OMNIS FUNDS UPDATE

ACTIVE MANAGEMENT, ACTIVE OVERSIGHT

3rd April 2020

ACTIVE MANAGEMENT

Omnis firmly believes in the benefits of active investment management. While investors in passive vehicles have no option but to blindly follow the index – buying more of the things that have become more expensive and selling more of those that have become cheaper – active managers have the ability to direct money towards opportunities others appear to have overlooked or misunderstood.

At Omnis, we believe this flexibility is valuable, particularly when we experience the significant market turbulence we have witnessed over the past few weeks. While in times of heightened fear or greed, markets and individual securities may move in lockstep for a while, this ultimately leads to mispricing and opportunities for active managers.

ACTIVE OVERSIGHT

Omnis' support of active investment managers gives rise to two important responsibilities.

First, Omnis must ensure that each fund is being managed as expected. This involves detailed assessment of the portfolios and the associated risks, both the regulations and each fund's policies and objectives.

Second, Omnis aims to ensure that not only are its funds being managed appropriately, they are also being managed well. To the Omnis Investment Team, this means each manager must have a clear understanding of the qualities that define an attractive investment opportunity and a repeatable process that enables them to identify and invest in assets displaying these characteristics.

Oversight of the fund range is very much a 'business as usual' activity for Omnis. However, periods of pronounced turbulence in financial markets increase the need for robust and timely governance. Sharp moves in financial markets can uncover previously undetected risks while historic data quickly becomes irrelevant.

The scale and reputation of Omnis helps the Investment Team secure privileged access to our fund managers. This access is always valuable, but never more so than in conditions like those we have seen in recent weeks. In March alone, the Omnis Investment Team had 22 conversations directly with its fund managers and a further 25 or so with various risk, compliance and support functions at the investment houses with whom we partner.

Further valuable insight has been attained through Omnis' relationship with Fundhouse.

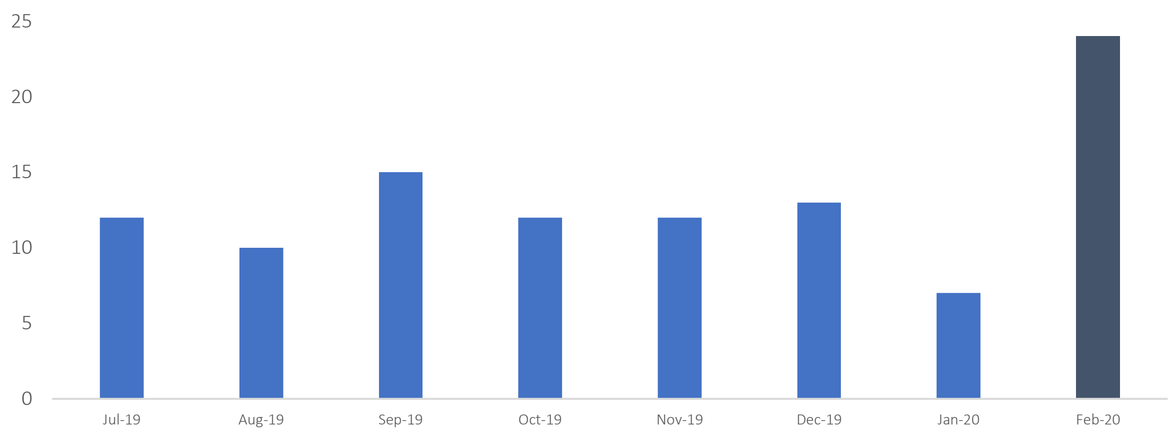
WORKING WITH FUNDHOUSE

Fundhouse is an external, independent investment adviser that provides fund manager research, portfolio construction and asset allocation support for Omnis. It is a multi-award-winning firm, known for its methodical approach and high-quality investment research.

"During challenging times like these it is important that Fund Managers remain true to their core investment principles and continue to operate in a disciplined, considered and effective manner. Despite the market volatility, the Omnis Investment and Fundhouse teams work collaboratively to oversee our Fund Managers' activities and to ensure they continue to justify the faith we have in their ability to deliver long-term value to Investors."

Rory Maguire
Fundhouse CEO

Figure 1: Fundhouse monthly meetings with Omnis



Fundhouse is an important resource for Omnis at the best of times. However, in times of elevated market stress – such as in February and March this year – this importance is amplified. While global events have been unfolding at breakneck speed, having recourse to the expertise of the Fundhouse team has undoubtedly enabled Omnis to cover each of its funds in greater depth and with greater speed than would otherwise have been possible.

THE OMNIS FUND RANGE

Working together with Fundhouse, the Omnis Investment Team has kept abreast of how each of its funds has been coping with marketplace volatility, and how their managers have been using the flexibility afforded to them as active investors. Excerpts from just a few of these interactions are presented below:

Omnis UK All Companies (Colin Morton, Franklin Templeton)

Colin and the rest of the Franklin UK equity team acknowledge that "things do seem pretty bleak at the moment". However, they also recognise that the global economy will eventually recover, albeit that the timing of that recovery is uncertain. As ever, the team is taking a patient approach, but opportunities are starting to present themselves:

"Certain companies or sectors such as health care, personal household goods and utilities look to fare better during this time of market turmoil, but indiscriminate selling sprees start to unlock values. From a valuation perspective, UK stocks are so lowly priced now that it won't take much for share prices to go back up, should we see glimmers of positive news."

For Colin, the focus is on striking the right balance between acknowledging the uncertainties of the coming months and remaining alive to the opportunities presented by the UK stock market's falls.

Omnis Income & Growth (Ben Whitmore, Jupiter)

Historically, equity bear markets have typically been more bruising for expensive stocks than they have for cheaper stocks. Ben sees no reason why this time should be any different:

"Our main defence against a global recession is very low starting valuations, strong balance sheets and a very widely spread portfolio that has exposure to a wide range of industries... It is fair to say that this is providing little protection in the stock market's eyes at the moment, but we find it hard to imagine that it can carry on in this manner for an extended period of time as otherwise financial market history will be turned on its head."

Ben has added to positions that have fallen sharply, but where the companies have strong balance sheets. Conversely, he has sold positions in companies such as Capita and ITV which appear less well able to weather current conditions. Despite this shift towards higher quality companies, Ben notes that, as measured by the Graham & Dodd P/E multiple (a commonly used indicator of value), his portfolio has never before been as attractively valued as it is now.

Omnis US Equity Leaders (Jeff Rottinghaus, T.Rowe Price)

Jeff aims to invest in high quality, market-leading companies. This approach has stood the fund in good stead over recent weeks, because such companies are deemed more likely to cope with the economic consequences of the coronavirus. Of course, share prices for these companies have still fallen – but Jeff believes this presents some interesting opportunities for active stock pickers.

"While the coronavirus will likely take a toll on economic activity in the first half of the year, abundant global liquidity and a forceful global policy response mean that there is a chance that growth could reaccelerate later in the year. We are also mindful that past periods of market upheaval have presented opportunities for those willing to focus on the long-term potential of well-positioned companies."

For Jeff, well-positioned companies include a number of names in the technology sector – among the few beneficiaries of the global shift to working from home. Elsewhere, Jeff has increased allocations to the healthcare sector and decreased those to the financial and energy sectors, both of which tend to be closely linked to the outlook for economic growth.

Omnis European Equity Leaders (Cedric de Fonclare, Jupiter)

Market dynamics in Europe have been very interesting. The initial response to the threat of the coronavirus was a sharp, all-encompassing sell off. This was followed by signs of discrimination among investors as higher quality companies and those less directly affected by efforts to contain the virus held up relatively well. However, Cedric notes that, towards the end of March, activity in European stock markets became disordered – historically a sign of 'capitulation' as fear peaks among investors.

"European equity markets are still very volatile, but we would tentatively suggest that the recent monetary and fiscal stimulus packages announced across Europe have helped to avert the worst possible outcome of the current crisis. In essence, the existential risk for many listed companies has likely been greatly reduced."

Despite some tentative optimism, Cedric is not getting carried away. The fund remains focused on the long-term prospects of good businesses, some of which are now trading at valuations that are as low as they have been in years.

Omnis Global Emerging Market Equity Leaders (Alex Duffy, Fidelity)

Alex has been focusing on investing only in companies with high quality balance sheets and maintaining ample liquidity in the portfolio.

"At this juncture, we do not want to make short-term decisions that impair long-term value creation potential… We want to be buying more of the best businesses in emerging markets that take market share while competitors are retrenching."

The sell-off in equity markets has enabled Alex to buy into some high-quality businesses he has been watching for some time, but where valuations have previously been too demanding.

Omnis Sterling Corporate Bond (Alasdair Ross, Threadneedle)

Though the falls have been less eye-catching than those in stock markets, global bond markets have been at the epicentre of the recent market turbulence. Investors worldwide have sold all types of risky assets, including bonds issued by companies, which in most cases are seen as higher risk than those issued by governments. This rush for the exit has raised fears over liquidity (the ease of buying and selling assets at prices close to their 'fair' market value) in corporate bond markets. Following the intervention of major central banks, Alasdair believes this pressure is now fading.

Wary of high valuations and the marked increase in corporate indebtedness in recent years, Alasdair has been prioritising portfolio liquidity for some time, favouring 'defensive' sectors, such as utilities, which tend to be less sensitive to the economic cycle. As a result, the fund is well-positioned to take advantage of the opportunities presented by forced selling from other market participants.

Omnis Diversified Returns (Suhail Shaikh & Nabeel Adboula, Fulcrum)

Omnis has been in daily communication with the team at Fulcrum throughout the duration of the market turbulence. The investment approach that Suhail and Nabeel oversee is incredibly research intensive and Omnis has benefited from its access to Fulcrum's comprehensive and up-to-date analysis of the coronavirus pandemic.

Once it became clear that the virus would spread beyond China, Suhail and Nabeel acted swiftly to reduce the fund's exposure to equities and to other 'risk on' strategies involving commodities and inflation. As a result, the fund has held up admirably in this most challenging of investment environments. Importantly, the fund's returns have differed from those delivered by equity and bond funds, offering diversification benefits when held as part of a portfolio.

"Many investors (and, privately, some policy makers) are asking whether this degree of stimulus in the US and most other major economies can be "afforded", or whether it will cause government debt crises and, later, rising inflation. If the answer to either of these questions is positive, markets could lose confidence in the ability of the authorities to cope with the coming recession and the results for asset prices could be gruesome. Fortunately, this is unlikely to be the case."

IN SUMMARY

While active oversight of its funds is very much a 'business as usual' activity for Omnis, the pace and scale of recent global developments has highlighted the importance of this function. Omnis has worked hard throughout the period of market turbulence to ensure not only that the Omnis funds are being managed prudently and in accordance with the rules and regulations, but also that they are being managed well.

Omnis has undoubtedly benefited from its access to the expertise, rigour and independence of Fundhouse. Though working collaboratively, discussions between Fundhouse and the Omnis Investment Team are typically robust: neither Omnis nor Fundhouse would want it otherwise. Omnis – and investors – can take some comfort in Fundhouse's opinion of the Omnis fund range:

"The Omnis Funds have generally performed well against their peers during the recent market volatility. This is testament to the quality of the fund manager selection process and the ongoing monitoring programmes. There can be no guarantees that a problem will not occur with any given fund manager, but Fundhouse prides itself on having independent, close and effective relationships with those used by Omnis. The insights provided by these relationships, combined with Fundhouse's own independent market assessments, are widely shared with the Omnis Investment Team and the Investment Committees of both Omnis and Openwork.

Rory Maguire
Fundhouse CEO

Omnis believes its funds are well-positioned to weather the current market turbulence and, furthermore, to take advantage of the opportunities these conditions resent to disciplined investors. The governance structures and research processes at Omnis are designed to ensure this remains the case throughout this period of heightened volatility and beyond.

Colin Gellatly
Deputy Chief Investment Officer, Omnis Investments