

Artemis High Income

Opinion

- The fixed income managers of this Recommended fund have proven track records of investing in fixed income portfolios of higher yielding bonds. Previously, we recommended their funds at Kames Capital and Standard Life Investments. Mr Legget's 'UK Select' strategy also features on our Recommended list.
- The delivery of an attractive income stream has always been the watchword for this fund, and, over the years, different managers have maintained their focus upon this as the primary investment objective.
- The managers work collaboratively to ensure that the overall portfolio is diversified and calibrated sensibly. The aim is for exposures across the bond and equity segments to be as complementary as possible.

Characteristics and Utility

- The managers' primary focus is on income, with the fund typically having meaningful exposure to higher yielding bonds, as well as up to 20% in equities. Therefore, the fund has a structural bias towards higher risk assets when compared to other funds in the sector.
- That said, the managers are prepared to sacrifice some income at times when they deem bond pricing to offer inadequate value and/or when they believe a more conservative stance is appropriate.
- Compared to peer group funds, it can display greater levels of volatility, given the nature of the bond portfolio and the exposure to equities. Equally, it has scope for greater total returns over the long run.
- The fund is suitable for investors seeking a higher income strategy and for investors who are comfortable with the risks associated with higher yielding bonds and equities.

Risk Commentary

The fund's KIID Synthetic Risk and Reward Indicator (SRRI) is 4. This is a regulatory measurement that is, where possible, calculated from the volatility of its weekly performance over a five-year period. A score of 4 means the fund's historic volatility is between 5% and 10%.

Investors should be aware of the management change in September 2021. There has been no change to the fund's objective which is to deliver a high income and, as such, the fund will continue to have meaningful exposure to higher risk bonds together with equities. Investors should expect this fund to exhibit higher volatility than other funds in the diverse IA £ Strategic Bond sector. Different share classes could have different SRRI scores.



Key Fund Facts

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| Inception Date: | 26 May 1995 |
| Manager(s) Since: | Jack Holmes (Sep 21), David Ennett (Sep 21) Ed Legget (Sep 21) |
| Fund Domicile: | United Kingdom |
| Base Currency: | £ Sterling |
| Fund Benchmark: | IA £ Strategic Bond |
| IA Sector: | £ Strategic Bond |

Formal documentation, including the fund prospectus and the KIID, should be sought directly from the asset manager. A link to the asset manager's website can be found on the relevant fund page at theadvisercentre.co.uk. An asset manager adviser factsheet is also provided there.

Fund Snapshot

A hybrid fund, whose primary focus is the delivery of an attractive income stream from a large credit allocation, alongside a capital growth element through the equity portion. The fund has a minimum of 80% invested primarily in higher-yielding bonds, together with up to 20% in equities. Within its sector, the fund features in our 'Income Priority' category.

Investment Team

The fund is managed by Jack Holmes, David Ennett and Ed Legget. They work collaboratively on the overall shape of the bond and equity components, ensuring that the combined underlying risks are understood and controlled. Messrs Holmes and Ennett are responsible for the fixed income component. They joined Artemis in 2019 from Kames Capital, where Mr Holmes co-managed a range of high yield bond funds and Mr Ennett was Head of High Yield. Mr Legget joined Artemis in December 2015 and manages the firm's 'UK Select' equity strategy. Previously, he ran a variety of UK equity mandates at Standard Life Investments.

Investment Philosophy

The team seeks to harvest as high a yield as possible, whilst retaining confidence that the issuer of the equity or bond can meet its dividend / coupon / repayment obligation. The primary purpose of the bond portion is to generate income, while the equity allocation provides the opportunity for capital growth. The team believes that their co-ordinated approach to managing a mixed portfolio of bonds and equities allows them to express their views effectively across the two asset classes.

Investment Process

The fund is an amalgamation of bonds and equities, with bonds accounting for at least 80% of the portfolio.

The fixed income component is the dominant driver of income generation, and the managers seek to harvest a high yield for their investors predominately from global credit markets, whilst having confidence that companies can meet their obligations. The team assesses the macro-economic, market and technical backdrop in order to identify the key drivers of performance for credit markets. This work is married with in-depth security and sector analysis. The managers use the breadth of opportunity at their disposal to flex the risk characteristics of the portfolio, according to their assessment of the backdrop. A more conservative portfolio would typically have a higher allocation to investment grade bonds (including government bonds), while a more aggressive portfolio would usually be strongly biased to higher yielding bonds.

For the equity portion of the fund, Mr Legget seeks companies with growing earnings streams that he believes are underappreciated by the market. Dividend yields are a consideration, but not a priority - the income delivery of the equity component is expected to be similar to that of the UK market. Overall, the aim is for the equity segment to have lower volatility characteristics than the broader market, and for it to add to the capital growth potential of the overall fund.

Portfolio Construction and Risk Controls

The portfolio is reasonably diversified, with BB-rated bonds forming the core of the fixed income allocation. When deciding upon the equity allocation, the managers consider the yield opportunities and risks when compared to the fixed income opportunity set. The fund is monitored daily by an independent risk function and formal reporting takes place monthly and quarterly.

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