

# Artemis UK Smaller Companies Fund

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Half-Yearly Report (unaudited)

For the six months ended 30 June 2011

*Fig.1 The tracks of the  
PROFIT BIRD*





# Information about the Artemis UK Smaller Companies Fund

## Company profile

Independent and owner-managed, Artemis opened for business in 1997. Its aim was outstanding investment performance and client service. All Artemis' fund managers still share these two precepts – and the same flair and enthusiasm for fund management.

The company's success has seen it grow to manage some £11.6 billion\*. This is spread across a range of unit trusts, an investment trust, hedge funds, a venture capital trust, a European SICAV and both pooled and segregated institutional portfolios.

The Artemis philosophy requires our fund managers to invest in Artemis funds. This means that our fund managers' interests are directly aligned with our investors.

## Fund status

Artemis UK Smaller Companies Fund was constituted by a Trust Deed dated 17 March 1998 and is an authorised unit trust scheme under the Financial Services and Markets Act 2000. The fund belongs to the category of UCITS schemes as defined in the Collective Investment Schemes Sourcebook of the Financial Services Authority.

\* Source: Internal as at 31 July 2011.

# Information about the Artemis UK Smaller Companies Fund (continued)

## Investment objective

The objective of the fund is to achieve long-term capital growth. The emphasis of the fund will be investment in smaller companies listed, quoted and/or traded in the UK and in smaller companies which are headquartered or have a significant part of their activities in the UK which are quoted on a regulated market outside the UK.

## Investment policy

The manager actively manages the portfolio in order to achieve the objective and will not be restricted in respect of investments by industrial sectors. The securities of companies listed, quoted and/or traded in the UK but domiciled elsewhere and the securities of companies traded on PLUS may be included in the portfolio. The fund may also invest in other transferable securities, units of collective investment schemes, money market instruments, warrants, cash and near cash, derivatives and forward transactions and other investments to the extent that each is permitted by the regulations.

## Buying and selling

Units may be bought and sold by contacting the manager by telephone, at the address on page 5 or via the website ([artemisonline.co.uk](http://artemisonline.co.uk)). Valuation of the fund takes place each business day at 12 noon on a forward pricing basis. Investors are reminded that past performance is not a guarantee of performance in the future and that the price of units and the revenue from them can fall as well as rise.

## Prospectus

Copies of the most recent Prospectus are available free of charge from the manager at the address on page 5.

# General information

## Manager

Artemis Fund Managers Limited\*  
Cassini House  
57 St James's Street  
London SW1A 1LD  
Dealing information:  
Unit Trust Department  
Artemis Fund Managers Limited  
PO Box 9688  
Chelmsford CM99 2AE  
Telephone: 0800 092 2051  
Website: [artemisonline.co.uk](http://artemisonline.co.uk)

## Trustee

The Royal Bank of Scotland plc\*  
Trustee & Depositary Services  
The Broadstone  
50 South Gyle Crescent  
Edinburgh EH12 9UZ

## Registrar

International Financial Data Services  
(UK) Limited\*  
IFDS House  
St Nicholas Lane  
Basildon  
Essex SS15 5FS

## Auditor

Ernst & Young LLP  
Ten George Street  
Edinburgh EH2 2DZ

## Investment adviser

Artemis Investment Management LLP\*  
Cassini House  
57 St James's Street  
London SW1A 1LD

\* Authorised and regulated by the Financial Services Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS.

# Report of the manager

This report has been prepared in accordance with the requirements of the Collective Investment Schemes Sourcebook as issued and amended by the Financial Services Authority.

*R J Turpin*  
*Director*

*M R J Tyndall*  
*Director*  
*16 August 2011*

# Investment review

## Performance – A good first half ...

The fund produced a good performance in the first half with a 10.5%\* return. This was well ahead of the benchmark (+5.7%\*) and the sector average (+4.9%\*).

## Review – Stocks bearing fruit ...

The outperformance came from a handful of holdings which did particularly well, while only one or two holdings disappointed. Our best performer was unquoted North Sea oil explorer, Hurricane Exploration, which raised £20m of new equity to appraise its discovery west of Shetland. The fund-raising was priced at a substantial premium to the previous round; and our valuation policy meant that this had to be reflected in our value of the shares. Interestingly, two non-executive directors of the company invested £1/4m of their own funds in the placing, despite the substantially higher valuation.

Kenmare Resources was another strong performer. This low cost Mozambique ilmenite miner continued to benefit from its main competitors suffering long-term supply constraints – whilst demand from its industrial customers remains strong. Ilmenite is used as the white pigment in paint and plastics and emerging market demand has been strong, pushing prices ahead. We believe Kenmare is well positioned to produce very strong cash generation from its planned expansion of mine capacity.

Hamworthy said its profits would be ahead of previous expectations as demand for its specialist marine gas pumps was boosted with good orders from Petrobras in Brazil and several Chinese shipyards. Other good rises came from our holdings of Brooks MacDonald (continued strong private client pension inflows), Tarsus (stronger exhibitions demand) and Abcam (continued strong demand for antibody research).

Meanwhile, it was good to see our expectation of a likely step-up in corporate activity starting to be realised, with agreed cash bids for several of our holdings. Pearson paid more than twice the price we paid for our holding late last year of vocational examinations body, Educational Development International. Similarly, McKesson has paid a substantial premium for our small holding of healthcare software group System C. Another small holding, Prostrakan, was taken over by a Japanese competitor at almost double the price we paid for our holding six months earlier. Our holding of Lloyds underwriter Chaucer was also bought by Hanover Insurance in another cash deal.

The main disappointment for the fund was another profit warning from Alterian, our marketing services software provider. As with Xchanging, a couple of months before, this also saw the resignation of the chief executive. It seems to us that the root of the problem with Alterian has been poor management controls as sales overheads were increased ahead of a new product launch – which was subsequently late to market.

\* Source: Lipper Limited, class R accumulation, bid to bid basis, in sterling with net income reinvested. Benchmark is Hoare Govett Smaller Companies (excluding Investment Trusts) Index. Sector is IMA UK Smaller Companies.

## Investment review (continued)

Investors are highly nervous about any disappointing news these days. The result in this case was the share price falling by a third. Although painful in the short term, we believe the underlying business is a good one and can be turned around under more careful management. We have been pushing for management changes, which have recently been announced.

Other investment activity and in keeping with our process of cutting back our winners when they get too big, we trimmed our holdings of Kenmare, Hurricane, Babcock, Booker, GlobeOp and Fidessa. All had performed well. We reduced our holding of CIS exhibition organiser, ITE, as it emerged that a new competitor had entered its key Moscow market against its most profitable franchise. This was after the shares had previously performed well, so we felt that a period of worry-inspired underperformance could be in sight. We reduced our holding in Mitie over concern that their previous growth may be harder to achieve in an increasingly competitive market.

These sales, together with the proceeds from the cash bids, were mainly used to increase some of our existing holdings. These included Euromoney, the business publisher and event organiser where we felt that investors were not giving it enough credit for the successful transition from advertising dependence to an on-line subscriptions franchise. We added to our holding of US healthcare software group, Craneware, on the prospects of it doing well from the greater attention to drug costs needed by US hospitals, following the Obama healthcare bill. We started a modest new holding in Andor Technology, following a visit to its manufacturing facility in Belfast. The company leads the world in developing ultra high resolution digital cameras used in research labs globally. The opportunity for a potential 'step change' in profits from the company's new mid-market camera looks to us to have been undervalued by investors.

## Outlook – Cautiously confident ...

I write this after severe falls in stockmarkets around the world in the first half of August. It is difficult to add much sensible comment on whether or not economies will be dragged back into recession by a second banking crisis. So far the companies in which we invest are seeing no evidence of any downturn in their trading caused by the turmoil. But they said that in 2008! Assuming a second banking crisis can be avoided, UK smaller company shares look attractively valued by historic comparisons, despite the bumper returns of the last couple of years. With our focus on investing only in those companies with robust business franchises, high returns on capital and high free cash flow-yields, we think it logical that the recent increase in corporate activity should continue.

With interest rates around the world now likely to stay lower for longer, the differential between the corporate cost of borrowing and our portfolio's free cash-flow yield becomes greater. This makes it more attractive than ever for large companies to buy their smaller competitors with cheap money, to cut duplicated overheads and present large earnings accretion to their own shareholders. While it will be unlikely that the fund will not suffer if

# Investment review (continued)

there is a wider equity market collapse, we believe our portfolio should offer relative resilience with the non-cyclical growth themes of BRIC country demand; growth in internet usage; healthcare demand growth from an ageing population and the need for increased savings for retirement.

**Mark Niznik**  
**Fund manager**

## Five largest purchases and sales

For the six months ended 30 June 2011

Purchases	Cost £'000	Sales	Proceeds £'000
Euromoney Institutional Investor	7,433	Babcock International Group	6,194
Craneware	2,481	Mitie Group	5,493
Hansteen Holdings	2,077	Kenmare Resources	4,860
Andor Technology	1,819	ITE Group	4,830
Dechra Pharmaceuticals	1,793	Hurricane Exploration	3,814



# Portfolio statement

As at 30 June 2011

Investment	Holding	Valuation £'000	% of net assets
<b>United Kingdom - 85.89% (91.95%)</b>			
<b>Consumer Goods - 9.23% (8.92%)</b>			
Cranswick	1,200,000	8,706	2.59
Devro	1,310,000	3,524	1.05
Games Workshop Group	900,000	3,780	1.13
Hilton Food Group	2,300,000	6,561	1.95
Hornby	37,804	50	0.01
R.E.A. Holdings	1,200,000	8,166	2.43
R.E.A. Holdings 9% (cumulative preference)	215,661	225	0.07
		<b>31,012</b>	<b>9.23</b>
<b>Consumer Services - 10.45% (11.85%)</b>			
Booker Group	5,250,000	3,567	1.06
Brown (N) Group	900,000	2,357	0.70
Creston	4,677,269	5,285	1.57
CVS Group #	2,556,823	2,813	0.84
Dignity	591,785	4,583	1.37
Domino's Pizza	1,000,000	4,044	1.20
Ebiquity #	1,770,000	1,593	0.47
Euromoney Institutional Investor	1,055,000	6,778	2.02
Greggs	500,000	2,618	0.78
ITE Group	675,287	1,472	0.44
		<b>35,110</b>	<b>10.45</b>
<b>Financials - 11.88% (12.25%)</b>			
Brooks MacDonald Group #	803,921	10,379	3.09
Chaucer Holdings	7,076,311	3,750	1.12
Conygar Investment Company #	1,750,000	1,894	0.56
H&T Group #	2,793,416	9,498	2.83
Hansteen Holdings	9,563,636	8,301	2.47
Millfield +	6,935,739	-	-
Rathbone Brothers	200,000	2,212	0.66
ROK Global	66,097	37	0.01
RSM Tenon Group	5,000,000	1,225	0.36
Shaftesbury	500,000	2,630	0.78
		<b>39,926</b>	<b>11.88</b>
<b>Health Care - 6.52% (6.14%)</b>			
Abcam #	2,200,000	9,136	2.72
Alliance Pharma	2,336,065	654	0.20
Axis-Shield	2,500,000	8,025	2.39
Caretech Holdings #	479,138	610	0.18
Dechra Pharmaceuticals	706,872	3,467	1.03
		<b>21,892</b>	<b>6.52</b>
<b>Industrials - 25.59% (28.70%)</b>			
4Imprint Group	2,203,500	5,839	1.74
Andor Technology #	400,000	2,568	0.76
Babcock International Group	500,000	3,550	1.06
Diploma	369,748	1,378	0.41

# Portfolio statement (continued)

Investment	Holding	Valuation £'000	% of net assets
Domino Printing Sciences	1,440,200	9,794	2.92
Gooch & Housego #	249,987	1,375	0.41
Hamworthy #	800,000	5,200	1.55
Hargreaves Services #	600,000	6,276	1.87
Hill & Smith Holdings	1,000,000	3,468	1.03
Homeserve	700,000	3,528	1.05
Mears Group	3,643,702	10,157	3.02
Norcros	42,633,460	6,075	1.81
Northbridge Industrial Services #	1,310,000	3,576	1.06
Northgate	707,557	2,286	0.68
Rotork	225,000	3,827	1.14
RWS Holdings #	1,184,319	5,202	1.55
Smiths News	2,500,000	2,200	0.65
Spirax-Sarco Engineering	110,000	2,189	0.65
WSP Group	800,000	2,082	0.62
Xchanging	5,181,519	5,402	1.61
		<b>85,972</b>	<b>25.59</b>
<b>Oil &amp; Gas - 9.03% (8.44%)</b>			
Energy Equity Resources (Norway) +	14,000	-	-
Hurricane Exploration +	1,137,626	12,628	3.76
Ophir Energy +	1,445,000	2,514	0.75
Timan Oil & Gas +	1,431,667	-	-
Vostok Energy +	7,961,967	15,184	4.52
		<b>30,326</b>	<b>9.03</b>
<b>Technology - 13.19% (15.15%)</b>			
Alterian	4,357,623	4,238	1.26
Craneware #	900,000	5,202	1.55
Cyberview Technology +	26,866	-	-
EMIS Group #	180,000	927	0.28
Fidessa Group	270,000	5,168	1.54
Group NBT #	2,200,000	9,460	2.82
NCC Group	1,126,019	6,564	1.95
SDL	825,000	5,746	1.71
Spirent Communications	1,700,000	2,552	0.76
Statpro Group #	4,537,940	4,447	1.32
		<b>44,304</b>	<b>13.19</b>
<b>Overseas - 11.09% (7.70%)</b>			
<b>Bermuda - 2.21% (2.59%)</b>			
Energy XXI (Bermuda) #	200,000	4,169	1.24
Hardy Underwriting Bermuda	1,200,000	3,243	0.97
		<b>7,412</b>	<b>2.21</b>
<b>Canada - 0.00% (0.00%)</b>			
Rusoro Mining (2012 warrants) +	833,334	-	-
Rusoro Mining (2012 warrants) +	639,706	-	-
Thistle Mining +	2,376,532	-	-
		-	-
<b>Ireland - 2.67% (2.41%)</b>			
Kenmare Resources	15,513,583	<b>8,959</b>	<b>2.67</b>

# Portfolio statement (continued)

Investment	Holding	Valuation £'000	% of net assets
<b>Isle of Man - 0.48% (0.00%)</b>			
Shaft Sinkers Holdings	1,000,000	<u>1,600</u>	<u>0.48</u>
<b>Jersey - 3.20% (0.00%)</b>			
Stanley Gibbons Group #	1,930,000	3,474	1.03
Tarsus Group	4,954,609	<u>7,283</u>	<u>2.17</u>
		<b>10,757</b>	<b>3.20</b>
<b>Luxembourg - 2.32% (2.50%)</b>			
GlobeOp Financial Services	2,000,000	<u>7,810</u>	<u>2.32</u>
<b>USA - 0.21% (0.19%)</b>			
ROK Entertainment Group +	410,914	-	-
Somero Enterprise #	4,719,830	<u>708</u>	<u>0.21</u>
		<b>708</b>	<b>0.21</b>
<b>Portfolio of investments</b>		<b>325,788</b>	<b>96.98</b>
<b>Net other assets</b>		<u><b>10,141</b></u>	<u><b>3.02</b></u>
<b>Net assets attributable to unitholders</b>		<u><b>335,929</b></u>	<u><b>100.00</b></u>

- All holdings are listed ordinary shares unless otherwise stated. The figures in brackets represent percentages as at 31 December 2010. At this date the portfolio included an exposure to Basic Materials (0.50%) and Guernsey (0.01%).
- # Denotes holdings that are traded on the Alternative Investment Market and represent 26.34% of the fund at 30 June 2011 (31 December 2010: 24.88%).
- + Denotes holdings that are unquoted and represent 9.03% of the fund at 30 June 2011 (31 December 2010: 8.45%).

# Statement of total return

For the six months ended 30 June 2011

	30 June 2011		30 June 2010	
	£'000	£'000	£'000	£'000
<b>Income</b>				
Net capital gains		31,886		11,790
Revenue	4,368		4,087	
Expenses	(2,664)		(2,479)	
Finance costs: interest	(26)		(7)	
Net revenue before taxation	1,678		1,601	
Taxation	(9)		-	
Net revenue after taxation		1,669		1,601
<b>Total return before distributions</b>		<b>33,555</b>		<b>13,391</b>
Finance costs: distributions		(55)		(62)
<b>Change in net assets attributable to unitholders from investment activities</b>		<b>33,500</b>		<b>13,329</b>

# Statement of change in net assets attributable to unitholders

For the six months ended 30 June 2011

	30 June 2011		30 June 2010	
	£'000	£'000	£'000	£'000
<b>Opening net assets attributable to unitholders</b>		<b>332,480</b>		<b>310,275</b>
Amounts receivable on issue of units	5,408		1,986	
Amounts payable on cancellation of units	(35,397)		(37,401)	
		(29,989)		(35,415)
Stamp duty reserve tax		(62)		(48)
Change in net assets attributable to unitholders from investment activities		33,500		13,329
<b>Closing net assets attributable to unitholders</b>		<b>335,929</b>		<b>288,141</b>

# Balance sheet

As at 30 June 2011

	30 June 2011		31 December 2010	
	£'000	£'000	£'000	£'000
<b>Assets</b>				
Investment assets		325,788		331,321
Debtors	4,865		2,241	
Cash and bank balances	<u>17,169</u>		<u>161</u>	
<b>Total other assets</b>		<b>22,034</b>		<b>2,402</b>
<b>Total assets</b>		<b><u>347,822</u></b>		<b><u>333,723</u></b>
<b>Liabilities</b>				
Creditors	<u>11,893</u>		<u>1,243</u>	
<b>Total liabilities</b>		<b>11,893</b>		<b>1,243</b>
<b>Net assets attributable to unitholders</b>		<b><u>335,929</u></b>		<b><u>332,480</u></b>

# Notes to the financial statements

1. The interim financial statements have been prepared in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in October 2010.

The accounting policies applied are consistent with those in the annual financial statements for the year ended 31 December 2010, as set out therein.

2. **Post balance sheet events**

Since 30 June 2011, the Net Asset Value per unit, on a bid basis, has changed as follows:

	Net Asset Value per unit (p)		
	15 August 2011	30 June 2011	% movement
Class R accumulation	677.06	724.64	(6.6)%
Class I accumulation	682.30	729.55	(6.5)%

# Comparative tables

## Fund sizes & Net Asset Values

Date	Net Asset Value of fund (£)	Net Asset Value per unit (p)	Unit type	Units in issue
31 December 2008	256,474,990	362.76	Class R accumulation	70,701,967
31 December 2009	310,274,642	517.54	Class R accumulation	59,952,000
31 December 2010	332,480,003	655.71	Class R accumulation	50,028,980
		657.07	Class I accumulation	674,922
30 June 2011	335,929,397	724.64	Class R accumulation	45,723,415
		729.55	Class I accumulation	630,527

## Net revenue distribution & unit price range

Year	Net revenue per unit (p)	Highest offer price (p)	Lowest bid price (p)
<b>Class R accumulation</b>			
2006	-	806.94	619.83
2007	-	932.57	712.07
2008	-	844.91	344.90
2009	1.4145	569.30	347.00
2010	4.2556	705.56	518.45
2011 *	-	777.90	656.15
<b>Class I accumulation</b>			
2010 +	2.9481	680.77	570.14
2011 *	-	753.11	658.23

Net revenue includes all amounts paid and payable in respect of each calendar year.

+ from 1 September 2010.

\* to 30 June 2011.

## Total Expense Ratio

Expense	30 June 2011	31 December 2010
<b>Class R accumulation</b>		
Annual management charge	1.50%	1.50%
Other expenses	0.11%	0.11%
<b>Total Expense Ratio</b>	<b>1.61%</b>	<b>1.61%</b>
<b>Class I accumulation</b>		
Annual management charge	0.75%	0.75%
Other expenses	0.11%	0.11%
<b>Total Expense Ratio</b>	<b>0.86%</b>	<b>0.86%</b>

The Total Expense Ratio shows the annual operating expenses of each unit class as a percentage of the average net assets of that class for the preceding twelve months.

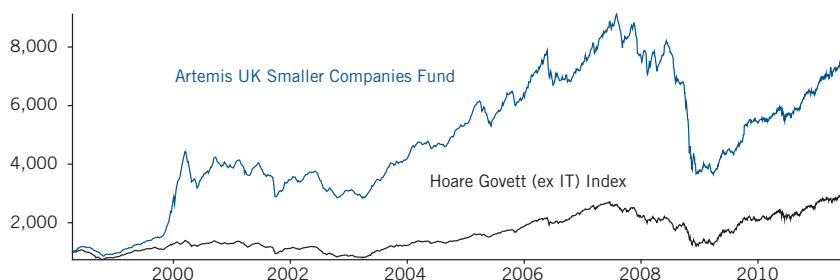
# Artemis UK Smaller Companies Fund (continued)

## Fund performance

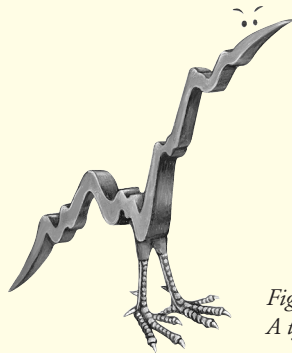
Performance	Since launch*	5 years	3 years	1 year	6 months
Artemis UK Smaller Companies Fund	659.3%	8.0%	(1.1)%	34.1%	10.5%
Hoare Govett (ex IT) Index	190.1%	42.0%	50.6%	34.2%	5.7%
Sector Average	154.1%	32.5%	33.6%	36.2%	4.9%
Position in Sector	2	44	51	32	7
Funds in Sector	31	48	54	57	58
Quartile	1	4	4	3	1

\* Data from 3 April 1998. Source: Lipper Limited, class R accumulation, bid to bid, in sterling with net income reinvested to 30 June 2011. Sector is IMA UK Smaller Companies.

Value of £1,000 invested at launch to 30 June 2011







*Fig. 2*  
*A typical PROFIT*

