

# Artemis US Select Fund update

Cormac Weldon and Chris Kent, managers of the Artemis US Select Fund, report on the fund over the quarter to 31 December 2024.



**Cormac Weldon**  
28 January 2025

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Source for all information: Artemis as at 31 December 2024, unless otherwise stated.

## Yearly review

2024 was another year of American exceptionalism, with the S&P 500 returning over 20%. US sceptics keep trying to make the comparison with the dotcom bubble in 2000, when a frenzy around the widespread adoption of the internet pushed stocks to extreme valuations. We do not think the comparison is a valid one and we hope our review of 2024 will explain why.

From a macro perspective the year can really be summarised as a tug of war between the market on the one hand and the Federal Reserve and the steady feed of economic data on the other. The presidential election added to the volatility. At the start of the year, strong growth and inflation surprises pointed away from the 'hard' landing narrative and towards an economy that was running hot. Futures moved from pricing in around 160bps of rate cuts for the year to just 67bps, which caused jitters in the bond market. Despite this, markets posted a strong first quarter. The 'higher for longer' narrative for interest rates gained traction in April although it faded somewhat as we approached the midpoint of the year. The real excitement happened over July and August. Cooler inflation quickly put rate cuts back on the table, but weaker economic data emerged, leading to a belief that perhaps rates had been high for too long. This yo-yo of optimism to pessimism culminated in a sharp decline in US equities over August. Sentiment once again changed as more positive economic data emerged allowing the Federal Reserve to cut rates in September.

For the final quarter of the year, it was the election that really dominated sentiment. Trump was undoubtedly seen as more positive for markets, with the S&P 500 & Russell 2000 rallying sharply on the result. The final month of the year topped off a volatile year with yet more volatility when the Federal Reserve administered a 'hawkish' cut on renewed inflation fears. Despite the chopping and changing, the underlying economy pretty consistently displayed its good health.

If we look at markets, then 2024 was another year of the mega caps' dominance in terms of index concentration, concentration of returns and also their massive spending on AI. By many measures this was and still is a return concentration unlike any since the Great Depression. On the first two points (index and return concentration), it has largely been justified as the largest businesses happen to be also the most profitable. On the last point (AI capex), this has lifted a variety of businesses, from clean power producers to companies providing skilled labour to build data centres. While this theme is likely to continue in the race to develop the best AI offering, the question will be how much this will impact forward returns for these businesses? This is something we are watching closely.

Concentration of returns in the largest index constituents has made things difficult for active managers, who are typically underweight these names. We are therefore pleased to have delivered a positive relative return for investors over 2024, 29.5% Fund vs 27.2% Index (GBP). Our 'Magnificent 7' positioning was a tailwind to performance with Nvidia being our top contributor. However, it would be independent of us not to mention the diverse mix of businesses that also took part. Our independent power producers, Vistra & Constellation Energy were additive, as were Goldman Sachs (Investment Bank), Fiserv (Payments), Walmart (Retail), and Coherent (Network cabling). As is our aim, performance was driven by stock selection.

## Performance

	Three months	Six months	One year	Three years	Five years
Artemis US Select Fund	10.8%	7.8%	29.5%	34.3%	89.9%
S&P 500	9.6%	9.4%	27.2%	39.8%	108.3%
IA North America average	9.6%	9.0%	23.3%	29.5%	89.9%

Past performance is not a guide to the future. Source: Lipper Limited as at 31 December 2024 for class accumulation GBP. 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.

## Q4 Summary

- Fund outperforms benchmark, returning 10.8% vs 9.6% S&P 500
- Top contributors: Goldman Sachs, Vistra, Liberty Media.
- Top detractors: Builder FirstSource, Avantor, Elevance
- Trump election boosts markets, but hawkish cut dampens optimism in December.

## Contributors:

**Goldman Sachs:** Currently our largest active bet in the funds, we increased the position size in the leadup to the election. We did so as we felt that not only was Goldman benefiting from a more favourable rate outlook (as capital markets and M&A would likely pick up), but if Trump were to be elected, M&A activity would experience a significant boost. Anecdotal from company meetings, the FTC (Federal Trade Commission) has made the prospect of undertaking many M&A transactions unattractive. A good example is the FTC's recent intervention in the luxury handbag market, challenging Tapestry Inc's acquisition Capri Holdings. Loosening regulation (expected under Trump) would be a tailwind to M&A houses like Goldman.

**Vistra:** an independent power producer, with a diversified energy mix. The utilities sector has typically not been an area we have viewed positively, as it tends to be heavily regulated. The independent nature of these companies allows them to sell their electricity into the open market, at market rates. The combination of this pricing advantage, coupled with their nuclear assets, makes the business attractive in our eyes. While they have not yet signed a data centre deal, they are well positioned to do so, and we expect this will happen at some point.

**Formula One (Liberty Media):** agreements were relatively unexciting but did shed some further light on new sponsorship results with LVMH and American Express. Most impactful though has been the announcement that GM is set to enter F1 as the 11th team in 2026. Given one part of our investment thesis is that the company is seeing increasing US engagement, we think this is positive.

**Fiserv:** the global provider of payments and technology solutions reported over the quarter. Margin and free cash flow was better than expected as well as pointing towards accelerated share gains from a combination of merchant (Clover point of sales systems) and fintech.

**Amazon:** with AWS, Amazon is well positioned to benefit from the migration to cloud computing, which continues apace. This should allow it to be a leader in deployment for AI tools. Outside of AWS, its retail business continues to gain market share. The business has undertaken huge amounts of capex which we are monitoring closely.

## Detractors:

**Builders FirstSource:** the building material supplier had a tough quarter, lagging the aggregate market rally during the first two months and then giving up performance in December on the prospect of higher interest rates, which restricts housebuilding and therefore demand for building supplies. Despite slower housing activity we were pleased to see gross margin upside which we think highlights some of the through-cycle earnings power of these businesses.

**Avantor:** the life sciences distributor suffered post-election on jitters around the impact that RfK Jr would have on the healthcare sector more broadly. That being said, we are seeing an improvement in bioproduction and R&D which would be supportive to Avantor given they supply the materials and equipment that feed into these areas.

**Elevance:** the managed care business, in their Q3 results, had a disappointing medical loss ratio (percentage of claims paid to premiums collected) which dragged the stock lower. This has been a pervasive issue within the segment with UnitedHealth experiencing a similar dynamic. We have since sold out of the position given the upside was not looking attainable over the right time frame.

**Apple (underweight):** Over the period we significantly reduced our holding in Apple, now being at our maximum underweight. We see a challenging set-up for a company that has built an incredibly effective supply chain in China, which could be affected by a tariff war with the US. We would also say that it has relied on pricing for too long and has reached a level where it looks to be stifling demand.

## Q4 Transactions

We made a number of changes over the quarter, with the largest purchase being in **International Paper**. The business stands to benefit from an improvement in industry structure and a new CEO (Andy Silvernall), an experienced operator who we know well. We also topped up our positions in **SAIA** (a longstanding holding) on weakness in December, as well as **KKR**, the private equity business.

To fund these purchases, we reduced our exposure to Apple as mentioned. We sold out of Linde, the chemicals business, on a more mundane upside and a lack of obvious catalyst. Within healthcare, we sold out of Elevance as mentioned.

## Outlook

Despite back-to-back years of 20% performance for the S&P 500, the analyst community is still, on average, expecting around 12% return for the index in 2025. How much one can rely on sell-side estimates is a question for another day, but it does point towards the optimism within the market. We must counter this positive tone with an acknowledgment of the risks that will likely rear their heads. One of these is renewed inflation and the impact that will have on the bond markets. Another is the volatile behaviour of President Trump which will keep us (unfortunately) glued to his social media feed, as well as fixated on the fiscal and foreign policy measures he pursues.

Despite these important risks, we are in a period of good economic health in the US, rates are coming down (although more slowly than expected) and companies' earnings are estimated to grow at +10% which will likely do the leg work over the year (as opposed to multiple expansion). We specialise in analysing and allocating to businesses that we think will produce earnings ahead of estimates and so we are optimistic about the prospects of the fund through 2025.

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 TR: 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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