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OMNIS EQUITY FUNDS UPDATE: MARKET TURBULENCE KEEPS THE OMNIS FUND MANAGERS BUSY

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At we explained [in this recent article](#), the Omnis Investment Team strongly believes active investing is more effective than passive investing because active managers can add and remove holdings in response to opportunities or threats they spot in the markets. This is especially the case during periods of market turbulence, and the managers of the Omnis equity range of funds have been busy over the last few weeks, ensuring their portfolios can withstand the current market conditions and benefit from the expected economic recovery once it starts.

Before we dive into how each manager has positioned their portfolio, it is worth highlighting several recurring themes which came up in our recent conversations:

- All managers emphasised the importance of holding financially strong, high quality companies that should still be around when the crisis fades;
- Recognising that the pace and scale of the crisis has fundamentally changed the outlook for a number of industries, our managers have shown nimbleness and humility in cutting their losses where necessary;
- The consensus among managers is the market turbulence has presented compelling investment opportunities for long-term investors across different styles and sectors.

UK All Companies Fund

The manager focused on making sure the portfolio holds financially strong companies. They bought cruise line Carnival at the start of the year as it looked set to benefit from the robust global economy, but they sold it as the travel industry came to a practical standstill due to the lockdown. They took this opportunity to invest in companies which the team has been monitoring for a while, but which had previously been considered too expensive. An example is bakery chain Greggs, a well-managed company in a good position to prosper when growth starts again. The manager believes the crisis has unearthed some attractive long-term investment opportunities in various sectors.

Income & Growth Fund

The manager has sought a balance between limiting losses should the economic situation deteriorate further and ensuring the fund will participate in the inevitable – but, in terms of timing, uncertain - recovery. Their focus on financially strong companies meant he sold outsourcing firm Capita as it could be vulnerable to the slowdown. The fund's style provides useful diversification to portfolios, especially if the support measures introduced by the government and central bank trigger inflation (rising prices).

UK Smaller Companies Fund

The portfolio has weathered the turbulence well as it has relatively few holdings in sectors such as energy, travel and tourism. The manager sold Smart Metering Group, one of the fund's strongest performers, because it will not necessarily benefit from the economic recovery. They believe the shift away from small companies during the crisis has presented some interesting opportunities.

US Equity Leaders Fund

The manager was defensively positioned ahead of the crisis, with the fund holding very few shares in companies that are sensitive to economic growth. After adding cruise line Royal Caribbean in February, they sold the holding in March. The impact of the lockdown on the travel sector also prompted them to remove Boeing from the portfolio. Among the holdings they added were quality firms at attractive prices like Colgate Palmolive and some which may seem counterintuitive given the crisis, such as casino group Las Vegas Sands as it could benefit from the recovery in Asia. The manager believes the recent turbulence may also present opportunities in luxury consumer goods and industrials.

US Smaller Companies Fund

The manager's investment approach is to focus on stable, well-established companies with durable business models and recurring sales. This has helped the fund weather the worst of the market turbulence. The manager has recently added life sciences firm Steris, a manufacturer of infection prevention products, to the portfolio. Other additions like gym chain Planet Fitness, restaurant chain Chuy's Holdings and energy firm Halliburton may appear counterintuitive, but they are high-quality, should survive the crisis and may emerge with stronger competitive positions as weaker competitors close their doors.

European Equity Leaders Fund

The manager's 'growth at a reasonable price' approach has paid off, with the fund holding up relatively well in recent months. Investments in European banks have been sold, even though they appeared undervalued when added to the portfolio late last year. However, the risk of borrowers defaulting on their loans means their attractive valuations have arguably become irrelevant. The proceeds were invested in high quality firms that had previously seemed too expensive, such as sportswear manufacturer Adidas and publisher RELX.

European Equity Opportunities Fund

After topping up the fund's cash holdings in early March, the manager started to invest some of it in attractively valued market leaders within sectors sensitive to economic growth. They added companies that have benefited from the pandemic such as mobile casino LeoVegas and Topdanmark insurance, and counterintuitive opportunities which fell in value including Pandora Jewellery and oilfield equipment manufacturer Schoeller-Bleckmann.

Japanese Equity Fund

The fund's value-focused approach weighed on performance during the crisis, but the manager has focused on adding shares to the portfolio which have the potential for growth in the second half of the year. Meanwhile, they took advantage of the opportunity to remove some holdings that fell out of favour as the definition of a Japanese value stock evolved.

Asia Pacific Fund

Relative to the benchmark, the fund has thrived due to a focus on quality holdings benefiting from long-term growth and a relatively high cash balance in the portfolio. The manager is now looking to invest some of this cash as they see opportunities starting to emerge, especially in China as it becomes the first country to go back to work as lockdown measures are lifted.

Emerging Markets Leaders Fund

The manager has conducted rigorous analysis to make sure each of the companies in which the portfolio can survive a severe drop in demand during the crisis. Attractive valuations led to additions in technology company Tencent and restaurant chain Lojas Americanas, while they reduced the number of holdings in the financial sector. The manager is concerned about the capacity for emerging markets to weather disruption if the crisis continues for a long time, but they have identified opportunities in markets that previously seemed expensive, such as India.

Emerging Markets Opportunities Fund

The manager intentionally avoided companies with high levels of debt or cash requirements in the near term as they think they are vulnerable during the slowdown. The fund typically invests in smaller firms which were attractively valued before the crisis, so the recent market turbulence makes the valuation case even more compelling.

IN SUMMARY

Overall, we are pleased our managers have stuck to their individual approaches through challenging market conditions, and we are confident they should deliver strong outcomes for Openwork clients over the medium and long term. As always, we will monitor performance closely and stay in regular contact with our managers.

KEY TAKEAWAYS

- While the Omnis investment team strongly believes in active fund management in general, it is during times of market turbulence that this approach to investing shows its worth;
- All managers emphasise the importance of holding financially strong, quality companies that should still be around when the crisis fades;
- They aimed to reduce holdings unsuited to the current market conditions and added others which are expected to benefit from the crisis or appear undervalued;
- The consensus among managers is the market turbulence presents compelling investment opportunities for long-term investors across different styles and sectors.
- We continue to monitor performance closely and stay in regular contact with the fund managers to provide added peace of mind for our investors; the Openwork clients.

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