Artemis UK Smaller Companies

Fund Research Centre
Recommended

Why we recommend the fund

- This Recommended fund is managed by Mark Niznik and William Tamworth, experienced and pragmatic smaller company investors.
- The investment process is thoughtful and intuitive. The managers aim to balance quality and valuation risks with an emphasis on position sizing that reflects the degree to which companies meet their investment criteria.
- The managers consider themselves long-term investors in companies but understand the need to balance investment discipline with pragmatism and patience.

Key characteristics and expected outcome

- The team's focus on balance sheet strength and cash generation means the portfolio has a 'quality' feel, while the focus on valuation means that overall, the fund has a value tilt.
- The portfolio is built without benchmark constraints, which means that its risk/return outcome can differ meaningfully from indices and peers.
- The nature of the approach means the managers will not invest in companies that are pre-revenue. They are also sceptical about the prospects of investing in small companies with overly ambitious growth projections attached to their future performance expectations.
- As such, the fund should not be expected to participate in shorter-term rallies from companies with weaker balance sheets and/or those in challenged industries. It will also struggle when strong fundamentals are not being rewarded.
- Smaller-cap investments usually exhibit larger drawdowns in times of crisis than large-cap companies and can be higher risk. Consequently, the fund would usually be one part of a broader equity portfolio, but its steady characteristics should make it a comfortable holding in the context of the asset class.

Risk commentary

The fund's KIID Synthetic Risk and Reward Indicator (SRRI) is 5. This is a regulatory measurement that is, where possible, calculated from the volatility of its weekly performance over a five-year period. A score of 5 means the fund's historic volatility is between 10% and 15%.

SRRI scores of 5 and 6 are common in this sector. The realised five-year volatility of the fund is lower than that of mainstream UK small-cap equity indices. The managers' focus on quality balance sheets and cash generation, combined with a valuation-aware approach, means the fund typically displays lower volatility than its underlying benchmark. Different share classes could have different SRRI scores.



Key Fund Facts

Inception Date:	03 April 1998
Manager(s) Since:	Mark Niznik (Oct 07) William Tamworth (Mar 16)
Fund Domicile:	United Kingdom
Base Currency:	£ Sterling
Fund Benchmark:	Deutsche Numis UK Smaller Companies IT
IA Sector:	UK Smaller Companies

Formal documentation, including the fund prospectus and the KIID, should be sought directly from the asset manager. A link to the asset manager's website can be found on the relevant fund page at fundresearchcentre.co.uk.

Fund Snapshot

A UK smaller companies fund, run by experienced managers. They employ a long-term approach, preferring companies that have strong balance sheets and predictable and growing cash flows. Within its sector, the fund features in our 'Smaller-Cap, Flexible' category.

Investment Team

The fund is co-managed by Mark Niznik and William Tamworth. Mr Niznik has managed the fund since joining Artemis in 2007. Previously, he worked at Standard Life Investments, where he managed the UK Opportunities fund, which had a significant smaller company bias. Mr Tamworth joined Artemis to work with Mr Niznik in 2015, having researched UK small and mid-cap companies at Citigroup and Liberum. He became a named manager on the UK Smaller Companies fund in 2016. They also draw upon the knowledge of other managers and analysts from within Artemis.

Investment Philosophy

The managers believe that the long-term power of compounding is underappreciated, an issue that is exacerbated by investors' tendency to be focused on shorter-term momentum. They take a long-term approach and seek out overlooked opportunities that they believe can deliver a good total return over a three to five-year time horizon. In their view, an ideal investment offers a predictable and growing stream of cash flows which can be sustained without significant incremental investment.

Investment Process

The managers employ a research-driven, stock-picking process that focuses on cashflows and valuations. They focus on three key characteristics in companies: sustainable and predictable businesses with strong management teams and competitive market positions; attractive financials and strong balance sheets, with companies able to grow without requiring significant additional investment, and where there is good visibility and low cyclicality; and, reasonable valuations with an emphasis on free cashflow yields versus the medium-term growth potential.

In seeking candidates for the portfolio, they filter the universe using these characteristics. The managers emphasise qualitative analysis, meeting 300-500 companies every year. At each meeting, they assess any changes in the outlook, the competitive position, or the financial strength of the business. These meetings provide the opportunity to gather information about the company first hand. However, just as importantly, they also provide them with an opportunity to develop and cross-check their insights into relevant industries, as well as other companies. This offers a grass roots view of different industries and markets and the companies that operate within them. Once the managers understand the investment case, companies that are of interest are placed on a 'watch list'. These companies are monitored and their valuations tracked to identify any share price weakness. The managers look to utilise these opportunities to build positions.

Portfolio Construction and Risk Controls

The fund typically holds between 60 and 90 stocks. It is unconstrained in terms of sector weightings, and stock position sizes are decided on an absolute basis according to the managers' level of conviction rather than being driven by the index weightings. The maximum individual stock position is typically 5%, but the managers will typically trim holdings that exceed 3%. Whilst being constructed without reference to the benchmark, from a risk perspective, the managers are careful to ensure the portfolio is diversified by economic activity and company size, with liquidity considerations a priority. Unquoted stocks are not held.

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