

## Fundamentals with Russ Mould

August 2017

Welcome to the latest edition of Fundamentals and this time around I'm going to take a topical look at the actively-managed Artemis European Opportunities Fund.

[CAPTION -Artemis European Opportunities I (Acc) - ISIN - GB00B6WFCR53 SEDOL – B6WFCR5]

The lead fund managers are Mark Page and Laurent Millet and between them they have over 30 years' investment experience.

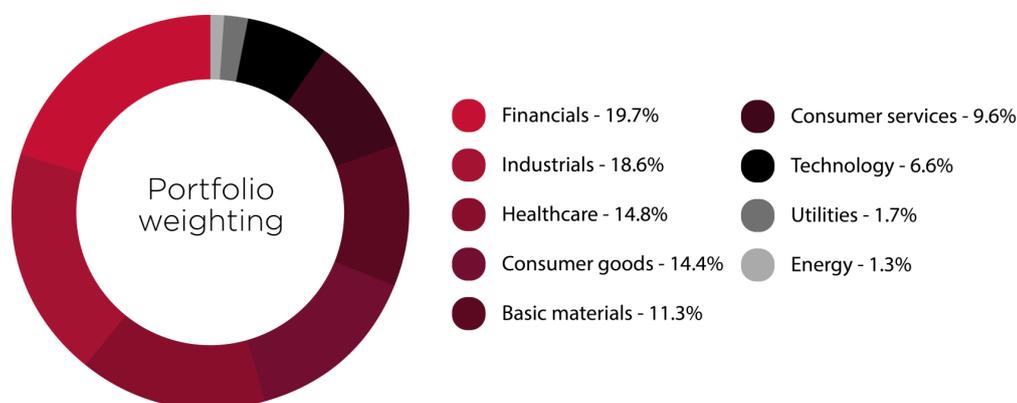
Their mandate is to generate long-term capital growth from their £364 million portfolio of stocks, which principally hail from Europe's stock exchanges, excluding the UK. Their focus is on high-quality stocks but only those that come at a reasonable price although I should say that the fund managers are not wedded to any one investment style as they try to generate consistent, though not aggressive, outperformance of the market.

The portfolio is built bottom up and Page and Millet keep things pretty tight, holding no more than 60 names in their portfolio at any one time.

As I sit here, the largest portfolio positions include German chemical and life sciences giant Bayer, Swiss drug developer Novartis, German software play SAP, Scandinavian financial services specialist Nordea and Danish pharmaceuticals stock Novo Nordisk.

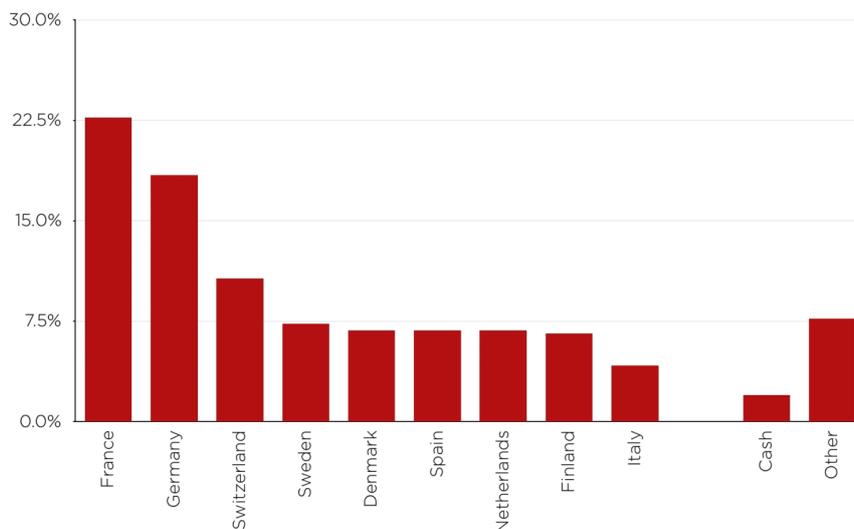
By sector, financial services, industrials and healthcare are the three biggest sector exposures, at 20, 19 and 15% of the portfolio respectively – that's over half in total.

By contrast, there is a 1% weighting toward energy and just 2% in utilities, as we can see here:



Source: Morningstar, Artemis factsheet

To provide a little context, the biggest underweights in the fund are energy, banks and consumer staples (the last-named on valuation grounds). By country, France, Germany and Switzerland are the three biggest exposures:



Source: Morningstar, Artemis factsheet

Large caps currently represent just over 60% of the assets, mid caps just over a third and small and micro caps just under 5%.

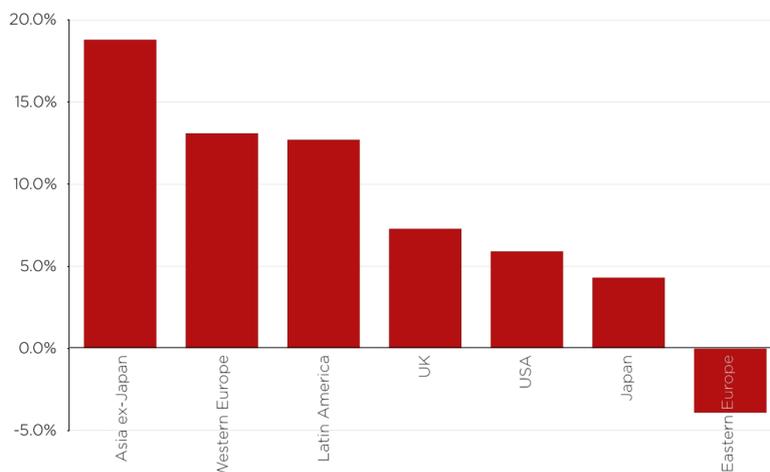
The fund is eligible for SIPP, ISAs and General Investment Accounts and currently comes with a relatively lowly historic yield of 1.4%, which is the result of the focus on capital growth. That said, Artemis European Opportunities does come with income units – where dividends are paid out – but on this occasion we are discussing the accumulation units, where dividends paid are reinvested for advisers and clients automatically.

The ongoing charge figure is 0.85% - so clients do have to pay for the expertise of the fund managers - and for those of you who set store by such things the fund comes with a five-star ranking from Morningstar.

So - those are the mechanics. The question to address next is why should advisers and clients consider this collective for portfolio inclusion today?

Well, I think there may be three possible reasons:

- The first is that Europe is performing well. Its economy continues to surprise on the upside, unlike that of say the USA, where President Trump is making more progress on Twitter than he is getting legislation through Capitol Hill. As we can see here, in sterling total return terms since 1 January, Western Europe is the second best performer of the major regions, lagging only Asia ex-Japan, and beating the UK, US and Japan pretty handily:



Source: Thomson Reuters Datastream

- The second is the European Central Bank, which continues to move heaven and earth to keep the eurozone project on the road. Under President Mario Draghi, the central bank seems in no rush to raise headline interest rates from zero and continues to run a Quantitative Easing scheme that runs to €60 billion a month. Low returns on cash and low yields on bonds are driving investors toward stocks – just as has happened in the UK, US and Japan, too.
- The third is the fund's own performance. This chart shows performance since inception and the last three years' returns are good enough to rank the fund in the top quartile – or 25% – out of a field of over 120-odd funds.



**Source:** Thomson Reuters Datastream

- The absence of a decent yield may put off some advisers and clients.
- The role of the European Central Bank is a current source of strength for the European equity market – but this begs the question of what would happen if Mr Draghi were to turn off the monetary taps and end the QE scheme on schedule in December.
- Note also that the euro has started to strengthen, especially against the dollar. A really strong currency could start to dampen earnings growth and potentially crimp European stocks' performance, especially as they have done so well of late. For our final graphic, we can see that Germany's DAX index has already slipped to a three-month low amid such concerns:



**Source:** Thomson Reuters Datastream

Advisers and clients must therefore do their research on the Artemis European Opportunities Fund to make sure that it fits with their overall portfolio strategy, target returns, time horizon and appetite for risk.

Thank you for watching and I look forward to seeing you next time.

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