



## Derek Stuart – UK Special Situations Fund

*Dick Turpin:* Good morning ladies and gentleman and welcome to the Artemis UK Special Situations Fund Webcast. Thank you very much for waiting while we connected everybody and got you both on line and through the telephone system. Today, as you know, we are joined by Derek Stuart; the Manager of the Artemis UK Special Situations Fund and Derek has been managing that fund since launch back in March 2000.

Before I hand over to Derek, as I often do on these conference calls, forgive me for going through some housekeeping, but just in case you haven't logged in before, you should in front of you have the slide pattern that we'll be going through and also a picture of Derek on the top left. Just to the right of the picture you should see a tab, marked questions. Now please feel free at any point during the conference call to send us a question. All you have to do is click on the tab marked 'questions' and a box will appear, type your question into the box and at the bottom there is a submit button. If you click on that the question will come through to us and we'll do everything in our powers to answer your question as the conference call proceeds.

So, without further ado, Derek it's clearly been a challenging time for the market and the economic situation looks a bit choppy, so we are very grateful to you today for joining us to give us your thoughts on the market and how you are positioning the portfolio accordingly. So welcome, good morning and what are you thinking?

*Derek Stuart:* Thank you Dick; thank you very much for that introduction; good morning everyone that's out there. The presentation will give a quick view of the economics; I don't talk about macros too much but given the current state of the situation I thought it would be appropriate to comment on markets and comment on the economy. We go into how the Fund is currently positioned, what we've been buying and selling and wrap up with a couple of comments for going forward.

So, first slide: basically I thought I'd start off with a really bullish slide, a really positive situation; consumer debt too high - well don't tell me anything I don't know there! Access to

credit reduced; we are seeing another rights issue from a bank this morning. Oddly enough the banks don't have a lot of money to lend at the moment and therefore the ability to lend to everyone else has reduced, and therefore that has implications for the rest of the economy.

House prices coming down; my apologies for all these matter-of-fact comments that you all read in the press, but it's just good to stand back and actually take stock of what is happening. And the wealth effect from housing, as we all know, is quite material and therefore the fact that they are coming down, the fact that it's well covered in the media, is a big negative for sentiment, a big negative for consumer spending. And then to top it all, of course, we have interest rates that are coming down - which is positive - but unfortunately they are not coming down that quickly, because of the situation on the inflation front. We have inflation as we are all aware in oil and in commodity prices etcetera, and that is coming through in the CPI figures and therefore rates will come down, but quite slowly.

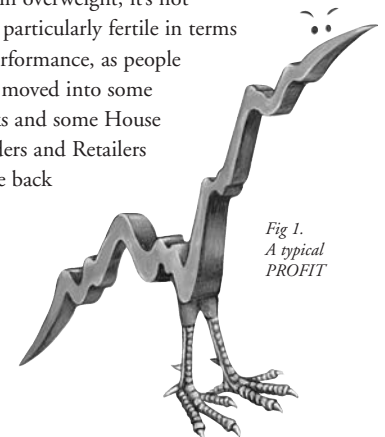
So, all this adds up to a continued slowing economy and a tough trading outlook. We've had a stock market that suffered in the early part of the year, has rallied back to levels we saw in the early part of the year; sentiment has slightly improved - apart from the US; in terms of what the US is willing to do to get itself out of the recession situation. But I don't think that we should be under any illusion. Of course here in the UK our issues and our problems are just as bad as the US, if you look at profitability, affordability ratios for housing against incomes in the UK; they are more stretched than they have been in the US. The lending practices, have been just as bad as the US, so, again, to set the scene that the US has been a tough environment and I think people that looked across there and said, 'well we are fine here' are misguided and unfortunately I think we are in for a very tough environment to continue.

I think it means that the consumer over here is going to be under a lot of pressure and it's very, very difficult to see how the consumer bounces back. There has been a lot of press recently about the v-shape recovery; I just think that it's very, very difficult over the next 6, 12, 18 months to see how the consumer is going to

ramp up his spending habits, given it now costs probably £70 to fill a tank of petrol, fuel costs and utility costs and everything else that's been slammed on the consumer. That's the environment; I wish I could be more bullish than that. I'm always criticised in here for being too bearish on these things, but I just think it's absolutely right to be clear on what the outlook looks like, and the outlook still looks very, very tough. I'm managing a fund in that kind of environment and let's go on and talk about that.

Current positioning: it really hasn't changed in the Fund over the past probably 6-12 months apart from the first one, which is Industrials. It's an odd one for me to be overweight and given this point in the cycle, but we saw a significant sell-off in the industrial sector in the back end of last year and the first quarter of this year and it has thrown up one or two opportunities. An old favourite that we bought back into in December was Morgan Crucible; a classic example of the way the markets were thinking at that point in December. The company suffered a 5% downgrade, half of which was due to currency being a large dollar earner, and the share price fell by 25 - 30% over the next two days. So we had a chance to buy back into this great situation at a very low multiple. We bought into Invensys and Smiths Industries. So again those kind of stocks that have overseas earnings - and I'll talk about Invensys slightly later - that give us exposure to Oil and Gas and Utilities and Petrochemical sectors, are growing on a global basis, looked very good value for us in the first quarter, so we've been buying into those.

So, rather oddly, given the point of the cycle we are actually overweight Industrials. Telecoms we remain overweight; it's not been particularly fertile in terms of performance, as people have moved into some Banks and some House Builders and Retailers at the back



end of the quarter. That pushed the Telecom sector down. I think that the Telecom sector will start to improve its performance going into the year and remain overweight and again I will develop that a bit further. I am still overweight utilities, although I have reduced the weighting there quite considerably earlier in the year. Scottish & Southern, which is in the Fund, and has been in the Fund for two years, has gone. It's a great company, but the valuation was stretched; and secondly we have been selling into the British Energy bid speculation so that was near enough 2.5-3% of the Fund and its now got 0.5% of the Fund as we've sold into that. So the weighting has come down. We are still overweight.

The underweights: I'm constantly getting asked about the banking sector. I've looked at the banking sector; I increased my weighting at the beginning of the year; I went overweight. I bought the position in HSBC and bought a position in Lloyds Bank and I've actually recently reduced that, because both had performed well. I'm concerned that both will suffer because of rights issues from other banks and people use the cash there and sell their holdings to finance these other purchases. So in actual fact my weighting in banks has probably gone down in the past month to reflect the fact that, these two big holdings HSBC and Lloyds have actually come back. Both have actually performed very well and HSBC continues to do well as we can see from the results. Well, on a relative basis. It was still a significant write-off the other day.

Mining sector has been my nightmare sector; I've been underweight mining for 12, 18 months and it's been very costly for me in terms of performance. The reason I have been underweight is for all the reasons I was perhaps underweight Financials as well. That the issues in the global growth story are coming to a head, speculative price increases in commodities; speculative investing in these shares; and I remain underweight mining. I'm not going to compound the error of buying it now; there is bid spec bubbling all over the place, but it does indicate to me this is a bit more top of the market in that particular sector. I see similarities between that and some other speculative booms we've seen elsewhere in the stock market over the years. So it's been wrong over the past 12 or 18 months, but I'm not going to compound the error by actually buying back now. So I will remain underweight in the Mining sector.

I'm basically underweight in anything consumer, I've not bought into any retailers, any house builders, leisure, travel, any of these kinds of companies. As I say, I think it's very difficult in the current environment of pressure on the consumer wallet, for the consumer to

buy, or increase spending anywhere in the economy, and therefore I remain very underweight in this particular area of the market.

*Dick Turpin:* Sorry to interrupt; you were talking about the fact we have seen a reasonable degree of recovery in the market, but with that sort of outlook and especially in terms of consumer spending, do you think we are watching a bear rally, mapped out in front of us, as some commentators indeed are saying?

*Derek Stuart:* Yes, I think that there is risk of that and I think that we've had a bounce back as people have viewed some of the sell-offs in some of these sectors, is quite significant. But I also think that the view of the market at the end of March was unduly bearish and that people had high levels of cash at that time and it wasn't a big surprise to see the market rally so much. But what we have to realise is that the banking sector has been under a lot of pressure. The banking sector needs to re-capitalise. The implication there is that the Banking sector cannot lend to consumers and to businesses, and therefore that has implications for the wider economy going forward into the second half of this year.

So, I think that the trading news flow and the economic news flow will continue to get worse going into the second half of this year and therefore, given what the market has done recently there is a chance that the market does come back. The other thing to point out is that we've had a raft of rights issues. We've had the RBS one, HBOS, Bradford & Bingley; we've had placings from a number of companies who are re-capitalising their balance sheets and therefore that does take pressure and a lot of the heat out of the market; and again over the summer months you will see a market that will find it quite difficult to move forward significantly. So, I agree, it's difficult to see the market moving significantly on from here.

*Dick Turpin:* Looking at obviously your overview of the market, are those rights issues being absorbed reasonably easily? The market doesn't seem to have, maybe it sneezed but it certainly hasn't caught a cold as a result of those.

*Derek Stuart:* There are two points to make here: one, people haven't had to finance them yet; they haven't had to put their hands in their pockets and we are seeing some of that now. The Lloyds price for instance is coming back now, because people are selling that stock to finance elsewhere in the banking sector. And people haven't had to put their hands in the pockets yet and that will come through over the summer, as people have to do that.

The second thing is again the rally in the market has been quite specific in Mining, in Oils, in certain Industrials and from time to time in some of the Retailers etcetera, but it's been quite specific. We are seeing new lows in Banks; we are seeing new lows in some of the Retailers and House Builders now.

And what have we been buying and selling basically? I mentioned that we've increased our mid-cap exposure and that's not particularly good; I was wanting to increase my mid-cap exposure. For those that have followed the Fund for a while - I tend to be driven by stocks specifics. I have increased it because one or two stocks looked quite attractive and we've had management change in some, and some of the classic things I look for in a turnaround situation.

Invensys is a classic basket case kind of company that everyone's viewed as a very low quality company, highly indebted. The company actually bizarrely is no longer indebted; if anything it'll have about 3 or 4 hundred million of cash going into next year on a 2 billion market cap. A chunk of the business is in rail, a growth industry and process, which is process equipment for Petrochem, Oil and Gas sectors, a growth industry and controls, which are focussed towards the US and which will be suffering. But this is no longer the basket case it was, it is a great company. There has been a lot of corporate activity in the Industrial sector; they have fantastic niches that would be attractive to someone else; a strong management team and the shares have had a very good run. They have rallied from under £2 to £3 today. They're probably vulnerable for a bit of profit taking in the short-term, but again it's a quality situation, new management story where the debt has been reduced; they've actually bought back their high coupon debt. The share looks very interesting. Again, overseas earnings, which is a positive at the moment because again, Sterling, I think will weaken against the Dollar and the Euro as it has done. Therefore that does underpin some of these forecasts and we are seeing that in a number of industrial companies.

Southern Cross: it's always good to get two bites of the cherry; we invested in a company called NHP a long time ago - Nursing Home Properties - and it was a turnaround situation sorted out by a chap called Bill Colvin and we've got to know Bill over the years. He sold out to Blackstone; the company then came back as Southern Cross. The shares have halved over the past six months on the back of the fact they were overvalued at the time - some management changes etcetera and the mode of management sales. We are now getting a chance to buy into Southern Cross on 13 times earnings for something that's growing at

15–18%. We know Bill very well; he actually bought some shares two months ago, and they had figures yesterday and basically things are trading quite well. They were forecasting and expecting 4% increase in the fee rates for the nursing homes and are getting through for most of the other estate 5%; so the operational gearing in this is quite significant. So, again, a pretty defensive type of company that has halved in value. A strong management team we know well.

Sainsbury's: I don't need to talk about that one too much; we were a bit lucky in that one, in that we sold our Sainsbury's to, I don't know whether it was Mr Tchenguiz or the Qataris last summer, but anyway we stood back and then of course the shares proceeded to halve as the bid walked away. We bought back into Sainsbury's over the past couple of months; a great company, great retailer, great guy that's running it and it's an interesting shareholder register - we've still got the Qataris and Mr Tchenguiz owning their stake. A classic special sort of recovery with a great management team and also obviously with the stakes that are owned in this particular company, it looks very, very interesting.

*Dick Turpin:* There were some good results this morning, I believe.

*Derek Stuart:* Good results this morning, yes exactly, very, very interesting.

Rentokil: Again those of you that have followed the Fund for a while, knew we owned Rentokil the summer of last year. They had a profits warning; we sold after that profits warning and they've had another two profits warnings since then, but what has happened in the intervening period is that a new management team have come in. That management team were the Chief Executive and Finance Director of ICI; we owned ICI, doubled our money in ICI on the back of these guys sorting it out, paying off the debt, disposing of businesses and refocusing the business. They have now come into Rentokil to sort that business out. The profits warnings were primarily in the City Link side, the parcel side, the rest of the business was trading well enough and the shares are trading 11 times earnings. The company has a fantastic incentive scheme that the Directors will get 7½ million shares each. They will get 20% of that if the shares hit £1.20. They will get 100% of that if the shares hit £1.80 and today's shares are at 93 pence. So we started buying those shares and I think that can be a very interesting management story, turnaround story.

And finally Logica: classic turnaround story again; a company that's had results this morning and it just demonstrates the negativity that goes towards a share and the chances you

get to actually buy into a share when its on its knees. Logica was down under £1; the Directors were buying at 95 pence. It's a great IT play; it's a great Euro earner and again with the Euro the way its going it underpins forecasts. And the other situation where the guidance is for 3% top line growth, they have come in this morning with the help of a better currency at 6% and the shares are turning round quite nicely, so we feel quite attracted towards that one. New Chief Executive, new Chairman and it's a company which everyone hates and which we are starting to find very attractive.

On the sales side, how we financed that; I mentioned before British Energy had the bid spec; we are not believers in the fact that someone will bid for this whole company, I don't think that the Government would allow that to happen, so we have been selling into this bid spec and its been very profitable for us. Its been a great investment the first 4 or 5 months of this year, happy to take profits.

I did actually have a mining stock in the Fund, the European Goldfields, the gold play, it has done incredibly well. We have sold into that on the back of obviously what has happened in the Mining sector and gold especially. We traded a little company - SEGRO - which is the old, or the new name for Slough Estates and that was a property company that we bought at the back end of last year and we sold recently on the back of a share price rise; it's done quite well.

As I mentioned before, Lloyds bank has performed well for us; it's not been in the same distressed category as many others, but my concern has been that they would be under pressure as people sold Lloyds to finance the rights issues of RBS and HBOS. In actual fact, the way it's been performing in the past two or three days would indicate that that's exactly what's happened. So now that's what we've been selling to effectively finance those purchases.

*Dick Turpin:* A question here on the banks, from Paul Davies talking about when they make final disclosures in some eighty days he mentions here. You mentioned that there is more downside on the banks and he asks what sort of percentage - although we've mentioned that you were underweight in the sector - what sort of percentage you actually hold at the Banking sector?

*Derek Stuart:* In the Banking sector I own 3.5% currently, to give you an idea that I actually had 3.5% last year; it went up to I think it was 6%, because I went 4% in HSBC - in fact it was 6.5% - because it focused on HSBC and 2.5% in Lloyds at one point, its now back down to 3.5. The banking sector is interesting; everyone was saying the banking sector was cheap

because the shares were on 6 times earnings. And of course what you actually find is that with the rights issues and the dilution, the shares - and of course they are also saying that the yields were 10% - with the rights issues and the dividend cuts they're actually on 8 or 9 times, and 4-4.5% yields. So again maybe that's the right valuation for a bank.

When I started in the market in 1990 that's exactly what the banks were on because at the time they had just given all their money away to Latin American countries and lost it all there. They've obviously lost it all now to mortgage companies in the US. So, it's difficult for the outlook. What we've seen at the moment in the Banking sector is the write-downs because of those instruments that they have had on their balance sheets. The next stage comes when the bad debts start to rise and the defaults start to raise; and therefore its very, very difficult to see the Banking sector increasing earnings. Therefore on that basis this sector, in my view, remains still very unattractive. They might get to a point in the second half of this year where the rights issues are through etcetera, and we might find it more attractive, but we've been through the first bit, which is the write-downs. The next bit is actually defaults going up and bad debts increasing and a lack of earnings growth and that's what we are facing over the next 6 to 12 months. I still find the sector unattractive at the moment. I've been in what I view are the quality banks and the reason I'm selling them is just basically because, one they've performed very well; and secondly because they will be used as a sort of cash to finance the distress in the rest of the sector.

*Dick Turpin:* Thank you Derek, that's great.

*Derek Stuart:* And so finally, just to wrap up another summary; the outlook, negative on the economy and it's difficult to create a view any more positive than that. I think v-shaped recovery is absolute nonsense, because we've been in the biggest bull market in property and asset price inflation that we've seen in a high number of years, maybe ever. We're unwinding from that; it's the big hangover after that party and therefore the question I've always said is 'how quickly that unwinds? Does that unwind over a period of time when we get very low growth for 2 or 3 years?' Which again is okay, because in that environment in low growth you can still buy equities and you can make money from certain equities. Or whether the adjustment is short and sharp and we get a recession and I don't know what the answer to that is. It's finally balanced; our monetary authorities are not as aggressive as the ones in the US. The US will sort itself out, but I still think that the US is under significant pressure. But they do have more of a monetary stimulus

being introduced to the economy than we do. Because we have apparently more inflationary pressures than they do. So it's difficult for the economic conditions to help us on the markets side.

*Dick Turpin:* Interesting point there if I may interject about the Bank of England being less aggressive. Do you feel that maybe the charter of the Bank of England should be addressed? Some commentators are saying because the charter is just to focus on inflation while the Federal Reserve has a task to not just address inflation, but also to look at economic growth. At this particular point in time the Bank of England's almost got one hand behind its back and do you think that should be looked at from a long-term perspective?

*Derek Stuart:* In a kind of bizarre way I've got a lot of sympathy for Mr King in terms of what he's saying about our marketplace. We've all traded badly in terms of we've developed too much debt and the housing market has gone ahead too aggressively and in effect like every other time this happens you need an adjustment. What he's basically saying is, this adjustment needs to happen and he's not going to bale people out and that's roughly what he's said. He's had to change his tune slightly because of the conditions, but in effect what the US are doing is baling people out and in effect trying to make sure the hangover is a dull hangover and its not quite so severe as it should be. That's probably right for their financial system and it had to be done, but I also think it does create this moral hazard, as King talks about, but in effect if you spend too much, you borrow too much, we have to understand that we can't always be baled out of that.

Now of course the US has adjusted to that, it realises if you haven't cut rates and haven't injected liquidity into the system their financial system would have been - and the global financial system would have been - under significant pressure. We are constrained somewhat by our charter on the inflation side, but I also think he's actually taken a point that we need to see an unwinding of some of the excesses in the first place. I think that's right; it's not going to be easy, it's going to be painful but we have to make that adjustment. What we can't say is we flick the economy from this level because at some point we have to adjust to the whole situation and we have to adjust to the fact that debt is too high, asset prices are too high and whether you adjust short or long, I can't predict that.

The Bank of England also recognises the financial system and they will come to the rescue if there is a problem there, but we are going through that at the moment. We are re-capitalizing the banks, we're changing the banks

that will happen; it's painful but it is happening and I think it's the appropriate thing to happen. I don't think re-fitting the economy per se is the answer because all that does is create further longer term problems actually, and that's just a nightmare scenario.

*Dick Turpin:* Interesting question, if I may from David Fratton; he's just implying or asking if higher inflation can be good for any of the companies you own. Clearly you don't want higher inflation, but are there particular scenarios where an individual company may benefit?

*Derek Stuart:* Well the key thing is,...I ask companies and especially in an environment where you've had steel prices, oil prices being put through, can you put it through. Because of the media attention and because of the general recognition of the inflation in the system, most companies are finding it easy to put through. For instance, as you're probably aware I have investments in bus companies; there has been concerns about their ability to pass through price increases for fuel. They will be able to do that because everyone recognises that fuel costs have to be put through. So that is good for those companies because if they couldn't do that obviously their profits would be squeezed. Retailers again, on the Sainsbury's front, pretty much generally good news, but we we continue to watch. Inflation specific to certain companies is good news, but in general terms it is not good news, because it does mean interest rates will not come down as quickly. So I don't welcome inflation. A modern inflation is great, 2 or 3% that's fine, any more than that and I start to worry because of what it means for interest rates.

*Dick Turpin:* Suzanne Camber reminds us of that old quote 'Sell in May and Go Away'; clearly we might be looking at a sort of quiet summer.

*Derek Stuart:* Summer is always quiet; we've been through the results season in the US and we are doing so in the UK. There is usually less liquidity in the summer because people are away so there is always a degree of volatility in the markets. I don't think this summer will be any different; people have had a tough five or six months and would be very, very happy to go away for a summer holiday and have a break. The rights issues that are getting tapped in the market at the moment will reduce some of the liquidity and some of the demand for equities. Therefore after the market run I still contend it's difficult to see the market moving on significantly and therefore the market goes sideways at best and probably just down a bit; and then we need to get a bit more detail on actually what's happening. A lot of the statements we've had from a lot of companies

have been backwards facing statements; everyone is saying at the moment they are not seeing a recession; at the moment they're not seeing a slowdown.

Over the next 3 or 4 months we'll get improved clarity on that and it will be interesting to see how those companies that were confident two or three weeks ago, a month ago, feel now. I make the point that certain banks said they wouldn't need any further write downs or further re-capitalisations and make the comment that certain companies have said things are fine in the Retail sector, then four or five weeks later things have changed quite dramatically. So it's a very short-term market at the moment in terms of the news flow and in terms of the views. Over the summer we will get more clarity on that and unfortunately I don't think it will be positive clarity, that's my feeling.

*Dick Turpin:* I get the feeling, and correct me if I'm wrong, that the UK corporate world is in reasonably good health and therefore it could possibly weather a downturn; balance sheets have been rebuilt; is that the feeling you get? I'm generalizing now clearly, but there's a degree of stability out there?

*Derek Stuart:* I think in certain companies, but it's interesting you have a rights issue this morning from a company called Johnston Press, which is in the Media sector. It's had a lot of debt and viewed as a very conservative company, with historically a very high rating and a great return on capital and great margins. But the company shares are probably down by 60% in the past 6 months and its having to re-capitalise its balance sheet because of the debt. Its just a view, I just think that things have changed somewhat. Even FirstGroup, which I have a holding in, this morning is having a placing, just a 10% placing, and I think they are just doing that because they know that the credit agencies and the liquidity agencies are analysing their debt. Their debt is fine; its long-term debt; it's paid off against great long-term contracts in the US and great stable earnings, but still people are viewing it in a slightly different light today than they were three or four months ago.

I think corporate UK is in okay shape, I wouldn't get too excited about that; in certain circumstances the oil companies with lots of cash, like BP and Shell. You see in aggregate, you've always got to remember that - look at Glaxo, BP and Shell and Vodafone and the big mining companies - they represent the largest chunk of the market, so on aggregate it looks as though corporate UK is okay. But if you take away from those companies, you get below that, you're finding that there's a lot of companies with too much debt and those are

the companies to avoid at the moment, because the change in sentiment has been significant to those companies.

I want to end on a slightly more positive note; I know it's unheard of for me to be positive, but I just want to say two or three things that have been interesting in the past few weeks that were on the market. I'll take the second point first; valuations are okay and certainly they are okay and the market got oversold in certain sectors back in February and March and things like Invensys and Morgan Crucible we found attractive.

The other thing is corporate activity has been picking up. We've now got a contested battle for Endace in the industrial sector. We've had a bid the other day for Chloride, a great company. In the portfolio, we have a contested bid at the moment for Expro. We've had in the first half of this year take-outs of Star Energy in our portfolio and Encoda, a software company. In the software sector we've had bids for Zetex, Anite. A number of companies. So it's interesting that corporate activity has picked up in the recent while and I think that will continue.

The private equity players have a significant amount of cash; the problem is that they can't obviously do the equity debt deals they did before. But clearly the valuations of a lot of companies have come back and therefore the premium they have to pay is at a lower level than they did before. So that is something that we are seeing and is interesting in the stock market.

Again this morning when I left my screen there was bid activity in Misys; you're seeing it in the US as well, a pick-up in bid activity. That's always good for the market and, as I said, the private equity players have a lot (of cash) and also the corporate players. The corporate players realise that there is not as much growth out there, so one way of manufacturing that growth is to buy another company and strip the cost out. There have been rumours in the house-building sector of mergers there, purely to take the cost out and keep the financials of those companies attractive.

So that's one positive, and going into the second half of the year we're hopefully getting the chance to look at some re-financing of some companies. If you remember from this Fund in the past, in '02 and '03, companies like Regis, companies like Morgan Crucible at the time, were great opportunities to re-finance and buy in at low levels. We'll get the same again in the second half of this year and the first half of next year. I'm looking at a couple at the moment; one I'm not going for; one I'm actually doing some more work on at the moment, but again

in terms of with the upside potential, if you can get the upside down and you can get the debt sorted out and a decent management team in there, then you can actually make significant amounts of money and that's something that's exciting for the second half of the year.

I'll address one more question that has been sent in about how Artemis managers invest in their own Fund and...

*Dick Turpin:* Thank you for picking that one up.

*Derek Stuart:* I've been asked when I last put money in the Fund, well I actually put money in every month, because my ISA money and my wife's ISA money go into the Fund as it has done since day one. The last time I put another chunk on top of that - was in the summer of '06 - and for those of you who have been with the Fund for a while remember that I decided in the first two months of the year the Fund was performing too well. Therefore I put the brakes on it and starting buying telco companies, bus companies, food retailers etcetera; and the Fund short-term in the summer of '06, performed poorly. As I said in my interim accounts at the time I did buy more units at the time, put a chunk of money in then and just to say that I was very happy with the Fund and what we are doing and it proved to be right because a lot of the stocks we bought actually performed very well in the second half of the year.

I will be putting more money in this year in the summer, probably around the interim times again, because I'm very happy long-term with what's going on in the Fund. There have been some awkward things in the Fund in the last two or three months and some small companies have come back, and it's deeply frustrating and I hate that. But when I invest in a company that's not done so well and I see the management buying the shares, I think it's always a big sign, a big tick in the box for me. Ditto I hope that is the same in that the fundamentals of this Fund remain the same and how it is managed remains exactly the same. It's just at the moment we are going through a tough economic environment.

*Dick Turpin:* Derek, well that's very good thank you very much indeed for your thoughts and your openness on your overview of where we are at the moment. Ladies and gentlemen, conscious of the time; I think we'll probably bring the conference call to a close. Thank you to those of you who sent us questions. I think we've answered all the questions we've received today. If you do have any more questions please do not hesitate to e-mail them through to [brokersupport@artemisfunds.com](mailto:brokersupport@artemisfunds.com), or indeed phone our broker line 0800 092 2090. On

behalf of everybody, Derek, thank you very much indeed for your time this morning. Thank you ladies and gentlemen for listening in and we look forward to getting together again with another web cast in the future, thank you very much indeed.

#### *Risk warning:*

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