Flash Notes – Fund Update & Manager comments

March 2020

Artemis US Extended Alpha

Dear Partners,

Please find below a summary of actions taken by a Portfolio Manager investing in the US Equity market, i.e Will Warren (since Stephen Moore stepped down in 2019).

While this actively managed, but fully invested fund has experienced negative returns in the recent period, the team of portfolio managers has nicely outperformed their benchmark, i.e the S&P 500 TR USD. They have performed in line with expectations, delivering the alpha in this extreme sell-off. We are happy to share with you their thoughts and actions taken.

Artemis US Extended Alpha

The fund has been able to mitigate the brutal sell-off in the US equity market by outperforming its benchmark **Month-to-Date** by **+470bps** (as of 23rd of March -19.5% vs. -24.2%) and by **+440bps Year-to-Date** (26.0% vs. -30.4%). As a reminder the fund is built with a 130/30% exposure philosophy (currently 120% gross exposure and 88% long exposure with a beta close to 1). The main reasons for the outperformance have been :

- Underweight exposure in the energy sector (only one name in their portfolio)
- Short leg had a positive contribution with some short in restaurants and in leisure industries
- Underweight exposure to banks

While the absolute performance of the fund is that of a risk asset (US Equities), we are pleased with the current outperformance of the fund, especially given that the defensive positioning has been decided since last year (cf. flash note May 2019).

Here are the latest Portfolio Manager comments from the 20th of March:

Some aspects of our portfolio have been helpful recently. For instance, we went into the price war between Saudi Arabia and the US with zero direct exposure to oil. Also, we quickly reduced our exposure to banks which we have benefited from.

The biggest areas of concern in the portfolio are those companies which depend on social interaction especially Churchill Downs (casinos, horseracing) and Planet Fitness (gyms). The uncertainty is obviously not knowing how long social isolation will be followed in the US (both required and how long followed).

While we reduced our holdings in both companies, the degree of underperformance was still painful. We have been in touch with both companies making sure we understand any issues concerning their indebtedness. At this point we are happy to continue to hold both companies as we believe their inherent strength, in terms of unique assets and advantaged business models, will be as valuable in the future as we thought they were in the past.

We also reduced our exposure to Burlington Stores and Lowes. On the other hand, we do believe that the current environment will benefit online businesses; and we increased our holdings in Amazon and Activision.

Within healthcare we added Johnson and Johnson and Pfizer, two defensive mega caps with no balance sheet issues and healthy dividends.

Artemis US Extended Alpha

We are mindful that a very significant amount of global stimulus has been added to the global financial system. But at the same time some industries such as airlines, cruise and hospitality will suffer a significant amount of dislocation, especially when those companies are indebted.

We think there are much better opportunities to 'bottom fish' in much better businesses such as technology software and consumer franchises. At this point we are not doing so in energy or banks. Nor are we hunting in distressed balance-sheet situations for opportunity.

We are concerned that the steps taken within the US to combat the coronavirus have been late and haphazard. At the moment we do not believe the market can have a sustained rally in the face of significant bad news.

In conclusion, this fund is not structurally defensively positioned, it is a core allocation for a US equity exposure with an opportunistic mindset. Therefore, we believe this fund is well positioned to mitigate further possible drawdown, but also to fully participate to a recovery.