

Duration: 0:45:35

Presenters

- Richard Turpin
- Peter Saacke

Richard Turpin

Thank you very much indeed. Ladies and gentlemen; good morning. Thank you very much for waiting while we've been conferencing everyone in and thank you for joining the continuing series of our web cast conference call.

Today, I'm very fortunate to have with me, Peter Saacke, who as many of you know, is a member of the Artemis SmartGARP team, our proprietary investment process, who he works with Phillip Wolstencroft on our European growth fund. But he's also the manager of the Artemis Global Growth Fund.

Now, if I might just give you a few seconds of background. It's quite an interesting Fund this. It was launched back in June 1990 and acquired by ABN Amro in 1996 and has delivered very disappointing performance. In fact I'd say, very consistently disappointing performance, because it was in the bottom of the fourth quartile throughout virtually all time periods.

Now Artemis assumed the management of this Fund on 1st January 2004, with Peter becoming the Fund Manager, but this was followed quickly by a major re-organisation of the portfolio, with the application of the SmartGARP process in the implementation of the portfolio changes. The results have been impressive.

In 2004, which was the first full year where Peter was managing the Fund through SmartGARP, the Fund delivered a return of some 16.57% against its benchmark, the MSCI World of 6.9%, which put it in the top decile of all global growth funds.

2005 year-to-date has also been very impressive and the performance year-to-date as at yesterday, shows the Fund delivering some positive 30% against the MSCI World benchmark of +17% - again, placing it in the top decile of all funds in its sector.

Now, before I hand over to Peter, who is going to talk us through the background of how this has been achieved and a little bit about the SmartGARP process, could I just touch on a couple of housekeeping points. Apologies to those of you who have listened to our web casts before and know what to do, but if you could possibly look at the bottom left-hand corner of your screen, you should see a picture of Peter. Just below that is a box with some tabs at the bottom and one of those tabs has the word 'Question' written on it. If you click on that tab and type a question into the box and then click on the 'Send' button, we will receive that question during the conference call and hopefully at an appropriate moment, I'll be able to put that question to Peter.

So without further ado, may I hand over to Peter Saacke, who is going to take us through his thoughts on the Artemis Global Growth Fund – Peter?

Peter Saacke

Thank you very much Dick. As Dick has already alluded to, the Global Growth Fund, it is the youngest and also smallest of the Artemis funds which are run using SmartGARP – our proprietary stock selection tool. The other funds being the Artemis European Growth Fund which Philip Wolstencroft and I run together and the UK Capital Fund which is run by Mark Tyndall. As Dick said, I've been running this Fund for a little less than 2 years and it's just gone in size above £40 million.

What I'd like to do in the next 20 minutes or so is talk a little bit about how I manage the Fund and what kind of stock market themes are emerging at the moment.

Now, given that we haven't really been marketing this Fund yet, but have rather been concentrating on just delivering a good performance track record, it probably is a good idea to start off with discussing the overall structure of the Fund, as it stands today. I will then go on to recap how SmartGARP works in a global context. The main part of the presentation will deal with the current themes that emerge from looking at global stocks through the eyes of SmartGARP; and I'll finish off debating some of the strengths and weaknesses of managing a global fund in the way I do.

But first things first; as Dick said – the Fund came under my control in late December 2003, at which point I SmartGARP'd it, which basically meant putting through a programme trade, which changed all but two of the 90 existing holdings in the Fund.

Currently, the Fund has 75 positions, which are the best ideas out of a universe of 2,000 global stocks. The sector bets in general are not huge; we generally say that sector bets are within $\pm 10\%$ of the benchmark. In practice, however, sector bets have more often been within $\pm 5\%$ of the benchmark, so no major sector bets. In contrast, regional bets, it can be potentially quite large and I'm allowing a tolerance of up to $\pm 20\%$ away from the benchmark. And in the history of running this fund over the last three years, I have actually made use of that leeway.

The final point the client should be aware of is that there's a systematic currency hedging policy in place, to the effect that all exposure to North American equities exceeding 25% of the Fund will be fully hedged back into sterling. The reason for that simply is that whilst I'm comfortable running with significant amount of equity risk, I do not feel comfortable with having potentially more than half the Fund invested in a single currency – and that's why we've got this hedging policy in place.

Now, we already mentioned that this is a SmartGARP fund. In fact of all the SmartGARP funds we run at Artemis this is the one that uses it most extensively – there's two reasons for this – the first one is that as you increase the universe of stocks from which SmartGARP can choose, the universe of stocks that SmartGARP screens for its financial DNA, the more effective SmartGARP becomes at highlighting stocks that are likely to beat the benchmark. The second reason for relying more strongly on SmartGARP than in the other funds, is that if you're talking about a universe of 2,000 stocks, I don't have a hope in hell to know my stocks as well as say a Derek Stewart or an Adrian Patterson knows his stocks and so there's less scope for the subjective element of managing the Fund.

So much for the structure – before going on to the themes which are emerging from SmartGARP in a global context at the moment, I think it's a good idea to recap a little bit how SmartGARP works.

Essentially SmartGARP is a gigantic stock screening system, which distils information - reams and reams of data coming from 2,000 analysts globally, 300 fund managers, 200 economists, basically into 6 categories of factors, which you can think of as the building blocks of the financial DNA of stocks. What SmartGARP does, is it looks for stocks that are cheaper than the market, but are growing faster than the market, have positive corporate news flow as reflected in upgrades to earnings forecasts; stocks that are in parts of the market that should benefit from the current constellation of macro economic variables and are in parts of the market that are shunned by other investors. Now that's a bit of a mouthful, so I thought it might be useful to give it an analogy to illustrate how SmartGARP works in practice.

Suppose you are going to a far away country and you would like to stay in a nice hotel. Now, before the arrival of the internet or, we might say, when Dick Turpin was a young man, the way he would have gone about this, would have been to ask your friends or colleagues who might have been in this country, whether they have any recommendations of hotels that were good that they had stayed in, or you might go to a travel agent – ask for advice, maybe pick up a brochure or two. You'd then basically make up your mind and hope for the best that you end up staying in a nice hotel.

Now, these days when one is thinking of finding a nice hotel in a foreign country, there are a number of excellent hotel search engines on the internet and they not only highlight the best value for money or value for quality deals that are available in the place you want to go to. The other thing they do, which is very useful, is that they give very timely customer feedback from people who have recently stayed at the hotel and can tell you whether standards are slipping or improving, whether they had a good experience there.

Now, SmartGARP is essentially such a hotel search engine. What it does, is it looks for above average quality hotels at below average prices. It looks for hotels where services are actually improving rather than deteriorating. It looks in parts of the world where the weather is appropriate i.e. sunshine, when you go on summer vacation, snow – lots of snow when you want to go skiing and also those hotels which are not too over crowded.

Now the big advantage of going about looking for a hotel, using a search engine, is partly that it's easier, but the more important aspect is that it is a lot quicker, which in the context of managing money is of course a very important aspect. Now, using these search engines cannot guarantee that you won't be disappointed with the hotel that you end up going to, but I would argue strongly that it does reduce the odds of ending up in a bad hotel.

That's really enough about how SmartGARP works. I'd now like to spend a bit of time talking about the themes that are emerging from SmartGARP today.

Now in general, regarding themes, our attitude is that rather than start with a grand idea of what's going on in the world and then picking stocks to exploit this infinite wisdom of ours, our approach is to assume that we know nothing about what's going on in the world and to work out the themes which are playing out in the global equity market from the stocks that we find ourselves attracted to.

Now, in the next few minutes, I want to focus on 3 themes which strike me as interesting today, but in reality as I go through the global universe, it's more like 10 or 12 themes which stand out.

The first theme I want to talk about is oil refining shares and if you go to the next slide, this is designed to give you a sense of how a theme might impress itself upon me. What you see here, is a snapshot of the 20 global stocks which score best on SmartGARP and if you look at this, you notice immediately that 18 out of the 20 best scoring stocks in the world are energy stocks. So obviously there's a bit of a theme there. If you drill down further, what you find is that amongst the best scoring global stocks, there's a prevalence of a particular type of oil share and these are companies which are oil refiners.

Now, if you then scratch a little bit on the surface and read up a little bit about how trading is for these companies, what you come across from companies in the States or Europe, or in emerging markets is that refining capacity is short, globally. And the reason these stocks score well on SmartGARP is that because of the shortage of refining capacity, these guys have got great pricing power. So basically it confirms that SmartGARP is onto something and you'd be a fool not to have some exposure to it. It's a theme that I've been running for more than the last 12 months and it's been probably one of the most profitable themes I've run.

The second theme I want to talk about is South Korean banks. Again, if you go through the list of stocks which SmartGARP highlights as being the most attractive around the world, what you find is that there are no fewer than 5 South Korean banks which come up in this list. Now, if I came across just one South Korean bank which looks great that might be a fluke. If you come across two, it might still be a coincidence. But once you find that every single Korean bank in the system scores fantastically well, you know you are onto a theme. And it has nothing to do with the strength of the management of these South Korean banks, but rather what you're picking up is something that is happening in this case, in the economy.

Richard Turpin

Could you just remind us of the red line, what the red line means and what the black line means?

Peter Saacke

That's a good point – thank you. Basically, on the slide you see four charts for four of these five South Korean banks. In each case you see the thick red line, which is

the expected earnings line for the stock, relative to the global market, and the thin black line is the price of each of these Korean banks relevant to the global market. And basically, the idea is where the profit line is going the price line tends to follow.

So if you are on to a bank where the profits are going through the roof, you have a good chance of actually making some money there and obviously what is in common to all those four Korean banks that are highlighted on the slide, is that in each case the red earnings line is moving sharply upwards and fortunately also the pipeline is moving up as well, because I own two of these and they have been big contributors.

Now, I've used Korean banks as an example, I could have shown you similar charts for, as it turns out, Turkish banks or Brazilian banks. Essentially, what this illustrates is something that I have come to call stock clusters, which is one of the most exciting things I find about using SmartGARP in a global context. You screen across the whole universe and then you come across, not one, not two, but five Korean banks or four Brazilian banks and you know you are onto a theme and it is exploiting these clusters which I have found particularly profitable.

Now, the third and last such cluster that I want to talk about, is US Housebuilders which you can see on the next slide. Now, unlike the two previous clusters or themes that I touched on, this once having been very profitable in the previous 9 months, over the last 3 months, has been a source of a lot of pain for the fund, because, if you look at these two charts and at the earnings line and at the price line, you can see that whilst profits have still gone up very sharply higher, price action in these stocks has been extremely weak. Why is that? Well essentially it's been because the news flow on inflation globally has been quite negative, there have been quite hawkish comments from the Federal Reserve in the US and so people are worried about higher interest rates, more rate hikes and as a result they're worried about an imminent real estate crash.

So, if you think about these charts, there's basically two ways this situation can play out. Either the profits of these companies are heading in the same direction of where the prices have gone over the last few months i.e. earnings are about to collapse or the US real estate market is not about to collapse, but rather the cycle might last another 6 or 12 or 18 months, in which case you should expect prices to bounce back extremely sharply.

Now, given that both Pulte Homes and KB Homes which are the stocks you can see, have recently reported very positive results, which were followed by upgrades by

analysts to profit forecasts for 2006, I'm inclined to give these stocks the benefit of the doubt.

So, the theme has not been profitable over the last few months, unlike the 9 months prior to that, but I'm inclined to sit tight and stick with what I'm hearing from the companies. Now these are the sort of stock clusters or themes that I wanted to touch on.

Before summing up, I thought it would also be a good idea to talk a little bit about how asset allocation is done in the Global Fund and what kind of regional bets are running at the moment. Now, for many people, or for many global funds, you'll find that asset allocation is driven by some grand macro views about what is going to happen with the US consumption, whether Japan is emerging from deflation and so on.

The approach that we take in this Fund is the exact opposite of this. Rather, our asset allocation is entirely driven by the abundance of stock opportunities that I come across. So if I find lots of attractive stocks in a particular area, I would tend to be overweight. If I'm struggling to find stocks in a particular region I'd probably be underweight.

For instance, you can see this at the moment in the exposure of the Fund towards the emerging market stocks. Now, emerging market stocks are about 4% - 5% of the world benchmark; the Fund's exposure is closer to 20%, so it's a very material overweight of the region and it's entirely driven by the fact that whenever I look through the best stocks that SmartGARP highlights, there's an abundance of emerging market stocks, whether that's in Korea or in Turkey or in China or wherever. And so, it would be natural in my view, to have an overweight there.

Another interesting regional theme – is Japan, which is an area where the global fund historically i.e. over the last 2 years, has had very little exposure, essentially because the growth prospects didn't seem to be fantastic, valuations were OK rather than great. But what I've seen recently is that, basically after the first quarter report season which came out in August, for the first time in 2 years you really have seen broad based upgrades to profit forecasts in all parts of the market. And so this is an area where I have recently added to the exposure, I'm still not overweight because what worries me still about Japan, is that it seems to be a very crowded trade. A lot of global fund managers are already overweight there and I'm thinking maybe there'll be a more opportune time to go even further into Japan.

The last regional theme that stands out from the positioning of the fund is that I'm quite underweight North America, by about 17%. As we speak, that's essentially a function of, even though North America has great growth prospects and North American stocks have got great growth prospects, the valuations are rich and as we speak, the corporate news flow is actually just about the poorest in any of the regions in the world. So, that doesn't sort of make you want to pay up for a stock and so that's why I am underweight in that region. Mind you though, that a lot of people are positioned in this way, a lot of people out there who are underweight North America, so I would say that's the saving grace for the region.

That's what I want to say about regional exposures. Just to finish up, let me discuss where I see the strengths and weaknesses of managing a global equity fund in the way I do.

Now, the first and most important advantage of strength I think, lies in the fact that as you increase the universe through which SmartGARP can search, it does unearth more opportunities and it does enhance the effectiveness of SmartGARP which already in the UK context and in the European context has proved to be very effective indeed.

A second more subtle strength of the process is that the way the Fund is run, there are no diversification constraints within regions, which funds that are made up of 'best of breeds' region of funds, implicitly do have. Let me give you an example. If I don't find a single good European health care stock - I won't own any. If I don't find a single good US bank - I won't own any. However, if you have a pot of money and you split it between a European fund and a North American fund, because the European health care sector and the US banking sector are large sectors, chances are you will have exposure to these kinds of stocks, even though they might not be the best stocks in their sector globally.

Now, the third strength that I would want to highlight is that the Fund has short lines of communication and allows short decision making. Now, that's a little bit of an understatement, given that there's only one person at Artemis involved in running this Fund, so that's about as short line a communication you can ever hope to have. So basically, if I see a change in corporate news flow, if I see the SmartGARP score of a stock in the portfolio change, if I see a great new idea, I could act on it there and then, rather than go into committee and debate for half a day on whether it's a good idea or not.

Now, these are the advantages. I think the main weakness of this approach is that there is a lack of stock specific knowledge. The bottom line is, if you cover 2,000 stocks globally, you will never have the knowledge of the individual companies in your portfolio or of stocks which might be in the portfolio that most of my colleagues at Artemis might have.

Now, on the other hand, the only way you could be having as much fundamental in depth knowledge about 2,000 stocks is by having a giant research department, which in turn would mean slower decision making, consensual thinking and a lot of time wasting managing people rather than money and where you would also lack an objective standard that helps you compare stocks globally.

So, whatever you think of these arguments of the strengths and weaknesses of managing the Fund in the way I do, at the end of the day the proof lies in the pudding and that is the performance. I've managed the Fund for little less than 2 years, which is not an awful long time. I've had a fairly good run and all I can say is that I will try very hard to ensure that this will continue.

That's it from me for now.

Richard Turpin

Peter, could I maybe just pick up on a couple of things you've said. Earlier on you mentioned that SmartGARP actually delivers some 90% of your sort of stock selection criteria. Would you like to comment on the other 10% in terms of the judgement? Are these looking at inflection points in terms of sentiment and liquidity or aspects like that?

Peter Saacke

The greatest part of the non-SmartGARP element is basically involved picking the types of stocks which are in the fund and which might be in the fund. And that basically says, and if I look at a – let's say a Korean bank, what I will do is I will use something called Reuters Knowledge for Investment Management, which is a platform for co-mingled research using research from 860 global brokers.

And I will find in the ticker for the stock that I'm interested in and I guess I have access to local Korean research on these banks and I will basically look at a number of notes produced by local Korean or global brokers on this bank, to get a sense of whether the stock might be screening when it's not GARP. You want to make sure it scores on profit for the right reasons. You want to make sure it's operational

reasons rather than changes in accounting or changes in taxation, or whether there's any other angles which SmartGARP cannot pick up, which you should be factoring in when you make investment decisions.

So, the largest part is spent on reality checking, picking the time. Another important part is for construction where you always want to ensure that your particulars are not totally crazy i.e. you've seen how many great oil stocks there are according to SmartGARP, but does that make me want to stick in 50% of the Fund in oil stocks, just because most of the best are oil stock, no that would be lunacy. So, in a portfolio construction, keeping the sector that's in check, also keeping the style bets, you know the growth part of this are otherwise in check. These are the kind of things that I spend the 10% on.

Richard Turpin

Interesting, following-up from that, I had a question from Andrew Perham of Cazenove's and please ladies and gentlemen, don't hesitate to use the opportunity to send us a question, using the dialogue and question box I mentioned, at the bottom left-hand corner of your screen. Andrew said – how much of the out performance since you've managed the Fund, has you believe has come from country selection and how much from stock selection? I presume the way you explained it, principally come from that stock selection, but there's an element of the overall position you're taking on a country basis.

Peter Saacke

Yes. When I sort of do the performance distribution by all kinds of factors, country, size, sectors, you always see +90% of the, how performance comes from with the stock level. And that is where the large majority of the bets are taken as well.

Now, obviously I've been underweight in North America for most of the time, since I've been running the fund. Except in one brief period, when I was equal-weight. And so, having been underweight, this region which has in general under-performed, has certainly been helpful, but the vast majority of the performance has to come from the stock level.

Richard Turpin

Thank you for that. Interestingly, there was an early question from Nigel Newland on the benchmark which you might have missed earlier on Nigel. We're actually working against the MSCI World. But looking at the content of North America, some sort of 52% of the index – how have you found SmartGARP sort of delivering in that region in terms of the sheer importance of that as a part of the overall make-up of the index?

Peter Saacke

Well I mean, North America has been the single biggest positive surprise to me, when taking on this Fund. When I took it on, I had certain prejudices about how well SmartGARP would work in different parts of the world and we knew SmartGARP was working extremely effectively in Europe. I had strong indications that it was working very well in Asia as well.

The area where I had the biggest concerns was North America, simply because there are more people in North America who manage funds along the lines that we manage the global fund, than in any other region. So you might think that some of the other opportunities might have been arbitrated away. But the sort of practice and the reality of managing the Fund and the big positive surprises to me have been that the vast majority of our performance has actually been achieved in North America. And again, just to reiterate, this has not been from being underweight the region, which has been under performing, but it has actually come at the stock level. And so, I've been very encouraged by this and I hope it will stay that way.

Richard Turpin

Got a good question here from Mark Smith at Bates in Leeds. Good morning Mark. Mark says, how does the market cap split in the Fund at present and does your process using SmartGARP tend to point you in any particular direction – large, mid cap, presume on a global basis, well, I'll let you answer the question.

Peter Saacke

That's an interesting one, because we've seen both in the European Fund and in the Global Fund some shifts in the selection. In the Global Fund it's about 70% or 71% in big cap now, the rest in mid cap and that's probably up from 50/50 if you go back 12 months, so that's going to shift towards bigger cap. In Europe, we are also running at the highest level of business exposure since in inception of the Fund.

If you look at sort of big cap versus mid cap through the eyes of SmartGARP what you see, which I'm sure you are aware of, is that big cap is by now good value relative to mid cap, but what is more interesting actually is that excellent revisions which you use to favour mid cap in the early part of this decade, have now actually turned in favour of large caps. So that's changed and that is essentially what has driven us more into the big cap arena.

Richard Turpin

Thank you. Ray Meneer has got a question here. You were talking about currency exposure and he was just asking outside of your US dollar hedging plan that you mentioned earlier on – how do you view exposure to other sort of non-US dollar currencies?

Peter Saacke

Well, I only actually use dollar exposure. I mean if you, let's take an example to illustrate why I do this. Think about say a Korean exporter; let's think of Samsung shipping televisions around the world. Now suppose that the Korean market falls by 10% or 15% and you take a currency loss on the stock. Now, in general what you find in small open economies like Korea, and in particular with export stuff, what you lose on the currency, you get back on the earnings, because Samsung with their weaker currency as then perceived, has expanding margins. And we generally call it a natural currency agent. So, this is true of Korean exporters.

It is also actually true of, if you think about Korean bank's, it's not as immediate if the Korean one falls 10%, you won't immediately get an uplift in Korean bank earnings. But obviously to the extent that the weaker currency stimulates the domestic economy, you would indirectly get back what you lose on the currency on the earnings. And that's why in small open economies we don't use currency hedging at all, because it's a natural hedge for this.

The US in contrast is a large closed economy – it's an economy where a change in the currency does not have a huge impact on corporate earnings and that's why I think there's a greater risk that you might lose something on the currency which you will not get back on the earnings.

Richard Turpin

Thank you. And there's quite an important question coming up here from somebody who types himself as anonymous, but actually it's quite a serious question. It implies that as we rolled out SmartGARP some 3 or 4 years ago in terms of the management of the European Fund, that clearly there is a higher percentage and continues to be a higher percentage of management override or sort of subjective interpretation. And I think, if I'm right in saying, it's the mid 25% - 30% for Europe and the gentleman or lady who is asking that, talking about 10% in terms of this interpretation, I think we need to sort of highlight that difference, because the question really is saying – have we reduced the amount of that element? And I think as you've already maybe mentioned earlier on, but we need to clarify that point, the difference between the universal sorts of European stocks versus the global universe.

Peter Saacke

Let's just go into a little bit more detail. In Europe we say, 75% SmartGARP, 25% judgement and with Global we go with a 90-10. Now of the 25% judgement in Europe, now what does that consist in? It consists of day in, day out sifting through corporate news flow as it emerges across all European stocks. Now, that basically keeps us busy for most of the day, because remember SmartGARP Europe and Global runs for about 1½ hours between 5 and 6.30 every morning, so that's not that, what takes our time. Our time in Europe is spent digesting corporate news flow as it emerges.

Now, the thing in the global context is that I have no hope in hell of staying on top of all corporate news flow across the world - every day. It's just humanely impossible. And so rather than work 25 hours a day and die trying, you have to say – this is the weak part, I'm not as much in tune, I'm not as quick to observe changes in news flow as I am in Europe. But what I have to offset this weakness is obviously that I've got a universe which is three times, which allows me to choose from three times as many stocks than I have in Europe. And so far, it suggests that the latter effect outweighs performance.

Richard Turpin

You picked up on that point about updating, Justine sent in a question asking about, is there a time lag in the under-lying data that feeds SmartGARP? And is there a concern that you're buying into a weakening share price or don't believe the pressures allow you to do that. But in terms of the time lag from the data or updated overnight?

Peter Saacke

All the data is run as I said, every morning at 5.00 in the morning, using the update of closing prices. In terms of buying into falling prices, remember that one of the factors in SmartGARP is price momentum so it is actually part of the process and it would sort of factor in the information that is contained in the price action and in the market. So, the time lag is actually extremely short.

Richard Turpin

Thank you Peter. David Kadarau I hope I've pronounced your name correctly mentioned that Eastern Europe has clearly been one of the hotter, if not the hottest regions in the world over the last couple of years and do you believe that's set to continue and he's asking for your opinion on that particular region.

Peter Saacke

Well, in general, I've had exposure to emerging Europe, mostly Hungary. In the Global Fund obviously in our European Growth Fund we've had exposure there for quite a long time as well. And we still have, both in Europe and in the Global Fund, we sort of have one share in Hungary which is more a refining share, surprisingly enough. But our exposure in Poland, Czech, Hungary is lower than it used to be. I mean one stock which we have held for about 3 years was OTP Bank which was one of our favourite stocks that did its story for quite a long time. And we sold that not all that long ago, basically because when we first bought it, it was trading at a massive discount for the European banking sector, it was growing at least twice the rate and when I communicated with the market, there was another massive upside surprise in profit.

Now, over the last 6 months, these surprises have basically started to wear off and when they're at the last stage of trading up as in August, their numbers were in line and there were a few people who were raising their forecast and a few people were cutting their forecast. And the other thing which has changed is that these days, these stocks are trading at roughly the market multiple. And so we thought, for choice this stock is still going to grow faster than in other European banks, but is it the best, one of the best banking stocks in the world, probably not.

So, in an area where we've been deploying capital, instead of Hungary, it has actually been in Turkey, where we both in the Global Fund and in the European Fund where we got involved in, basically around the time of the French referendum on the Constitution. Basically there you can see instances of banks which have news flow which resembles the news flow we used to be hearing on stocks in Hungary. Basically whenever they communicate with the market, that's another raft of operates of material size coming through and so if you want our emerging Europe exposure has shifted to the further reaches of emerging Europe and its more through Turkey then through Hungary.

Richard Turpin

Conscious of the time, maybe we'll just take a couple more questions, before we draw this to a close. But switching to the other side of the Atlantic, you mentioned that you were seeing poor results coming out of the US in terms of companies earnings. Neil Franklin asks us whether beginning with the trend in rising US interest rates clearly will have an impact on the economy and whether you feel that was below the sort of slowing of the global economy?

Peter Saacke

I think eventually that it seems likely that it will happen. What we are actually rather seeing and what SmartGARP has highlighted in rather, is that what we might be seeing over the next 6 months is actually a re-acceleration of the business cycle and re-acceleration of profit growth. And in response to that, I think it's fair to expect that the effect will raise interest rates by quite somewhat more.

But in terms of what I think will drive the market, I think the dominating factor, I could well imagine might be a positive surprise about the strength of the business cycle and the strength of corporate profits going forward.

Richard Turpin

One last question, asked by the Grigoryants Trust, have you done any testing or back testing, clearly the SmartGARP goes back a long way and maybe you could just touch on a little bit of the evolution and some of the paper portfolios that are due to start implementing on a live portfolio basis?

Peter Saacke

Yes. The issue line at SmartGARP, as you may be aware that I came from Merrill Lynch, from the sell side strategy side, where the predecessor to SmartGARP was a research product which was designed to help fund managers make money and beat the market and it started off being a UK product, it then went Pan European, then went Asian and by now it also exists as a global product. And the evidence from publishing on a monthly basis lists of stocks scoring well and list of stocks scoring particularly poorly, suggests this. And that's the kind of real back test that suggested that the process was very effective as to find stocks to beat the market and also telling you which stocks would under perform the market.

When I joined Artemis about 3 years ago, but quite soon afterwards I started building the global equivalent of the European SmartGARP model and started running a dummy portfolio based on the characteristics that global SmartGARP was highlighting. And so this was basically at the second half of 2003 and that was actually showing to be extremely effective with emerging markets, where the Fund had found a lot of exposure there.

So we had a lot of indications suggesting that this was effective and on an ongoing basis, we check how effective the individual factors driving SmartGARP are and there's absolutely no evidence that the Alpha generation is weakening.

But one thing we do not do and that's maybe worth pointing out is; we are not the research department here. Our job is to manage money. Our job is not to conduct

beautiful research. We like thinking about potential additions to SmartGARP, ways of improving it, but that's just because of the way we are. But we're not a research department engaged in back testing this and that all day long. Our main part of the job is to manage the money and to make sure the fund is jam packed with the best stocks you could possibly find around the globe.

Richard Turpin

Well I think conscious of the time, we might draw it to a close there Peter. Thank you very much ladies and gentlemen for a) joining us at the beginning of this conference call and the questions that you sent through have been very diverse and interesting and hopefully given Peter the chance to expand on the actual presentation, but I do think you've given us a very good walk-through, very incisive look at how SmartGARP has been applied to global risk.

So Peter, thank you very much indeed. If you do have any further questions – my apologies if any of them have been missed out, but please don't hesitate to call us on our broker support line which is 08000922090 or indeed e-mail us at broker.support@artemisfunds.com.

So once again, ladies and gentlemen, thank you very much indeed. I look forward to joining you when we have our next web cast conference call. Thank you very much indeed. Peter – thank you.

Peter Saacke

Thank you.

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