

January 2008

*Smart*GARP™

Everything you need to
know about Artemis'
Secret Weapon.

Confidential



ARTEMIS & *The Profit* HUNTER

SHY by nature and remarkably fast, the Profit is a notoriously elusive creature. Indeed to flush and bag one of these magnificent beasts takes a hunter of particularly rare ability. Like the Artemis Profit Hunter.

BLESSED with instinct and agility, these experienced hunters like to go after large Profits wherever they may be, unlike their bigger peers who are consigned to tracking scruffy Profits along well-worn paths. This independent style of hunting has certainly paid dividends with the Artemis Hunter able to return some of the best Profits around.

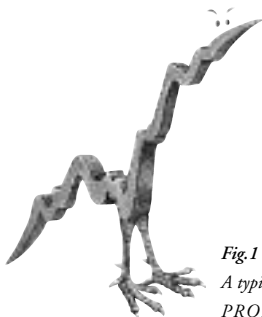


Fig.1
A typical
PROFIT

SmartGARP explained

SmartGARP is Artemis' proprietary tool for identifying winners and losers in the stock market. It may come across as a very complex system, but it is in fact trying to do something quite simple. It objectively measures the financial characteristics of companies and industries – those with good characteristics tend to outperform the market, those with poor ones tend to lag. For many years we have found it an invaluable help in hunting for Profits.

This short note is designed to help you understand how and why Artemis' secret weapon works.

John Maynard Keynes enjoys a reputation not only as one of the greatest economists of the 20th century, but also as a canny investor. Many of his observations, made some 70 years ago, have lost none of their relevance.

He cautioned that “financial markets can remain irrational longer than you can remain solvent” and likened financial markets to a beauty contest where the idea is not to pick the most beautiful contestant, but the one everyone else is going to vote for.

These insights are reflected in our investment strategy. SmartGARP helps us to pick the best stocks for the long run, but recognises that there is a good chance we might be wrong or that even if we are right it may take a long time for the market to reflect this.

Hence, when choosing a stock we also take into consideration whether it has the characteristics that other investors will be attracted to as well. We do this because we think we understand how financial markets ought to work in the long run, but also how investors behave in the short term.



Fig 2. SmartGARP sniffs out Profits

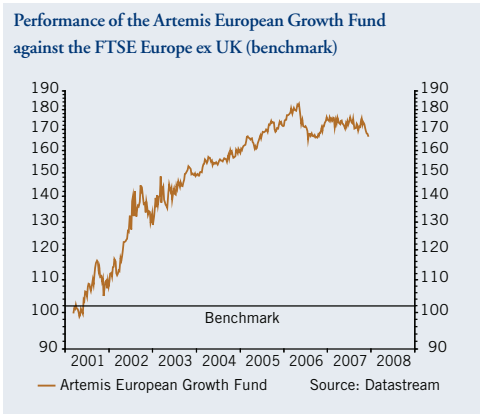
What is inside SmartGARP?

	What we like?	Why is it there?	How does it act?	Do we quantify this factor?
Sentiment	Others hate the sector	Behavioural	Contrarian	Yes
Momentum	Rising prices	Behavioural	Trend following	Yes
Accruals	High earning quality & insider buying	Financial theory	Trend following	Yes
Revisions	Upgrades	Catalyst	Trend following	Yes
Top down	Helpful industrial trends	Catalyst	Trend following	Yes
Growth	High growth	Financial theory	Trend following	Yes
At a Reasonable Price	Low valuations	Financial theory	Contrarian	Yes

So how do investors behave?

The answer is with a reasonable degree of predictability. For example, if you offer two companies with identical financial characteristics, except their valuations, to a group of investors, they will tend to prefer to buy the stock on the lower valuation. Likewise if the sole difference was the growth rate, they would generally prefer to buy the faster growing company. If the difference was that one of them was seeing upgrades to profit forecasts or was in an industry that was benefiting from helpful macro-economic trends they would pick the upgrade stock or that with the positive industry backdrop.

The difficulty most fund managers face is that the decision making process is far more complex than this yes/no choice. Not only are there many companies to follow but each one has slightly differing characteristics making a yes/no answer all but impossible. The result is that despite starting off with good intentions, most investors end up with a collection of stocks that have, in general, pretty average characteristics and hence pretty average performance.



Percentage Growth Artemis European Growth Fund 12 Months to 31st December †				
2007	2006	2005	2004	2003
9.5	21.3	33.4	21.2	43.4
Benchmark Returns				
15.7	20.1	24.1	13.8	29.7

Please remember that past performance is not a guide to the future.
 † Source: Lipper Ltd, bid to bid with net income reinvested, over 12 months to 31st December. The Artemis European Growth Fund launched 7th March 2001.

What do we do?

Our own technique is to use technology to make the task simpler. Each day we electronically collect millions of bits of data. This information is processed in order to identify the features of more than seven thousand companies. We measure each stock on seven characteristics (value, growth, earnings revisions etc, see table on previous page) and assign an overall rank to it where 100 is fantastic and 0 is very poor. In doing this we are able to build up a picture of the financial DNA of each stock. From there it is a reasonably straightforward job to build a portfolio of stocks that have good overall characteristics (above average growth, below average valuations etc), whilst ensuring it is diversified by industry, style and size. We won't have 50 stocks which all have a tick in each box, but we will have 50 stocks that on average have all the boxes ticked.

Combining financial theory, investor behaviour and sentiment

Financial theory states that the expected return from investing in a stock is a function of its valuation and its growth rate. Stocks that are cheap compared with their growth rates (so-called GARP stocks, as in Growth-At-a-Reasonable-Price) should thus outperform the market. The problem is that the forecast growth rates may be wrong (not uncommon), and even if right, it may take a long time before investors believe them. By using revisions and top down factors we identify which stocks have a catalyst that might change the market's perception of the stock and hence might convert an undervalued situation into a higher stock price. We also look positively at companies where insiders (company directors and management) are buying stock and where earnings quality is high (cash flow that exceeds accounting profits). Finally, we take into consideration that changes in sentiment towards individual stocks and sectors can have a dramatic impact on share price movements. We therefore try to find stocks and sectors that investors hate, but where price momentum and sentiment are improving.

In mid-June of 2007, a number of Artemis' SmartGARP-driven funds bought shares in the Spanish company Telefonica. Widely viewed as an acquisitive merger machine (not something the market is usually fond of), building an empire of phone, radio, and television assets. Telefonica was often accused of overpaying for assets with few synergies. E.g. in early 2006 they paid £18 billion for UK-based mobile operator O2 and the company also owned 75% of Endemol, the company behind Big Brother and other reality shows. Not an obvious combination, some might say.

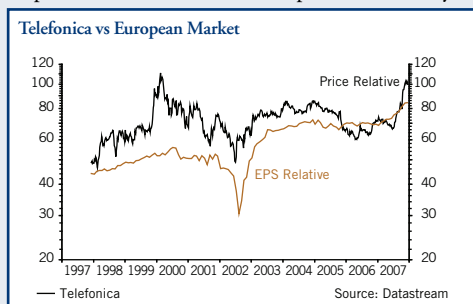
However, by 2008 the market started to warm to Telefonica. At the same time SmartGARP indicated that things were looking very good for Telefonica. Company directors were buying, none were selling.

Table 1

	Growth	Value	Rev.	Mom-entum	Top down	Sent-iment	Acc-ruals	Total
Jun-07	75	90	65	43	24	50	n/a	72
Dec-07	62	54	93	97	71	50	84	99

As Table 1 shows, the growth prospects were strong and the company was “dirt” cheap, as the market didn't fully trust the company and thus continued to de-rate the stock (value score of 90). The top down and sentiment scores were not very good, but the overall total score was high and indicated things were moving in the right direction.

As it turned out, earnings grew strongly (bronze line accelerated upwards) as the company benefited from strong exposure in booming Latin America and other Emerging markets. The earnings growth surprised markets and the stock price reacted very

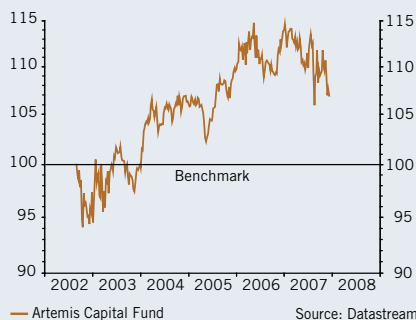


strongly, handsomely outperforming the market. The stock has now re-rated and trades at a premium to the market (value score down to 54), but we still hold it in our portfolios as the total score remains very high and news flow continues to be supportive.

SmartGARP and Fund Manager Judgement

Articulating our quantitative process is reasonably easy. Doing so for our subjective judgements is less so. Nevertheless, it is important to recognise that for us SmartGARP is a means to an end rather than the end in itself. It is a tool that helps us to identify winning stocks. From there we will ask ourselves if we have other information that is sufficiently convincing to disagree with the system. Usually we don't, but occasionally we do. We have been running and developing the process for over a decade and that gives us the confidence to trust it year in, year out as well as a feel for when to switch the autopilot off.

Performance of Artemis Capital Fund since using SmartGARP against the FTSE All-Share (benchmark)



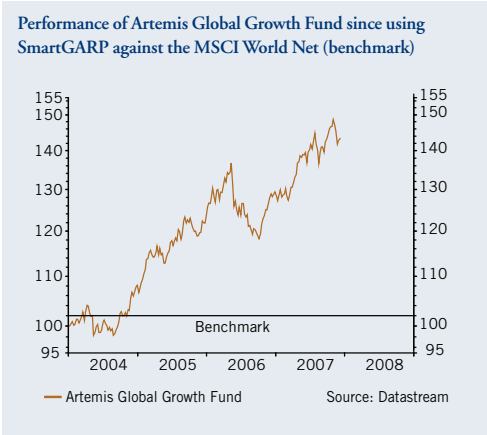
Percentage Growth Artemis Capital Fund 12 Months to 31st December †

	2007	2006	2005	2004	2003
Benchmark Returns	-2.0	21.3	26.4	19.7	24.6
Artemis Capital Fund	5.3	16.8	22.0	12.8	20.9

Please remember that past performance is not a guide to the future. † Source: Lipper Ltd, bid to bid with net income reinvested, over 12 months to 31st December.

Why SmartGARP works

Information overload and investment by committee are two of the major problems facing institutional investors. Insight becomes crowded out by noise; decision making becomes difficult and investments become average. As Keynes said “Worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally.”



Percentage Growth Artemis Global Growth Fund 12 Months to 31st December					
	2007	2006	2005	2004	2003
Artemis Global Growth Fund	22.8	12.1	42.0	16.6	10.0
Benchmark Returns	7.2	5.3	22.4	7.0	19.7

Please remember that past performance is not a guide to the future.

† Source: Lipper Ltd, bid to bid with net income reinvested, over 12 months to 31st December.

At Artemis, we would rather succeed. We find that SmartGARP combats information overload by focusing the fund manager’s attention on the few stocks where financial characteristics are extreme. Moreover, it helps police existing holdings by giving unequivocal signs of deteriorating financial characteristics that call for the fund manager’s attention.

Crucially, it also provides an objective framework within which to discuss the attractiveness of stocks. All of this means that investment decisions are more timely and frequently non-consensual.

Traditional	SmartGARP
Information overload	Focus on stocks with extreme financial characteristics
Committees	Objective framework for decision making
Compromises	Bold decisions
Institutional inertia	Fast reactions to changing facts

Who uses SmartGARP at Artemis

We have three retail funds that should be considered SmartGARP funds: The Capital Fund in the UK, the European Growth Fund and the Global Growth Fund. All other Artemis funds have SmartGARP at their disposal as a commonly available resource which they use to complement their individual approaches to hunting for profits.

Conclusion

Investment can be made very complex and difficult. We believe the simple truth is that you just need to buy stocks on low valuations with good growth. SmartGARP helps us to hunt down those companies and to stack the odds of success in our favour.

Risk Factors

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. A significant proportion of the Artemis Global Growth Fund may be invested in emerging markets. Investment in emerging markets can involve greater risk than is customarily associated with mature markets meaning above average price movements both positive and negative can be expected.

This brochure is designed to help you understand how and why SmartGARP works. Each of the funds has different risks associated with its underlying investments. These are described in the Key Features incorporating Simplified Prospectus, which you should read carefully before making any investment decision. If you are in any doubt as to the suitability of a particular fund to your personal circumstances you should obtain advice from a financial adviser.

Regulatory Disclosure

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