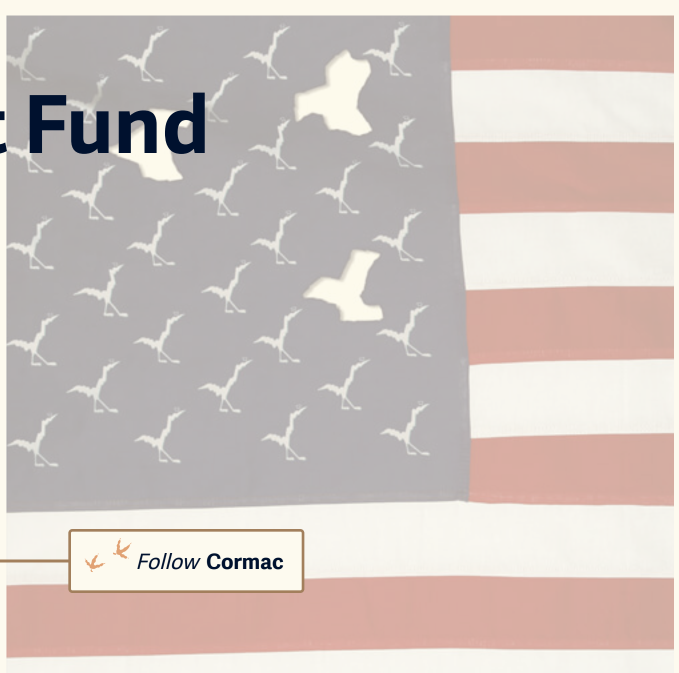

Artemis US Select Fund update

Cormac Weldon, manager of the Artemis US Select Fund, reports on the fund over the quarter to 30 September 2024.

Cormac Weldon

6 November 2024

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Source for all information: Artemis as at 30 September 2024, unless otherwise stated.

Market review

The third quarter of 2024 was a period of substantial volatility for global markets. Early optimism came on the back of softer inflation data, with market participants anticipating that the Federal Reserve might soon cut interest rates. This was further supported by dovish comments from the Fed, suggesting confidence that inflation would continue to fall toward its 2% target. However, by mid-July, signs of stress started to emerge in US equity markets, particularly in the largest index constituents, many of which had benefited from the AI euphoria seen in 2023.

Concerns about the health of the US economy were exacerbated by weaker-than-expected jobs reports and a rise in the unemployment rate, triggering the Sahm Rule[1], a key indicator of a recession. On top of these domestic concerns, the Bank of Japan's decision to raise interest rates put pressure on global financial markets, particularly on the Yen carry trade—a strategy in which investors borrow in low-yielding currencies like the yen to invest in higher-yielding currencies.

Despite these initial headwinds, by late August more supportive economic data began to emerge, including stronger retail sales and better-than-expected weekly jobless claims in the US. These reports alleviated some of the immediate fears of an imminent recession, allowing the Federal Reserve to proceed with its first rate cut. This environment of cautious optimism defined the closing weeks of the quarter.

Performance – underperforming over the quarter

	Three months	Six months	One year	Three years	Since launch*
Artemis US Select Fund	-2.7%	-0.4%	26.5%	29.2%	302.2%
S&P 500	-0.2%	4.0%	24.1%	40.9%	318.9%
IA North America average	-0.5%	1.4%	20.3%	26.8%	246.7%

Past performance is not a guide to the future. Source: Lipper Limited from *19 September 2014 to 30 September 2024. All figures show total returns with dividends and/or income reinvested, net of all charges. Performance does not take account of any costs incurred when investors buy or sell the fund. Returns may vary as a result of currency fluctuations if the investor's currency is different to that of the class. This class may have charges or a hedging approach different from those in the IA sector benchmark.

Over the course of the third quarter, the Artemis US Select Fund underperformed the S&P 500, delivering a return of -2.7% compared to the S&P 500's -0.2%. Year-to-date, however, the fund remains ahead, with a return of 16.9% compared to the index's 16.0%.

The primary drag on performance came from our positions in technology, industrials, and consumer discretionary stocks. Underperformance was partially offset by strong showings from our positions in utilities and energy, sectors that have benefited from the broader shift towards clean energy, a theme we continue to be well-positioned in.

On the negative side, **Western Digital** struggled during the quarter as it is closely tied to concerns around AI-related capital expenditure. Despite near-term headwinds, we maintain our long-term positive outlook on the company, as its memory chips will be critical to AI infrastructure.

McKesson (pharmaceutical distributor) underperformed after weaker-than-expected earnings and a downgrade by analysts, leading us to exit the position. Intel, another detractor, continued to face challenges as it implemented cost-cutting measures while attempting to reposition itself in the AI market. This slow progress led us to sell our small holding.

NVIDIA, a strong performer over the past year, experienced volatility due to delays in releasing its Blackwell chips and broader concerns about AI's immediate prospects. Despite this, we remain optimistic about the stock's long-term potential and continue to hold an overweight position.

On the positive side, **Vistra** was one of our top performers this quarter, driven by strong demand for clean energy, particularly from data centres. Declining interest rates also provided a supportive backdrop for this capital-intensive business. Similarly, Constellation Energy benefited from its largest-ever power purchase agreement with Microsoft, which secured premium pricing for its clean energy over the next 20 years. Avantor, a core holding, delivered good results, supported by the performance of its bioscience production unit. We anticipate continued recovery in demand as bioprocessing normalises post-pandemic.

Builders FirstSource also performed well, benefiting from a pickup in housing activity as mortgage rates declined. As the largest supplier of structural building products in the US, the company continues to capitalise on the ongoing housing supply shortage, a theme that we are actively playing in the portfolio.

Changes to the Portfolio

During the quarter, we made several strategic adjustments to the portfolio. In terms of sales, we significantly reduced our holding in **Alphabet** as we have a preference for **Meta**. We also sold out of **Visa** and **McKesson** to recycle capital into more favourable areas.

On the buy side, we initiated new positions in **Parker Hannifin**, a multi-industrial and aerospace component supplier, and **Liberty Media** (Formula 1), which we believe has significant growth potential, particularly as Formula 1 continues to expand its presence in the US. Our largest transaction over the quarter was to add **Broadcom**, which we believe will benefit from the wave of investment to improve the efficiency of datacentres. In our view, there is also significant upside from their recent acquisition of VMware.

Outlook

As we emerge from the summer months that have characterised by volatility both in markets and in estimations of the health of the US economy, we don't feel that we are entering a period of calm in markets. Our process of identifying businesses with attractive risk-reward profiles has proved essential in guiding the fund through volatile times like these. We have a clear framework around modelling the downside scenario in addition to the modelling of the upside. In times of volatility, this is extremely helpful as you can quickly understand if there is over-optimism or undue pessimism.

We are acutely aware of the upcoming election, with each party representing quite different policy objectives. As we approach the date, we expect to be spending a significant amount of time modelling the different outcomes on a stock-by-stock basis to understand the implications.

[1]The Sahm Rule identifies signals related to the start of a recession when the three-month moving average of the national unemployment rate (U3) rises by 0.50 percentage points or more relative to its low during the previous 12 months.

Benchmarks: S&P 500 TR; A widely-used indicator of the performance of 500 large publicly-traded US companies, some of which the fund invests in. IA North America NR; A group of other asset managers' funds that invest in similar asset types as this fund, collated by the Investment Association. These act as 'comparator benchmarks' against which the fund's performance can be compared. Management of the fund is not restricted by these benchmarks.

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