ARTEMIS
The PROFIT Hunter

Jacob de Tusch-Lec – Capital Fund

Nick Wells:

Ladies and gentlemen, welcome to the continuing series of Artemis webcast conferences. Thank you very much for waiting while we connected with all the participants. Today we have with us, Jacob de Tusch-Lec, who, as many of you know, is the co-manager of the Capital Fund with Mark Tyndall and with perfect timing, this broadcast celebrates his first anniversary at Artemis.
In co-managing the Capital Fund, Jacob is the UK specialist within the SmartGARP™ Team. As you are hopefully, aware, SmartGARP is the Artemis large cap investment process that lies behind not only the Capital Fund, but also our European and Global Funds.

The Capital Fund is now some £887 million in size, and at the end of October, is top quartile over one year, returning 24.7%, versus a return from the FTSE 100 index of 19%. It is also first quartile over three years, with a return of 81.6%, against the index of 58%. Before I hand over to Jacob, who will look at what he is seeing in the UK markets at present, through the eyes of SmartGARP, and how this is being reflected in the Capital Fund; may I just pick up a couple of housekeeping points. Apologies to those of you who have used this system before, but if you look at the centre of the screen just to the right of the picture of Jacob, you will see a box. Click on the question tab at the bottom of the box and type a question in the box. Then click on the Submit button at the bottom right of the box. I would encourage you to send questions as they arise during the webcast. During the presentation, I will pass on the questions to Jacob at an appropriate moment.

Well, during May and in keeping with Funds in the sector, the Capital Fund suffered at the hand of the correction and short term numbers lagged somewhat. However, recent performance has looked decidedly perky. Indeed, so far, during November and, given that we are pretty close to the end of the month, the Fund has demonstrated very strong performance – up a full 1% against the benchmark that is negative, also a full 1%. What has changed, Jacob?

Jacob de Tusch-Lec:

Thank you, Nick. What has changed?
Well, we're doing better than we did before and it has indeed been a very sort of challenging last six months. As you know – as you mentioned, it's been exactly one year since I joined Artemis, so it's a very timely conference call. And I thought what I'd do over the next half hour or so is go through three themes.

First, to look at the Fund's performance over the past year - what has changed and how has the performance been, where have we had our winners and our losers? The second thing I'd like to do is look at the positioning of the Fund through the eyes of SmartGARP and talk a little bit about the sectors we like, the companies we like and also, maybe, discuss a little bit of what is different, now, versus a year ago when I joined – which sectors look good today, which sectors looked good a year ago and why is this environment different? And, thirdly, I'd just like to maybe touch upon a couple of macro themes.

As you will notice, going through the presentation, there are no macro slides because, broadly, we don't use macro expectations or, let's say, our own subjective macro expectations as a theme in picking stocks it is very much a bottom-up process. Within SmartGARP, macro does play a role, but, again, it's from a pure quantitative point of view. So in the process, we don't spend a lot of time on macro, but obviously we all have a view about it and I'll be happy to discuss it and also happy to discuss the macro themes that we can extract from SmartGARP right now.

So, without further ado, I jump to the performance chart that you can see on this slide and what we've shown here is that the Fund's performance over the past four years – which are the four years that initially Mark Tyndall, and myself over the past year - have managed the Fund with the SmartGARP tool.
And what you can see is that there has been quite a lot of volatility over the last twelve months, where I've been working on the Fund and the pullback – the relative pullback, that started in May, was particularly nasty. But what you can also see is that over the past four years, the Fund has broadly returned, on trend, 5% versus the index. We've done the same over the past twelve months as Nick mentioned and what I also find intriguing is that relative under performance of the Fund has happened every year. It happened in late '03. It happened in early '04, mid-'05 and now we've had it in mid-'06. So, you can come up with a lot reasons, why did it happen in '06. Was it because the market was de-leveraging and de-risking as some suggest, and we had too much risk? That has been one point that has been raised. It could be the case. But it could also just be that the market gets scared and there is rotation into other things. But, what we always believe is that, ultimately, the model works and I'll go into, in a second, what the model is and what the things are that we are looking at, but broadly speaking, you can come up with a lot macro reasons why the sell-offs have happened, but, trendwise, the model has worked and we're still quite happy with the process we are.

So what is the philosophy? I'm not going to bore you all with a very detailed run through of the actual SmartGARP model, but, in essence, what we are trying to do and what we have done throughout this year, is to look for stocks that are delivering growth at not too high valuations, and are delivering what we call positive news flow in the forms of earnings numbers that are surprising the market on the upside rather than the downside. In the long run, there is a lot of thematic investment and people might, like currently where the dollar is sliding – say, we don't want dollar exposure or we don't want this and we don't want that.
In essence, what Philip has shown with this model, running it first at Merrill Lynch, and here at Artemis for many years, is that, in the long run, you do make money buying stocks that are delivering and buying stocks that look good on our SmartGARP system. Stocks that people like because they're not expensive and they have strong earnings.

So what are we seeing in the UK market, right now? Well, this is a slide showing you the sectors in the UK. The next column shows the percentage of the Fund that we have in the particular sectors. Then, the next column shows the percentage of the All Share in those sectors and, thus, our bet on each sector. The last column is a SmartGARP total score for each sector. So it is basically a combination of growth, value, earnings revisions as they come from the sell-side analysts – so, basically, EPS estimates and how they're being revised up or down. The fourth metric we use is momentum. The fifth metric we look at is the macro environment – is it a macro environment that's conducive for this sector or that sector, and the last metric we look at within SmartGARP is sentiment – not our own sentiment within Artemis, but

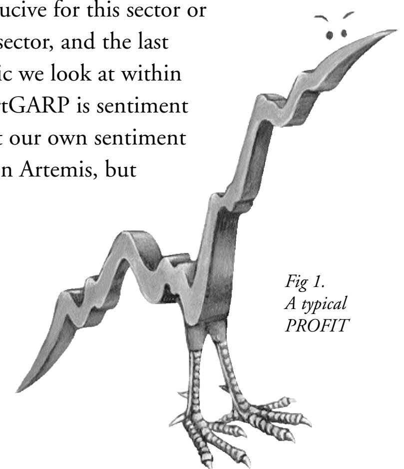

Fig 1. A typical PROFIT

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basically the sentiment in the market.
Do people – or investors on the street – like a particular sector and if they do, and if everybody's bullish on a sector, we tend to give it a negative score, because we don't want to be where every investor and his dog already is; so we try to be contrarian. And all these scores we try to distil into one total score and that is what you see in the last column.

What you can see is that the Travel and Leisure sector currently scores very well. Basically, the Travel and Leisure segment of the UK is a bit of an odd one, because it comprises anything from gaming stocks to hotels, airlines and pubs. But, definitely, airlines look very good in the UK, right now. I'll talk about EasyJet and British Airways a little bit later, and we have holdings in those. Telcos are very interesting because they, over the past year while I have been at Artemis, the sector has been a very poor scorer within SmartGARP and actually, also a very poor performer. Lately, Telcos have started to perform very well and that has coincided with the score in SmartGARP going up.
And what you can see is that, currently, Telcos are the second-best scoring sector in the UK. Vodafone looks good – Cable & Wireless had very good numbers a couple of weeks ago.
BT looks good and, actually, Inmarsat also has very good numbers and even today, Morgan Stanley upgraded their EPS expectations for Inmarsat with 25 – 30%. So the Telco sector looks quite perky and that is a big change compared to just three months ago and the year that I've been here.

Utilities also look very good, and we have a very healthy overweight there. So a quite diverse sector outlook, it's not very easy to say that SmartGARP has a cyclical or defensive tilt, right now. As you might know, Telcos and Utilities would be considered quite defensive sectors, and they're scoring very well. Travel and Leisure is a very cyclical consumer discretionary sector and is also scoring very well. So it's not very clear whether there is a cyclical defensive tilt in SmartGARP, right now. And that is the difference. When we looked at SmartGARP at the beginning the year – very clear, back then – Mining, Oil, Industrials – were scoring very well on SmartGARP and it was about putting on risk and cyclicality into the portfolio.

If we look at the bottom sectors that we don't like right now – that SmartGARP doesn't like – then it's worth pointing to Oil and Gas. That is one thing, I think, that makes us quite different than many other Fund Managers out there – that we actually run a very strong underweight in Oil and Gas. It's the first time in four years, basically, that oil prices have been going down, as it has over the past months, and oil price expectations are below the spot price.

Healthcare – also a sector not scoring very well on SmartGARP, right now – with a total score of only 6. We are running a big underweight, there and that is actually something we have been running for quite a while. It did hurt us over the Summer, because over the Summer, when people were de-risking – de-leveraging – looking for safety, and a place to hide and, obviously pharma stocks did very well, and it hurt us that we didn't have long positions there. Then, Astra and Glaxo came out with numbers and actually disappointed, quite materially, and the stocks were hammered about 10% in a couple of days and suddenly it made much more sense that we were underweight. But we are still running underweight in Healthcare. Food and Beverages also don't score very well, so you could say those defensive sectors don't score well and, I would say, on balance, we maybe have a slight cyclical tilt, but much, much less than we used to have.

One thing I'd just like to mention before I go the next slide, is that you might notice that the sectors not scoring very well, like Oil and Gas and Healthcare, are also sectors that are big components of the All Share and, within those, you have a couple of the biggest companies in the UK, be it Astra, Glaxo, BP and Shell and by having these underweights on a sector basis, we actually also end up having an underweight in the mega caps. It's worth noting that this is a large cap Fund and we do have 70% in large caps, but what is different, compared to a year ago, is that a year ago, the mega caps – the ten largest stocks in the market that comprised, roughly, 40% of the UK market – most of those stocks looked good. They don't, right now. We don't hold any HSBC. We don't hold any BP. We have a big underweight in Shell. We don't hold Astra. We don't hold Glaxo. And that is not because I wake up in the morning and talk to Mark and we discuss we don't want the mega caps. It's just, basically, that they don't look good on a stock-by-stock basis and what then happens, as a result of that, is that you end up running a big underweight in the mega caps and a lot of people then try to extract from that whether we have sort of a thematic view about mega caps versus the rest and I can say, we don't. It's, basically, a result of the fact that the stocks on their own merits don't look very strong, and we end up having an underweight in the mega caps. Where we do have an overweight, right now, is in the sort of 90 remaining stocks in the FTSE 100, and you can call them the 'nifty 90', or something like that, but that is where we do see a very good trade off between value and growth and revisions, right now.

Nick Wells:

Jacob – before you move on – we have had a good question coming in from Richard Philbin. Richard, thank you for sending your question, and good morning to you. He says here: "You're looking for stocks compared to the average. Is this the All Share, or the industrial sector that the stocks operate within?".

Jacob de Tusch-Lec:

It's a very good question. It's actually both in the sense that, within the technicalities of SmartGARP, we do compare stocks, mostly to the overall market, but also to the sector that they're in. We rank stocks from zero to a hundred on every angle we can get our hands on. Where zero is bad and a hundred is good and on some metrics, those will be sector-specific, other metrics will be market-specific. For example, the top down metrics – the macro environment and the market sentiment – will be sector specific i.e. we will lump stocks together in sectors. Do people like a certain sector? And, on other metrics, such as growth and value, we will look at growth and value relative to the market.

Nick Wells:

And do you find this throws up clusters?

Jacob de Tusch-Lec:

Yes. That's a good point. I mentioned before the airlines. Sometimes you find an odd stock in a sector, where all the other stocks in the sector look very poor, but you actually have one stock that looks very good. And one example could be BT about half a year ago.
We bought BT. We made good money in it and Vodafone, at that point, looked bad. Cable & Wireless looked bad. But, you know, it was great to find a stock in a sector where everything looked bad, because that can minimise our sector bets. So that's very good.

Right now, Food and Beverages, for example, look ve ry poor. It's the third poorest sector in SmartGARP, but, you know, you can find a – Da i ry Crest, and it's great to have a cheese and milk company that is entirely uncorrelated to the Chinese copper inven to ry cycle and everything else. So, sometimes yo u'll find stocks in a sector that looks bad, but the one stock look good.

What Nick asked about was clusters and, obviously, we often have clusters of stocks that come up. And, right now, airlines would be one cluster that looks good; in the UK, British Airways – and EasyJet looks good; Ryanair looks quite ok in SmartGARP. And, when I talked to Philip and Peter on their Global and European Funds, well, they also think that Lufthansa and SAS – Scandinavian airlines - looks good. There're a lot of other airlines in Europe looking good. For global sectors, we definitely find clusters so it is a real strength, then, that we have SmartGARP running both in UK, Europe and globally so you know that if you find a UK stock that looks good and there are no comparables within that sector, it's not a fluke. You can actually see the trend somewhere else. And, mind you, Telcos, right now, look strong also in the US. Peter has made a lot of money being in AT&T and Telcos in the US is the best-performing sector, year to date. So, I'm not surprised to see that the trend went from the US, and now to Europe.

This is going to be sort of the last boring SmartGARP slide, I promise, because it's quite technical. But what I just wanted to do is, compared to the previous slide, is decompose the total score for each sector that I mentioned on the previous slide, into each of the six components that SmartGARP works with, and see, why do certain sectors score well? And if we start from the bottom, with Oil and Gas, you know, it is painful, I think, for a Fund Manager not to hold BP, because you look at the stock and you ask, can it actually get much cheaper? I mean, it's trading on a very, very low PE and, both on a historical measure and versus the market. We have zero percent in BP, right now. And that is a big decision, I think, to take, but, if we take BP, as proxy for the Oil and Gas sector, you look at the Oil and Gas sector and it scores 35 on growth and I've circled the number there at the bottom – the 35 means that the sector is growing slower than the rest of the market. But it's not disastrous – 35 is in the lower third. Then you look at value and the sector scores 94, which is the second best scoring sector. No doubt about it, Oil and Gas is a very cheap sector, right now, and I think that that is what a lot of investors would be looking at – that you have a very good growth-value trade off here. You get a sector which is one of the cheapest in the market, growing decently.

The counter-argument to that of course is, yes, but it's a value trap. I'm not going to sort of go into a discussion whether it is or not, but the reality is it that, when we look at revisions – earnings revisions – the sector scores zero. So there is no other sector out there, that is seeing its revisions to earnings go down faster than energy. And that, to us, is the key thing, here. That we don't only look at growth and value, but we also see where are revisions going, where is the news flow going – and the news flow has been decidedly negative over this earnings season from the oil companies. And as oil prices have come down quite dramatically, we expect these earnings to continue to come down for quite while. That's not to say that we have a view about where the oil price is going, because we don't. It could spike. There could be geopolictical tensions in Iran or North Korea but what we are doing, despite this sector being very cheap, is that we want to have a big underweight in it, because, adding revisions, momentum and the macro environment, you get a total score of zero.

One last thing, if you go to the second to last column, called "Sentiment" – that is basically, what does the rest of the investment community think about the sector. You will see that Oil and Gas scores 12, which is very low. That is because everybody is overweight this sector and people really like it and that, to us, is also a sign of the fact that everybody sees that it's cheap and growing, somewhat decently, and they're overweight. We take the opposite stance.

I want to put Oil and Gas in contrast with Telcos, which was the second best scoring sector, and you can see that, on growth, Telcos actually on scored 12. So they score worse than Oil and Gas. On value, they score 82, which is also worse than Oil and Gas. So you could argue, why are you running an overweight in Telcos versus Oil, when Telcos are growing slower and they're more expensive? But the real key here is revisions, where revisions, traditionally, over the past twelve months, have been negative for Telcos. People were downgrading their Vodafone numbers et cetera. Then now, the revisions look very, very strong in this sector. Vodafone came up with very, strong numbers, mainly driven by lower taxes et cetera, but, nevertheless, people are upgrading their numbers in Vodafone. Cable & Wireless came out with very, strong numbers. So, overall, the sector is seeing strong upgrades to earnings, and that, then, gives them a score of 94 and, in turn, you end up with a high total score for Telcos. So, you know, I'm mentioning this just to point out that, that this is where we are different, I think, than many other investors, in the sense that we don't have a problem going out of big stocks like HSBC or BP that, on paper, definitely look very cheap and have, you know, good management and a good business franchise et cetera. But, we don't like to be in them when revisions are negative.

So how does the portfolio stack up in the end? I've been talking a lot about sectors and stocks. Well, as I probably have mentioned a couple of times on the call already, we have a very agnostic view to towards sort of style investing and we're not particularly growth or value-biased. But what is interesting is that, if you look at the first line in this table, we score 55 on growth. So, ACF is the Capital Fund, and it scores 55 on growth. The UK Universe, which is basically the 500 largest stocks in the UK, on a market cap weighted basis, right now, score 38. Obviously, much of that is driven by the mega caps and they have poor growth, as everyone knows. But, overall, we score 17 points higher than the market, on growth. Some of you will then say, well, it's not hard to get growth companies if you are paying up for it. We all know that, you pay higher multiples for growth. What we end up with is that our value score for the Fund is 68, and the UK market is trading at 67.

We basically have a portfolio trading at the same value or the same market multiple, when you look at price to book – PE – dividend yield – and all these value metrics. So you could argue that we are picking up the growth for free, to some extent. Earnings revisions, which is obviously the main driver behind SmartGARP – it is an earnings momentum model – is also quite favourable to the Capital Fund. We score 68 and the market scores 47. So we also have a very decent overweight, there, of stocks that are delivering positive news flow. And I think that this is quite different than it was, as I say, in the beginning of the year, where we were very heavily overweight in Mining, Industrials and Resources – and especially Resources and Mining were trading at lower multiples than the market. So, back then, we actually had much more of a value tilt. But, at the same time, a cyclical tilt, which is a combination not very often seen in the market.

If we were to extract any sort of macro takeaways from that, I think it is that growth still comes very cheaply in the market. You can buy companies trading at the same multiple as a slower growth company – and I think that is quite interesting. It's not something I would say we're doing on purpose. We are letting SmartGARP lead us into this position; but, speaking to Derek Stuart, who's running the Special Sits Fund, it's also a view that he subscribes to that, next year, when global growth comes off a little bit, growth is not going to be as an abundant asset as it has been over the past three years and when growth becomes a scarce commodity, companies will not be able to deliver growth the same way they have over the past couple of years. Then one should question whether they are trading at the right multiples and at least, what SmartGARP is telling us is that you can find high-growth companies at decent multiples.

Nick Wells:

There's an interesting question that's just come in from Charles Newsome. Thank you for that, Charles. There is some comment that the market is cheap overall, but if you take out the unattractive mega caps, then the market looks rather more expensive. Does this concern you?

Jacob de Tusch-Lec:

It's a very good point. You know – it's the old discussion – do you look at market cap weighted – do you look at median? If you look at median in the market, the UK market is not cheap at all. The fact is that, that is a concern if you are investing in trackers, if you can manage your own exposure to different companies. What we have the ability to do is to say, well, if we go into a mega cap, we can decide ourselves what percentage we want to put in there. It's definitely something we are aware of. I mean, to tell you what SmartGARP is telling, right now, is that if you take the ten mega caps that you mention, and you look at, on average, what is their valuation, the value score is in the highest quartile i.e. they are among the 25% cheapest companies in the UK. If you look at the growth component of these ten mega caps, then they're in the lowest quartile. So, what SmartGARP is telling us, right now, is that, yes, the mega caps are very cheap, and that's, in turn, why the UK market looks very cheap.

And, I think, just to put the argument one step further, I think it's all linked to the PE

compression that we have seen in the UK market over the past couple of years.
I mean, basically, all UK companies, today, are trading between ten times earnings - a PE of 10 and a PE of 15. That is a very tight space.
So, you can ask yourself, well, if I buy a stock on a PE of 17, is that expensive? Well, it is expensive versus the market, but that's because everything is squeezed in around sort of ten, twelve, fifteen times earnings, but you might be able to get a lot growth. And that PE compression is something that you see globally, and there's a lot of reasons why that has happened, but that is a feature of the global equity markets right now.

Nick Wells:

Can I take another question as well, which is related to this, from Mark Harries. Thank you, Mark. What is the biggest potential headache for the Fund?

Jacob de Tusch-Lec:

Oh. There're a lot of headaches. Well, I think it is that SmartGARP tends to underperform at turning points, whether they are true turning points or wobbles, is always a question of debate, but it tends to underperform when the trend is broken. What I, sort of, didn't like over the Summer, with this prolonged period of underperformance, which, you know, there's no reason to hide it – it was a prolonged period where we just couldn't find a trend to bite into, whilst there wasn't really any themes in the market. There was just a lot of uncertainty.
And my biggest headache is that the trend that we have now have come into the last two months, has been very good for the Fund.
And the biggest headache, I think, is if we're going to get into a period where the markets just drift sideways, and where people just are going to buy into stocks because they want a place to hide, rather than going for the metrics that, overall, have made people money, which is buy stocks that are delivering good growth and positive surprises.

Nick Wells:

Thanks.

Jacob de Tusch-Lec:

Just, very quickly, wanted to touch upon some stocks that we like and sort of talk about them. Nick mentioned before the clusters, and I talked about airlines, and, on this page, what you can see, are two charts showing easyJet and British Airways and I'll just talk through what the charts show and then go into what we can read from them. The red line in these charts show the EPS relative of the particular company versus the market. So, if we look at easyJet, what you can see is that the red line has been going up quite ballistically since the end of '04. And that means that the earnings of easyJet, have grown much faster than the earnings of the overall UK market. The blue line is the price relative of easyJet versus the market.

So, what you can see is that, in the same period, basically at the same time when earnings turned around and there was a restructuring going on in the firm, price of easyJet has out performed the price of the All-Share. This is a stock that we like.
We came into it in early May '06, when – after the Icelandics, who had a holding there – they sold. There was a sharp drop in the price, and what SmartGARP told us was, well, look at the red line. There's been no downgrades to earnings, but you had a big sell-off in the price because of the M&A activity.

The reason I'm showing this chart is to highlight some of that discipline that SmartGARP gives us, in the sense that, I think, most Fund Managers will – or what academic studies show, is that most Fund Managers are quite good at identifying when to get into a stock, but they might not always be as good as identifying when to go out of a stock and what SmartGARP gives us is a very clear sell discipline. We tend to go in and stay until we get a clear signal from SmartGARP that it's time to go. We don't say, oh, let's take profits because the stock is up 50% versus the market and we are happy with that. What you can see, here, is that although the blue line for easyJet has continued to go up in almost a straight line, and I'll just highlight the axis on the left and right are log scales, so when something goes up in a straight line, it means that it's growing exponentially. What you can see is that, although the price has gone ballistic, all the price has been doing – the blue line – is keeping up with the red line. And that is the sell discipline that we get from easyJet, that if I didn't have SmartGARP, I would go in and say, the stock is up another 10% relative to the market, it's time to take profits, because I'm getting a little bit worried about it.
What SmartGARP tells us it that easyJet is still scoring a hundred. It has growth of 99.
It is expensive – value of 33 – but it still has a revisions of 95 et cetera and ends up with a total score of 100. And EasyJet, right now, is one of the top two, three stocks that we have, right now, in – within SmartGARP. And we have a position, there.

British Airways, also comes up very favourably. You can see it scores 100 as well. It's a very different profile. You can see the red line goes up and down like a yo-yo. It's basically a stock that, whenever earnings roll over, the company is more or less going bust and then earnings recover very dramatically, so it's not a stock you want to sort of take a mortgage out and put all your money into, but, what we've seen since end of '04, when corporate spending picked up and airlines, globally, started doing very well, price has gone very well, but it is has actually – all it has been doing is keeping up with earnings, because the red line has grown even faster than the blue line and we are quite happy to stay here, despite having made good money.
And, you hear all the stories about how hard it is to get a business class seat to New York from London, and full cabins - passenger yields at British Airways are very strong – so I think the corporate spending theme that we have been talking about for a while is still strong, and corporates are still delivering very strong earnings and reinvesting in their businesses.
So, hopefully, these two companies will take advantage of that going forward.

Airlines are a very cyclical sector. I mentioned before that I wouldn't really say we have a very cyclical tilt anymore. One of the reasons that we don't have a more cyclical tilt anymore, is that our biggest overweight – or one of our biggest overweights are within Utilities.
And I've shown on the next slide, two charts of two Utilities – where we are long, right now – International Power and National Grid.
What you can see is very different. There is much less volatility in the red line, because these are not as cyclical businesses as airlines, but this a cluster, really, that came up about six to eight weeks ago – that suddenly all the Utilities looked very, very strong. And, you know, we had a debate where we should only buy the two ones that scored the very best – that's sometimes what we do and we put in a very big chunk into two stocks. But we already had National Grid – International Power – Scottish and Southern – ScottishPower – and Centrica – all scoring very good in SmartGARP.
And what we decided to do was to, roughly, put in 2% into all of them. And one of the reasons for that was that there is also a lot of M&A activity going on in the sector. So, we didn't know which one would be taken out and it looks that it was good we did that because we were holding ScottishPower when it happened.
So, whenever SmartGARP comes up with a cluster of stocks and you're spoilt for choice, that is a good time, then, to maybe be a little prudent and pick more of them, rather than just the two that are scoring a 100.

So, looking at – sort of wrapping up, here – looking at the shape of the portfolio, we have 63 holdings, which is basically in line with what we've had over the past twelve months.
Our large cap component is around 70%, which, you might say, is quite high, considering that we don't hold, basically, five or six of the biggest ten stocks in the UK; but we still have 69% in large caps, and that's roughly in line with what we've had over the past couple of months. It was slightly higher at the beginning of the year, but that was mainly a result of the mega caps scoring very well in SmartGARP back then. So it's not, let's say, a conscious decision that we want to get it down, it's just that is what happens when you sell HSBC, BP, Astra, and Glaxo.

One thing I'd like to mention is the overseas holding – as some of you will know, the Fund is allowed to hold up to 20% in non-UK equities, and that's something that we really try to use the max, because I think it's the best way of leveraging the fact that I'm sitting next to Philip and Peter, who are running the European and Global Funds. So, whenever we have problems finding a stock in a sector to put in, and we don't want to take too big of a sector risk, it's great to be able to approach Peter and Philip and say, what is your best Telco stock outside of the UK, or what is your best Energy stock – and solve the problem that we have in the UK, because it's such a skewed market. I mean the UK market, with the ten largest stocks within the four sectors, being around 50% of the market, you can sometimes have situations where you just can't find any single stock in a sector looking good and rather than take big sector risks, then, we can go out and pick the best stock in Europe within that sector, and we're using exactly the same framework. So, really, comparing apples and apples, and we can compare a Royal Bank of Scotland to a Deutsche Bank or a UBS, and really compare them like for like on the same yardstick.

Nick Wells:

Jacob, that's grand, thank you. I realised that we've actually run on a little longer than we would normally do, but there is just one question. It's come from sort of three sources – and, roughly just asking the same theme. And that's really how the Management responsibility is split between you and Mark?

Jacob de Tusch-Lec:

Well, I think it's fair to say that we are in the latter stages of incorporating me into the SmartGARP Fund and the SmartGARP Team. On a day to day basis, I spend all my time on the Capital Fund. But I speak to Mark every day and we do discuss the shape of the portfolio, and we do, discuss individual stock decisions. On the actual running of the data and looking at – trawling through the portfolio on a day-to-day basis, and trawling through SmartGARP – that is what I do and SmartGARP does most of the work for me, because I get in in the morning and SmartGARP has gone through the universe. And you find a couple of stocks that might pop up on the radar screen and I might shoot an email off to Mark, and we'll discuss it. But we also spend a lot of time discussing the shape of the portfolio, because there's always stocks that look good on SmartGARP that you can choose and where you might be indifferent on or the other, and then you think – what is our risk exposure; what is our cyclicality; what is our sector bets et cetera and do we like the shape of the portfolio?

Nick Wells:

That's grand. Thank you. Thank you all very much for listening in and participating. There're a number of questions which we've not been able to answer this morning. We will get back to you individually on that. And, Jacob, thank you very much for taking us through the presentation.

Jacob de Tusch-Lec:

Thank you.

Nick Wells:

If you have any further questions, then please call our broker support desk on 0800 092 2090, or email us at broker.support@artemisfunds.com. We will be continuing our series of conference calls in the New Year, and will communicate the date, shortly. Thank you, again, and I will now hand you back to the operator. And may I be the first to wish you a very happy Christmas.
Thank you.

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