

Artemis US Smaller Companies

Opinion

- This Recommended fund is managed according to a well-established philosophy founded by Cormac Weldon, an experienced US equity market practitioner.
- Mr Weldon leads a close-knit team with diverse skill sets. He has worked with some of them for many years, both at Artemis and Columbia Threadneedle Investments.
- The team is passionate about the long-term opportunities in the asset class, but they operate with a strong sense of risk. They consider the downside as much as the upside potential of each stock and work hard to ensure good diversification of underlying businesses in the portfolio.

Characteristics and Utility

- The investment universe incorporates smaller companies which, when first acquired into the portfolio, have a market value of less than \$10 billion. This threshold means that some mid-cap stocks are also in scope. There is some overlap with the Artemis US Select fund, which is also managed by the team.
- The team favours unrecognised growth companies with well-established or improving business franchises, balance sheets and management. They describe themselves as style agnostic; the strategy is best described as “growth at the right price”.
- The absence of a strong style tilt, together with the team’s thoughtful approach to portfolio construction, means that the fund’s performance is not given to extremities. The fund is more likely to struggle when lower quality stocks are leading the market, as well as when more speculative companies are in the vanguard.
- With its sensible, risk-aware approach and an experienced team at the helm, the fund can be used as a mainstay holding for this asset class.

Risk Commentary

The fund’s KIID Synthetic Risk and Reward Indicator (SRRI) is 6. 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 6 means the fund’s historic volatility is between 15% and 25%.

The fund’s five-year realised standard deviation is lower than mainstream North American Smaller Companies index. This reflects the team’s focus on robust companies, their focus on risk and the diversified nature of the approach. Different share classes could have different SRRI scores.



Key Fund Facts

Inception Date:	27 October 2014
Manager(s) Since:	Cormac Weldon (Oct 14) Olivia Micklem (Sep 22)
Fund Domicile:	United Kingdom
Base Currency:	£ Sterling
Fund Benchmark:	Russell 2000
IA Sector:	North American Smaller Companies

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 North American equity fund that invests in small to medium-sized companies. The team focuses on companies with growth prospects that have been underestimated or overlooked by the market, but which they believe have great potential. Within its sector, the fund features in our ‘Smaller to Mid-Cap, Growth-Biased’ category.

Investment Team

The fund is co-managed by Cormac Weldon and Olivia Micklem. Mr Weldon joined the firm in 2014 and has managed the US equity strategies since launch. Ms Micklem joined Artemis in 2014, as an analyst and was promoted to co-manager of the fund in September 2022. Mr Weldon leads the US team, which incorporates several analysts who have sector specialisms. He has an extensive experience of managing US equity mandates and, before joining Artemis, he spent 16 years at Threadneedle Investments (now Columbia Threadneedle Investments).

Investment Philosophy

The team believes that markets are often inefficient and that investors can be slow to price in the implications of change, especially for smaller companies. This gives them the opportunity to find businesses that have been underestimated or overlooked by other investors, but which they believe have great potential. They also believe that flexibility is important and seek to adapt the portfolio to suit changing economic conditions.

Investment Process

The investment process is macro-aware, with the team using multiple sources of information to generate ideas and to assist in the testing and validation of candidate stocks for portfolios. A significant amount of macro-economic analysis is carried out to gain a deeper understanding of cyclical and secular trends and the outlook for the North American economy. This analysis seeks to identify emerging themes for parts of the market that are set to benefit from economic developments, as well as those that might suffer. The scope of this research is broad, but on its own does not determine the stocks in which to invest.

Stock ideas are generated using a variety of sources, including sell-side research and company meetings. Once a promising idea has been identified, the team carries out in-depth, bottom-up analysis to develop an investment thesis. The team evaluates and debates the stock from several perspectives, believing that all issues impacting the fundamentals and valuation of a company should be used to evaluate the potential upside reward, together with the downside risk. As part of the process, the team covers the company’s business model, its financial strength, management and market valuation. A key premise is that a risk is only worth taking if the potential reward from owning a stock significantly exceeds the potential loss. Essentially, the process seeks companies that have an upside / downside ratio of 2:1, i.e., for every unit of downside risk, a stock should have at least twice the upside potential. Throughout this process of analysis, the considers the impact that expected scenarios might have on the price an investor would be willing to pay for the stock and develops a range of outcomes.

Portfolio Construction and Risk Controls

The team focuses on smaller companies which, when first acquired, have a market value of less than \$10 billion. The portfolio typically features between 40 and 60 stocks. Guidelines relative to the fund’s benchmark are set at +/- 5% at the stock level and +/- 10% at the sector level. Within these, the team attempts to run a portfolio that is well-diversified.

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