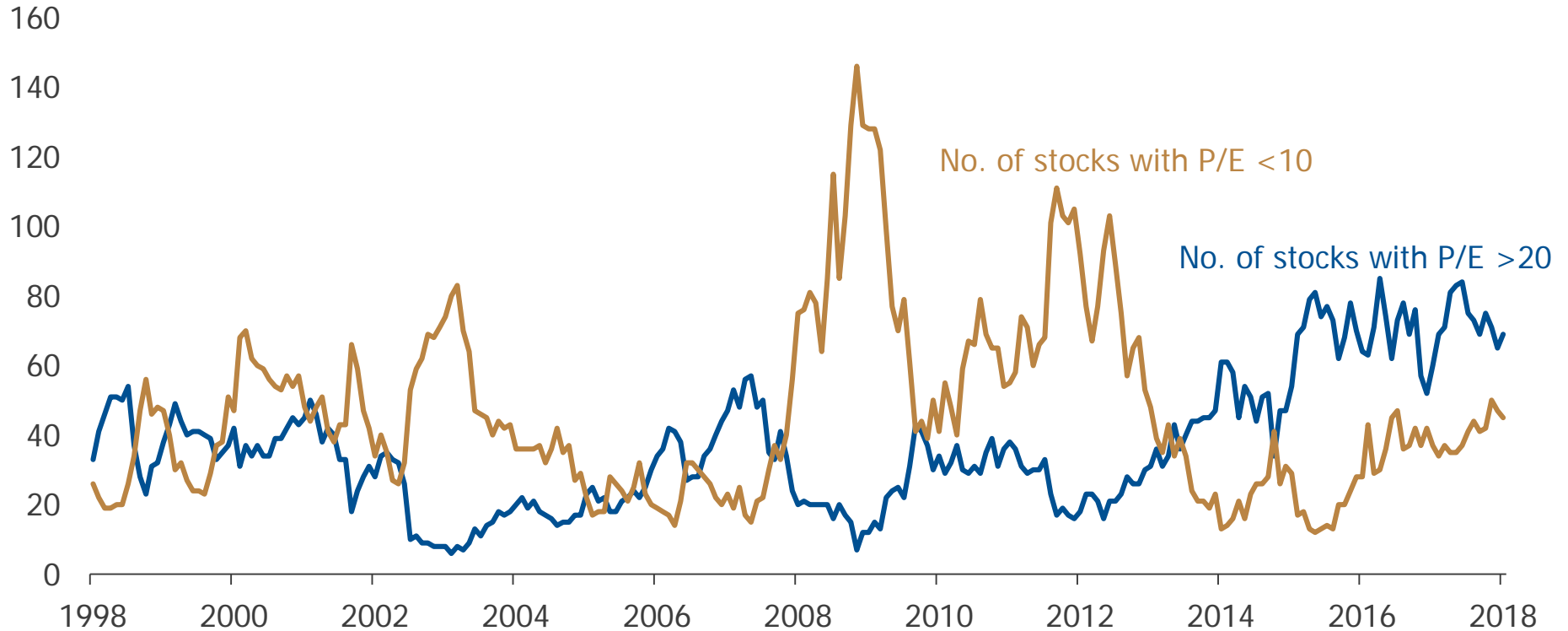
Dividend cover



Source: Lazarus Partnership/FactSet as at 12 June 2018.

Valuations: Stock dispersion remains wide

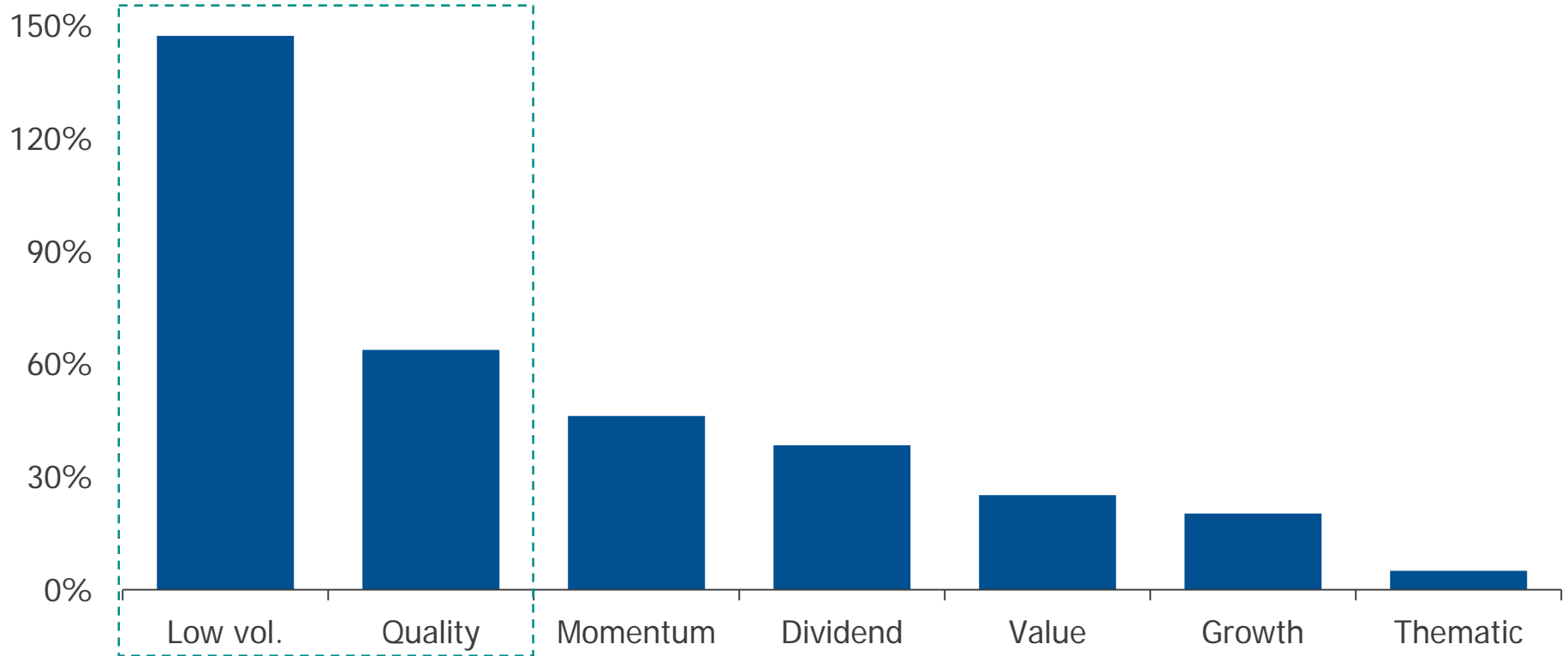
FTSE 350 ex. investment trusts (trailing P/E)



Source: DataStream, Exane BNP Paribas estimates as at 2 February 2018.

Performance drives flows ...

Avg. annual AUM growth in smart beta ETFs, 2009-2016



Source: BoAML The ETF-ization of the S&P 500, Part 1 report as at 2 July 2017.

Stock view – International Airline Group Plc

Why we like it?

- Misunderstood stability of cash generation
- Two major points give strong barriers to entry and in turn pricing power
 - Consolidation – 3 JVs control 87% of the North Atlantic
 - London airports are effectively full – BA dominates Heathrow
- Pricing power allows IAG to pass on higher fuel
- Currency moves post Brexit has helped their relative cost base
- Balance sheet rapidly strengthening
- Free cash flow coming back to shareholders
- Potential Norwegian transaction makes strategic sense – consolidates North Atlantic, short haul operations a good fit with Vueling

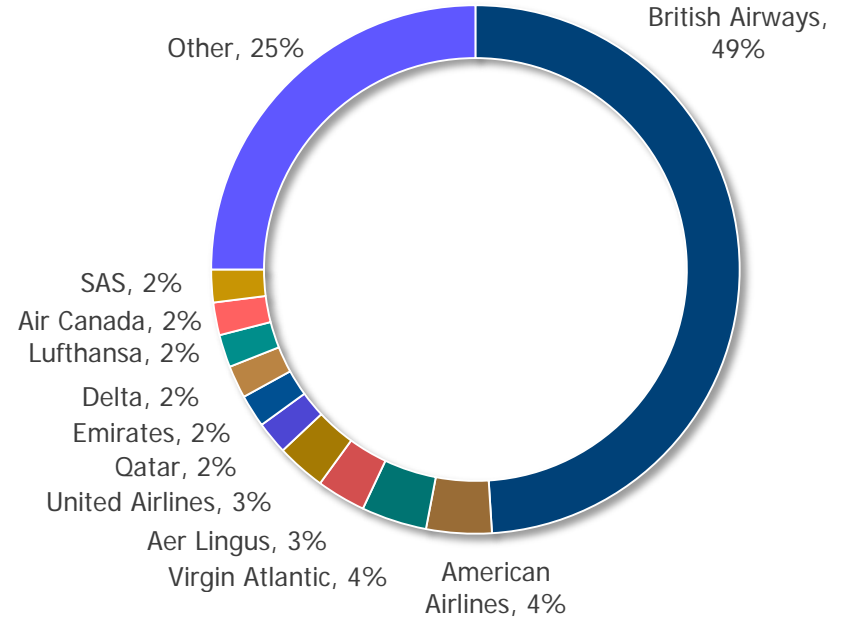
Valuation

- PE: 7.2x 2018 and 6.9x 2019, dividend 3.6% and 3.8%
- Equity free cash yield of 8% in 2018 and 12% in 2019

Risks

- Terrorism/Oil
- 3rd runway at Heathrow – but many years away

London Heathrow market share (seats)*



Stock view – Oxford Instruments Plc

Why we like it?

- World leader in scientific instrumentation for nano-technology research a rapidly growing area of material science.
- Over 40% of sales are to Asia, with over 50% of sales into Government funded/quasi government institutions.
- Previously a business that was more focused on world leading science, than commercialisation of IP.
- Under new Chairman, the Board has changed, a new CEO has been promoted and a new strategy to refocus the company on applying their IP to identifiable commercial opportunities has been implemented. Expect gap between high gross margins and low net margins to continue to close.
- Balance sheet de-risked with the sale of the industrial analysis business.

Valuation

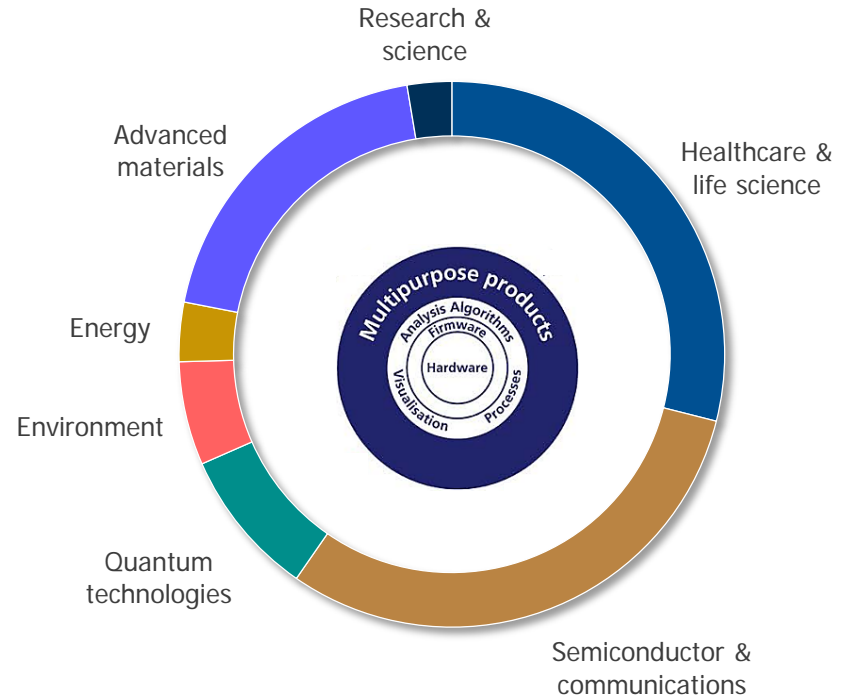
- PE of 19x 2018, 17.5x 2019 – discount to similar UK and US peers.
- Sub £500m EV for world leader in ‘hot’ area leaves company as potential M&A target.

Risks

- Exposed to semi conductor cycle
- FX – £ costs, \$ revenues

Source: Artemis as at 31 May 2018. *Oxford Instruments Preliminary Results presentation June 2018.

Solutions focused on growing end markets*



Shorting capability

Why short?

- Relaxing the short side constraint provides capability to capitalise on market inefficiencies across the market cap scale

Philosophy

- Flexible exposure depending on market conditions and opportunities identified
- UK Select remains a relative product – short book max 10% of net fund assets
- Individual stock shorts – positions intended to add value, rather than hedge exposure
- Time horizon shorter – seeking a catalyst within six months
- Position sizes smaller – 25bps to max 250bps

Artemis UK Select Fund

| | |
|--------------------------|---|
| Managed by | Ed Legget & Ambrose Faulks |
| Launched | 3 April 1998 |
| Fund size | £726.9m |
| Annual management charge | 0.75% – Class I 1.50% – Class R |
| Initial charge | 0.00% for both class I and R |
| Fund type | Unit trust – dual pricing |
| ISIN numbers | Artemis UK Select Fund I Acc – GB00B2PLJG05 Artemis UK Select Fund I Inc – GB00BD3GTF36 Artemis UK Select Fund R Acc – GB0002583267 |
| Sedol numbers | Artemis UK Select Fund I Acc – B2PLJG0 Artemis UK Select Fund I Inc – BD3GTF3 Artemis UK Select Fund R Acc – 258326 |

Source: Artemis as at 31 May 2018.

Important notice

Artemis UK Select Fund

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The fund may invest in the shares of small and medium sized companies.

The fund may use derivatives to protect the value of the fund, to reduce costs and with the aim of profiting from falling prices.

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