

# Black box steers fund to recovery

Artemis has enjoyed great success with the SmartGarp system it uses to run its European fund. Now the process has been adapted for its global fund, and the effects are remarkable.

Look! An Artemis fund with lousy performance figures. Fourth-quartile since launch, fourth-quartile over five years, fourth-quartile over three years.

But behind the dreadful cumulative performance figures for Artemis Global Growth lies a remarkable turnaround story. Artemis was not even in existence when Global Growth was first launched under the Carrington Pembroke banner. Inherited from the ABN Amro stable, it is only over the past year that Artemis has really paid any attention to it.

It put Peter Saacke in charge, and in the space of 12 months he has propelled it from fourth-quartile to first. He took over on January 1 last year, and today there are only two stocks left in the portfolio from the list he took over. He almost immediately instituted a program trade, buying stocks that meet the criteria set by Artemis's box of tricks, otherwise known as SmartGarp.

SmartGarp was invented by Philip Wolstencroft for managing European equities and has been tinkered with by Saacke to fit a global portfolio. The two share a joint background – Wolstencroft joined Artemis in February 2001 from Merrill Lynch, where he was a colleague of Saacke. Nine months later, Saacke crossed over too.

SmartGarp is a loose acronym standing for sentiment, momentum, revisions, top-down and growth at a reasonable price. It examines about 3,000 stocks globally, taking in some 109 pieces of data every night. In addition, 36 economic factors are taken into account on a weekly basis, as well as 28 sector weightings or sentiment measures. The system then scores each stock to determine if it is worth buying.

Saacke insists that the process is systematic and dispassionate, ensuring that fund managers have no emotional attachment to stocks, no style constraints and no bias toward any particular size or type of company. It also means that the manager has no need to visit any company, as SmartGarp produces all the information he needs.

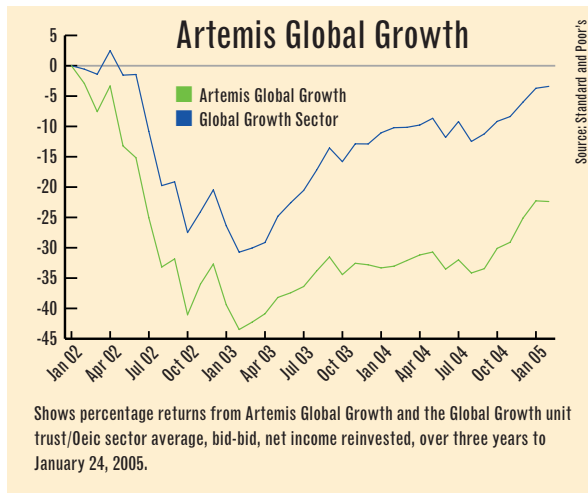
It is natural to have a suspicion, indeed almost a hostility, to such systems. Efficient market theory tells us it is unlikely that a computer-buying system will be able to exploit pricing errors for long or in very different markets.

But SmartGarp is now a decade old, and Saacke says it has proved its worth in both bull and bear markets. The key, he says, is to use it with a "common sense overlay". He admits that the system does occasionally throw up some "daft ideas", but that is almost always because the inputs have gone awry – say, there has been an accounting change that has not been properly identified. Other than that, he truly believes that SmartGarp is able to discern the financial DNA of a stock.

Saacke, who describes his approach as "managed quant", says: "The only time it struggled was in late 1999. Things that it said were awful kept performing, while the things it said were great didn't perform. But that was because people were continuing to buy expensive stocks that were issuing downgrades. Overall, it's a very robust process."

In his first year of running Artemis Global Growth through SmartGarp, the fund is up 16.6% against the 7% increase in its benchmark, the MSCI World index. Over six months, the figures are even more impressive, ahead 14.3% compared with the index gain of 4.7% and putting it fourth of the 185 funds in its sector.

Broadly, the gain came from being overweight emerging markets at the expense of North America and overweight Europe at the expense of Japan: "That paid off quite dramatically. Being 20% underweight North America also meant being underweight the dollar. Having said that, if you



do the performance attribution, the majority of the gain was down to stockpicking."

Saacke says about 19 stocks added more than 0.5 percentage points to relative performance. Heading the list were MOL, a Hungarian energy company, Valero, an American refiner, and Cummins, an American engine-maker. Thematically, the fund steered almost completely clear of the tech sector, holding just one stock. Neither did it hold a single drug producer.

But what is the box of tricks saying about the year ahead? The reality seems to be more of the same. It still loves emerging markets, it doesn't like Japan and is not keen on America. It retains an overweight bias towards Europe, but Britain doesn't look too good in a global context.

It is not a particularly concentrated portfolio. The fund has 65 stocks, but the single biggest is not more than 2.3% of the fund. Emerging market stocks will rarely go above 1-1.5% of the total value of the fund.

Banks and construction make up Saacke's biggest sector weightings. "We are still very keen on construction stocks in Europe. There's a mini-housebuilding boom going on in France, and US construction stocks look good value too." One of his largest holdings is Eiffage, a French company involved with the construction of the stunning Millau viaduct in the south-west of the country.

He also likes European banks, with OTP of Hungary and Anglo Irish Bank among his top five holdings (the others are Wincor Nixdorf, Eiffage and Balda). Meanwhile, technology and healthcare stocks remain almost absent from the fund.

One peculiarity about Artemis Global Growth is just how tiny it is. It may be getting on for 15 years old, but it has been all but ignored by fund strategists. It ended the year just £5.7m in size, although Saacke says that figure has crept up since to top £6m.

Given its still poor three and five-year track record, it's perhaps not surprising that it has not come up on the radar screens of many advisers. But some are starting to take notice. One particular fan is Mark Dampier of Hargreaves Lansdown. He says: "SmartGarp allows Peter to sieve through thousands of global stocks to find the best opportunities. The fund is small and only Artemis fund managers have put any new money into it – except me. I put in a meagre amount two months ago."

For those who are looking for a good general international fund, my guess is that we will be hearing a lot more about this fund over the coming year.



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