Artemis Atlas Fund Q&A
Your questions answered

ARTEMIS
The PROFIT Hunter

Introducing the Artemis Atlas Fund

1. What is the Artemis Atlas Fund?

Atlas is a long/short equity fund with a bias towards UK markets and an ability to invest up to 49% in developed markets. The fund will take long positions in companies deemed to be fundamentally attractive with the potential for share price appreciation and short positions in companies with negative fundamentals whose shares the manager expects to decline. There will be a balance between long and short positions resulting in a broadly market neutral position (±10%) and aiming for positive returns in all market directions.

2. What is the aim of the fund?

To achieve positive returns over three years, under all market conditions, by taking long and short positions in companies in the UK and other developed markets. The fund aims to outperform the Bank of England (BoE) base rate (net of fees) measured on an annualised basis over rolling three-year periods. There is no guarantee the fund will achieve a positive return over a three-year period or any other time period and your capital is at risk.

3. Who is managing the fund?

Ambrose Faulks will be managing the fund. He will also be supported by the wider UK and international equity teams at Artemis, sharing ideas with the firm's 30+ investment professionals.

Ambrose also manages the Artemis UK Select Fund alongside Ed Legget. The UK Select strategy is a top-quartile performer within the IA UK All Companies sector over one, three and five years to 3 June 2025, according to Trustnet. This is a best ideas fund with a fairly concentrated portfolio of 40 to 60 stocks and although most positions are long-only, the fund does have the ability to take short positions.

Before joining Artemis in 2013, Ambrose spent almost a decade as an equity analyst at a UK hedge fund, where he focused on financial services and asset-intensive businesses.

4. What support is in place for Ambrose? What happens if he becomes unavailable?

Three back-ups have been assigned to the strategy in case Ambrose is unable to manage the fund: Ed Legget, Andy Marsh, and Jamie Lindsay. Ed has detailed knowledge of the long positions and many of the shorts given their co-management of UK Select. Andy has experience of managing a Long/Short equity strategy in his previous role at Polar Capital. Jamie is part of the UK team, working closely with Ambrose on many of the ideas in the portfolio.

5. How will this fund be different from the UK Select strategy?

Atlas will be market neutral and will therefore have a low net exposure and market beta – unlike UK Select, which aims to outperform the FTSE All Share.

UK Select is permitted to take short positions but only up to 10% of the portfolio, whereas Atlas will have long and short books of roughly equal size. Atlas will have a combination of standalone positions and pair trades.

Furthermore, Atlas' long book will be more concentrated than UK Select. Currently Atlas has 30 long positions versus 51 in UK Select. 29 of the Atlas long positions are common to UK Select. All of the 5 shorts in UK Select are positions in Atlas.

Both funds will draw upon the same investment engine at Artemis but for Atlas, the manager will place more emphasis on identifying stocks that he thinks have significant downside.

6. What kind of market environment is Atlas designed to perform in?

With its market neutral structure, the fund is designed to perform in a variety of market conditions. That doesn't mean it will be up every month, but on a rolling 12-month view, our aim is to deliver a positive return that beats having cash in a bank account.

We are taking more risk to achieve this, as going short is an inherently risky endeavour, but we are aiming to cut out the overall stock market risk or 'beta'.

If equity markets rise sharply, this fund will underperform them. But if equity markets fall, this fund should hold its value and aims to outperform cash.

Importantly, this fund is aiming to have a very low correlation to equity markets – what people are investing in is our ability to spot mispricing and manage that risk effectively.

About the investment process

7. What will the structure of the fund and its portfolio look like?

The fund will typically have around 100% of its net assets invested long and 100% invested short, resulting in a net exposure of between -10% and +10%. It will have between 25 and 40 long positions and between 30 and 45 short positions. There will generally be more short positions of smaller size, given the inherent risk in shorting. Individual long positions will be no larger than 8% at initiation with an internal guideline of 10%. Shorts will be no larger than 5% at initiation and will be capped at 6%.

8. What is it going to invest in?

The fund will gain exposure to individual stocks using contracts for difference (CFDs), which are common derivative instruments that match the prices of individual stocks, indices or exchange-traded funds.

CFDs are tradable contracts where the gain or loss consists of the difference between the initial price and the contract's value when the trade is unwound.

CFDs enable investors to express a view on the direction of the underlying securities without having to buy the physical assets, which can have operational advantages.

CFDs also use leverage (borrowing to invest) and allow an investor to put up a fraction of the trade's value with a broker. Leverage can maximise gains but on the flip side, it also magnifies losses.

CFDs allow fund managers to go long or short – by buying a CFD if they anticipate the price of the underlying asset to rise but selling an opening position if they expect it to fall.

Unlike futures contracts, CFDs don't have expiration dates or preset prices.

Because CFDs are derivatives, the fund will mostly hold cash as collateral and cash-like instruments, such as very short-dated UK government bonds, which will give an interest-rate-like return at low risk.

9. Why are you investing via derivatives and not holding shares in companies directly?

The fund is a UCITS (Undertakings for Collective Investment in Transferable Securities) and is therefore only permitted to take short positions via derivatives. Investing via derivatives can offer operational advantages rather than buying and selling shares directly in the underlying companies.

10. What does market neutral mean?

In the broadest sense, it means that the fund will aim to deliver positive returns in any and all market conditions, regardless of the direction in which the stock market is headed.

It will do this by having a roughly equal amount of money in long and short positions, so they balance each other out. We will endeavour to match longs and shorts in companies and industries to lower the market risk and to deliver value for investors from the insights we have on individual companies.

11. Is the fund sector neutral?

Not necessarily. Absolute exposure to any industry sector (represented by the GICS Level 1 sector classification) will be limited to +/-15%, so there will be some performance coming from sector views. In terms of gross exposure, certain sectors tend to be more fruitful for stock-picking – as such, we're likely to have a lot of the gross exposure in financials, industrials and the consumer sectors.

12. What experience do you have of shorting?

Before joining Artemis, Ambrose Faulks (Atlas' lead manager) spent almost a decade at a hedge fund as a developed market analyst, focusing on pan-Europe and the US. However, he is more known over the last decade for his work at Artemis on UK stocks. We have a small shorting capability in Artemis UK Select.

13. Can you explain the rationale behind your long and short positions?

The 'long' positions are in companies where the fund manager believes the share price will significantly appreciate over the medium to long-term but at the time of starting the position, the company's 'true' value is not fully reflected in the share price. These are typically companies with economic moats and positive growth prospects driven by a history of strong capital allocation.

For the 'short' positions, the fund manager believes the value of the shares will fall in the near term because of a range of factors, such as not meeting stock market expectations or the publicly available trading forecasts. Typically, short positions will be in companies with high financial and/or operational leverage that are experiencing negative earnings revisions and are facing structural challenges.

Some of the long and short positions are standalone, idiosyncratic ideas which are not hedged. Some are 'pairs' – where we have a long and a short in similar companies but believe one is a relative winner and the other is a relative loser. To add value in pair trades, we do not necessarily need to see absolute upside in the long and absolute downside in the short, just relative underperformance of the short position.

14. Where will the investment ideas come from?

There are large, deeply experienced investment teams at Artemis. The fund managers here have constructive relationships with companies and meet with management teams to gain insights, which complement fundamental microeconomic analysis and modelling.

Historically Artemis' focus in the UK has been on 'long-only' investing. Here, the expression of a negative view on a stock is limited to not owning it in a portfolio. In Atlas, we can take a short position in such companies and derive meaningful alpha for clients. As a result we believe a lot of good investment ideas of the short side have not been utilised – Thus, Atlas is designed to generate positive returns from all of these insights for its investors through both long and short positions.

15. Can the fund short a company that another Artemis fund has a long position in?

Yes. Each of the fund managers at Artemis has their own individual view of a company and they are free to invest accordingly. At times, fund managers may have opposing views on the same company and they can invest – or sell – accordingly. This means if they do not think the prospects for a company in the short term are good, then they can 'short' its shares in the belief their value will go down.

16. How risky is the fund itself and how does it manage risk?

The fund has less market risk than a long only fund, but the use of derivatives creates counterparty and leverage risk which a typical long only fund is not exposed to. Counterparty risk is managed prudently by our investment risk team and we have tight controls on collateral and margin requirements. The prime broker for Atlas is JP Morgan, a top tier investment bank. The Atlas fund is subject to the same rigorous risk management and oversight processes as all of our investment strategies. The portfolio is monitored daily for market risk and exposures within the portfolio by the independent investment risk function reporting to the Chief Risk Officer. It is formally reviewed each quarter by Artemis' independent investment risk team as part of the Quarterly Risk Review process involving the fund manager, CEO and Head of Investments. This meeting provides a deep dive into the portfolio and covers multiple areas including performance, attribution, positioning, risk and factor exposures, ESG analysis and trading activity

All of Artemis' strategies are also reviewed monthly by the Investment Committee, which is chaired by the Head of Investments. Data for the Investment Committee's review is collated from a variety of sources, including for example Style Analytics and FactSet. To ensure that no unintended risks or biases have built up within the portfolio, the review concentrates on its relative exposures to key fundamental factors, ex-post and ex-ante risk statistics, risk decomposition, changes to asset allocation, stress-testing results and Value at Risk ('VaR') over time.

17. The use of derivatives sounds risky, is this a high-risk fund?

The fund is designated as a 'medium' risk (4 out of 7 using the Synthetic Risk and Reward Indicator measurement appropriate for UCITS funds). It uses long and short positions to reduce overall market risk and smooth returns. The fund manager uses derivatives rather than buying or selling shares because it can provide operational benefits.

18. 'Risk rating'

Some funds are riskier than others - that is they have a greater or lesser chance of losing value. One indicator of risk is the Synthetic Risk and Reward Indicator (SRRI), which is intended for investors and potential investors. It displays the historic volatility of a fund's performance and categorises it accordingly. The SRRI's range of values is from 1 (lower risk) to 7 (higher risk). All collective investment schemes (funds such as OEICs, UCITS and unit trusts) are required to calculate and disclose the SRRI for the scheme. It is important to understand that the risk rating of a fund is not static as it will be calculated on an ongoing basis using the most recent data about a fund.

The Investment process is designed to ensure there is no over exposure to individual companies, industries and sectors, to ensure there is a 'smoother' or less volatile set of returns.

It is worth noting, however, that going short is inherently more risky than going long because a stock could theoretically rise by a long way and if a fund manager has bet against it, losses on any individual position could potentially be uncapped, if action was not taken by the manager.

We seek to mitigate this risk by using 'stop losses'. If a short position moves 30% against us and it is an 'absolute short' (i.e. not part of a pair trade), it will automatically be closed. Stop losses on relative shorts (which are balanced out by a long position as part of a pair trade) will be less formulaic and taken in the context of the aggregate performance of the pair.

Atlas will also employ leverage whereby the absolute sum of the long and short positions (gross exposure) can be greater than the fund's NAV. Typically the gross exposure will be around 200%. So, while the net exposure is significantly lower than a long only fund, the gross exposure will be roughly double which does add risk to the fund.

19. How do you manage risk on the shorting side?

The biggest short positions at inception could be as large as -5% of NAV. Positions of this size are likely to be the short leg of a pair trade, in a lower beta part of the market, and a business with limited M&A risk. Stop-losses are in place for short positions based on position sizes. If a short were to grow to this level, it would be cut from the portfolio from a risk control perspective. Position sizing will vary due to the following factors: conviction, downside, portfolio construction (i.e. correlation to other fund positions), how efficient it is to hedge the exposure of the stock, etc. Liquidity is a strong focus, such that no business with a free float of <£1bn would enter as a new position, but an existing short might be run as its market cap falls. Indeed, the fund is looking to limit the exposure to <£2bn market cap spectrum, currently c.10% of the fund. Above that level, we deem there to be significantly better liquidity. The typical short position size should be around 2-3%.

Before engaging in any position, a critical question to pose is: if the stock is up materially in three to 12 months' time, what could have gone against us? This would be a form of 'pre-mortem', considering the maximum expected loss.

The short book broadly breaks into three cohorts:

1. pair trades where we have identified a winner and a loser in two similar companies
2. shorts which are taking some of the risk off existing long ideas, which are less effective than pure pairs
3. absolute shorts that are less efficient to hedge, as they are quite unique businesses with specific issues

For the third category, the position sizing will be smaller and absolute stop losses will be applied. A stock moving 20% against us will be automatically reviewed. If it moves 30% against us, it will be closed. Stop losses on relative shorts (the first and second categories) will be less formulaic and taken in the context of the aggregate performance of the pair.

Finally, there are other considerations: stock borrow cost or excessive crowding. Higher borrowing costs are a warning indicator that a stock might become significantly more susceptible to a short squeeze.

20. What about the use of leverage?

The fund may also employ 'leverage' whereby the absolute sum of the long and short positions (gross exposure) can be greater than the fund's NAV. The fund has internal gross exposure limits of +100% to +300% of net asset value. Typically, gross exposure will be around 200%.

The fund will be managed in accordance with the UCITS regulations on leverage and borrowing limits.

21. Can investors lose more than they invested?

No – the maximum amount an individual can lose is only the amount they originally invested, as per other UCITS funds.

Performance measurement, fees and charging structure

22. What fees will the fund charge?

There is a 0.75% annual management charge, a 0.12% administration fee plus a performance fee of 20% on returns over the benchmark (the Bank of England base rate).

The performance calculation includes a high-water mark. This ensures that we are only rewarded for genuine new gains and not for recovering past losses. This aligns our incentives with investor interests and rewards long-term, consistent growth rather than short-term gains.

23. What Is a High-Water Mark?

A high-water mark is the highest peak in value that a fund has reached. This term is often used in the context of a performance fee which a fund may charge. The high-water mark ensures the manager does not get paid large sums for poor performance. If the manager loses money over a period, he must get the fund above the high-water mark before receiving any additional performance fee.

The purpose is to protect investors from paying a fee for poor performance, and from paying a fee repeatedly every time the fund earns a profit.

24. What is the fund's benchmark?

We are using the Bank of England base rate as a benchmark to reflect the fund's objective to deliver positive returns in all market environments and outperform cash.

25. Why is the Bank of England base rate the most appropriate benchmark? This measure looks low to be charging a performance fee?

The fund is market neutral, which means it is uncorrelated to equity markets and returns are coming from 'alpha' rather than 'beta'. This makes the risk-free rate the most appropriate benchmark.

Using the Bank of England base rate (a proxy for cash or the 'risk-free rate') as a benchmark is in keeping with some of the existing 'absolute return' peer group. However, it's worth noting that some peers don't have a benchmark. But we think the base rate helps remind investors of a key fund objective – to be an uncorrelated asset.

This contrasts with UK Select, whose objective is to outperform the UK equity market and whose benchmark is the FTSE All Share. The objective of Atlas, on the other hand, is to use long and short investments in equities to deliver consistent, positive returns. The performance fee will only be charged if the manager achieves a level of outperformance over the base rate, net of fees. Given the fund aims to outperform through all market conditions, using a long and short book which requires a higher level of work, we think this is appropriate.

The performance fee calculation includes a high-water mark. This ensures that we are only rewarded for genuine new gains and not for recovering past losses. This aligns our incentives with investor interests and rewards long-term, consistent growth rather than short-term gains.

Meanwhile, the fund's annual management charge is in line with long-only equity funds.

26. If the base rate keeps falling, is it easier for the fund to achieve its objective?

The Bank of England is currently cutting base rates. Given the fund's benchmark is the base rate, this might suggest that the hurdle is becoming easier to achieve. In practice, lower or higher interest rates will affect companies and industries in different ways and the fund's long/short approach should be able to take advantage of this. We do not believe there is an interest rate environment where it is harder or easier to achieve the objective.

27. Why are you changing a performance fee and an annual management charge? Does this mean you are being paid twice?

The annual management charge of 75 bps is designed to meet Artemis' costs of running the fund on a day-to-day basis.

The additional performance fee is designed to align the fund manager's interests and investors will only be charged if the fund achieves the appropriate level of outperformance.

We believe that a performance fee is appropriate for this type of long/short strategy, in light of the intense research and analysis work required for taking short positions. The fund manager will only be rewarded via this incentive fee when the fund achieves positive returns in excess of its benchmark and the previous high-water mark, thus aligning his interests with investors.

28. If the fund performs poorly, will you return any of the performance fee?

If the fund's returns are below its benchmark, it will not earn a performance fee. The fund also applies a high-water mark, which means that a performance fee cannot be earned in the future until the high-water mark has been exceeded.

The fund is market neutral and thus 'pure alpha' and as such, the risk-free rate (i.e. the return on cash) is an appropriate benchmark. The fund aims to deliver positive returns regardless of the direction of the UK equity market.

It is designed to be close to market neutral and its objective is not to outperform the UK index (FTSE All Share) - the objective is to use long and short investments in equities to deliver consistent returns.

Making the case for Atlas: How the fund could fit into investors' portfolios

29. How could this fit into a diversified portfolio?

Because the fund is 'market neutral', it complements investments in equity and fixed income funds, which are 'long-only', and can therefore act as a diversifier. Typically the fund may not perform as well as an equity fund in a sharply rising market but should be less sensitive to movements in a falling market.

The fund will invest largely in UK-listed companies using derivatives to achieve exposure with a small number of international holdings, so the fund could act as a diversifier to a portfolio of UK investments and/or a broad global portfolio.

30. What is the recommended holding period for investing in this fund?

The fund should be held for a minimum of three years.

31. Can this fund be held in an ISA?

Yes. This is a UCITS fund and can be held in a stocks and shares ISA.

32. Can the fund short a company that another Artemis fund has a long position in?

Yes. Each of the fund managers at Artemis has their own individual view of a company and they are free to invest accordingly. This means that at times fund managers have opposing views on the same company and they can invest – or sell – accordingly. This means if they do not think the prospects for a company in the short term are good then they can 'short' its shares in the belief their value will go down.

33. Do you consider any ESG factors in your approach? Does this fund have any sustainable characteristics?

ESG is one factor within the wider investment process on both the long and short side but it is not a fundamental part of the investment process. The fund does not have any sustainable goals.

34. Why are you launching it now?

We are entering a period where market volatility is likely to be high and we expect the dispersion of stock returns to rise significantly, with returns driven more by individual security selection and less by market beta.

The past decade or more of quantitative easing (which ended in 2022) made life harder for shorting due to loose monetary policy, but now we are in a world where there is a more meaningful cost of capital, so the market is being forced into proper discernment over good and bad capital allocation policies.

35. What types of units are available?

At launch there will only be accumulation units available.

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Investment in a fund concerns the acquisition of units/shares in the fund and not in the underlying assets of the fund. The fund is a sub-fund of Artemis Investment Funds ICVC. For further information, visit www.artemisfunds.com/oeic.

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