



Artemis Strategic Bond Fund

How do bonds work?

A bond is an investment that usually earns a fixed rate of interest, and represents a loan made by you to a government or corporation. In return for your money, the borrower agrees to pay a specified rate of interest and repay the amount of the loan at the end of a pre-agreed period or maturity date.

Between a bond being issued and its maturity, its value can change in line with interest rates. In general, when interest rates rise, bond prices fall, and vice versa. This is because if interest rates rise, bonds which pay less than this rate will become unattractive and therefore the price will fall.

The opposite is also true – bonds paying higher rates will become more attractive and the price will rise.

The value of a bond also depends on the issuer, and their credit worthiness will impact the amount you pay. If the issuer's credit worthiness deteriorates, the value of the bond will decline. Conversely, if the credit position of the issuer improves, the value of the bond will increase.

Risk versus reward

The risks associated with different bonds are partially reflected by their credit ratings. These are awarded by ratings agencies such as Standard & Poor's or Moody's. These agencies examine all aspects of a company, and ratings are based on an independent assessment of an organisation's financial status.

The highest rating a bond can have is AAA, which is primarily reserved for bonds issued and/or backed by highly solvent governments. Bonds rated BBB and above are considered to be of "investment grade", which means they are safe throughout the economic cycle. Examples include NatWest, which is rated AA, and Coca Cola, which is rated A. Ratings can go down to C, and bonds rated below BBB are referred to as "high yield" bonds. These typically pay higher rates of interest to compensate for the more risky outlook of the issuer. Examples of high yield companies include Yell, which has a B rating, and United Biscuits, which is CCC.

The Artemis Strategic Bond Fund

Because bonds can form such an important part of a balanced portfolio, Artemis has decided to launch its first dedicated bond fund – the Artemis Strategic Bond Fund.

Its aim is to achieve the best total returns possible from a portfolio invested in a diverse range of bonds. And in keeping with our emphasis on hunting for the value that others overlook, we have taken a different approach to many of our competitors.

Who manages the fund?



The Artemis Strategic Bond Fund is managed by respected bond managers James Foster and Alex Ralph. Until recently James ran a range of bond funds at ISIS, including a large strategic bond fund. In fact, over two years this bond fund rose 26%, compared with an average 24.3% gain among peer funds[†].



[†] Source: Citywire.co.uk

What makes this bond fund different?

Many funds invest purely for yield and often choose just one area on which to concentrate. For example, highly rated bonds for generating an income, or solely high yield corporate bonds for more aggressive growth. What sets the Strategic Bond Fund apart is the fact that it can invest in any of these areas in any combination, choosing its holdings based on the economic cycle. The scope is widespread ranging from government bonds through to investment grade, high yield or even index linked bonds.

Bonds and the economic cycle

As we all know, the economy goes through many ups and downs over a number of years. Like any investment, bonds are affected by what happens in the economy as a whole. And at certain points in the economic cycle, different types of bonds can do the best job of protecting and growing capital.

We carefully choose those bonds we feel are right for the particular stage of the cycle we are currently facing.

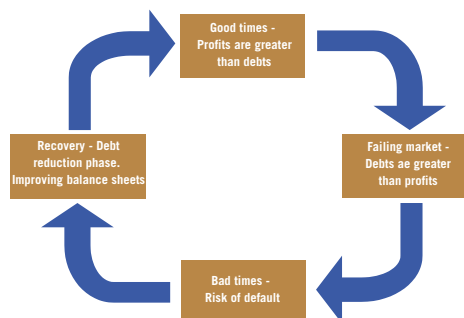
This means we can make the most of any situation, preserving capital in tough times and profiting when conditions are good. In this way our fund can be said to be truly strategic.



How do you select individual bonds?

In the same way that Artemis uses a stock picking approach in its share portfolios, our bond team assembles the fund bond by bond. We look at the economic cycle, and also the characteristics of each organisation, examining how each one fits into what is happening in bond markets.

If you look at the diagram below, it shows the cycle that a bond issuer typically goes through at different stages of the economic cycle.



Source: Internal

The case of BT illustrates the process perfectly. In 1995 just before the telecoms boom began to gather pace, profits were greater than debts, and BT was generally thought to be a very stable company. As a result it enjoyed AAA rating. But by 2000, debt had begun to build as the company diversified globally and spent large amounts of money on 3G licences. Its credit rating fell to BBB as debts were growing substantially more than profits. The next stage saw the company fall from favour as the telecoms boom ended, with shares also dropping. The next step for BT was debt reduction, and divisions were sold off in an attempt to focus on the core business. After a period of consolidation, profits once more became greater than debts. Eventually BT regained its reputation as a more stable organisation.

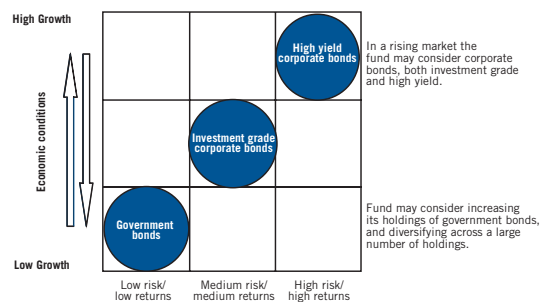
All companies, tend to go through this cycle, borrowing and paying back money as the economy dictates, normally driven by the latest trends in the stock market and their appetite for risk. Our selection process is driven by this, and it determines our investment policy.

Finally we have our own in house model we have developed which screens the bond universe seeking good relative value.

Contact Details

Broker Support 0800 092 2090
Facsimile 020 7399 6498
Email brokersupport@artemisfunds.com

So which bonds are best for each scenario?



Source: Internal

In some periods our choices are going to be more about capital protection, while at other times they will be aimed at trying to maximise yield. For example, when interest rates are falling and the economy is not doing well, we might consider adding more government bonds; these are relatively stable and carry less risk than corporate bonds. In periods of growth we might add more high yield corporate bonds; these are riskier and are less sensitive to interest rate fluctuations than investment grade corporate bonds, but are more likely to benefit from an improvement in the economic outlook.

How does the fund manage risk?

Our approach gives us the ultimate flexibility without having to take undue risks. For one, we won't take up large positions in risky companies in order to maximise yield. Rather we judge what is best for the fund given what is happening to the economy and bond markets. We also spread our holdings across a range of different bond providers, reducing our specific risk further.

Key Facts

Launch date	1st June 2005
Launch price	50p
IMA Sector	UK Other Bond
Preliminary charge	5.25%
Periodic management charge	1%
Accounting date	31st August
Distribution dates	
Class M units	Monthly (on the last calendar day of each month)
Unit type	Accumulation/Income
Valuation point	12.00

Client Services 0800 092 2051
Facsimile 020 7399 6497
Email investorsupport@artemisfunds.com
Web www.artemisonline.co.uk

This document is issued by Artemis Fund Managers Limited, which is authorised and regulated by the Financial Services Authority and is a member of the IMA. Artemis Fund Managers Limited is a member of the Artemis Marketing Group. We only market our own unit trusts. Please remember that past performance is not a guide to future performance. The value of an investment and any income from it can fall as well as rise as a result of market and currency fluctuations and you may not get back the amount originally invested. In order to offer a higher yield, a proportion of the Artemis Strategic Bond Fund will be invested in higher risk securities that may increase the risk to your capital. In particular, there can be no assurance that capital appreciation will occur in the early years as initial charges are levied on your investment and charges are not made uniformly throughout the life of your investment. Investments in fixed interest securities and bonds are subject to credit and market risk. The value of the underlying assets and therefore the value of units in this Fund will be impacted by fluctuations in interest rates and the perceived credit risk of an issuer. Tax assumptions may change if the law changes and the value of tax relief will depend on your individual circumstances. The eligibility to invest in an Individual Savings Account (ISA) is dependent on individual circumstances and may be subject to future statutory change.

We do not offer CAT standard products. Artemis Fund Managers Limited does not offer investment advice.

For your protection, telephone calls are usually recorded.