

Flash Notes – Under Review

August 2019



Artemis Funds US Extended Alpha

The fund is a core US equity which aims to outperform the S&P 500. The long/short ('130/30') structure allows manager Stephen Moore to take larger positions in his 'best ideas' in the US market, while maintaining a net market exposure of close to 100%. The strategy has a relatively strong macro overlay which will determine the net exposure and the sector allocation without having a structural style bias. Their proprietary macroeconomic and stock analysis underpins the PM stock selection.

Fund Manager Stephen Moore has decided to take a sabbatical from the industry and move back to Australia. He will be managing the Artemis US Extended Alpha and Artemis US Absolute Return Fund until the end of September 2019. In the meantime, there will be a transition of management of the funds to his co-Fund manager Will Warren, who has been Stephen's deputy on both funds since 2008.

William joined Artemis as a partner in 2014 from Columbia Threadneedle, where he had worked alongside Stephen since 2008 as deputy manager of the Threadneedle US Extended Alpha and US Absolute Alpha funds. He began his career as an analyst at JP Morgan in 1997. He then spent eight years at Lehman Brothers, where he was a senior portfolio manager in the firm's Fundamental Long/Short Equity Strategies *group* in New York. William has co-managed Artemis' two US long/short funds since launch in 2014.

In addition, Artemis hired two experienced tech analysts to bolster the team. Both have been hired by Will Warren and one of them comes with 20 years' experience covering US Software, the other 3 years covering Hardware and Semiconductors at a US long/short fund. The two new hires will be starting at Artemis in September.

Consequence

After the announcement we decided to place the fund **Under Review**. Although the news is highly material, we suggest to investors to keep their exposure in the near term. As mentioned in our previous flash note for the fund in May 2019, the PM turned cautious in September 2018 which was reflected by a decrease of their cyclical exposures, an increase in the most stable business such as Healthcare, Utilities and in Defense companies. It was also reflected in their net exposure of around 89%. We don't expect any substantial move from this positioning in the next few weeks.

Moreover, the fund is managed according to a well-established investment process and backed by a strong analyst team. The portfolio is also highly liquid (most of the holdings are US large-cap equities) and relatively diversified (generally 70-80 long positions and 60-80 short holdings). Therefore, a shift of the relative performance of the fund is therefore limited in the short term.

We will soon meet the new manager, Will Warren, in order to understand the change in the portfolio construction and in the investment philosophy the move from Stephen will imply. We expect, to settle the fund status (either to remove from our list or to take back to the recommended status) in the next few weeks.

Stephen Moore has done a great job since launch of the fund. He is one of the few Portfolio Manager to have managed a large cap strategy beating the S&P500 both in absolute terms (78.8% since October 2014 vs. 65.2%) and in risk-adjusted terms (Sharpe ratio 1.3 vs. 1.0 for the last 3 years) without significant style bias. It is comforting that the fund will be managed by a portfolio manager who worked with Stephen since 2008 and has shared the good relative performance at Artemis and previously at Threadneedle. Over the longer term the ability of the new manager to add value vs. a passive strategy in this highly competitive market will be closely monitored and the key element for the sustainability of the strategy.