PROFIT *hunters*

ARTEMIS UK Special Situations *Fund*

Manager's Report
and Financial Statements
for the year ended 31 December 2019

ARTEMIS
The PROFIT Hunter

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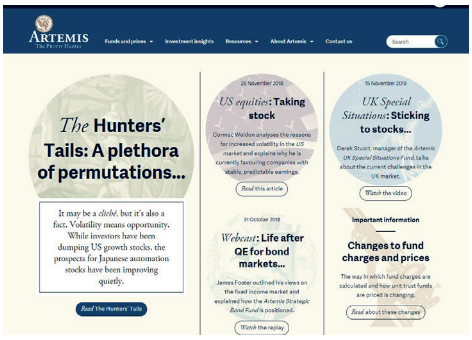

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artemisfunds.com

General information

Company profile

Artemis is a leading UK-based fund manager, offering a range of funds which invest in the UK, Europe, the US and around the world.

As a dedicated, active investment house, we specialise in investment management for both retail and institutional investors across Europe.

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

The firm now manages some £27.5 billion* across a range of funds, two investment trusts, a venture capital trust and both pooled and segregated institutional portfolios.

Our managers invest in their own and their colleagues' funds. This has been a basic tenet of the Artemis approach since the firm started. It means that interests of our fund managers are directly aligned with those of our investors.

* Source: Artemis as at 31 January 2020.

Fund status

Artemis UK Special Situations Fund was constituted by a Trust Deed dated 25 & 28 February 2000 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 ('COLL') of the Financial Conduct Authority ('FCA').

Investment objective

The objective of the fund is to achieve long-term capital growth by exploiting special situations. The fund invests principally in UK equities and in 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 investment either by company size or industry. The securities of companies listed, quoted and/or traded in the UK but domiciled elsewhere and the securities of companies traded on ISDX 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.

Fund benchmarks

FTSE All-Share Index TR

A widely-used indicator of the performance of the UK stock market, in which the fund invests. It acts as a 'comparator benchmark' against which the fund's performance can be compared. Management of the fund is not restricted by this benchmark.

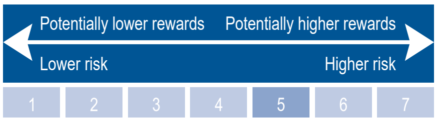
IA UK All Companies NR

A group of asset managers' funds that invest in similar asset types to this fund, collated by the Investment Association. It acts as a 'comparator benchmark' against which the fund's performance can be compared. Management of the fund is not restricted by this benchmark.

Buying and selling

Units may be bought and sold by contacting the manager by telephone, at the address on page 3 or via the website artemisfunds.com. 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.

Risk and reward profile



■ The fund is in the category shown due to historic volatility (how much and how quickly the value of shares in the fund may have risen and fallen in the past due to movements in markets, currencies and interest rates). It may not be a reliable indication of the future risk profile of the fund.

■ The risk category has been calculated using historic data and may not be a reliable indicator of the fund's future risk profile.

■ A risk indicator of "1" does not mean that the investment is "risk free".

The risk indicator may not fully take into account the following risks and the following may affect fund performance:

■ Market volatility risk: The value of the fund and any income from it can fall or rise because of movements in stockmarkets, currencies and interest rates, each of which can move irrationally and be affected unpredictably by diverse factors, including political and economic events.

■ Currency risk: The fund's assets may be priced in currencies other than the fund base currency. Changes in currency exchange rates can therefore affect the fund's value.

■ Special situations risk: The fund invests in companies that are in recovery, need re-financing or are suffering from lack of market attention (special situations). These companies are subject to higher-than-average risk of capital loss.

There was no change to the indicator in the period.

Prospectus

Copies of the most recent Prospectus are available free of charge from the manager at the address on page 3 or via the website artemisfunds.com.

General information (continued)

Changes to Artemis' funds

With effect from 1 February 2019, Artemis made changes to how its funds operate:

- the way in which fund charges are calculated, moving from variable expenses to an administration fee with a discount applied based on fund size.
- how our unit trust funds are priced, changing from 'bid price' and 'offer price' to a 'single price'.

The prospectus was updated on 4 February 2019 as a result of the changes.

On 13 March 2020, Artemis will be launching new class C units. On the same day, certain class R units will be converted to class C units. From then on, the annual management charge will be 1.20%. There are no other differences between the two classes of units, and there will be no change to the administration fee.

On 30 April 2020, the layout of the investment objective and policy of the fund will be changing. While there will be some changes to wording as a result, there will be no changes to the way in which the fund is managed. The new investment objective and policy format can be seen at on page 23 and at artemisfunds.com/fund-changes.

Value assessment

Artemis Fund Managers Limited (AFML) is in the process of conducting a detailed assessment on whether its funds are providing value to unitholders in response to newly introduced regulations. AFML must then publish publicly on an annual basis, a statement setting out a summary of the outcome of the process and whether or not AFML believes the payments out of the scheme property are justified in the context of the overall value delivered to unitholders. Composite reports on Assessment of Value will be published in 2020 via the website artemisfunds.com. The assessment will be subject to internal scrutiny by the AFML board (which includes independent directors), before signoff by the chair of the AFML board. In carrying out the assessment, AFML must, separately for each class of units in a fund, consider as a minimum, the seven criteria stipulated by the FCA. AFML may consider other issues where appropriate. The seven criteria are: range and quality of service, performance, comparable services, comparable market rates, economies of scale, AFM costs, and classes of units.

Remuneration

Following an amendment to the UCITS Directive in the UK on 18 March 2016, all UCITS schemes are required to comply with the UCITS Remuneration Code. This includes a requirement to disclose in the annual report of each scheme, details of the total amount of remuneration paid by the manager to its partners and staff for its financial year.

As the UK Special Situations Fund (the "fund") is a UCITS scheme, Artemis Fund Managers Limited ("AFML") as manager is required to make these disclosures. Artemis operates its remuneration policies and practices at a group level which includes both Artemis Investment Management LLP and its subsidiary AFML. Details of the group remuneration policies are available on Artemis' website artemisfunds.com. Remuneration levels are set to attract, retain and motivate talented partners and staff and align long term interests of partners and staff with those of our clients.

The remuneration policies which apply to all partners and staff across the group are overseen by the Remuneration Committee. The members of the Remuneration Committee are all non-executive officers. The Remuneration Committee is responsible for setting and overseeing the implementation of Artemis' remuneration policy, including approving the remuneration of partners and other senior staff. The Remuneration Committee will regularly review the remuneration policy to ensure it remains appropriate. The Remuneration Committee considers inputs from Artemis' Compliance and Risk functions when reviewing remuneration issues, including any risk adjustments or controls considered necessary. The Artemis remuneration period runs from 1 January to 31 December. As a consequence, for certain partners and staff who are classified as 'Identified Staff' as their professional activities have a material impact on the risk profile of the firm, the payment of some of the variable remuneration (which may include profit share for partners) is deferred. Further, Artemis has the ability to reduce all or part of deferred variable remuneration that has been previously allocated to identified staff, before the end of the vesting period.

No staff are employed by AFML directly but are employed and paid by other entities of Artemis. Artemis has apportioned the total amount of remuneration paid to all 197 Artemis partners and staff in respect of AFML's duties performed for the UCITS schemes based on the number of funds. It has estimated that the total amount of remuneration paid in respect of duties for the fund within the fund for the year ended 31 December 2018 is £1,109,357 of which £289,903 is fixed remuneration and £819,454 is variable remuneration. No amount of remuneration, including any performance fees was paid directly by the fund.

The aggregate amount of remuneration paid to UCITS Remuneration Code and Identified Staff that is attributable to duties for the fund for the year ended 31 December 2018 is £271,698. AFML Remuneration Code and Identified Staff are those senior individuals whose managerial responsibilities or professional activities could influence, and have a material impact on, the overall risk profile of each regulated entity and the funds it manages. For the purposes of UCITS Remuneration Code the AFML Code staff are the members of Artemis Management and Executive Committees, certain fund managers, the General Counsel, the Head of Compliance and the Head of Risk. This includes certain individuals who are partners in Artemis Investment Management LLP.

Tax information reporting

UK tax legislation requires fund managers to provide information to HMRC on certain investors who purchase units in unit trusts.

Accordingly, the fund may have to provide information annually to HMRC on the tax residencies of those unitholders that are tax resident outwith the UK, in those countries that have signed up to the OECD's ('Organisation for Economic Co-operation and Development') Common Reporting Standard for Automatic Exchange of Financial Account Information (the 'Common Reporting Standard'), or the United States (under the Foreign Account Tax Compliance Act, 'FATCA').

All new unitholders that invest in the fund must complete a certification form as part of the application form. Existing unitholders may also be contacted by the Registrar should any extra information be needed to correctly determine their tax residence. Failure to provide this information may result in the account being reported to HMRC.

For further information, please see HMRC's Quick Guide: Automatic Exchange of Information – information for account holders: gov.uk/government/publications/exchange-ofinformation- account-holders.

Manager

Artemis Fund Managers Limited *
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Telephone: 0800 092 2051
Website: artemisfunds.com

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Artemis Investment Management LLP *
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London SW1A 1LD

Trustee and Depositary

J.P. Morgan Europe Limited †
25 Bank Street
Canary Wharf
London E14 5JP

Registrar

DST Financial Services International Limited *
DST House
St Nicholas Lane
Basildon
Essex SS15 5FS

Auditor

Ernst & Young LLP
Atria One
144 Morrison Street
Edinburgh EH3 8EX

* Authorised and regulated by the FCA, 12 Endeavour Square, London E20 1JN.

† Authorised by the Prudential Regulation Authority ('PRA'), 20 Moorgate, London EC2R 6DA and regulated by the PRA and the FCA.

Statement of the trustee's responsibilities in respect of the scheme and report of the trustee to the unitholders of Artemis UK Special Situations Fund ('the Trust') for the year ended 31 December 2019

The trustee of the Artemis UK Special Situations Fund must ensure that the Trust is managed in accordance with the Financial Conduct Authority's Collective Investment Schemes Sourcebook, the Financial Services and Markets Act 2000, as amended, (together 'the Regulations'), the Trust Deed and Prospectus (together 'the scheme documents') as detailed below.

The trustee must in the context of its role act honestly, fairly, professionally, independently and in the interests of the Trust and its investors. The trustee is responsible for the safekeeping of all custodial assets and maintaining a record of all other assets of the Trust in accordance with the Regulations.

The trustee must ensure that:

- the Trust's cash flows are properly monitored and that cash of the Trust is booked in cash accounts in accordance with the Regulations;
- the sale, issue, repurchase, redemption and cancellation of units are carried out in accordance with the Regulations;
- the value of units of the Trust are calculated in accordance with the Regulations;
- any consideration relating to transactions in the Trust's assets is remitted to the Trust within the usual time limits;
- the Trust's income is applied in accordance with the Regulations; and the instructions of the Authorised Fund Manager ('the AFM'), which is the UCITS Management Company, are carried out (unless they conflict with the Regulations).

The trustee also has a duty to take

General information (continued)

reasonable care to ensure that the Trust is managed in accordance with the Regulations and Scheme documents of the Trust in relation to the investment and borrowing powers applicable to the Trust.

Having carried out such procedures as we consider necessary to discharge our responsibilities as trustee of the Trust, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the Trust, acting through the AFM:

(i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Trust's units and the application of the Trust's income in accordance with the Regulations and the scheme documents of the Trust; and

(ii) has observed the investment and borrowing powers and restrictions applicable to the Trust in accordance with the Regulations and the Scheme documents of the Trust.

J.P. Morgan Europe Limited
London
25 February 2020

Statement of the manager's responsibilities

COLL requires the manager to prepare financial statements for each annual accounting period which give a true and fair view of the financial affairs of the fund and of its revenue and expenditure for the year.

In preparing the financial statements the manager is required to:

(i) select suitable accounting policies and then apply them consistently;

(ii) comply with the disclosure requirements of the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in May 2014 ('SORP');

(iii) follow applicable accounting standards;

(iv) keep proper accounting records which enable it to demonstrate that the financial statements as prepared comply with the above requirements;

(v) make judgements and estimates that are reasonable and prudent; and

(vi) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the fund will continue in operation.

The manager is responsible for the management of the fund in accordance with its Trust Deed, Prospectus and COLL.

The manager is also responsible for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the manager

We hereby approve the Manager's Report and Financial Statements of the Artemis UK Special Situations Fund for the year ended 31 December 2019 on behalf of Artemis Fund Managers Limited in accordance with the requirements of COLL as issued and amended by the FCA.

M J Murray
Director

J L Berens
Director

Artemis Fund Managers Limited
London
25 February 2020

Independent auditor's report to the unitholders of the Artemis UK Special Situations Fund

Opinion

We have audited the financial statements of the Artemis UK Special Situations Fund ('the Fund') for the year ended 31 December 2019 which comprise the statement of total return, statement of change in net assets attributable to unitholders, balance sheet, distribution tables and the related notes 1 to 18, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 'The Financial Reporting Standard applicable to the UK and Republic of Ireland'.

In our opinion, the financial statements

- give a true and fair view of the financial position of the Fund as at 31 December 2019 and of the net revenue and the net gains on the scheme property of the Fund for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice FRS 102 'The Financial Reporting Standard applicable to the UK and Republic of Ireland'.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going Concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the manager's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or the manager has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The manager is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the rules of the Collective Investment Schemes Sourcebook of the Financial Conduct Authority

In our opinion:

- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice relating to Authorised Funds, the rules of the Collective Investment Schemes Sourcebook of the Financial Conduct Authority and the Trust Deed;
- the information given in the manager's report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- there is nothing to indicate that proper accounting records have not been kept or that the financial statements are not in agreement with those records.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matter in relation to which the Collective Investment Schemes Sourcebook of the Financial Conduct Authority rules requires us to report to you if, in our opinion:

- we have not received all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

Responsibilities of the manager

As explained more fully in the manager's responsibilities statement set out on page 4, the manager is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements,

General information (continued)

the manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to them unitholders of the Fund, as a body, pursuant to Paragraph 4.5.12 of the rules of the Collective Investment Schemes Sourcebook of the Financial Conduct Authority. Our audit work has been undertaken so that we might state to the unitholders of the Fund those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the unitholders of the Fund as a body, for our audit work, or this report, or for the opinions we have formed.

Ernst & Young LLP
Statutory Auditor
Edinburgh
25 February 2020

Notes:
1. The maintenance and integrity of the artemisfunds.com web site is the responsibility of the manager; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

- The fund returns 28.0%* against the index's 19.2%*.
- Shares in UK domestic stocks rally as political uncertainty lifts.
- The UK market offers good value compared to global peers.

Performance – The fund outpaces a rising market…

In our last interim and annual reports, we predicted that there could be good upside for UK equities. There were, however, a few occasions during 2019 when we thought the politicians might have stymied that. So to get a near 20% return from the market is a very good result. Most equity markets around the world performed well. But they didn't have to contend with the political chaos that we had in the UK.

After the weakness in markets at the end of 2018, markets started 2019 from a low base. But given deteriorating economic conditions, pressure on corporate profits and the noise around trade wars and Brexit, global markets performed surprisingly well. This was due, in part, to some progress in resolving the trade dispute between China and the US. The Federal Reserve cutting interest rates also helped. On this topic, it seems that central bankers now take action at the slightest hint of an economic slowdown. We have talked in previous reports about our concern that all of their 'ammunition' will be used up before there is a real problem.

Some clarity in UK politics

In the UK, the political fog has cleared… a bit. Following the election, we now have certainty: we are definitely leaving the EU. But there the clarity ends. We have no visibility on the structure of the eventual trade deal.

What is clear is that many investors were relieved that the election did not result in a Labour government – this was a real fear for some. This was enough to inject a degree of optimism into the share prices of UK domestic companies that we hadn't seen since before the Brexit vote in 2016. Sterling rallied and shares in financial, housing and domestically focused companies performed strongly. Partly as a result of this, the fund performed well in the second half of the year, which helped it produce a 28.0%* return for the year, against the FTSE All-Share's 19.2%*. It seems that we are no longer regarded as mad for voicing a belief that UK shares are cheap.

Until this rally, it had been a deeply frustrating few years for the fund. We were holding companies that we believed offered real value. But their share prices were not performing as we expected. Were investors anticipating the end of this long period of economic growth? Were our stocks in industries under severe structural threat? Was the UK a basket case? In the end, it seems political uncertainty played a large role in holding us back. All that was needed was some resolution and investors suddenly appeared interested in these assets.

Chart: Performance of the UK's domestic companies versus its exporters

Source: MSCI, Morgan Stanley Research, FactSet as at 31 December 2019.

What changed in the fund

The obvious question is what did we change? The answer is not much. We kept the majority of our holdings and added a bit to existing positions. Operationally, most of our holdings were performing as expected. There were a few exceptions. But we were pleased, especially with our more industrial holdings, which still did well despite a general slowdown in global industrial production in the second half of 2019.

'Self-help' (that is, being able to attack costs, improve processes and reorganise the business) is a central theme in our investments. As we would have hoped, it helped to protect their profits during this tricky period. We would highlight Bodycote, Oxford Instruments and Spectris. They are all industrial companies, all with self-improvement plans and all with net cash (although just recently Bodycote has made an acquisition).

Rank and Spirent

Rank and Spirent, although quite different companies, have two things in common. They have both been in the fund for a long time. And both produced strong second-half performances. Rank's business is at last showing some signs of improvement thanks to the actions of the new management. Operating performance has picked up and a recent acquisition also provided a boost. We did reduce the holding a bit after its share price moved higher. Gambling will be increasingly regulated and so we don't believe that all the operational benefit will be passed to shareholders. It is also an obvious sector to tax.

Spirent, meanwhile, has profited from growth in demand for data usage. It is a specialist in high bandwidth testing – important for the start of the investment cycle in 5G. The operational turnaround has been significant – the company's profit margins have doubled. Although we have reduced this holding, we retain

Past performance is not a guide to the future.
*Source: Lipper Limited, class I accumulation units, in sterling, to 31 December 2019. All figures show total returns with 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 sector benchmark. Sector is IA UK All Companies NR.

Investment review (continued)

some exposure because it has a good cash pile. We would expect some of that to be returned to shareholders if acquisitions cannot be found.

Taking profits

For a generalist fund, we have always had a fair bit invested in technology and it has made a good contribution to returns. Computacenter has been in the fund for many years and has rewarded us – particularly over the past two years. It is a tightly managed business, run by an experienced team. It has been one of our largest holdings for some time but we spent most of last year reducing it. As the share price rose, it pushed the company's valuation to a level where we saw more modest upside.

Indeed, as share prices rose towards the end of the year, we found a number of valuations becoming more challenging. We sold out of JD Sports because we believed the potential for a turnaround at US acquisition Finishline was starting to be reflected in its share price. And Speedy Hire has bounced more recently as talk of more government spending (coinciding with the election) has increased interest in the company. We felt it was time to reduce our holding.

We would like to mention a couple of holdings that we have commented on a few times before – for the wrong reasons. Perhaps the most frustrating over the year was Balfour Beatty.

It is a construction company, operating in the same industry that has seen Carillion collapse and Interserve going into administration. It is also tainted more generally as a UK domestic company. To make matters worse, it is involved in HS2, whose future has been subject to review. Added to this, in the second half of last year there were some problems in the military housing part of the group's investment portfolio. These are real issues, but we believe they are small in the context of the group's valuation. Importantly, Balfour has increased its average net cash figure for much of the past two years, so it really can't be compared to Carillion. It should also benefit from the removal of capacity from the market; we continue to hold.

Capita continues to recover

Capita's share price rose over the second half of the year. The twin issues of Brexit and a potential left-of-centre government had weighed heavily on it. With those issues removed, it had a strong run. But we continue to hold. The company is in the midst of a multi-year transformation, which will be risky to execute. But the end state will be a digitally focused consultancy which we suspect will be viewed more favourably by the market than a basic outsourcing business. It already has a strong position in certain types of specialist software, a good IT and networks division – and an equally good record in business process outsourcing. Shares of companies in these areas typically trade on much higher multiples than Capita. At the same time, however, we recognise that there is still much to do in terms of investment, reorganisation and disposals.

Northgate

Elsewhere, Northgate continues to be an irritant and was a further drag on performance. So why do we continue to hold it? Partly because of the arrival of a new chairman. She knows the business well and has a reputation for turning companies around. We accept that her first move – the proposed merger with vehicle accident services company Redde – came from out of left field. It does, however, provide scale and synergies. And the target company is well known to Northgate's management. So we are willing to give them a chance.

New holdings

We bought a position in Persimmon after a good meeting with its management. The team had just been through a tough review over the quality of their new-build homes and had announced increased investment in customer care. The problems are fixable. We were attracted by the quality and length of their land bank and by the company's cash pile, which offers some protection when the economic cycle turns negative. At purchase, the valuation reflected Brexit and other political concerns and the dividend yield was more than twice the market's average. We thought this was a good entry point.

On the subject of dividend yields, we added to M&G after its demerger from Prudential. With most investors focused on the more exciting Asian growth offered by Prudential, M&G didn't have a particularly auspicious start. It too offered a dividend yield of twice the market's average and we felt that was too cheap for a company with a strong brand.

In general, the overall shape of the portfolio has changed little over the past year. We are overweight domestic earners, with our usual bias towards medium-sized and smaller companies.

Outlook – UK equities looking more attractive to global investors …

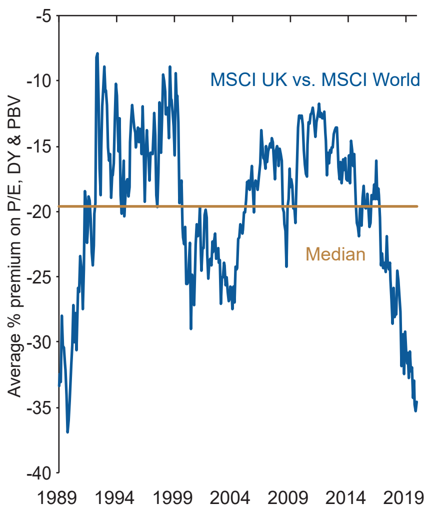
There is an argument that very low interest rates support equities' valuations. And it's true – we have mentioned two holdings whose dividend yield is materially higher than the token level of interest you would get in a bank account. But interest rates are low for a reason: there is more debt in the global system than ever before, there is very little inflation – and little growth either. With China now growing at half the rate it was in the last decade, the world is adjusting to this lower-growth environment. This has been one of the weakest recoveries in recent memory (which may also explain why it has lasted so long). We still believe that we will be in a scenario of very low growth for a long while.

There will be a proper slowdown at some point. We have one major concern about this: with interest rates at such low levels, what ammunition do the central banks have to deal with this? But at the moment we will not waste time attempting to predict when the cycle will end.

So what about the next 12 months? First, given our comments above, we do not believe that investors should expect to see the same returns as they did last year. 2019's returns benefited from weakness in equities at the end of 2018, when sentiment weakened quite dramatically. The end of 2019 was the exact opposite, so 2020's returns will not benefit in the same way.

That being said, given our peculiar circumstances, the UK has been out of favour with global investors for some time. The allocations of global investors to UK equities are low. Meanwhile, business and consumer confidence should surely pick up now that there is more clarity in the political situation. And finally, the promises of increased government expenditure made during the election might just come to fruition. The UK's government finances are (relatively speaking) in reasonable shape. So the chances are that the UK is a reasonably attractive place for investors over the coming period. This is not to say it will be plain sailing – we are still trying to get a trade deal wrapped up in under 12 months. But the good ship Britannia, having been in the perfect storm for the past few years, might be in slightly friendlier waters.

Chart: UK equities' valuation relative to global equities



Source: MSCI, IBES, Morgan Stanley Research as at 31 December 2019.

Since 1989, UK companies have, on average, traded at a 20% discount (based on valuation measures such as price-to-earnings multiples, dividend yield and price-to-book value) relative to the global market. As the chart shows, that discount has widened significantly since the 2016 referendum and has yet to narrow.

At the end of 2019, not much has changed in the fund. Its overall valuation is still cheaper than the market's. We also have a good flow of ideas for new investments. Given the number of industrial companies we own, we remain sensitive to changes in the economic cycle. But, as previously noted, our holdings are able to 'self help' and are well financed. Indeed, 25% of our holdings have net cash on their balance sheets.

A word on ESG …

We would like to comment briefly on our approach to environmental, social and governance issues (ESG). As many of you are aware, we seek to profit from a company's recovery. This often involves following new management into a distressed situation. Typically, such companies do not show up well on ESG scores (or any scores really) and so we start from a low position. But we have always considered the process of rehabilitation to be more than a financial one. Any decent management team recognises the need for cultural improvement, staff engagement and good communication with shareholders. Wastage is a cost, both financially and environmentally. So our engagement process incorporates this into our analysis.

Tesco is a good example. When the new managers took over five years ago they set out a number of important financial goals. But at the same time they increased employees' pay and introduced a number of initiatives to reduce packaging and energy costs. Given our bias towards smaller and medium-sized companies, we generally have good communication with all levels of management on financial performance, remuneration and strategic goals. Other aspects of a business can be discussed in that engagement. We categorise improved pay, representation of employees on the board, commitments to pensions and staff equity ownership alongside reduced plastic usage. Monitoring all this is an ongoing process.

And on longer-term performance …

2019 was a good year for the fund. But it comes after a particularly poor period. The improvement in this year's performance does not reflect a significant change in our process or in the fund. It came about because some external issues cleared and our companies (by and large) carried on delivering operationally. We are conscious that our three-year record is still poor and we hope that 2019 has been the start of re-establishing our good long-term record. The first chart in this report highlights one factor that had held back performance: the UK's domestic companies have underperformed exporters. This has not been our only problem over the past few years – but it certainly has not helped.

We are not suggesting that there will be a complete swing back to 'value' and the UK's domestically-focused companies. In a low-growth environment, genuine growth stocks should be highly rated. And the risk of technology-driven structural change will intensify. But we expect the market to be more balanced over the next few years. In the meantime, we thank you for your patience and trust and look forward to rewarding both.

Derek Stuart and Andy Gray
Fund managers

Investment information

Ten largest purchases and sales for the year ended 31 December 2019

Purchases	Cost £'000	Sales	Proceeds £'000
Ashtead Group	15,325	Vodafone Group	23,140
Imperial Brands	14,072	Howden Joinery Group	19,921
AstraZeneca	13,573	Essentra	18,770
QinetiQ Group	12,586	Spirent Communications	18,766
Persimmon	11,666	SIG	16,985
Johnson Service Group	11,090	Britvic	16,984
Signature Aviation	10,853	Synthomer	15,059
3i Group	10,492	Tesco	14,683
Melrose Industries	9,864	Restaurant Group	14,433
Barclays	9,768	Lloyds Banking Group	13,927

Portfolio statement as at 31 December 2019

Investment	Holding	Valuation £'000	% of net assets
Equities 97.60% (97.76%)			
Basic Materials 0.00% (2.31%)			
Consumer Goods 8.87% (6.79%)			
British American Tobacco	526,272	17,067	2.67
Britvic	928,242	8,387	1.31
Imperial Brands	389,307	7,278	1.14
Persimmon	530,805	14,310	2.24
Watches of Switzerland Group	2,558,567	9,661	1.51
		56,703	**8.87**
Consumer Services 15.57% (15.42%)			
888 Holdings	4,877,720	7,999	1.25
easyJet	538,998	7,665	1.20
Flutter Entertainment	155,405	14,384	2.25
Pearson	1,346,355	8,611	1.35
Rank Group	2,787,779	7,708	1.20
Tesco	12,111,034	30,702	4.80
WH Smith	512,504	13,274	2.08
Wm Morrison Supermarkets	4,587,373	9,184	1.44
		99,527	**15.57**
Financials 22.13% (18.11%)			
3i Group	980,676	10,783	1.69
Aviva	3,295,349	13,808	2.16
Barclays	11,287,462	20,306	3.18
IG Group Holdings	2,217,089	15,435	2.41
M&G	4,462,298	10,585	1.65
Melrose Industries	9,294,981	22,317	3.49
Prudential	1,854,075	26,791	4.19
Quilter	5,020,905	8,081	1.26
ROK Entertainment Group^	410,914	–	–
ROK Global^	66,096	–	–
RSA Insurance Group	1,344,747	7,587	1.19
Sherborne Investors Guernsey C shares	9,750,069	5,801	0.91
		141,494	**22.13**
Healthcare 6.51% (5.04%)			
AstraZeneca	190,094	14,333	2.24
GlaxoSmithKline	1,541,325	27,291	4.27
		41,624	**6.51**

Investment	Holding	Valuation £'000	% of net assets
Industrials 31.61% (27.66%)			
Ashtead Group	677,703	16,326	2.55
Balfour Beatty	6,684,283	17,580	2.75
Bodycote	1,080,998	10,302	1.61
Capita	15,331,639	25,274	3.95
Electrocomponents	1,266,780	8,566	1.34
IWG	1,941,436	8,465	1.32
Johnson Service Group#	7,935,822	15,395	2.41
MBA Polymers^	2,105,625	–	–
Northgate	3,579,660	11,204	1.75
Oxford Instruments	1,260,651	19,464	3.05
QinetiQ Group	4,359,920	15,626	2.44
Restore#	1,409,324	7,639	1.20
Sanne Group	1,398,113	9,507	1.49
Signature Aviation	2,835,038	8,945	1.40
Spectris	728,570	21,252	3.32
Speedy Hire	8,753,657	6,583	1.03
SRG Realisations 2017^	1,770,432	–	–
		202,128	**31.61**
Oil & Gas 5.88% (8.11%)			
BP	5,304,731	25,139	3.93
Mycelx Technologies#	1,375,326	757	0.12
Royal Dutch Shell B shares	521,676	11,701	1.83
		37,597	**5.88**
Technology 5.84% (9.10%)			
Computacenter	676,876	12,015	1.88
Intechnology^	21,937,940	–	–
NCC Group	3,371,111	7,652	1.20
SDL	1,670,730	9,557	1.49
Spirent Communications	3,258,669	8,114	1.27
		37,338	**5.84**
Telecommunications 1.19% (5.22%)			
BT Group	3,952,103	7,608	1.19
		7,608	**1.19**
Investment assets		624,019	97.60
Net other assets		15,376	2.40
Net assets attributable to unitholders		639,395	100.00

The comparative percentage figures in brackets are as at 31 December 2018.
Security listed on the Alternative Investment Market ('AIM').
^ Unlisted, suspended or delisted security.

Financial statements

Statement of total return for the year ended 31 December 2019

	Note	31 December 2019 £'000	31 December 2019 £'000	31 December 2018 £'000	31 December 2018 £'000
Income					
Net capital gains/(losses)	3		138,873		(139,316)
Revenue	5	20,329		30,377	
Expenses	6	(8,025)		(10,071)	
Net revenue before taxation		12,304		20,306	
Taxation	7	(56)		(98)	
Net revenue after taxation			12,248		20,208
Total return before distributions			**151,121**		**(119,108)**
Distributions	8		(12,258)		(20,245)
Change in net assets attributable to unitholders from investment activities			138,863		(139,353)

Statement of change in net assets attributable to unitholders for the year ended 31 December 2019

	31 December 2019 £'000	31 December 2019 £'000	31 December 2018 £'000	31 December 2018 £'000
Opening net assets attributable to unitholders		621,467		930,676
Amounts receivable on issue of units	3,596		15,335	
Amounts payable on cancellation of units	(135,385)		(201,305)	
		(131,789)		(185,970)
Change in net assets attributable to unitholders from investment activities		138,863		(139,353)
Retained distribution on accumulation units		10,854		16,114
Closing net assets attributable to unitholders		639,395		621,467

Balance sheet as at 31 December 2019

	Note	31 December 2019 £'000	31 December 2018 £'000
Assets			
Fixed assets			
Investments	9	624,019	607,538
Current assets			
Debtors	10	1,657	2,974
Cash and cash equivalents	11	16,394	14,044
Total current assets		**18,051**	**17,018**
Total assets		**642,070**	**624,556**
Liabilities			
Creditors			
Distribution payable		278	884
Other creditors	12	2,397	2,205
Total creditors		**2,675**	**3,089**
Total liabilities		**2,675**	**3,089**
Net assets attributable to unitholders		639,395	621,467

1. Accounting policies

(a) Basis of accounting. The financial statements have been prepared under the historical cost basis, as modified by the revaluation of investments, and in accordance with FRS 102, the SORP and the Financial Conduct Authority's Collective Investment Schemes Sourcebook ('COLL'). The financial statements have been prepared on a going concern basis.

(b) Valuation of investments. All investments have been valued at 12 noon on the last working day of the accounting period. Listed investments are valued at fair value which is deemed to be the bid or SETS price. The last valuation point in the year has been used for the purposes of preparing the report and financial statements and in the manager's opinion there have been no material movements in the fund between the last dealing point and close of business on the balance sheet date. Unquoted investments are valued at fair value which is determined by the investment manager, with reference to the valuation guidelines issued by the International Private Equity and Venture Capital Valuation Guidelines Board.

(c) Foreign exchange rates. Assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates prevailing at 12 noon on the last working day of the accounting period. Revenue and expenditure transactions are translated at the rates of exchange ruling on the dates of the transactions. Exchange differences on such transactions follow the same treatment as the principal amounts.

(d) Derivatives. Where appropriate, certain permitted transactions such as derivatives or forward currency contracts are used for investment purposes and efficient portfolio management. Derivatives are valued at 12 noon on the last working day of the accounting period. Exchange traded derivatives are priced at fair value, which is deemed to be the bid price. Over-the-counter derivatives are priced at fair values using valuation models or data sourced from market data providers. Returns on derivative instruments are recognised as either revenue or capital depending on the nature and circumstances of each particular case.

(e) Revenue. Dividends receivable from equity and non-equity shares, including Real Estate Investment Trusts, are credited to revenue, net of attributable tax credits, when the security is quoted ex-dividend. Dividends received as shares (scrip/stock dividends), to the extent that the value of such dividends is equal to the cash dividends, are treated as revenue. Dividends on unquoted stocks are credited to revenue when the right to receive payment is established. Special dividends are reviewed on a case by case basis when determining if the dividend is to be treated as revenue or capital. It is likely that where a special dividend results in a significant reduction in the capital value of a holding, then the dividend will generally be treated as capital, otherwise this will be recognised as revenue. Bank interest is recognised on an accruals basis. Underwriting commission is recognised when the issue underwritten takes place.

(f) Expenses. All expenses (other than those relating to the purchase and sale of investments) are charged against revenue on an accruals basis.

(g) Taxation. Corporation tax is charged at a rate of 20% on the excess taxable revenue of the fund. In general, the tax accounting treatment follows that of the principal amount. Deferred tax is provided for all timing differences that have originated but not reversed at the balance sheet date other than those recorded as permanent differences. Deferred tax is provided for at the average rate of tax expected to apply. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

2. Distribution policy

The distribution policy of the fund is to distribute all available revenue, after deduction of expenses properly chargeable against revenue and taxation. Gains and losses on non-derivative investments and currencies, whether realised or unrealised, are taken to capital and are not available for distribution. With the exception of the manager's annual management charge, which is directly attributable to each unit class, all income and expenses are apportioned to each unit class pro-rata to the value of the net assets of the relevant unit class on the day that the income or expense is recognised. The fund is not more than 60% invested in qualifying investments (as defined in Statutory Instrument 2006/964 Authorised Investment Funds (Tax) Regulations 2006 Regulation 19) and where applicable will pay a dividend distribution.

For accumulation units this revenue is not distributed but automatically reinvested in the fund and is reflected in the value of these units.

Distributions which have remained unclaimed by unitholders for six years are credited to the capital property of the fund.

Notes to the financial statements (continued)

3. Net capital gains/(losses)

	31 December 2019 £'000	31 December 2018 £'000
Non-derivative securities	138,869	(139,307)
Currency gains/(losses)	5	(3)
Capital transaction charges	(1)	(6)
Net capital gains/(losses)	138,873	(139,316)

4. Direct transaction costs

For purchases and sales of equities, broker commissions, transfer taxes and stamp duty are paid by the fund on each transaction and are summarised below.

	Year ended 31 December 2019					
	Principal £'000	Commission £'000	Taxes £'000	Total after costs £'000	Commission as a percentage of principal %	Taxes as a percentage of principal %
Purchases						
Equities	265,624	89	1,176	266,889	0.03	0.44
Sales						
Equities	389,368	140	1	389,227	0.04	-
Total		229	1,177			
Percentage of fund average net assets		0.04%	0.19%			

	Year ended 31 December 2018					
	Principal £'000	Commission £'000	Taxes £'000	Total after costs £'000	Commission as a percentage of principal %	Taxes as a percentage of principal %
Purchases						
Equities	341,232	116	1,579	342,927	0.03	0.46
Sales						
Equities	506,995	177	1	506,817	0.03	-
Total		293	1,580			
Percentage of fund average net assets		0.03%	0.19%			

During the year the fund incurred £1,000 (2018: £6,000) in capital transaction charges.

Dealing spread

As at the balance sheet date the average portfolio dealing spread was 0.27% (2018: 0.41%). This spread represents the difference between the bid and offer prices of each underlying investment expressed as a percentage of the value determined by reference to its offer price.

5. Revenue

	31 December 2019 £'000	31 December 2018 £'000
UK dividends	19,609	28,878
Overseas dividends	613	1,391
Bank interest	107	108
Total revenue	20,329	30,377

6. Expenses

	31 December 2019 £'000	31 December 2018 £'000
Payable to the manager, associates of the manager and agents of either of them:		
Annual management charge	7,338	9,619
Administration fees*	616	-
Other expenses:		
Operational fees	24	25
Trustee fees	17	70
Registration fees	11	175
Professional fees	9	19
Auditor's remuneration: audit fee**	9	9
Administrator fees	1	131
Safe custody fees	-	21
Auditor's remuneration: non-audit fee (taxation)	-	1
Price publication fees	-	1
Total expenses	8,025	10,071

All expenditure stated above is inclusive of irrecoverable VAT where applicable.
* The amount disclosed above reflects the change from variable expenses to a fixed administration fee effective from 1 February 2019.
** The current audit fee, which has been met out of the administration fee since 1 February 2019, is £7,500 (2018: £7,500).

7. Taxation

	31 December 2019 £'000	31 December 2018 £'000
a) Analysis of the tax charge for the year		
Irrecoverable overseas tax	56	98
Total taxation (note 7b)	56	98
b) Factors affecting the tax charge for the year		
Net revenue before taxation	12,304	20,306
Corporation tax at 20% (2018: 20%)	2,461	4,061
Effects of:		
Unutilised management expenses	1,584	1,992
Irrecoverable overseas tax	56	98
Non-taxable overseas dividends	(123)	(278)
Non-taxable UK dividends	(3,922)	(5,775)
Tax charge for the year (note 7a)	56	98

c) Provision for deferred tax
No provision for deferred tax has been made in the current or prior accounting year.
d) Factors that may affect future tax charges
The fund has not recognised a deferred tax asset of £40,133,000 (2018: £38,549,000) arising as a result of having unutilised management expenses of £200,664,000 (2018: £192,746,000). It is unlikely that the fund will obtain relief for these in the future so no deferred tax asset has been recognised.

Notes to the financial statements (continued)

8. Distributions

	31 December 2019 £'000	31 December 2018 £'000
Final dividend distribution	11,132	16,998
Add: amounts deducted on cancellation of units	1,176	3,401
Deduct: amounts added on issue of units	(50)	(154)
Distributions	12,258	20,245
Movement between net revenue and distributions		
Net revenue after taxation	12,248	20,208
Revenue received on conversion of units	10	37
	12,258	20,245

The distributions take account of amounts added on the issue of units and amounts deducted on the cancellation of units. Details of the distributions per unit are set out in the distribution table on page 20.

9. Fair value hierarchy

All investments are designated at fair value through profit or loss on initial recognition. The following table provides an analysis of these investments based on the fair value hierarchy in accordance with FRS 102 which reflects the reliability and significance of the information used to measure their fair value.

The disclosure is split into the following categories:

Level 1 – Investments with unadjusted quoted prices in an active market;
Level 2 – Investments whose fair value is based on inputs other than quoted prices that are either directly or indirectly observable;
Level 3 – Investments whose fair value is based on inputs that are unobservable (i.e. for which market data is unavailable).

	31 December 2019 Assets £'000	31 December 2018 Assets £'000
Level 1	624,019	607,503
Level 3	-	35
Total	624,019	607,538

10. Debtors

	31 December 2019 £'000	31 December 2018 £'000
Accrued revenue	1,598	2,627
Overseas withholding tax recoverable	50	228
Amounts receivable for issue of units	9	-
Sales awaiting settlement	-	119
Total debtors	1,657	2,974

11. Cash and cash equivalents

	31 December 2019 £'000	31 December 2018 £'000
Amounts held in JPMorgan Liquidity Funds – Sterling Liquidity Fund (Institutional dist.)	16,104	14,034
Cash and bank balances	290	10
Total cash and cash equivalents	16,394	14,044

12. Other creditors

	31 December 2019 £'000	31 December 2018 £'000
Amounts payable for cancellation of units	1,700	1,353
Accrued annual management charge	624	614
Accrued administration fee payable to manager	59	-
Accrued other expenses	14	132
Purchases awaiting settlement	-	106
Total other creditors	2,397	2,205

13. Contingent liabilities and commitments

There were no contingent liabilities or outstanding commitments at the current or prior year end.

14. Reconciliation of unit movements

	Units in issue at 31 December 2018	Units issued	Units cancelled	Units converted	Units in issue at 31 December 2019
I distribution	5,567,291	55,616	(3,560,985)	61,037	2,122,959
I accumulation	44,656,525	75,022	(11,665,104)	628,200	33,694,643
R accumulation	68,650,199	497,158	(8,222,025)	(740,425)	60,184,907

15. Risk disclosures

In pursuing it's investment objective, the fund may hold a number of financial instruments. These financial instruments comprise equities, cash balances and liquid resources, which include debtors and creditors that arise directly from the fund's operations.

The manager has a risk management policy. The processes detailed within are designed to monitor and measure at any time the risk of the funds' positions and their contribution to the overall risk profile of the fund. In addition, our Investment Committee and Risk and Compliance Committee meet monthly and quarterly respectively, and as required to evaluate risk across each of our funds. These policies have been consistent for both the current and prior period to which these financial statements relate.

In the normal course of business, the fund's activities expose it to various types of risk which are associated with the financial instruments and markets in which it invests. These financial risks: market risk (comprising currency risk, interest rate risk, other market price risk and leverage risk), credit and counterparty risk and liquidity risk and the approach to the management of these risks, are set out below and remain unchanged from the previous accounting year. For a detailed explanation of these and further risks involved in investing in the fund, reference should be made to the Prospectus.

(a) Market risk

Market risk, which includes interest rate risk, currency risk, other price risk and leverage risk arises mainly from uncertainty about future values of financial instruments in the fund's investment portfolio. The fund, in order to meet its investment objective and policy, invests predominantly in equities and maintains an appropriate spread of investments in accordance with COLL, the Trust Deed and the Prospectus to seek to reduce the risks arising from factors specific to a particular company or sector. The manager's investment strategy is to select investments for their fundamental value. Stock selection is therefore based on disciplined accounting, market and sector analysis, with the emphasis on long-term investments. There is no material difference between the carrying values and the fair values of the financial assets and liabilities of the fund disclosed in the balance sheet.

(i) Interest rate risk

Changes in interest rates or changes in expectations of future interest rates may result in an increase or decrease in the market value of the investments held. As the majority of the fund's financial assets are non-interest bearing, the fund is only subject to limited exposure to fair value interest rate risk due to fluctuations in levels of market interest rates and therefore no sensitivity analysis has been presented.

Notes to the financial statements (continued)

(ii) Currency risk

A portion of the net assets of the fund are denominated in currencies other than sterling, and therefore the balance sheet and total return can be affected by currency movements. Therefore, the manager may decide that a proportion of the investments that are not priced in sterling, may be covered by forward currency contracts, so that the fund's exposure to currency risk is reduced. There were no forward currency contracts held as at 31 December 2019 or 31 December 2018.

Revenue received in foreign currencies is converted into sterling on or near the date of receipt. No hedging is undertaken with regard to managing the currency movement risk on accrued revenue.

The exposure to each currency is shown in the table below:

Currency	Investments £'000	Net other assets/ (liabilities) £'000	Total £'000
31 December 2019			
Sterling	624,019	15,326	639,345
Euro	-	50	50
31 December 2018			
Sterling	607,538	13,701	621,239
Euro	-	228	228

A five per cent increase in the value of the fund's foreign currency exposure would have the effect of increasing the return and net assets by £3,000 (2018: £11,000). A five per cent decrease would have an equal and opposite effect.

(iii) Other price risk

Other price risk is the risk that the value of an instrument will fluctuate as a result of changes in market prices (other than those relating to interest rate risk, currency risk and credit and counterparty risk), whether caused by factors specific to an investment or wider issues affecting the market generally. The value of equities is dependent on a number of factors, arising from the performance of the company itself and matters arising in the wider market (for example the state of the underlying economy and current government policy). As part of the continuing review of the portfolio, the manager monitors and reviews these factors. A five per cent increase in the value of the fund's portfolio would have the effect of increasing the return and net assets by £31,201,000 (2018: £30,377,000). A five per cent decrease would have an equal and opposite effect.

(iv) Leverage risk

Leverage is defined as any method by which the fund can increase its exposure by borrowing cash or securities or from leverage that is embedded in derivative positions. The manager is required to calculate and monitor the level of leverage of a fund, expressed as a percentage of the exposure of the fund and its net asset value under the 'sum of the notionals' and 'commitment' methods.

The fund can use cash borrowing and financial derivatives (subject to restrictions as set out in its Prospectus and COLL) as sources of leverage. A result of 100% indicates that no leverage has been used.

As at 31 December 2019 and 31 December 2018 the leverage ratios of the fund were:

	31 December 2019 %	31 December 2018 %
Sum of the notionals	103.05	102.71
Commitment	100.00	100.00

(b) Credit and counterparty risk

Credit and counterparty risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment it has entered into with the fund, resulting in a financial loss. From time to time, the fund may be subject to short-term credit risk with counterparties pending settlement of investment transactions. The manager has a pre-approved list of counterparties it uses for investment transactions, which is reviewed on a regular basis. The largest counterparty risk is with J.P. Morgan Chase N.A. ('JP Morgan'), the fund's custodian and banker, who holds the fund's investments and maintains the bank accounts. Bankruptcy or insolvency of JP Morgan may cause the fund's rights with respect to securities and cash held by the custodian to be delayed or limited. The trustee receives and reviews a semi-annual report on the internal controls in place at JP Morgan. The fund is also exposed to counterparty risk through holding specific financial instruments.

There were no significant concentrations of credit risk to counterparties other than to the custodian, or brokers where trades are pending settlement, at 31 December 2019 or 31 December 2018.

(c) Liquidity risk

Liquidity risk is the risk that through market liquidity conditions, requests for redemptions from investors cannot be met in an orderly and appropriate manner.

Artemis adopts a policy of mitigation and control to manage liquidity risks. Mitigation occurs through maintaining prudent levels of liquidity in each fund and a well-diversified investor base. As a result, redemption requests can be satisfied in all but exceptional circumstances.

Artemis has a dedicated liquidity risk management policy which is owned by the independent investment risk team which reports to the Chief Risk Officer. Its purpose is to ensure the portfolio manager acts in the client's best interest with regards to this liquidity risk.

Through the use of 3rd party modeling and assumptions, the investment risk team conduct regular monitoring and analyses of the liquidity profile of the funds and investor base. This includes but is not limited to what percentage of the fund can be liquidated within certain redemption horizons, whether the largest investors in the fund can redeem without affecting the fair treatment of remaining investors, liquidity stress testing and other analysis deemed to cover a risk specific to the strategy considered. There was no significant concentration of liquidity risk as at 31 December 2019 or 31 December 2018.

16. Related party transactions

The manager is deemed to be a related party. All transactions and balances associated with the manager are disclosed within the statement of total return, statement of change in net assets attributable to unitholders and the balance sheet on page 12 and notes 6, 8,10 and 12 on pages 15 to 17 including all issues and cancellations where the manager acted as principal. The balance due to the manager as at 31 December 2019 in respect of these transactions was £2,374,000 (2018 £1,967,000).

17. Unit classes

The annual management charge on each unit class is as follows:

I distribution: 0.75%
I accumulation: 0.75%
R accumulation: 1.50%

The net asset value per unit and the number of units in each class are given in the comparative tables on page 21.
The distributions per unit class are given in the distribution tables on page 20. All classes have the same rights on winding up.

18. Post balance sheet event

There were no significant post balance sheet events subsequent to the year-end.

Distribution tables

This fund pays annual dividend distributions.The following table sets out the distribution period.

Annual distribution period	Start	End	Ex-dividend date	Pay date
Final	1 January 2019	31 December 2019	1 January 2020	28 February 2020

Group 1 units are those purchased prior to a distribution period and therefore their net revenue rate is the same as the distribution rate.
Group 2 units are those purchased during a distribution period and therefore their distribution rate is made up of net revenue and equalisation. Equalisation applies only to group 2 units purchased during the period. It is the average amount of revenue included in the purchase price of all group 2 units and is refunded to holders of these units as a return of capital. Being capital it is not liable to income tax but must be deducted from the cost of units for capital gains tax purposes.

I distribution

Dividend distributions for the year ended 31 December 2019	Group 2		Group 1 & 2	Corporate streaming		2018
	Net revenue per unit (p)	Equalisation per unit (p)	Distribution per unit (p)	Franked	Unfranked	Distribution per unit (p)
Final	6.1735	6.9014	13.0749	100.00%	0.00%	15.8786

I accumulation

Dividend distributions for the year ended 31 December 2019	Group 2		Group 1 & 2	Corporate streaming		2018
	Net revenue per unit (p)	Equalisation per unit (p)	Distribution per unit (p)	Franked	Unfranked	Distribution per unit (p)
Final	6.3554	8.7224	15.0778	100.00%	0.00%	17.6901

R accumulation

Dividend distributions for the year ended 31 December 2019	Group 2		Group 1 & 2	Corporate streaming		2018
	Net revenue per unit (p)	Equalisation per unit (p)	Distribution per unit (p)	Franked	Unfranked	Distribution per unit (p)
Final	3.9945	5.5988	9.5933	100.00%	0.00%	11.9652

Comparative tables

	I distribution			I accumulation		
	2019	2018	2017	2019	2018	2017
Change in net assets per unit (p)						
Opening net asset value per unit	**478.72**	**577.78**	**554.14**	**550.91**	**643.59**	**603.54**
Return before operating charges *	139.22	(78.56)	41.49	160.22	(87.56)	45.05
Operating charges	(4.60)	(4.62)	(4.60)	(5.33)	(5.12)	(5.00)
Return after operating charges	134.62	(83.18)	36.89	154.89	(92.68)	40.05
Distributions	(13.07)	(15.88)	(13.25)	(15.08)	(17.69)	(14.43)
Retained distributions on accumulation units	-	-	-	15.08	17.69	14.43
Closing net asset value per unit	**600.27**	**478.72**	**577.78**	**705.80**	**550.91**	**643.59**
* after direct transaction costs of	(1.22)	(1.20)	(1.89)	(1.42)	(1.33)	(2.05)
Performance						
Return after charges	28.12%	(14.40)%	6.66%	28.12%	(14.40)%	6.64%
Other information						
Closing net asset value (£'000)	12,743	26,651	104,444	237,817	246,018	359,957
Closing number of units	2,122,959	5,567,291	18,076,893	33,694,643	44,656,525	55,929,188
Operating charges	0.86%	0.80%	0.81%	0.86%	0.80%	0.81%
Direct transaction costs	0.23%	0.21%	0.33%	0.23%	0.21%	0.33%
Prices ***	**(p)**	**(p)**	**(p)**	**(p)**	**(p)**	**(p)**
Highest unit price (p)	618.60	619.90	602.84	711.85	690.46	656.45
Lowest unit price (p)	478.96	485.33	544.59	551.15	540.59	593.03

	R accumulation		
	2019	2018	2017
Change in net assets per unit (p)			
Opening net asset value per unit	**508.08**	**598.05**	**565.05**
Return before operating charges *	147.15	(80.82)	42.02
Operating charges	(9.16)	(9.15)	(9.02)
Return after operating charges	137.99	(89.97)	33.00
Distributions	(9.59)	(11.97)	(9.10)
Retained distributions on accumulation units	9.59	11.97	9.10
Closing net asset value per unit	**646.07**	**508.08**	**598.05**
* after direct transaction costs of	(1.31)	(1.23)	(1.92)
Performance			
Return after charges	27.16%	(15.04)%	5.84%
Other information			
Closing net asset value (£'000)	388,835	348,798	466,275
Closing number of units	60,184,907	68,650,199	77,965,291
Operating charges	1.61%	1.55%	1.56%
Direct transaction costs	0.23%	0.21%	0.33%
Prices ***	**(p)**	**(p)**	**(p)**
Highest unit price (p)	651.66	666.63	638.43
Lowest unit price (p)	508.28	498.60	554.93

* Direct transaction costs are stated after deducting the amounts collected in relation to expected dealing costs added to issue of units and subtracted from the cancellation of units.
** With effect from 1 February 2019, the pricing basis of the Fund changed from bid price and offer price to a single mid price.
*** High and low price disclosures are based on quoted unit prices. Therefore opening and closing NAV prices may fall outside the high/low price threshold.

Ongoing charges

Class	31 December 2019
I distribution	0.86%
I accumulation	0.86%
R accumulation	1.61%

Ongoing charges shows the annual operating expenses of each unit class as a percentage of the average net assets of that class for the preceding 12 months.

Class I accumulation performance

Performance	Since launch *	5 years	3 years	1 year	6 months
Artemis UK Special Situations Fund	642.6	34.1	17.0	28.0	15.9
FTSE All-Share Index	164.4	43.8	22.0	19.2	5.5
IA UK All Companies average	180.8	44.3	24.1	22.4	8.2
Position in sector	1/81	170/213	176/227	54/239	18/241
Quartile	1	4	4	1	1

Past performance is not a guide to the future.
* Source: Lipper Limited, data from 9 March 2000 to 7 March 2008 reflects class R accumulation units, and from 7 March 2008 to 31 December 2019 reflects class I accumulation units. All figures show total returns with income reinvested, net of all charges, percentage growth. 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.

Class R performance

Performance	Since launch *	5 years	3 years	1 year	6 months
Artemis UK Special Situations Fund	579.8	29.1	14.4	27.1	15.5
FTSE All-Share Index	164.4	43.8	22.0	19.2	5.5
IA UK All Companies NR	180.8	44.3	24.1	22.4	8.2

Past performance is not a guide to the future.
* Source: Lipper Limited, data from 9 March 2000, class R accumulation units to 31 December 2019. All figures show total returns with income reinvested, net of all charges, percentage growth. 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.

Update to investment objective and policy effective 30 April 2020

Objective	To grow capital over a five year period.	
Investment policy	What the fund invests in	• 80% to 100% in company shares. • Up to 20% in bonds, cash and near cash, other transferable securities, other funds (up to 10%) managed by Artemis and third party funds, money market instruments, and derivatives
	Use of derivatives	• The fund may use derivatives for efficient portfolio management purposes to: • reduce risk • manage the fund efficiently
	Where the fund invests	• United Kingdom, including companies in other countries that are headquartered or have a significant part of their activities in the United Kingdom
	Industries the fund invests in	• Any
	Other limitations specific to this fund	• None

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