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# Artemis Strategic Bond Fund

Rebecca Young



# Credit + Rates partnership within a broader team approach

Supported by experienced fixed income specialists

**8** investment professionals focused on fixed income

Average **17** years investment experience covering entire fixed income market



**£3.8bn AUM** invested across **7** dedicated fixed income and multi-asset strategies

## Fund managers:



Stephen Snowden



David Ennett



Jack Holmes



Grace Le

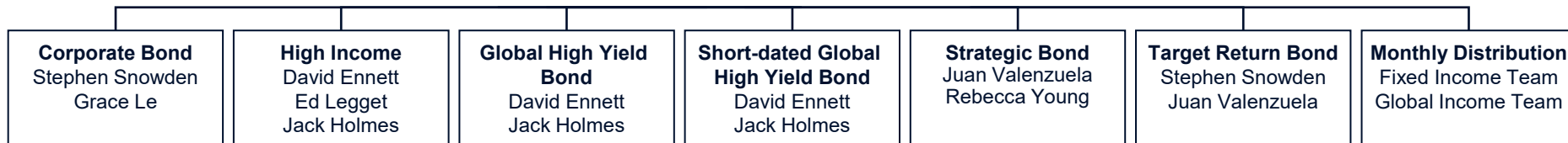


Juan Valenzuela



Rebecca Young

## Artemis fixed income strategies



Source: Artemis as at 31 May 2023.

# Why invest in the Artemis Strategic Bond Fund?



True to the strategic bond concept

- Actively manage the asset allocation through the business cycle
- Provide an alternative to building blocks
- Free from biases



Bottom-up to complement our asset allocation

- Focused fund – stock selection as a source of returns
- Rates input to optimise positioning



Free from benchmark

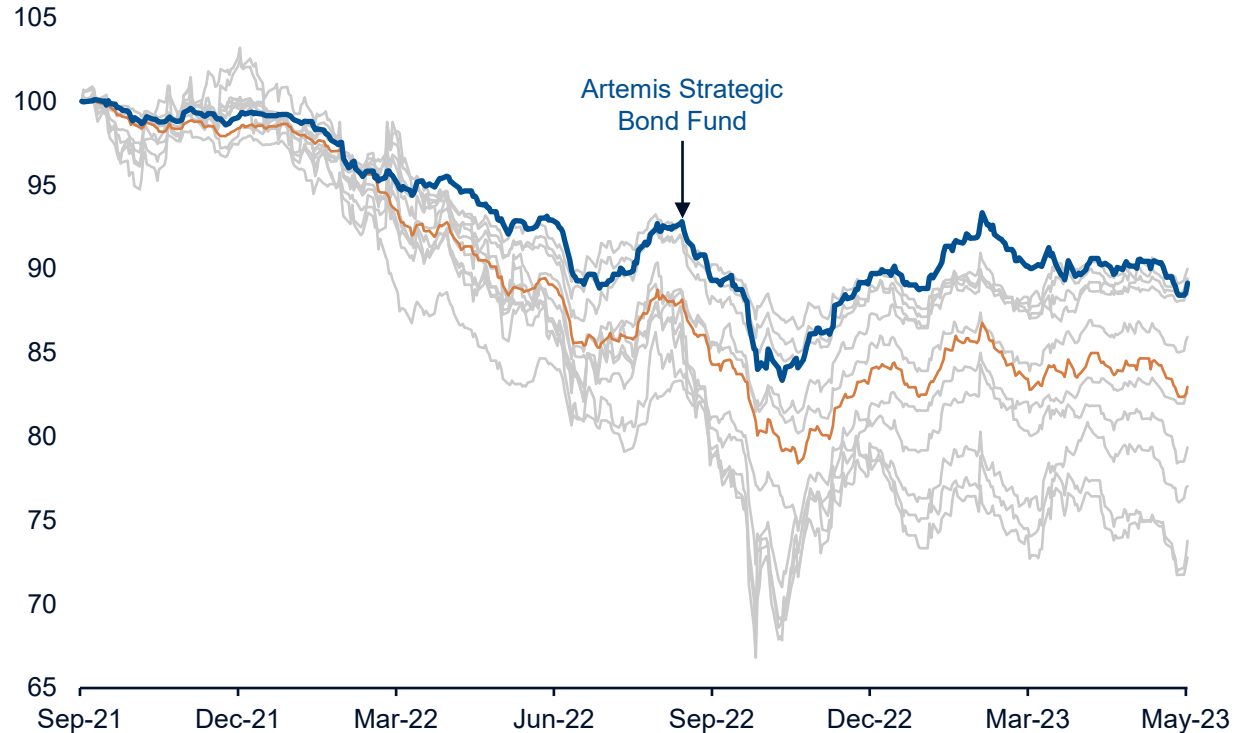
- The importance of what not to own in the post-QE world

Active  
unconstrained  
investors can  
exploit  
inefficiencies

# Fund performance relative to the investable universe

## Performance under the new management team

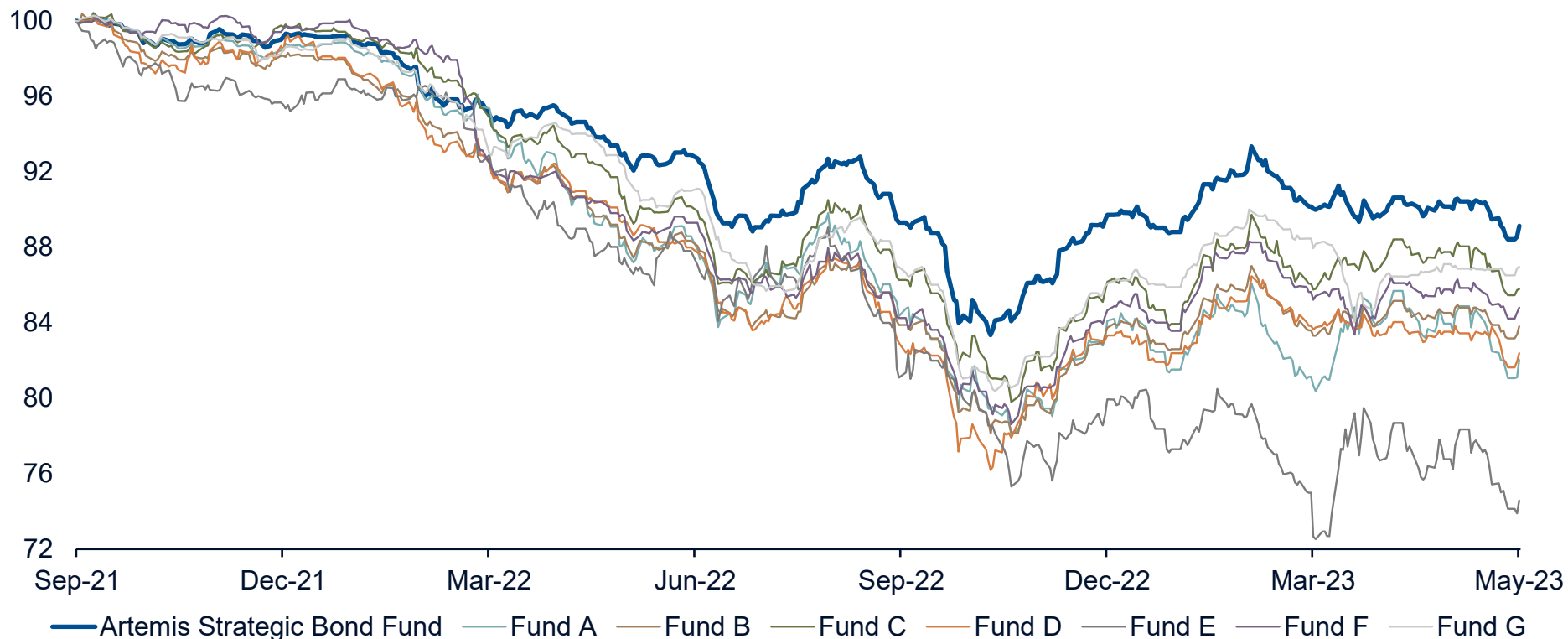
Bloomberg Global Agg Treasuries	-10.0%
Bloomberg Euro Agg Corporate	-10.6%
Bloomberg Global Aggregate	-10.6%
Artemis Strategic Bond Fund	-10.8%
Bloomberg Global High Yield	-11.5%
Bloomberg Global Agg Credit	-14.1%
Bloomberg EM USD Aggregate	-17.4%
Bloomberg Sterling Corporate	-20.6%
Bloomberg Global Inflation-Linked	-23.0%
Bloomberg Sterling Aggregate	-26.2%
FTSE Conventional Gilt	-27.2%



Past performance is not a guide to the future. Source: Bloomberg, class I quarterly accumulation shares in GBP from 8 September 2021 to 31 May 2023. All figures show total returns with dividends and/or income reinvested, net of all charges. Performance does not take account of any costs incurred when investors buy or sell the fund. The grey lines in the chart above show the performance of the indices listed in the table to the left of the chart. Note that the fund's benchmark is the IA £ Strategic Bond NR sector. The orange line shows the average performance of other strategic bond funds in the sector that were valued at >£1bn at 8 September 2021.

# Fund performance relative to major peers

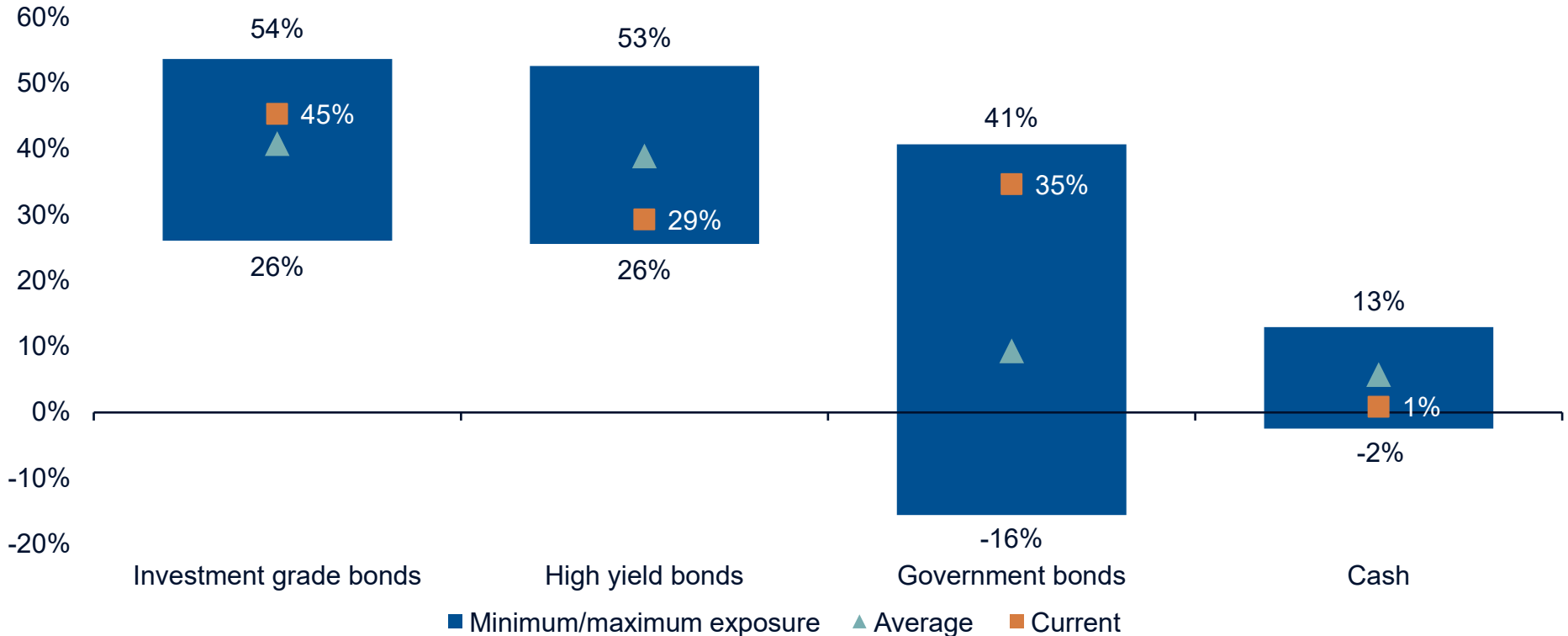
## Performance under new management team



Past performance is not a guide to the future. Source: Bloomberg, class I quarterly accumulation units in GBP from 8 September 2021 to 31 May 2023. Sector is IA £ Strategic Bond NR. All figures show total returns with dividends and/or income reinvested, net of all charges. Performance does not take account of any costs incurred when investors buy or sell the fund. This class may have charges or a hedging approach different from those in the IA sector benchmark. Fund performance relative to large commercial sector peers that were valued at >£1bn at 8 September 2021.

# An integrated fixed income solution

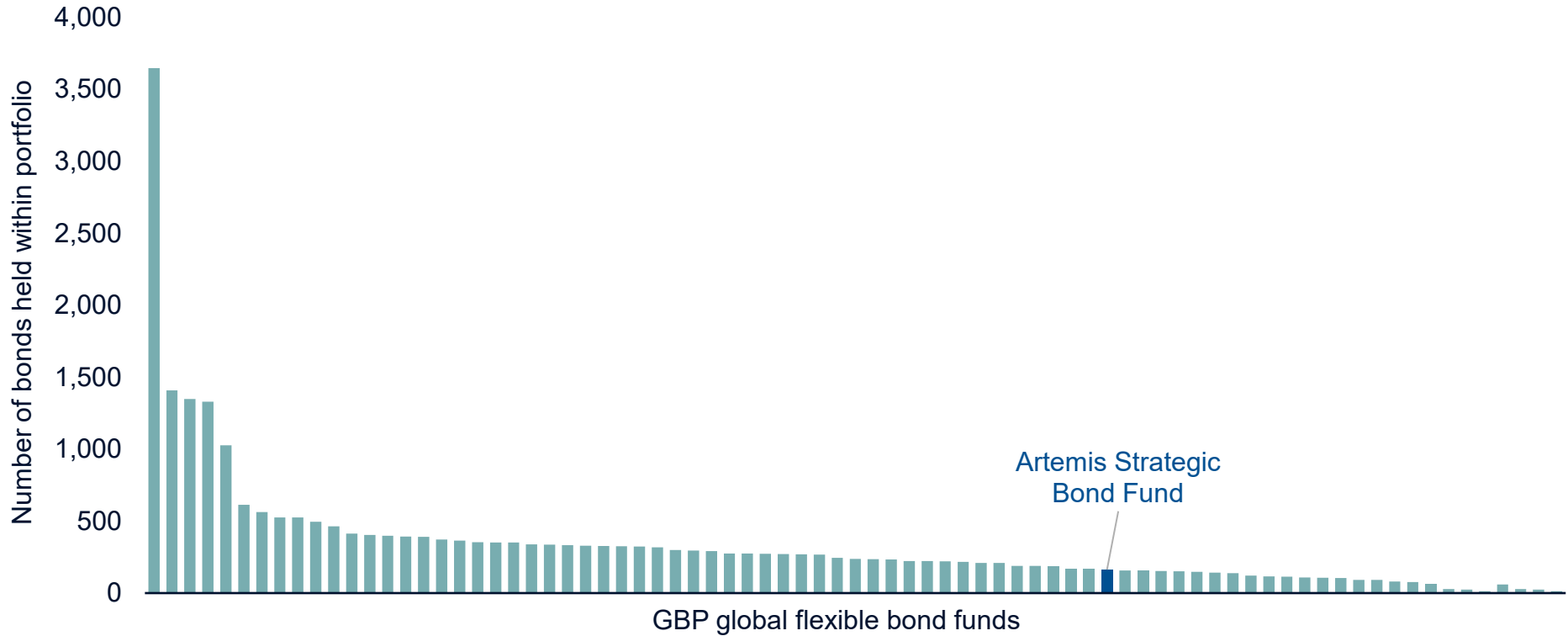
## Seeking out the optimal blend of fixed income assets



Source: Artemis, FactSet from 30 September 2005 to 31 May 2023.

# Focused fund

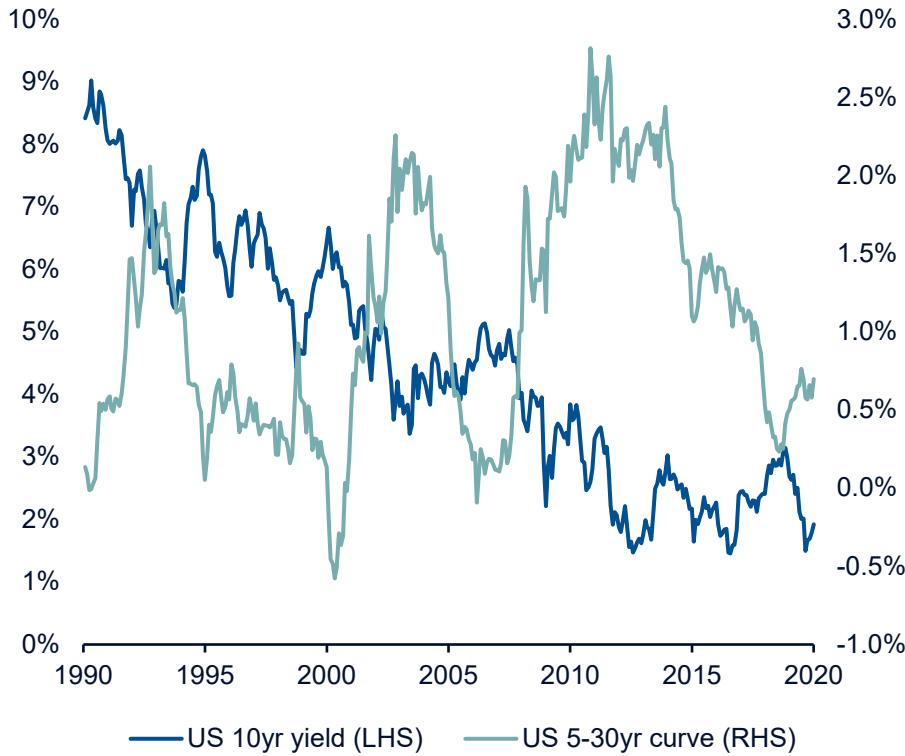
## Our fund versus 'active' global flexible bond fund peers



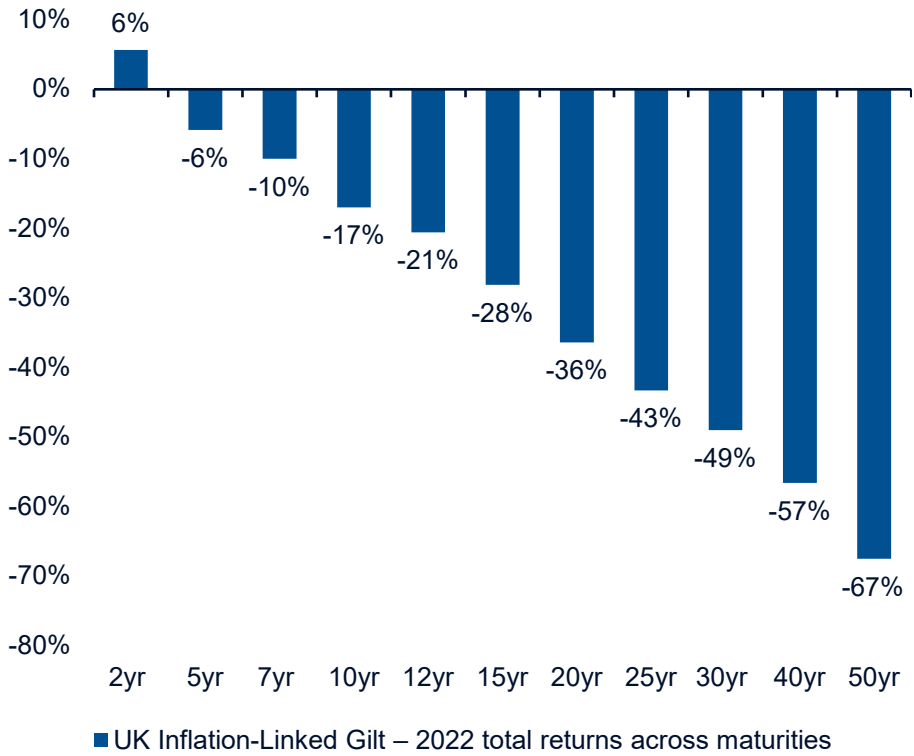
Source: Morningstar as at 31 May 2023. Chart shows all funds classified as 'GBP global flexible bond funds' excluding tracker funds.

# Asset allocation complemented by relative value

## Idiosyncratic relative value trades<sup>1</sup>



## Total returns for inflation-linked bonds in 2022<sup>2</sup>

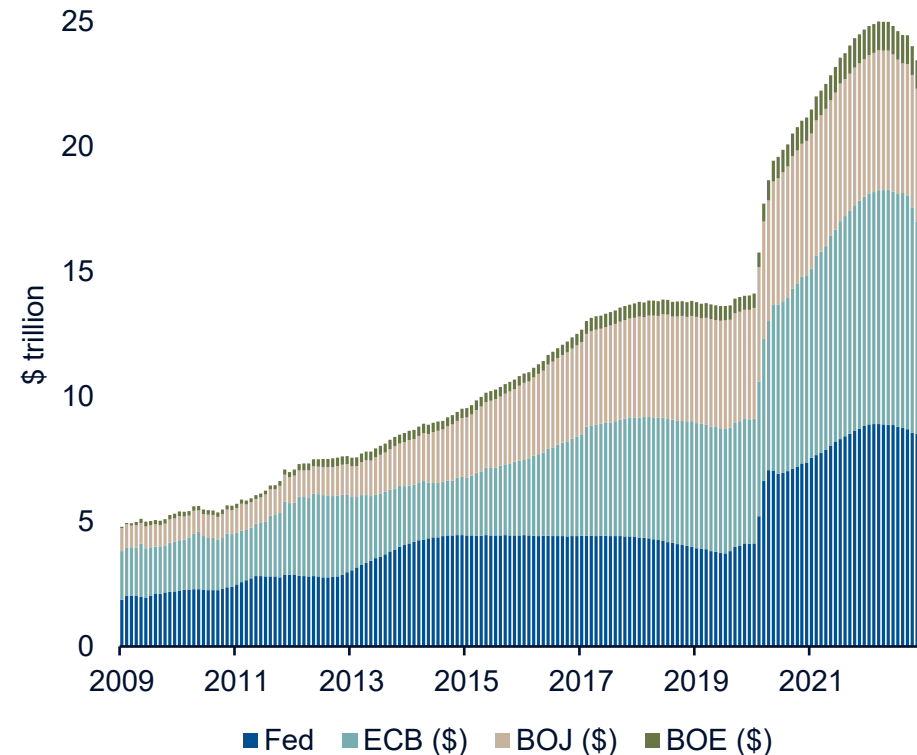


Source: <sup>1</sup>Bloomberg as at 1 January 2020. <sup>2</sup>Bloomberg as at 31 December 2022.

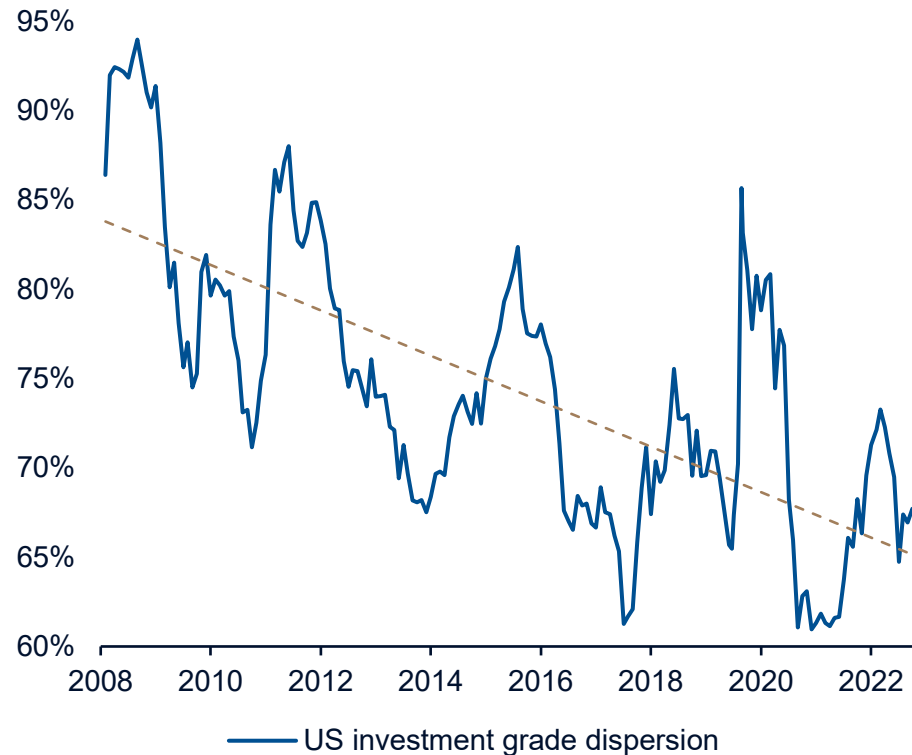


# Why an unconstrained approach will be vital in a post-QE world

As central banks withdraw liquidity<sup>1</sup>...



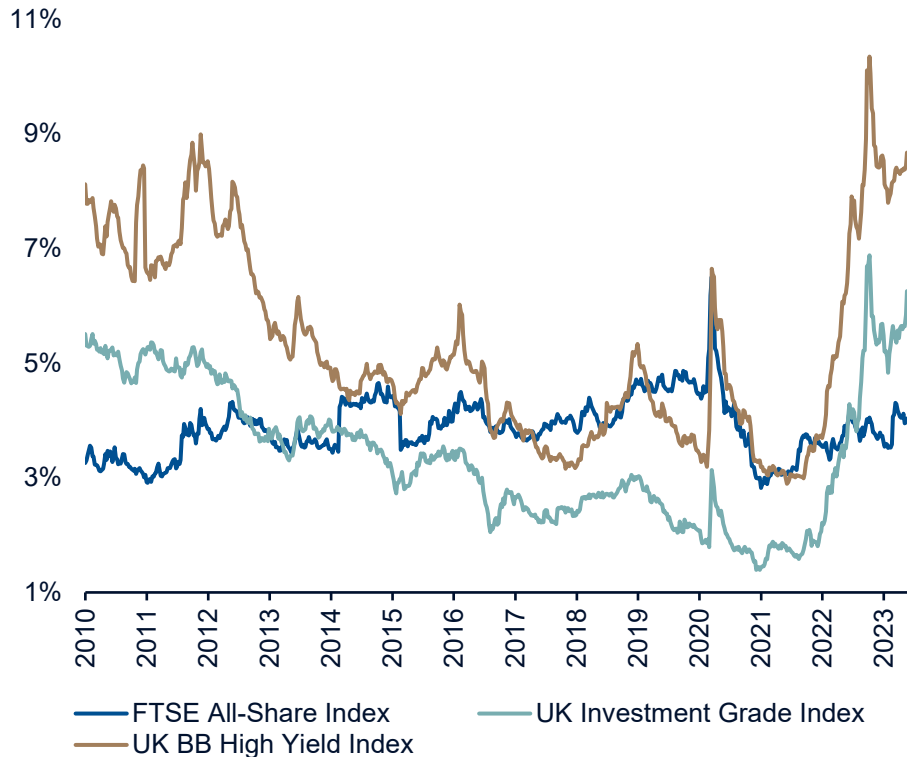
...Unconstrained investors can profit from wider dispersion<sup>2</sup>



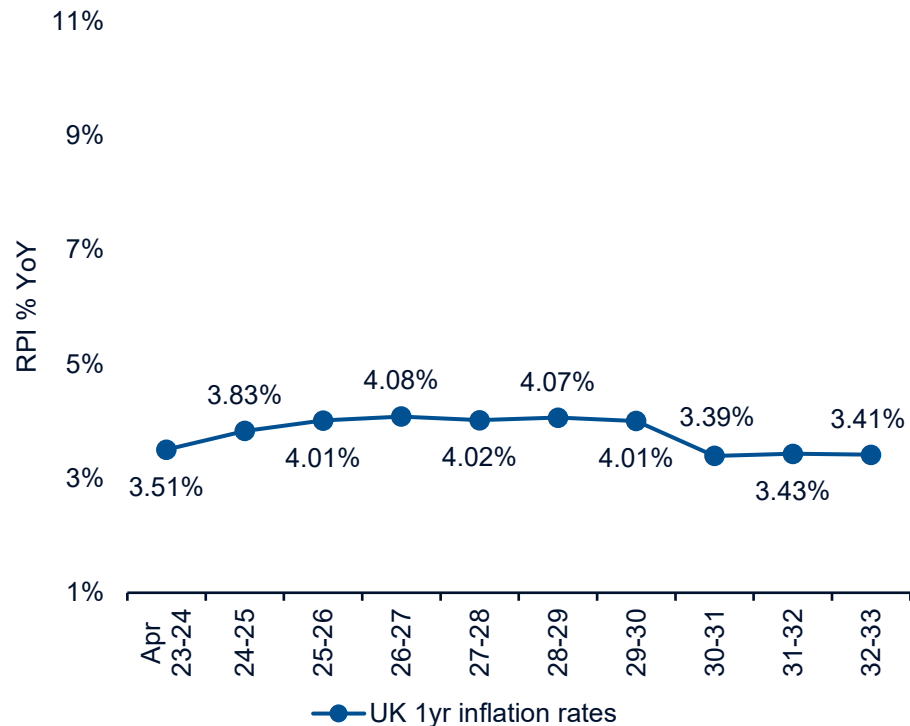
Source: <sup>1</sup>Bloomberg as at 31 December 2022. <sup>2</sup>BofA Merrill Lynch as at 31 May 2023. Spreads trade outside +/- 25bps of rating specific subindex level.

# Beat inflation by buying bonds

## Bond versus equity yields<sup>1</sup>

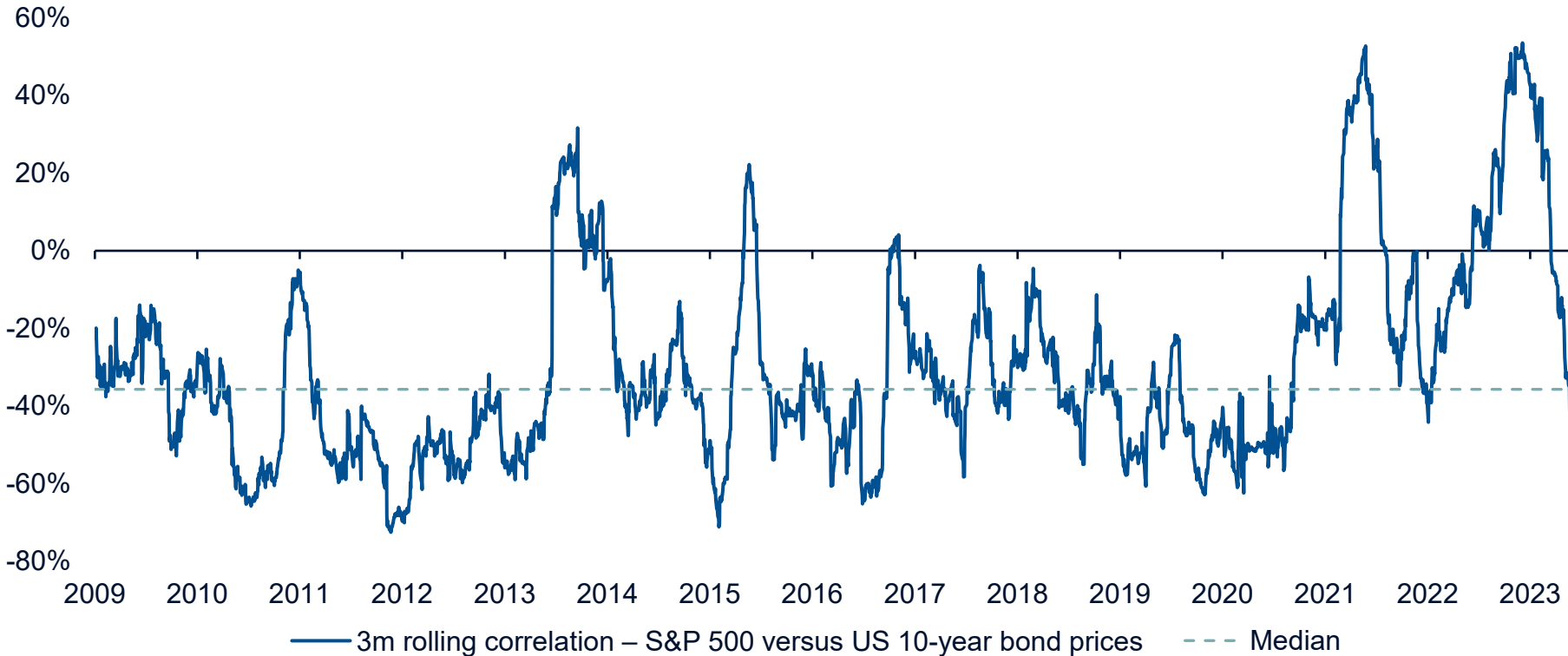


## UK Retail Price Index (RPI) – 1yr tenor<sup>2</sup>



Source: <sup>1</sup>BofA Merrill Lynch as at 31 May 2023. FTSE All-Share dividend yield. <sup>2</sup>Bloomberg as at 5 June 2023.

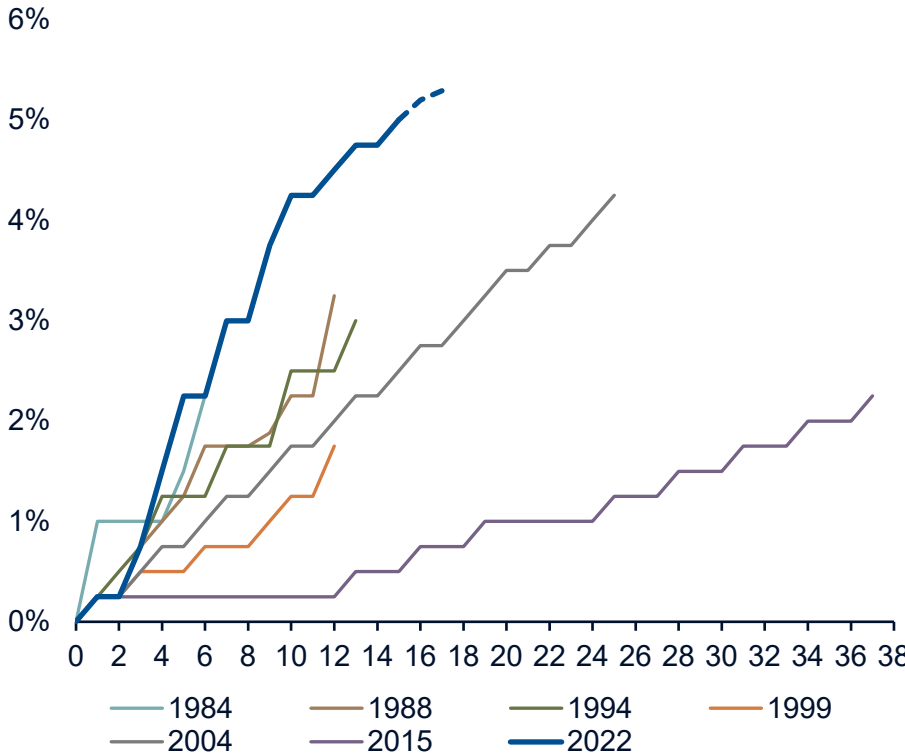
# Bonds are finally diversifying again



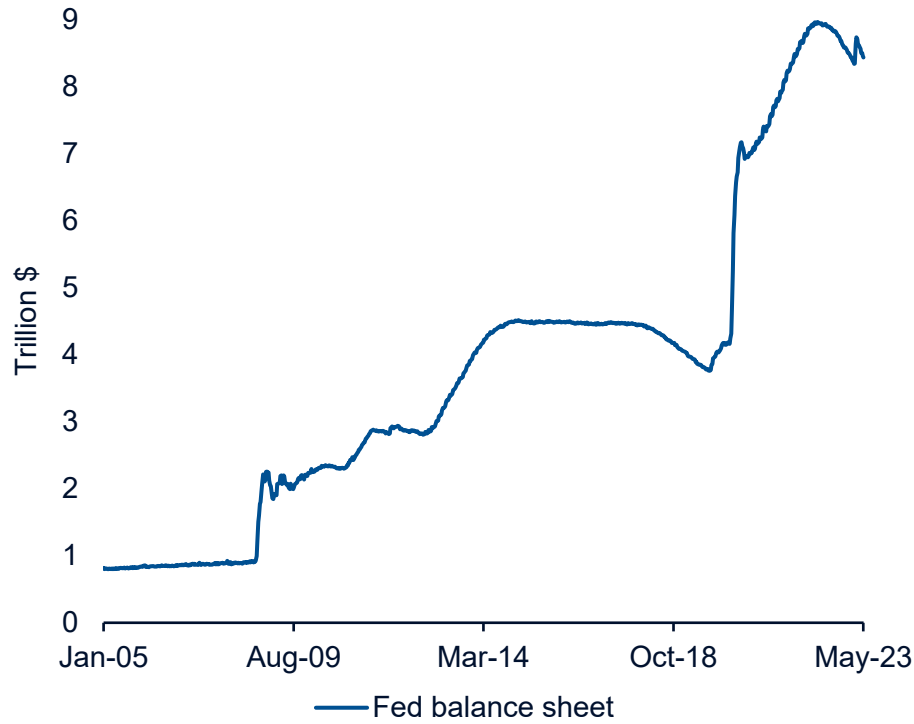
Source: Bloomberg, JP Morgan as at 31 May 2023.

# US Fed rate hikes across tightening cycles

Fed fund rate cumulative change since cycle start<sup>1</sup>



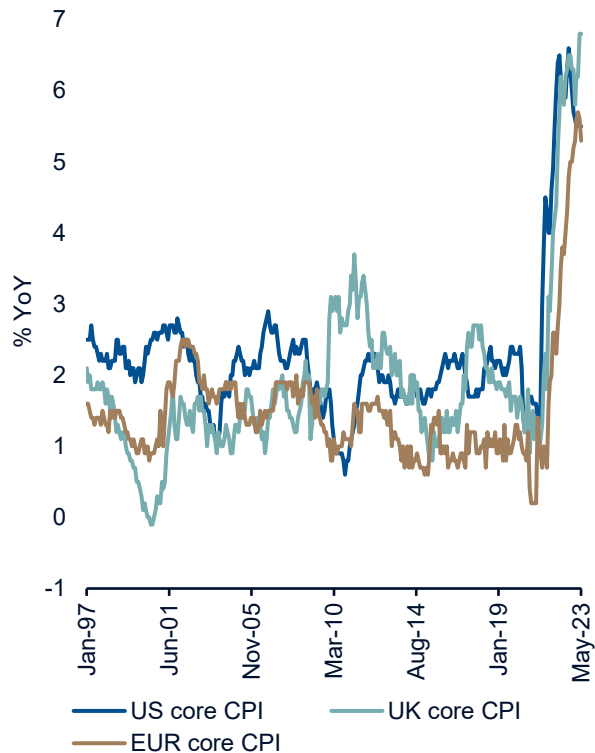
Additional tightening from smaller balance sheet<sup>2</sup>



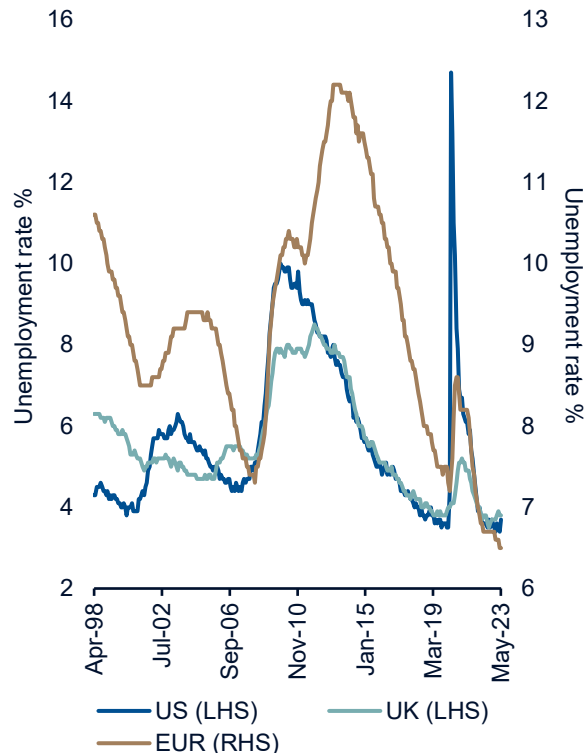
Source: <sup>1</sup>Bloomberg as at 26 May 2023. Market expectations for May 2023 to July 2023 (indicated by dashed line). <sup>2</sup>Bloomberg as at 24 May 2023.

# Balancing risk and reality

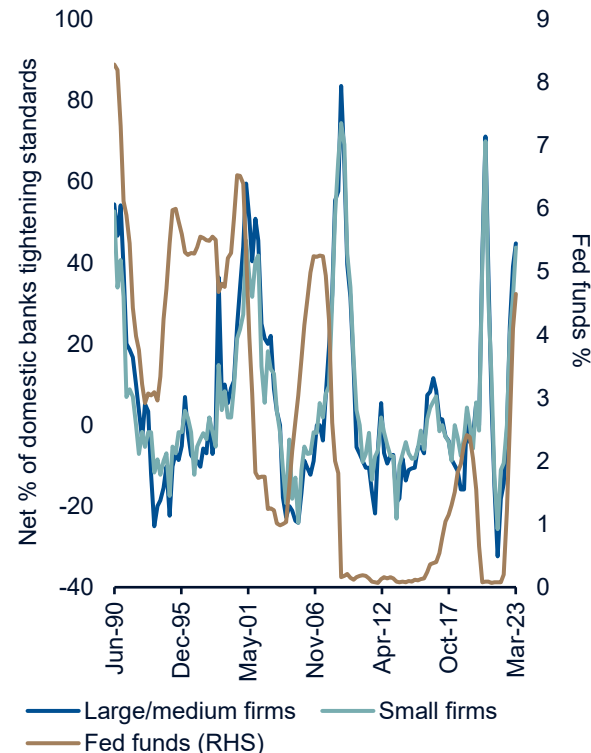
## Core inflation<sup>1</sup>



## Unemployment rate<sup>1</sup>



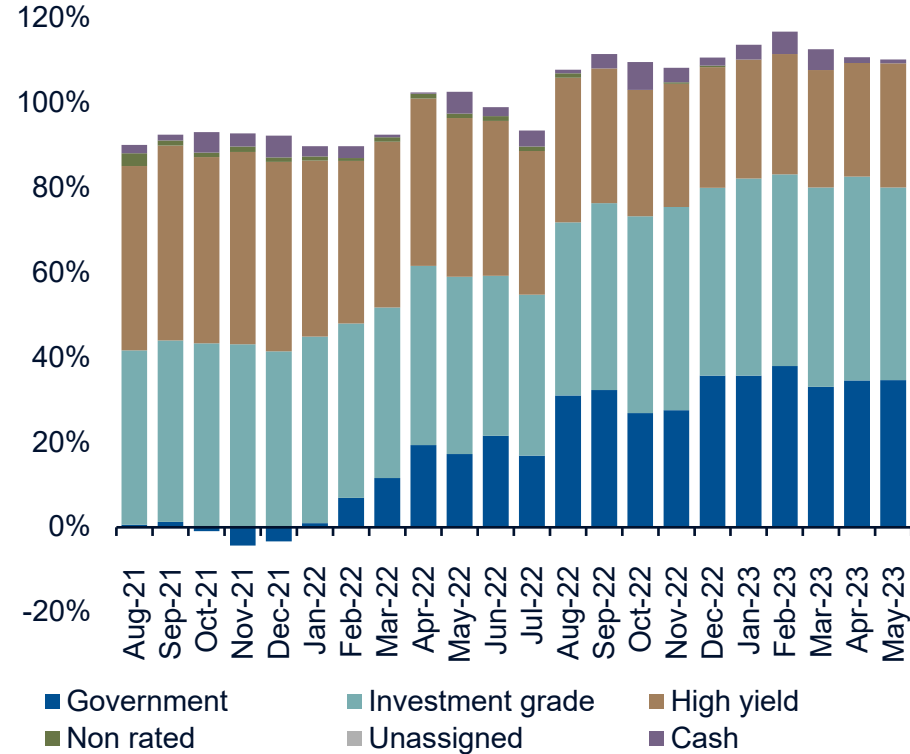
## Credit conditions<sup>2</sup>



Source: <sup>1</sup>Bloomberg as at 31 May 2023. <sup>2</sup>Bloomberg as at 31 March 2023, Federal Reserve 'Senior Loan Officer Opinion Survey on Bank Lending Practices' report as at 8 May 2023.

# Nimble and dynamic

## Historic asset allocation %<sup>1</sup>

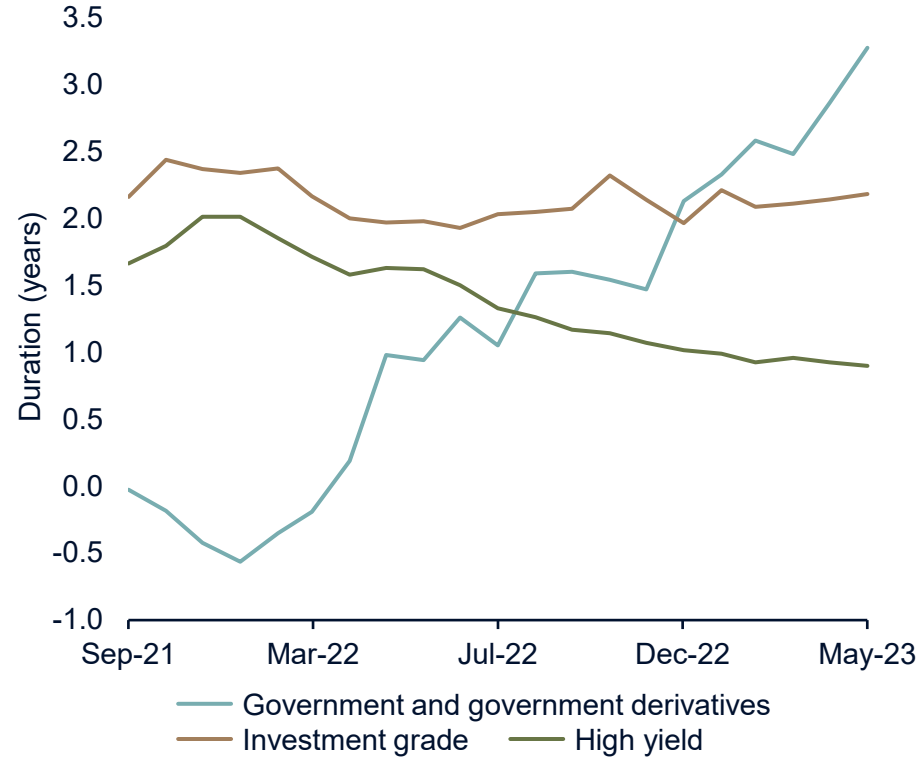


## Current asset allocation %<sup>2</sup>

	Bonds	Derivatives	Net
Government	25%	10%	35%
Investment grade	45%		45%
High yield	29%		29%
Non rated	0%		0%
Cash	1%		1%
<b>Total</b>	<b>100%</b>	<b>10%</b>	<b>110%</b>

Source: <sup>1</sup>Artemis, FactSet from 31 August 2021 to 31 May 2023. The current team started managing the fund on 8 September 2021. <sup>2</sup>Artemis, FactSet as at 31 May 2023.

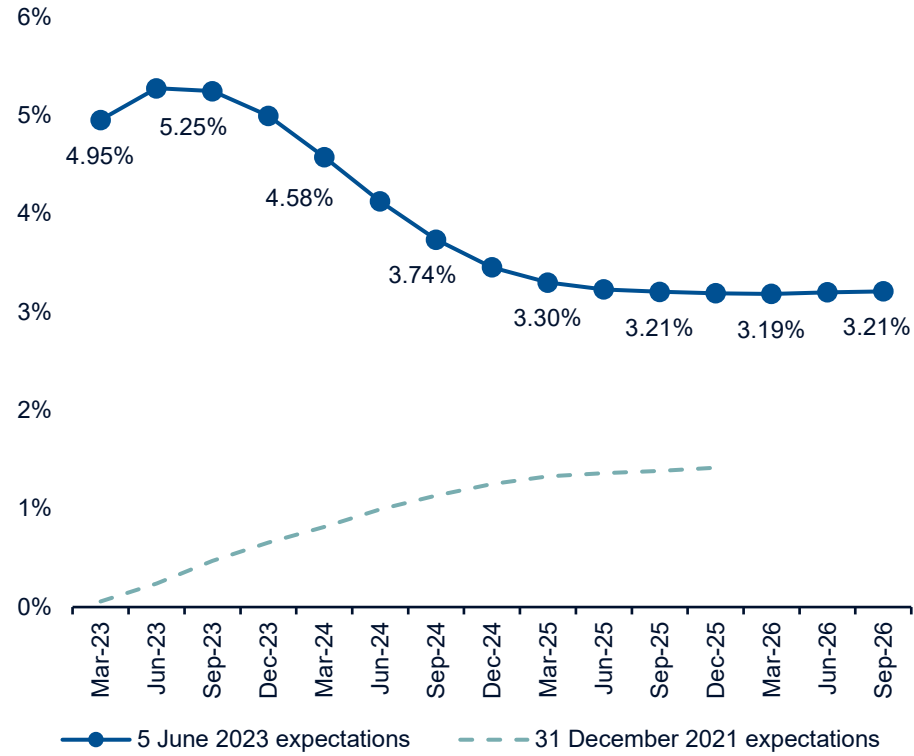
# Duration evolution



Source: Artemis, FactSet from September 2021 to 31 May 2023. The current team started managing the fund on 8 September 2021. The fund is the Artemis Strategic Bond Fund.

# Government valuations offer a more symmetric return profile

## US rate expectations



## Terminal rate

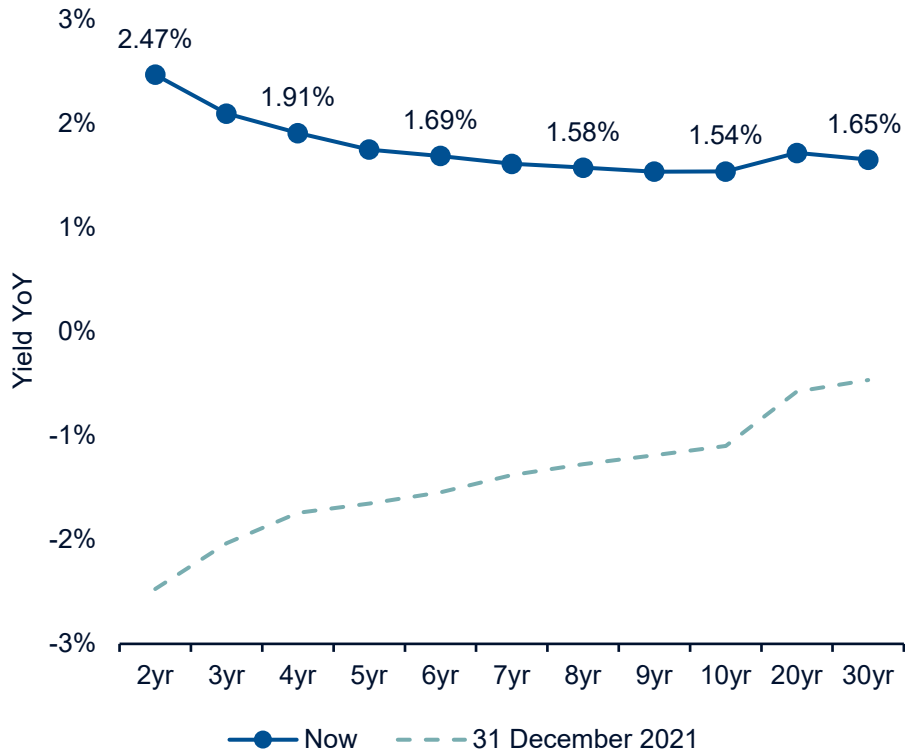


Source: Bloomberg as at 5 June 2023.

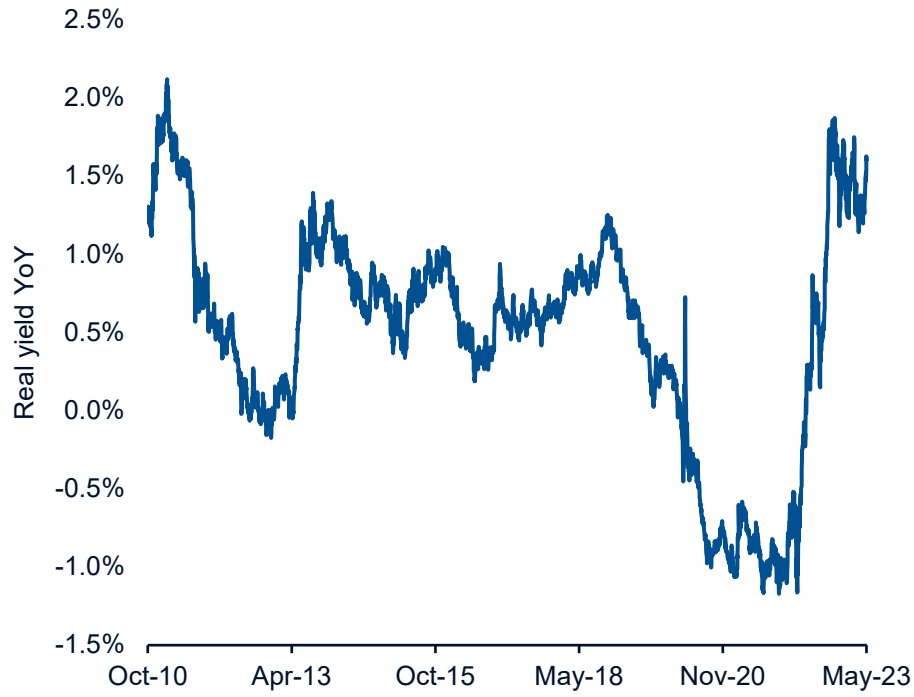


# Inflation trades

## Treasury inflation-protected securities (TIPS) curve



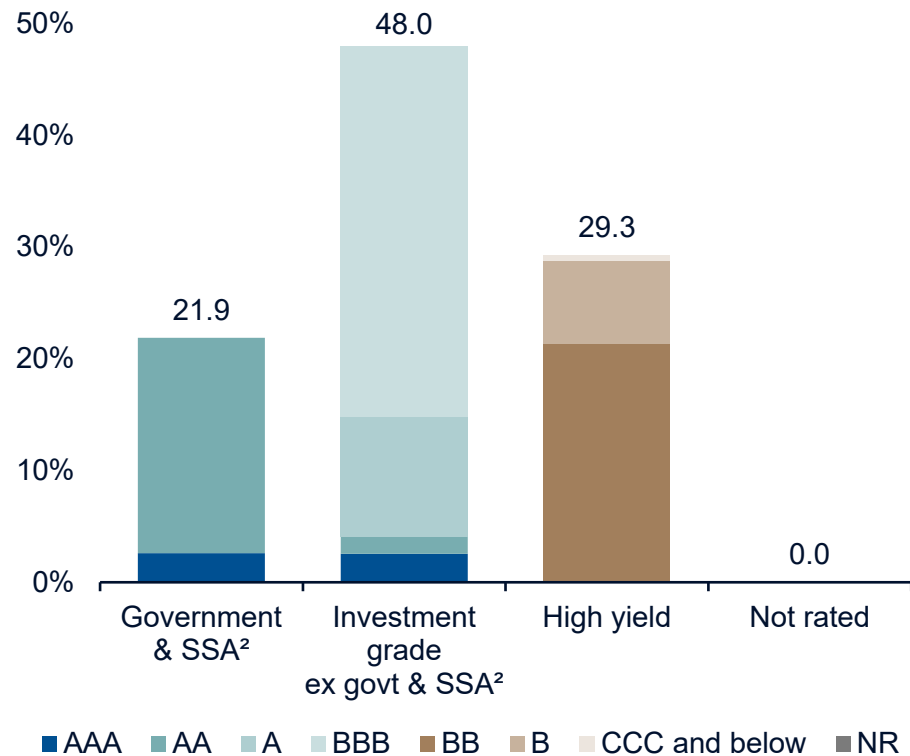
## US Inflation Protection 3.375% April 2032 real yield



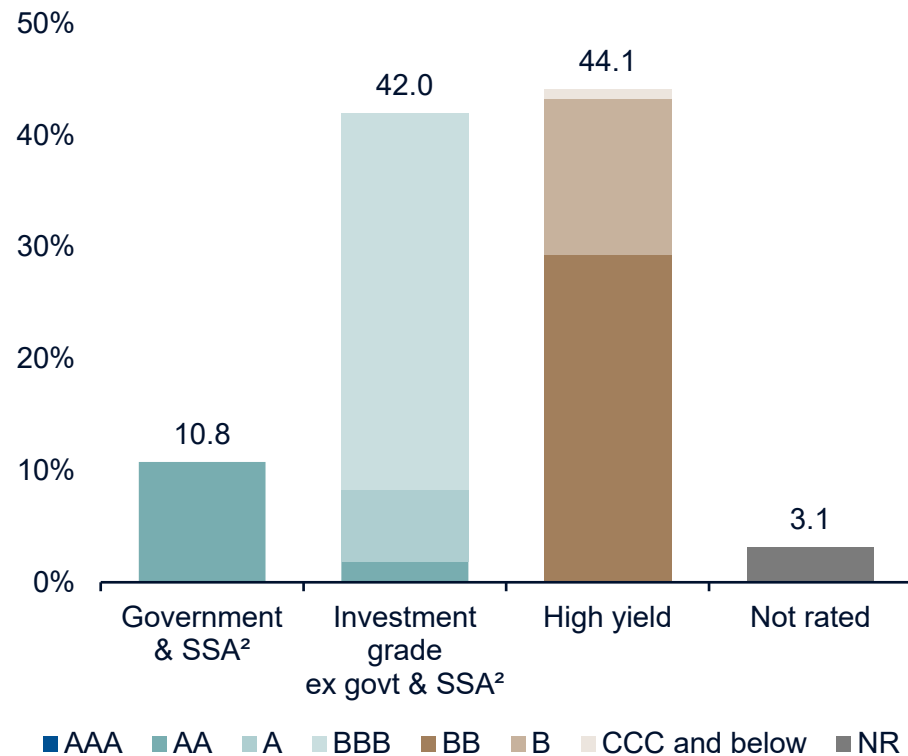
Source: Bloomberg as at 26 May 2023.

# Fund ratings breakdown

## Current ratings breakdown



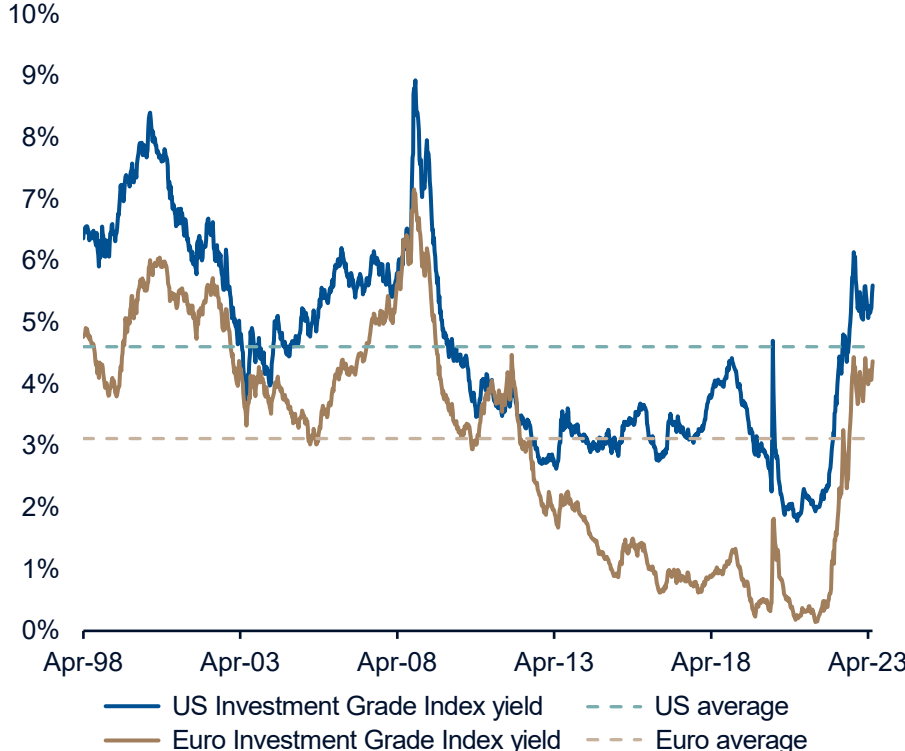
## Ratings breakdown as at 7 September 2021<sup>1</sup>



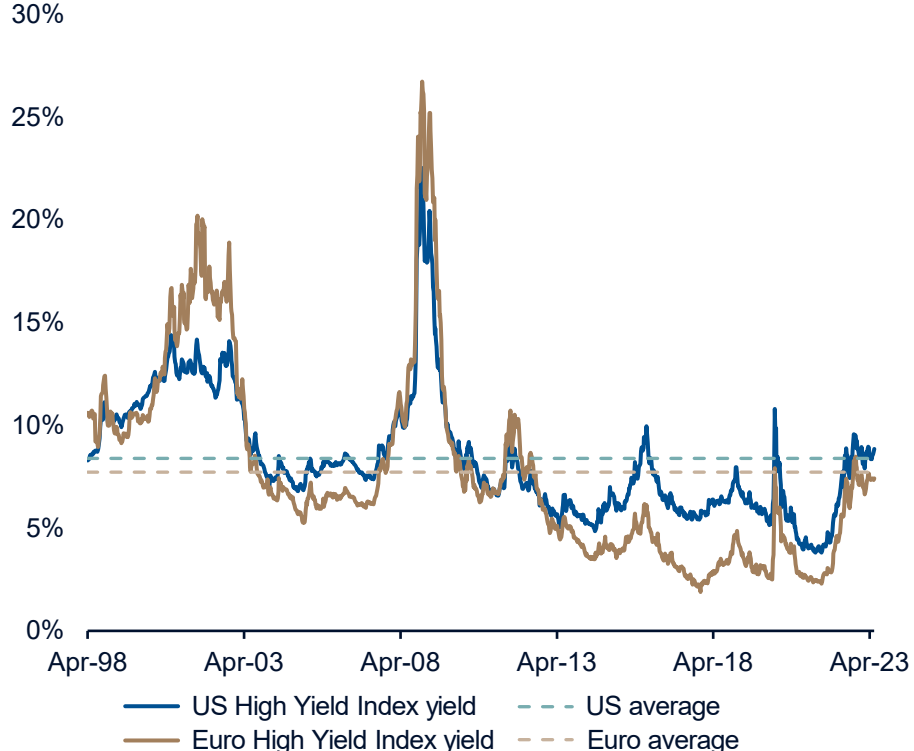
Source: Artemis as at 31 May 2023. <sup>1</sup>The current team started managing the fund on 8 September 2021. <sup>2</sup>SSA = Sovereign, Supranational and Agency Bonds. Note: breakdown reflects physical assets only, no derivatives exposure.

# An attractive yield environment

## US and Euro investment grade bond yields



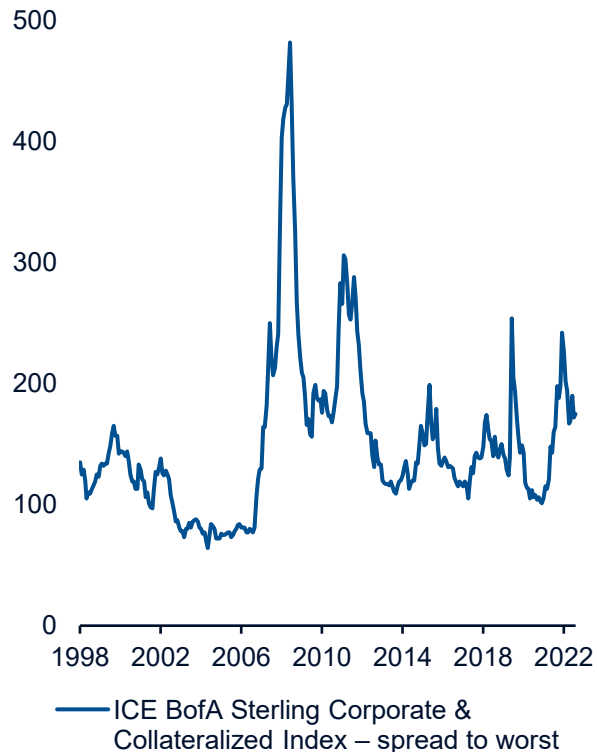
## US and Euro high yield bond yields



Source: BofA Merrill Lynch as at 31 May 2023.

# Not at the highs, but approaching the highs

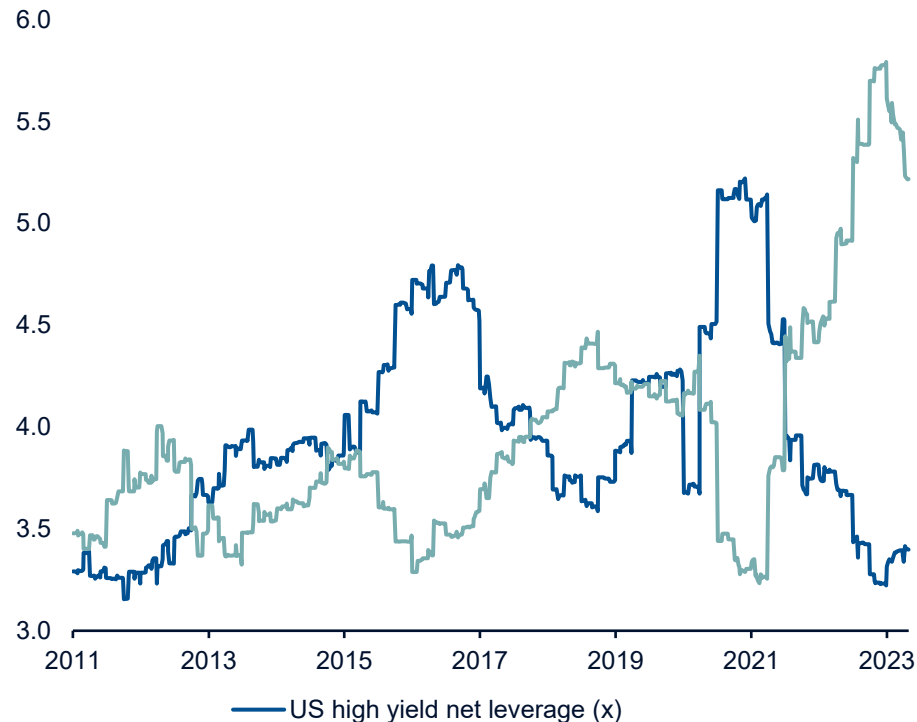
10 Year Gilt yield + spread to worst = £ IG Corporate yield to worst



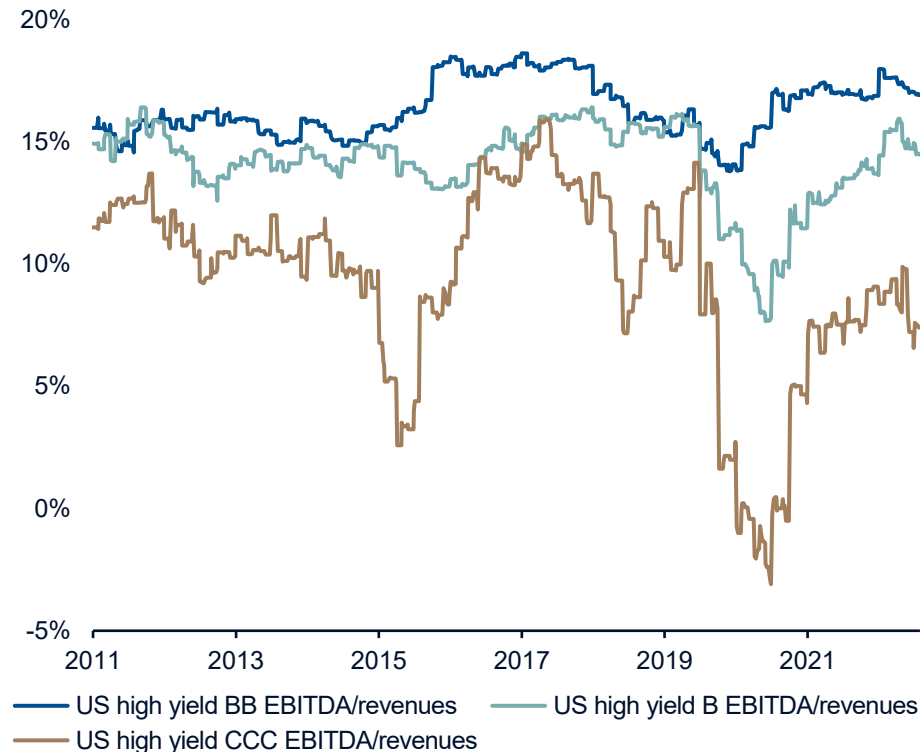
Source: Bloomberg as at 31 May 2023.

# Credit market fundamentals – a healthy starting point

## Rapid pace of balance sheet repair



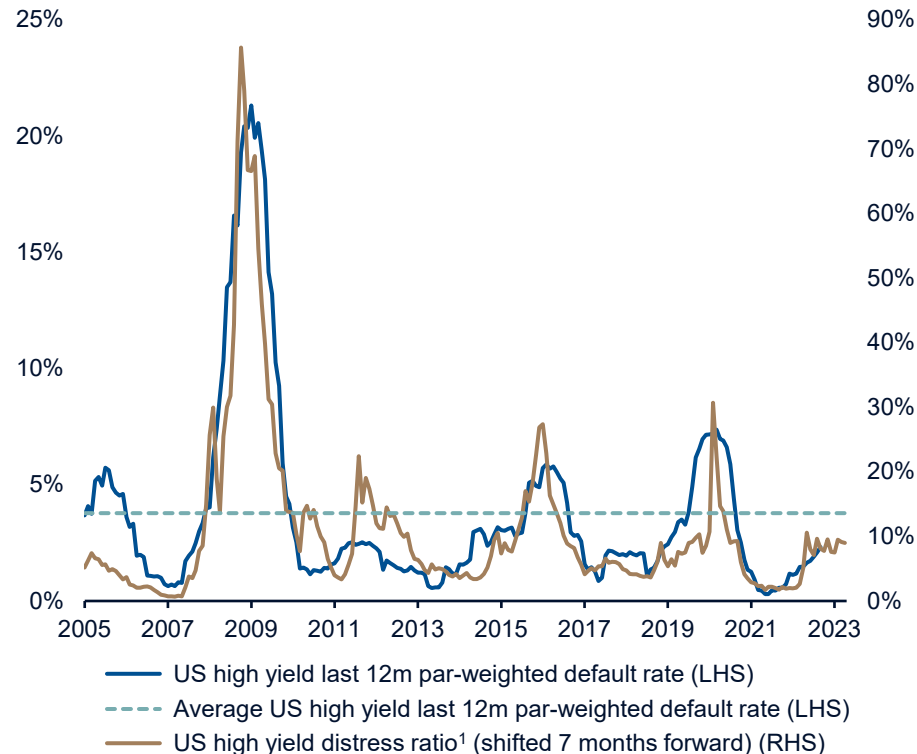
## Healthy margin recovery



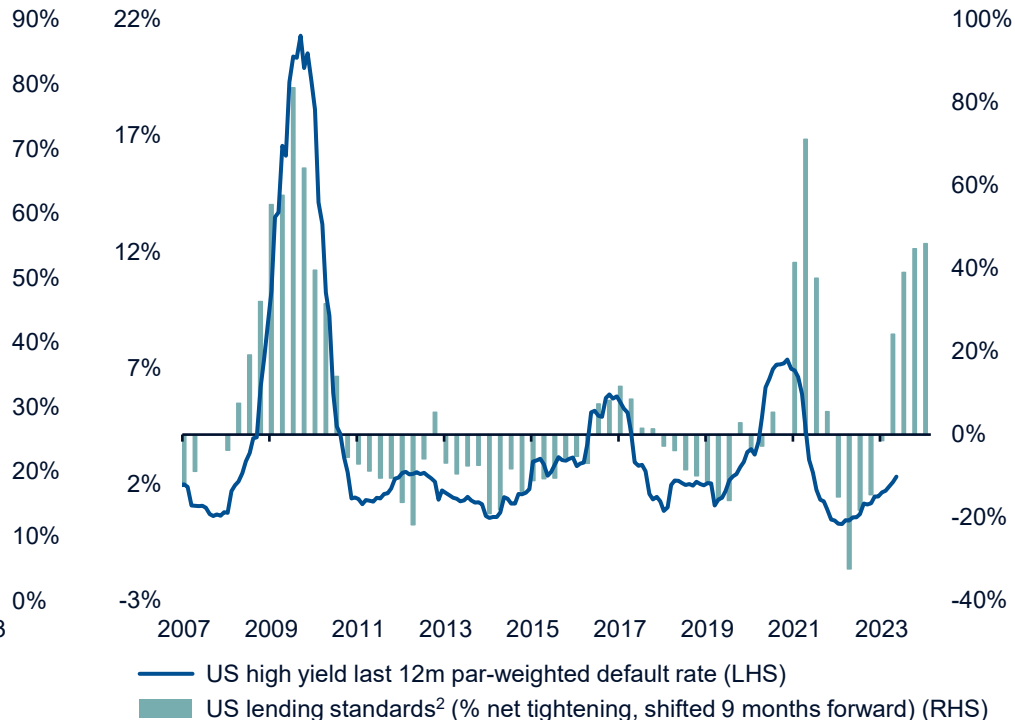
Source: BofA Merrill Lynch as at 31 May 2023. Tracked subset of US high yield issuers. EBITDA: earnings before interest, taxes, depreciation and amortisation.

# Default rates rising but off historically low levels

## Default rates versus distress



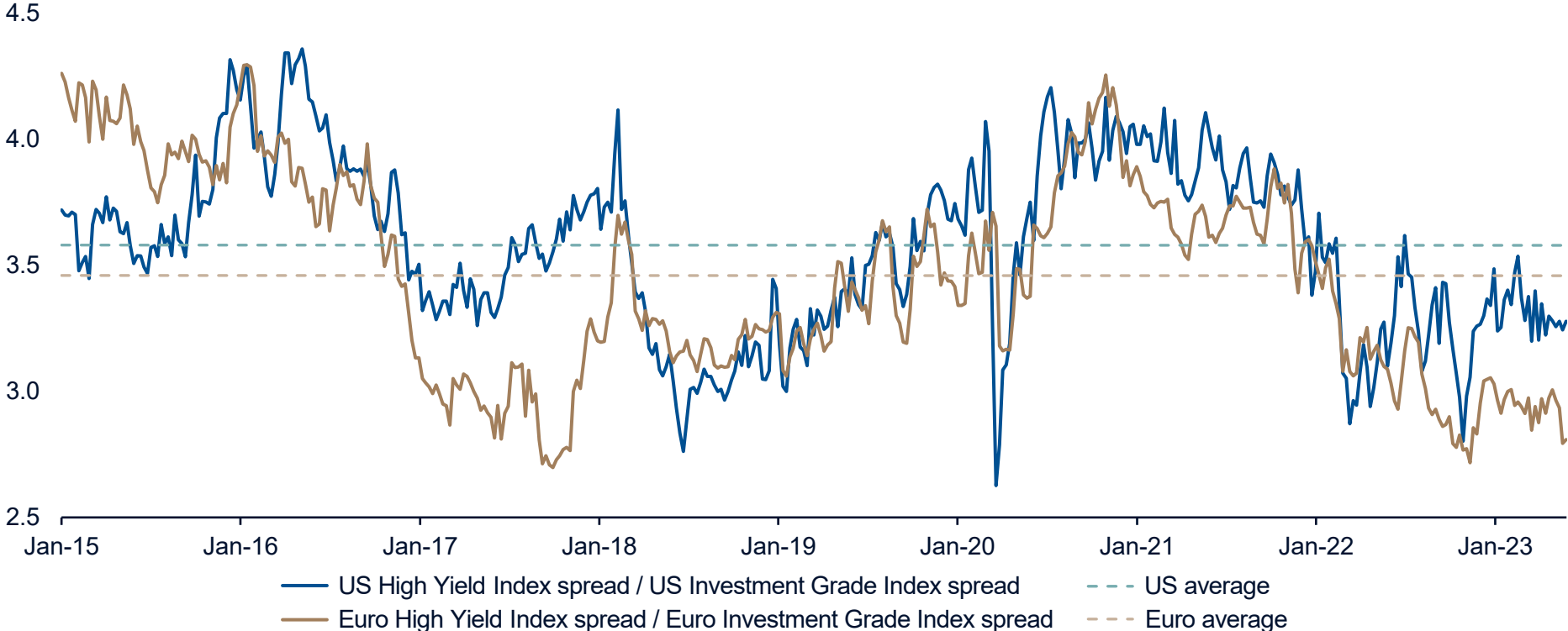
## Default rates versus lending standards



Source: BofA as at 31 May 2023. <sup>1</sup>Distress ratio: share of outstanding debt trading with spreads > 1,000bp for USD bonds of developed market issuers. <sup>2</sup>Senior Loan Officer Opinion Survey on Bank Lending Practices: net % of domestic respondents tightening standards for commercial and industrial loans to large/medium firms.

# An up-in-quality bias

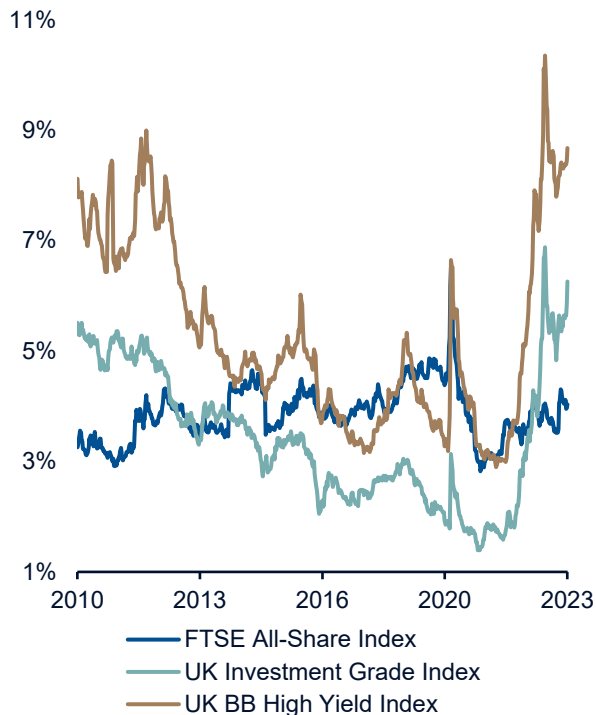
## Credit spread ratio between high yield and investment grade



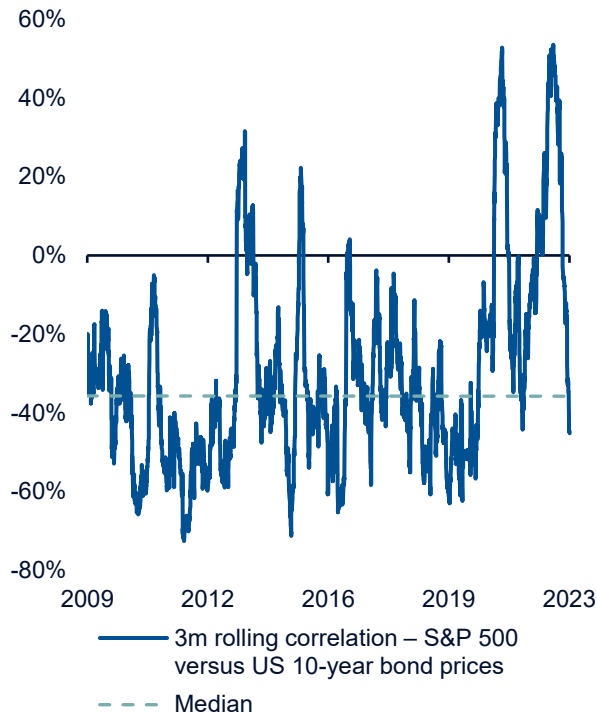
Source: BofA Merrill Lynch as at 31 May 2023.

# Summary

## An attractive yield environment<sup>1</sup>



## Bonds are finally diversifying again<sup>2</sup>



## Opportunities for unconstrained investors<sup>3</sup>

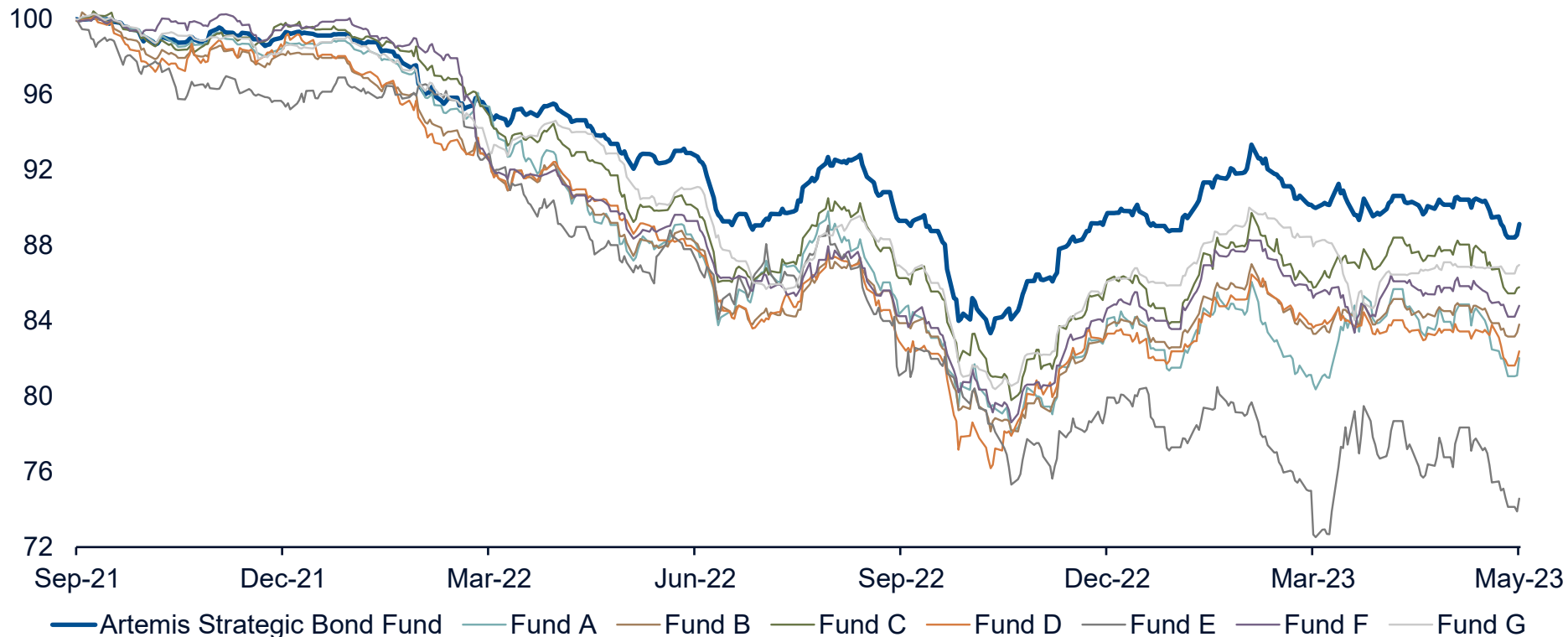


Source: <sup>1</sup>BofA Merrill Lynch as at 31 May 2023. FTSE All-Share dividend yield. <sup>2</sup>Bloomberg, JP Morgan as at 31 May 2023. <sup>3</sup>BofA Merrill Lynch as at 31 May 2023. Spreads trade outside +/- 25bps of rating specific subindex level.



# Fund performance relative to major peers

## Performance under new management team



Past performance is not a guide to the future. Source: Bloomberg, class I quarterly accumulation units in GBP from 8 September 2021 to 31 May 2023. Sector is IA £ Strategic Bond NR. All figures show total returns with dividends and/or income reinvested, net of all charges. Performance does not take account of any costs incurred when investors buy or sell the fund. This class may have charges or a hedging approach different from those in the IA sector benchmark. Fund performance relative to large commercial sector peers that were valued at >£1bn at 8 September 2021.

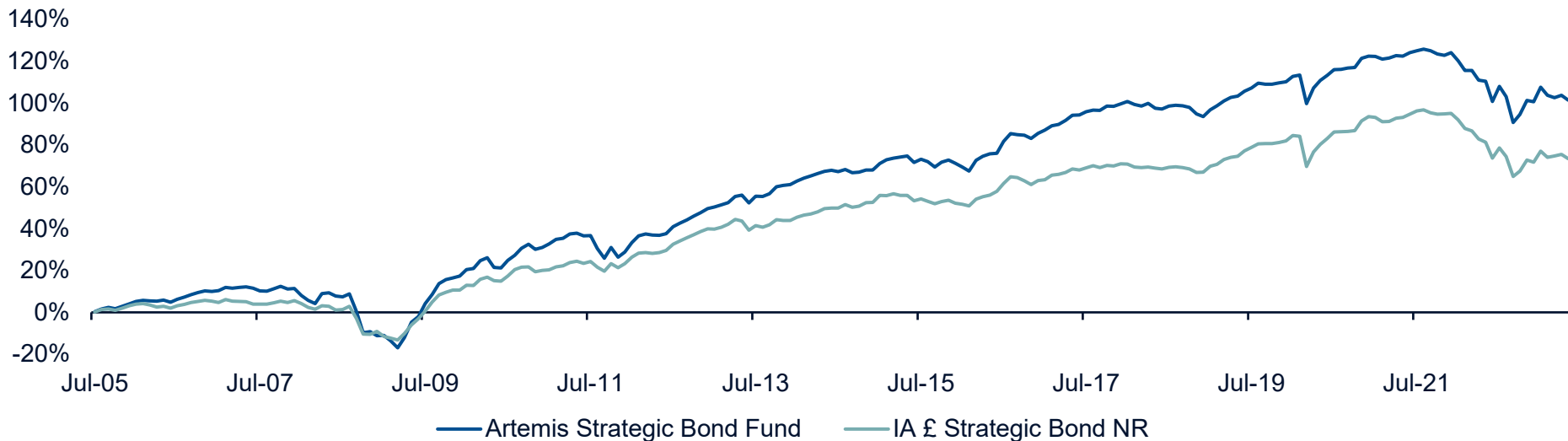


# Appendix



# Artemis Strategic Bond Fund performance

## Strong long term performance

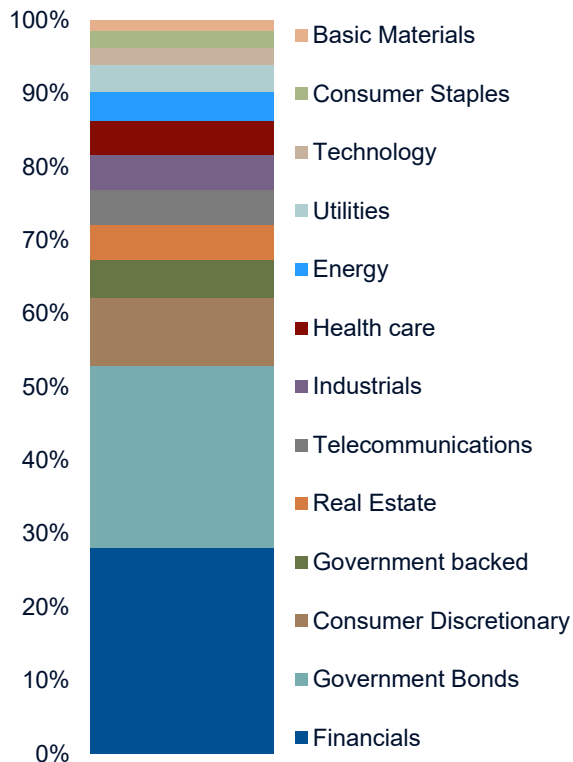


%	YTD	Since 8-Sep-21 <sup>1</sup>	1 year	3 years	5 years	10 years	Since launch
Artemis Strategic Bond QI Acc	0.4	-10.9	-4.3	-4.5	2.0	29.1	101.4
£ Strategic Bond average	0.9	-11.9	-4.4	-3.9	2.6	20.7	73.3
Difference	-0.6	1.0	0.6	-1.0	-1.6	9.7	28.3

Past performance is not a guide to the future. Source: Lipper Limited, class I quarterly accumulation units in GBP from 31 July 2005 to 31 May 2023. Sector is IA £ Strategic Bond NR. All figures show total returns with dividends and/or income reinvested, net of all charges. Performance does not take account of any costs incurred when investors buy or sell the fund. This class may have charges or a hedging approach different from those in the IA sector benchmark. <sup>1</sup>The current team started managing the fund on 8 September 2021.

# Artemis Strategic Bond Fund: portfolio positioning

## Sector breakdown



## Top 10 holdings

Government of UK 0.125% 2029	5.2%
Government of UK 0.375% 2026	2.7%
Government of UK 0.125% 2028	2.7%
Government of USA 1.375% 2044	2.3%
Government of USA 2.875% 2029	1.7%
Government of USA 2.375% 2042	1.7%
Government of New Zealand 2.5% 2035	1.6%
Government of UK 1.25% 2041	1.6%
CPPIB Capital 1.25% 2027	1.1%
Centene Corporation 4.625% 2029	1.1%

## Currency exposure

British Pound	61.47%
US Dollar	21.38%
Euro	13.71%
NZ Dollar	1.64%
Canadian Dollar	0.96%

## Ratings mix

AAA	5.1%
AA	20.8%
A	10.7%
BBB	33.1%
BB	21.3%
B	7.5%
CCC and below	0.5%
NR	0.0%

## Maturity profile

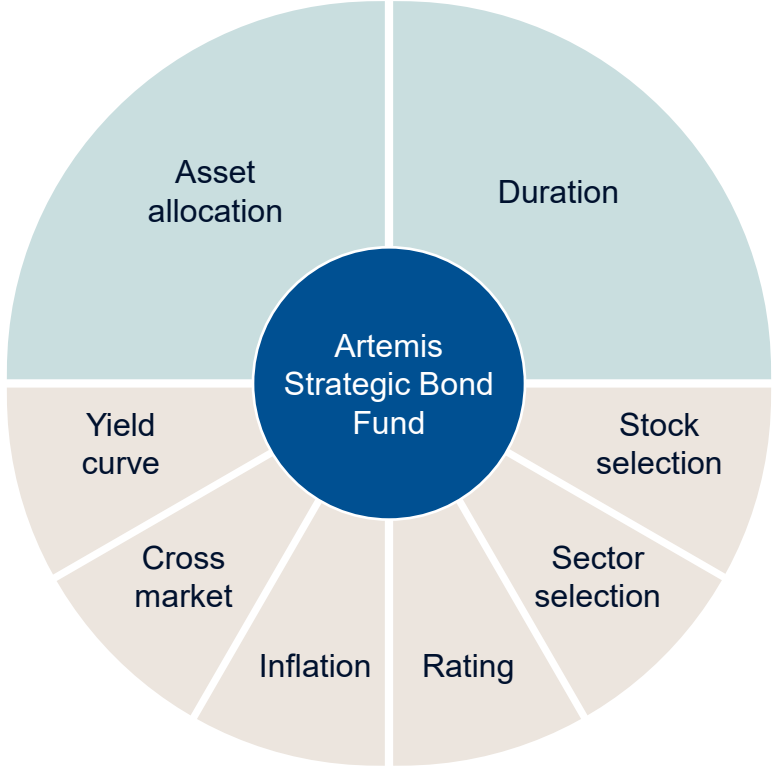
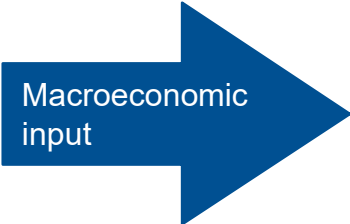
0 - 5 years	45.2%
5 - 10 years	34.8%
10 - 20 years	11.0%
20 - 30 years	7.0%
> 30 years	1.2%

<b>Number of holdings</b>	156
<b>Fund size</b>	£1,095.1m

Source: Artemis as 31 May 2023.

# Investment process – top down

Diversifying the sources of returns



# Investment process – bottom up

## Consistent framework across the investment universe – analysis and judgment

### Fundamentals

- Economic cycle and inflation
- Outlook for monetary and fiscal policies
- Political and regulatory risks
- Earnings and leverage momentum

### Valuations

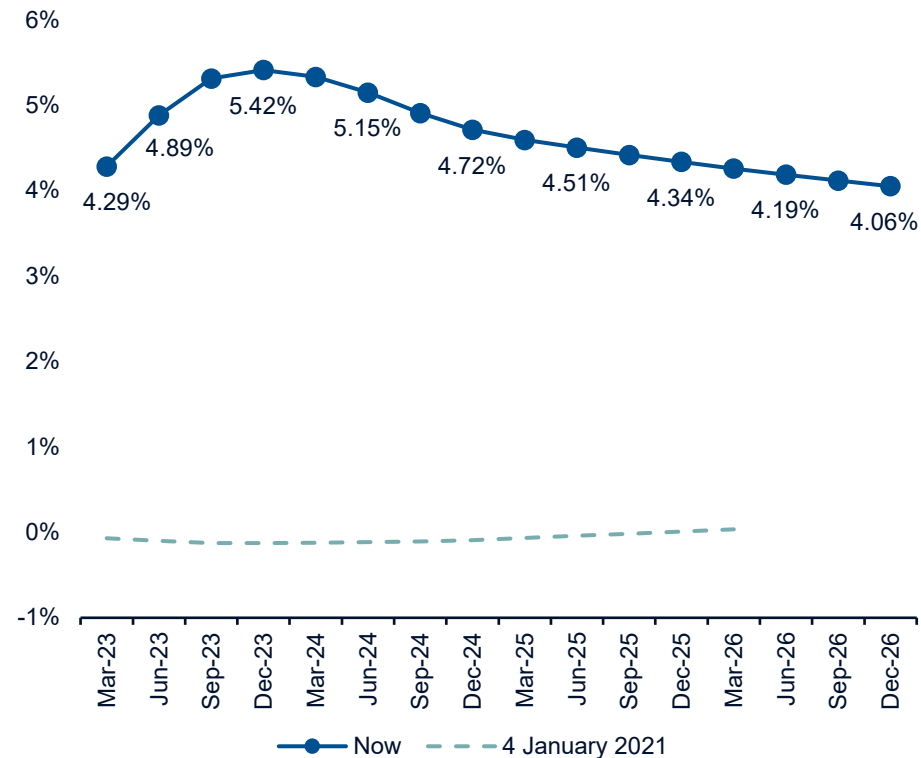
- Am I compensated for the risk?
- Are the fundamentals accurately priced?
- Overly negative sentiment
- Underappreciated downside risks

### Technicals

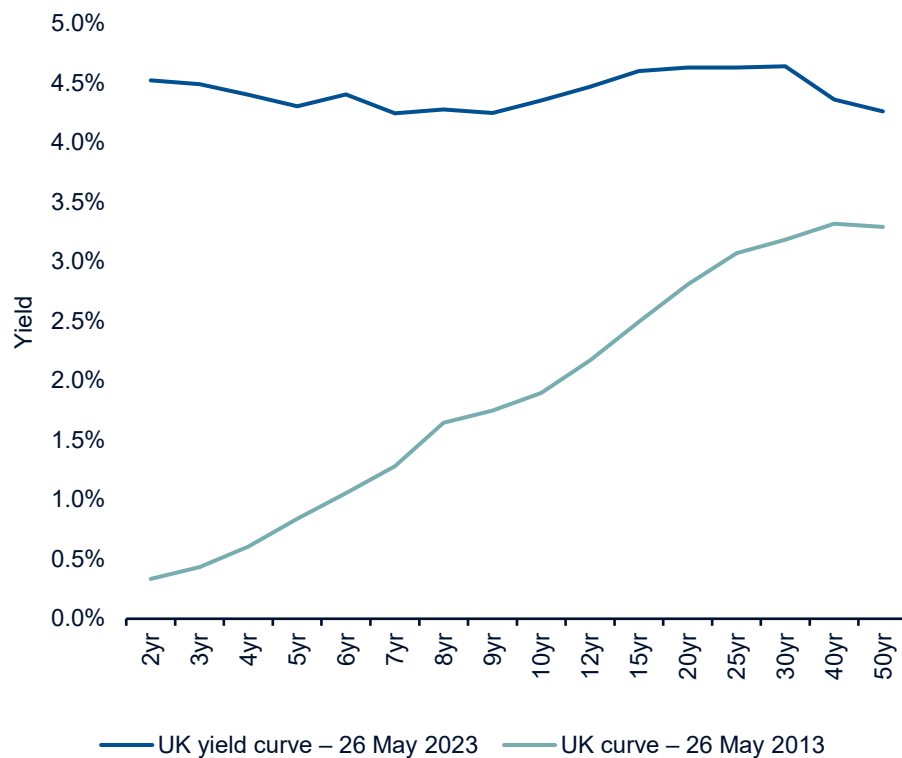
- Supply and demand imbalances
- Unconventional monetary policy
- Market sentiment and positioning
- Market liquidity

# UK interest rate expectations

## Sonia futures – market pricing<sup>1</sup>



## UK government bond curve<sup>2</sup>

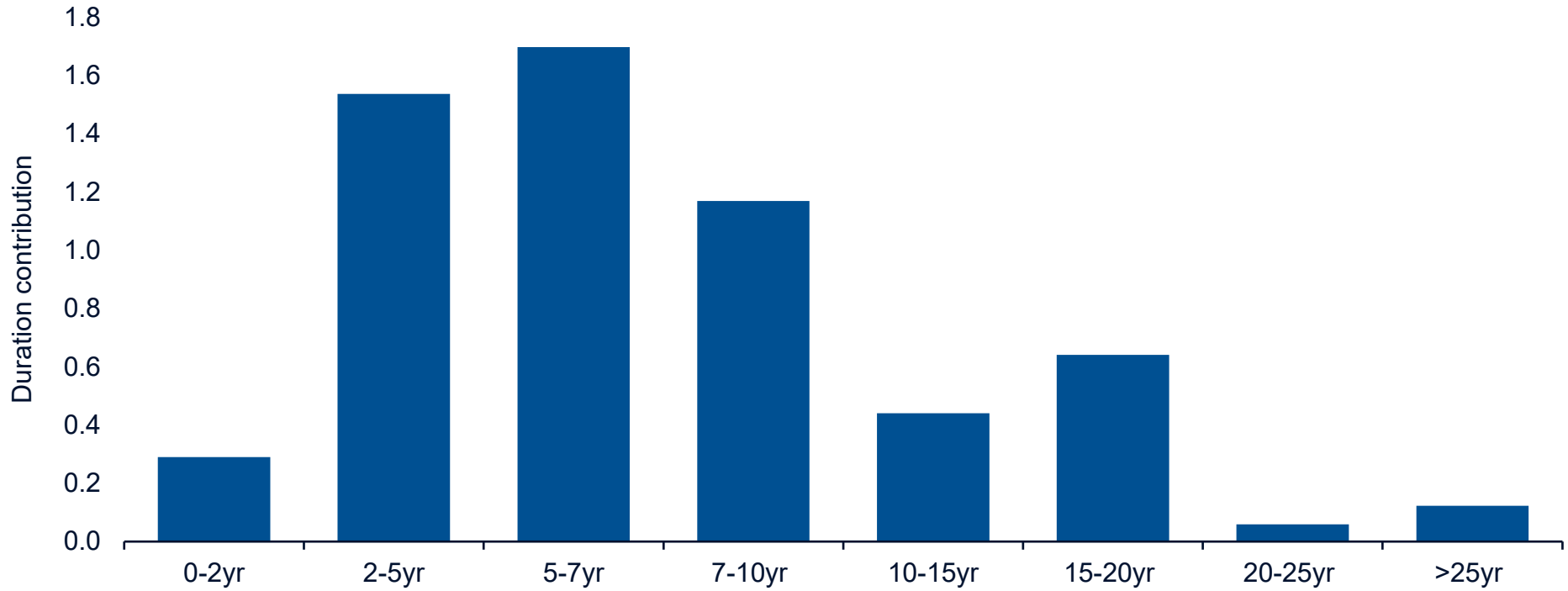


Source: <sup>1</sup>Bloomberg as at 5 June 2023. <sup>2</sup>Bloomberg as at 26 May 2023. UK generic bond yields.



# Fund exposure across the curve

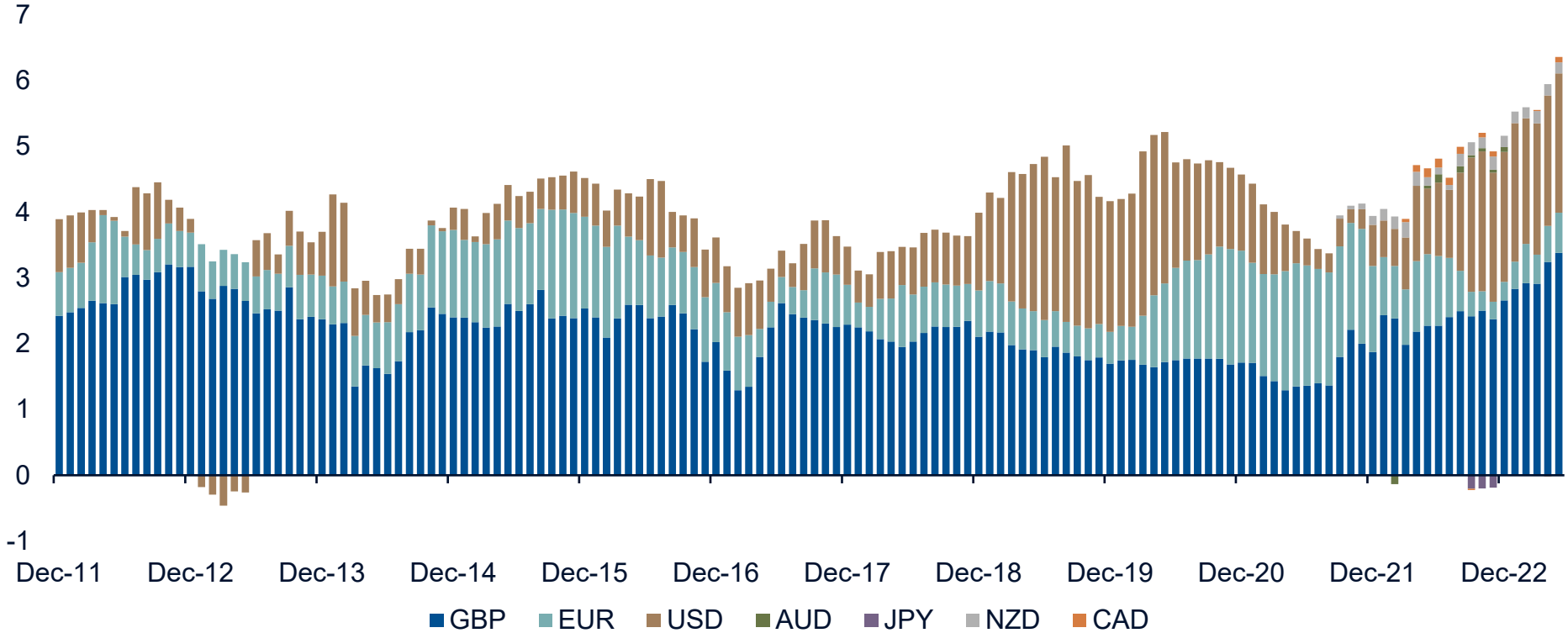
## Key rate duration



Source: Artemis as at 31 May 2023.

# Duration allocation

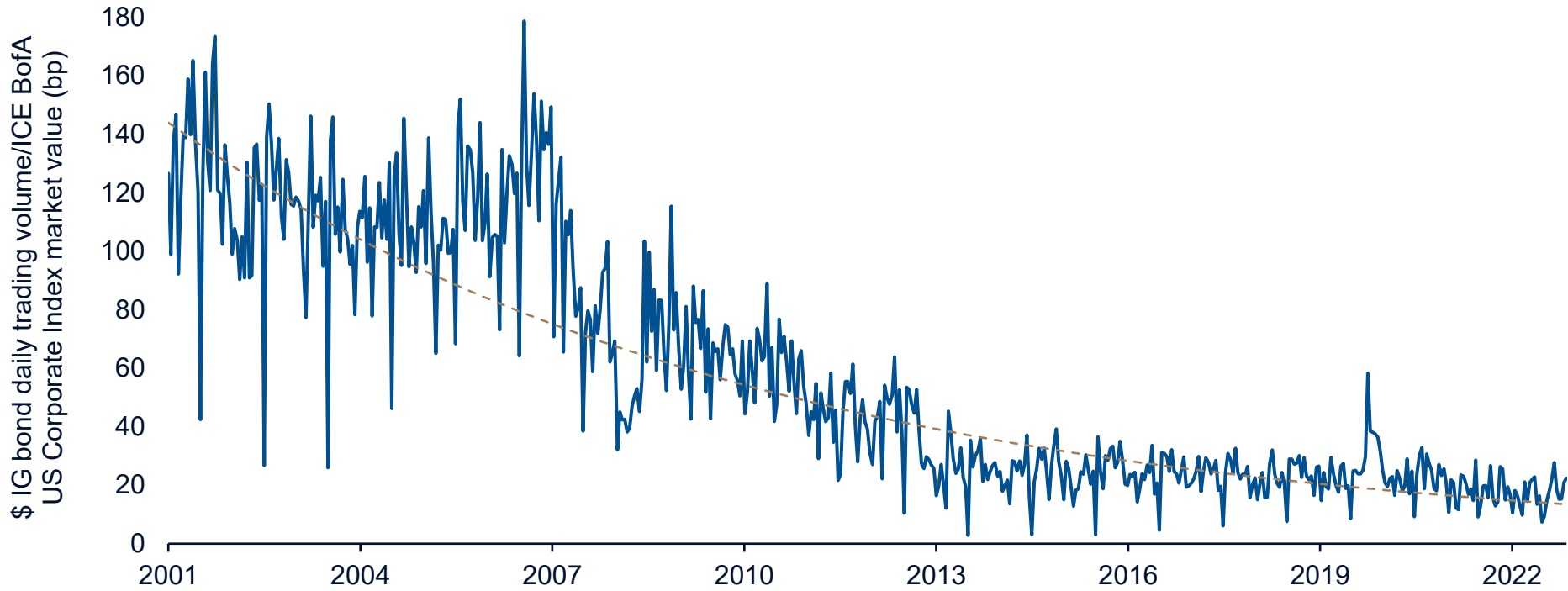
## Duration contribution by currency split



Source: Artemis, FactSet as at 31 May 2023.

# Lower liquidity levels are here to stay

## IG corporate bond trading as a share of market outstanding



Source: Artemis, Federal Reserve, Bloomberg as at 10 May 2023.

# Important information

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Investment in a fund concerns the acquisition of units/shares in the fund and not in the underlying assets of the fund.

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For information on sustainability-related aspects of a fund, visit [www.artemisfunds.com](http://www.artemisfunds.com).

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