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OMPS Annual Report April 2020

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OMPS Annual Report Breakdown

The Omnis Managed Portfolio Service

The Omnis Managed Portfolio Service (OMPS) launched three years ago, in April 2017. We believe it is important to keep you updated on how we are managing your money through this, our third annual report.

This report covers the key changes made by the Omnis Investment team in fine tuning your investment over the past 12 months, while ensuring it stays in line with your agreed attitude to risk.

We will put these changes in context given the ever changing economic and political environment which we all live our daily lives in. Whether it is Brexit, the UK election or more recently the impact of the COVID-19 pandemic, one or all of these factors can affect the value of your investment, so we are delighted you have entrusted the management of your financial future to us.

You can always keep updated with how your investment is going by contacting your Openwork Financial Adviser. In addition, you can keep up to date with every change to your portfolio through our monthly updates, and news and views which can be accessed on the Omnis Investments website www.omnisinvestments.com.

Chief Investment Officer's viewpoint

The last three months of the year under review have dominated the outcome for portfolios and the issue of Covid-19 is likely to heavily influence the outcome for investors for some time to come.

Since the Global Financial Crisis of 2008 we have lived through a long recovery that has been characterised by slow but predictable growth, low inflation and low interest rates. This has been a very good environment for most asset classes. As this virtuous circle had persisted for so long (the recovery is one of the longest) it is natural that there would be fatigue and investors would periodically question when it might end. For much of the period leading up to 2020 markets had moved between optimism and doubt on this basis. As we entered 2020 it appeared that we were entering a period of optimism backed by a pick-up in economic data. After all, the combination that has propelled markets for over a decade was still intact. We had long thought of this environment as one prone to shocks. In fact it seemed that in the absence of a policy mistake (raising interest rates too fast or too early) an outside event or shock was the only way that the slow but predictable growth would be challenged.

It is into this mix that in January, 2020 we started to hear reports of a new virus that was taking holding in Hubai province, China. This was not the first time that a developing pandemic had threatened global markets and in all previous cases the outbreak had eventually been controlled and markets had gone back to analysing an outlook that remained unaffected. This was not the case with Covid-19, with China seemingly on top of the outbreak, international cases began to spike and the number of new cases quickly overtook those in China. Markets do not like uncertainty and each day in late February and March delivered more and more uncertainty until at one point some markets temporarily seemed to lose control. But monetary authorities and governments learnt an important lesson in 2008, to act quickly and decisively. In a matter of weeks from the start of the market volatility that began at the end of February more support had been applied to the global economy than had been available during the whole of the financial crisis in 2008. Undoubtedly, this support has helped markets to stabilise and rally.

As we gradually exit the efforts to curtail social movement, the drastic steps taken by many countries have succeeded in slowing the spread of the virus enough to allow economic activity to return. China is already on the other side of the crisis and is largely back in production but global demand will take time to get back to normal. The virus, as horrible as it is, is an event that will pass but the support and stimulus will aid the bounce back of the economy.

Toni Meadows
Chief Investment Officer

The year in review

The following events have all impacted how we have managed your money over the last 12 months.

2019

May

— US shares fell after President Donald Trump increased trade tariffs- taxes on companies importing products from abroad- on $200 billion worth of Chinese goods, and China responded with tariffs on $60 billion of US goods;
— Sterling rose against the US dollar after Theresa May resigned as Prime Minister, triggering a leadership contest in the Conservative party with Brexiter and former foreign secretary Boris Johnson installed as the early favourite.

June

— Sterling fell against the US dollar as the Brexit party's success in the European elections forced the candidates in the Conservative leadership contest to take a harder line on the UK's departure from the EU;
— The S&P 500 hit a record high after the Federal Reserve (US central bank) left interest rates unchanged and hinted at a rate cut in 2020 due to an uncertain economic outlook.

July

— Optimism about a breakthrough in trade talks following a meeting between President Trump and his Chinese counterpart Xi Jinping at the G20 summit (a gathering of leaders from the countries with the largest and fastest-growing economies) pushed US shares to a record high;
— Sterling barely moved against the US dollar as Boris Johnson won the Conservative party leadership contest and became Prime Minister.

August

— The Federal Reserve lowered interest rates for the first time in ten years, blaming global economic uncertainty and trade tensions;
— Global shares fell after the yield (the income paid) on long-term bonds issued by the UK and US governments dropped below the yield on their shorter-term equivalents, an effect known as an inversion of the yield curve which in the past has preceded an economic slowdown.

September

— Sterling strengthened against the US dollar as the prospect of a 'no deal' Brexit faded after MPs voted in favour of a bill forcing the Prime Minister to seek another extension to the Article 50 deadline;
— US shares rallied as the Federal Reserve cut interest rates by 0.25% for the second time in 2019 due to subdued domestic inflation (the rate at which prices of goods and services increase) and concerns about the global economic outlook.

October

— The pound hit its highest point in five months against the US dollar after the UK and EU agreed a Brexit withdrawal deal. MPs rejected the Prime Minister's plan to rush the legislation through Parliament and voted to hold a general election on 12th December to break the deadlock;
— Global shares rallied after President Trump and Chinese vice-premier Liu He agreed a limited trade deal that would delay US tariffs on $250 billion of Chinese goods and increase Chinese purchases of US agricultural products.

November

— The pound fluctuated in value against the US dollar as campaigning got underway ahead of the general election on 12th December;
— US shares rallied as the US and China agreed to gradually reduce tariffs, although plans to sign the first phase of a deal were put on hold after the cancellation of the Asia-Pacific Economic Cooperation (APEC) summit;

December

— UK assets rallied after the Conservative party won a parliamentary majority of 80 seats in the general election and Brexit uncertainty seemed set to ease in the short term;
— Global markets rose after the US and China agreed the first phase of a trade deal. The US cancelled tariffs, while China agreed to improve the protection of intellectual property (patents, trademarks and copyrights) and increase purchases of US goods and services.

2020

January

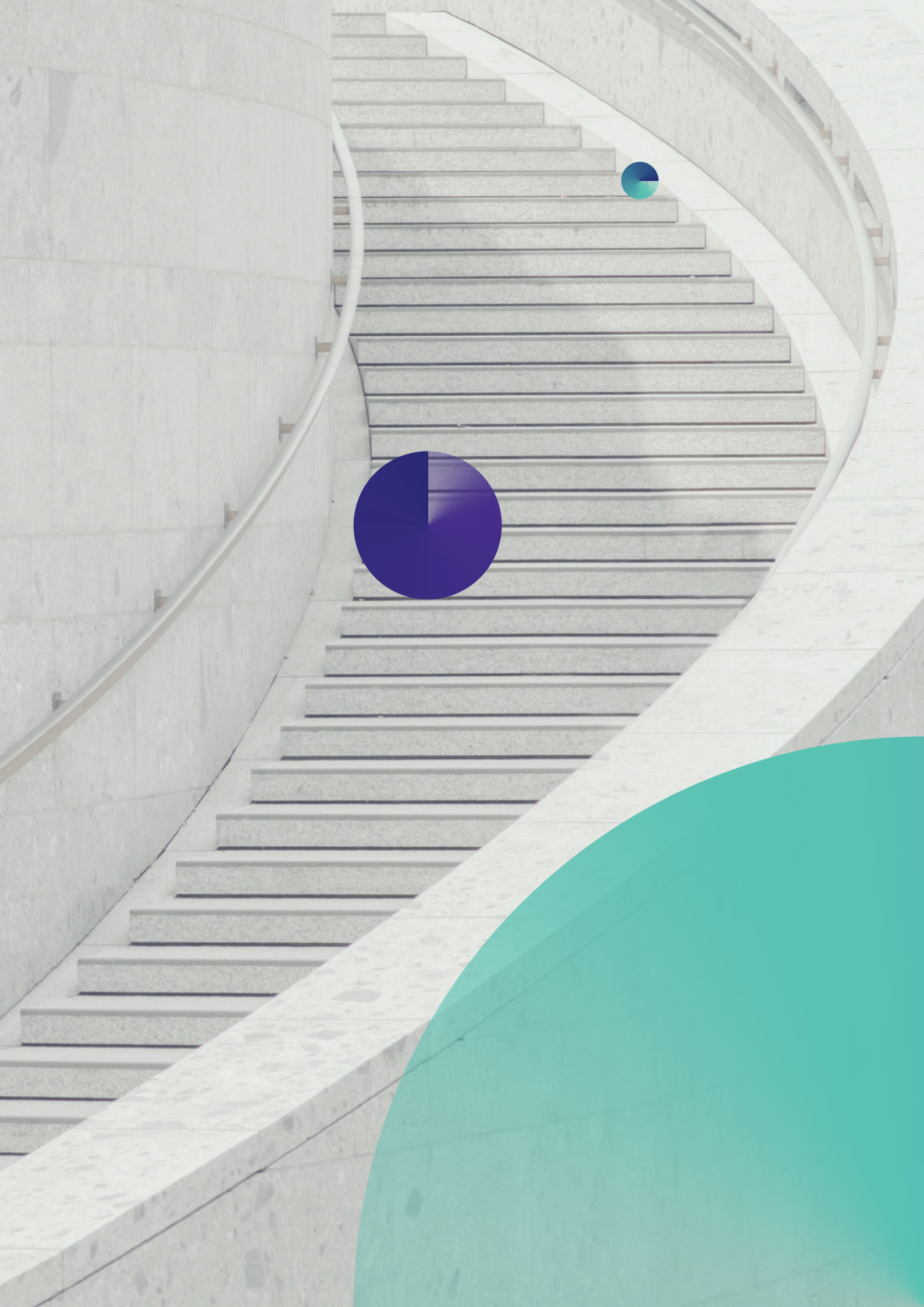
— Global shares rallied as President Trump met with senior Chinese officials to sign the first phase of the trade deal agreed in December;
— Global shares later handed back some of those gains after the outbreak of the coronavirus in China, which then spread to Europe, the US, Australia and other countries in Asia.

February

— Global shares experienced their worst week since the 2008 financial crisis as concerns about the spread of the coronavirus persuaded investors to move their money into what are traditionally considered 'safe haven' assets such as government bonds;
— The pound weakened against the US dollar after the Prime Minister insisted the UK would leave the EU at the end of the transition period even if the two sides fail to agree a free trade deal.

March

— Global shares and government bonds fell as the world's major central banks responded to concerns about the coronavirus by cutting interest rates to historic lows and expanding their bond buying programmes, known as quantitative easing;
— Global shares rallied towards the end of the month after the US launched US$2 trillion worth of government spending in an effort to offset the economic disruption caused by the virus. New Chancellor Rishi Sunak also announced a number of emergency measures to bolster the UK economy.



The changes we have made

The starting point for the Omnis Managed Portfolio Service is a 'strategic asset allocation' in line with your agreed attitude to risk. This is the framework that we use to split between stock markets around the world, bonds and alternative investments.

Research from investment experts has shown that getting the asset allocation right gives you the best chance to get the highest returns on your money.

While the strategic asset allocation is reviewed yearly, we can make changes in line with the external drivers and influencers on a day-to-day basis.

This means we can be either 'overweight' or 'underweight' each type of investment.

Here we give an overview of some of the key times we have put these powers to work, and how the changes have benefited you.

Quarter Two 2019
At the start of May we cut our holdings in emerging markets (EMs) following a strong run in the stock markets and shifted the proceeds into cash;

We further reduced our allocation to EMs as we expected trade tensions to rise ahead of the G20 meeting at the end of June;

We took profits in the UK Smaller Companies Fund which had outperformed and reinvested the proceeds into the UK All Companies Fund as we believed UK shares remain undervalued despite the level of Brexit uncertainty;

Quarter Three 2019
The investment team did not change the asset allocation in any of the portfolios in the third quarter.

Quarter Four 2019
Towards the end of October, we took money out of the US Equity Leaders and US Smaller Companies funds and moved the proceeds into the Income & Growth Fund to take advantage of the attractive valuation of UK shares;

In November, we used some of our cash balance to top up the portfolio's holdings in the European Equity Leaders, European Equity Opportunities and Global Emerging Markets Opportunities funds as all three should benefit from ongoing global economic growth;

Quarter One 2020
At the start of February, we reduced the holding in UK government bonds as their yields had fallen, so they no longer offered value;

We shifted most of the proceeds into alternative strategies which offer greater potential for gains while not increasing the level of risk in the portfolio;

We also topped up the UK Smaller Companies Fund as it had been performing well;

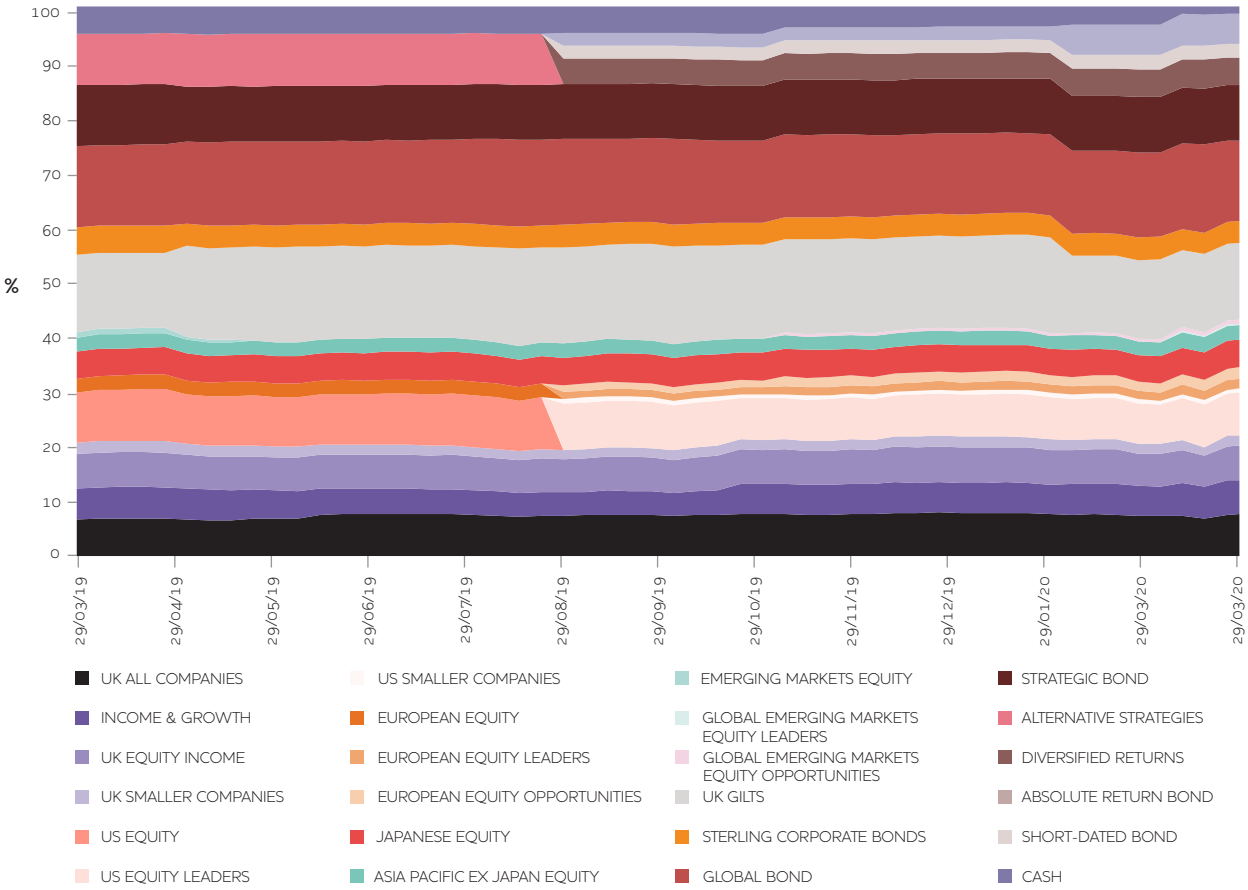
As the coronavirus weighed on markets in March, we increased holdings in domestic and overseas share funds. This reflects our view that the impact of the virus on economic activity will be temporary and the support measures introduced by global authorities should boost shares which have already fallen dramatically;

We funded this trade by reducing our holdings in the UK Gilt Fund, alternative strategies and cash.

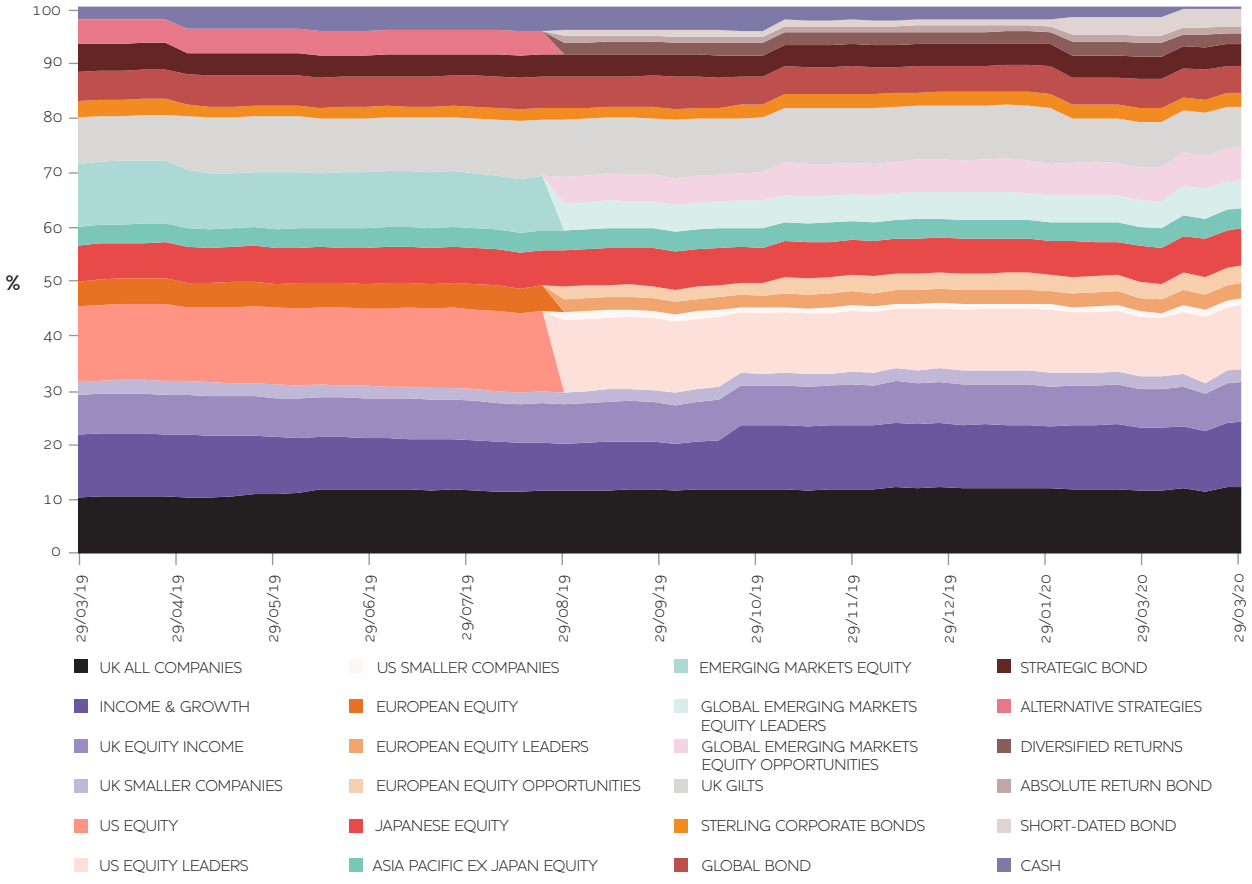
Asset allocation charts

The following charts show how these changes have come together over the last 12 months.

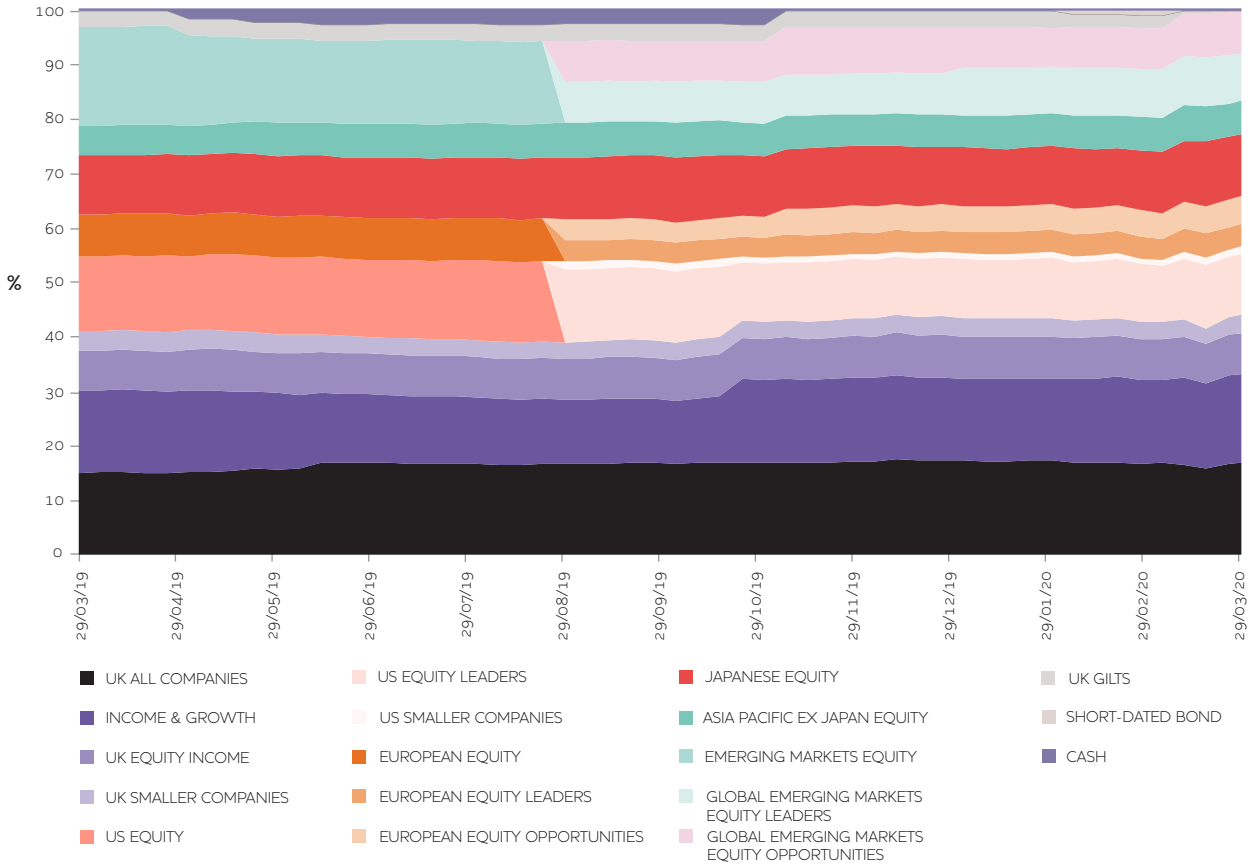
OMPS Cautious Portfolio



OMPS Balanced Portfolio



OMPS Adventurous Portfolio

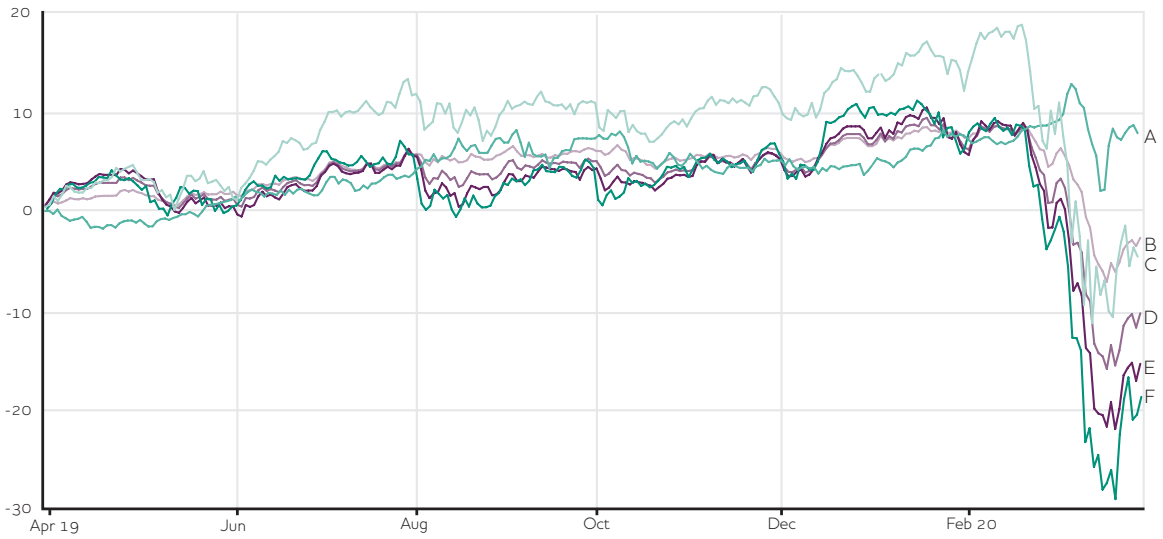


One-year performance

The OMPS portfolios were on course to deliver positive returns for the third year in a row despite the uncertainty caused by Brexit and trade tensions between the US and China. However, performance dipped in line with the global markets at the start of 2020 as the coronavirus spread around the world and economies shut down, although it started to recover by the end of the period under review. To reap the full benefits of the service, it is important to stay invested over the long-term (at least five years).

The charts below show the total return performance of the three portfolios over the third year to 31 March 2020*.

However, please contact your Openwork Financial Adviser to determine the performance of your own investment.



A - ICE BofA Sterling Broad Market TR in GB [7.77%]
B - OMPS Cautious 24/04/2020 TR in GB [-3.14%]
C - MSCI World ex UK TR in GB [-5.02%]
D - OMPS Balanced 24/04/2020 TR in GB [-10.49%]
E - OMPS Adventurous 24/04/2020 TR in GB [-15.38%]
F - FTSE All Share TR in GB [-18.45%]

29/03/2019 - 31/03/2020 Data from FE 2020

*Past performance is not a guide to future performance. Over time, inflation may erode the value of your investments. OMPS is available through multiple platforms and the outcomes for customers may vary as a result of differing operational and investment processes in place at the platforms.

The comparative indices used are:
Global equity - MSCI ex UK All Cap
UK equity - FTSE All Share
UK bond - ICE BofAML Sterling broad market

Appendix - The Omnis funds used in OMPS

The current range of Omnis funds are shown below. New funds may be added to the range to take advantage of investment opportunities in other asset classes.

Omnis Short-Dated Bond Fund

This Fund invests in a range of bonds (debt) that repay the initial investment within five years. It aims to preserve this investment by building a wide-ranging portfolio based on detailed research of both the global economy and each government or company issuing the bond.

Omnis UK Gilt Fund

This Fund invests in UK government bonds, also known as gilts. Bonds are an important asset class to include in a portfolio, as they offer diversification from equities.

Omnis Sterling Corporate Bond Fund

This Fund invests in UK corporate bonds which are issued by companies seeking to raise finance, for example to expand operations. It aims to reduce the risk of default by focusing on investment-grade bonds and thoroughly researching each issuer. Compared to gilts, corporate bonds offer higher potential rewards but carry greater risk.

Omnis Strategic Bond Fund

This Fund has great flexibility as to where it can invest, making it an ideal first step for fixed income investing. It holds a mix of bonds (debt) issued by governments, companies with a minimal risk and 'high-yield' bonds which carry more risk but pay a higher income.

Omnis Global Emerging Markets Equity Leaders Fund

This Fund invests in large and mid-size companies in developing countries across Latin America, Asia, Europe and the Middle East. It targets companies with strong balance sheets that demonstrate responsible corporate governance and employ sustainable business practices.

Omnis UK All Companies Fund

This Fund invests in predominantly large cap but also mid and small-sized UK companies that appear attractively priced and have strong balance sheets and sustainable cash flows.

Omnis UK Smaller Companies Fund

This Fund provides exposure to smaller UK companies, typically with market capitalisations of between £100 million and £1 billion, aiming to build long-term value for shareholders. Like the Omnis UK All Companies Fund, it looks for attractively-priced stocks with strong balance sheets and sustainable cash flows.

Omnis Diversified Returns Fund

This Fund invests in different types of investments, including equities (shares), bonds (debt), currencies and commodities (like gold or oil). The Fund aims to provide returns that are not linked to the movements of mainstream investments.

Omnis Absolute Return Bond Fund

This Fund invests in a wide range of bonds (debt that repay the initial investment within two and a half years. It typically targets larger bond issuers in the United States and Europe, but also looks for opportunities in emerging markets, such as Eastern Europe or South America.

Omnis Global Emerging Markets Equity Opportunities Fund

This Fund provides access to developing markets including Brazil, Russia, India and China, which can be a valuable source of returns. It invests in the shares of companies in emerging markets, which can carry a higher risk, but can also provide investors with higher returns.

Omnis European Equity Leaders Fund

This Fund invests in shares of high quality companies that the fund manager believes are undervalued because the market underestimates their ability to deliver steady and consistent earnings. It targets mid-size companies in countries across Europe, excluding the UK.

Omnis Income & Growth Fund

This Fund is another UK equity fund within our range, providing variation in a small market. It aims to invest in companies which not only provide a regular income, but also are growing.

Omnis UK Equity Income Fund

This Fund looks to invest in superior quality companies with strong business models and sound finances that are able to deliver sustainable dividend growth, and therefore greater income.

Omnis European Equity Opportunities Fund

This Fund invests in mid-size European companies (excluding the UK) that the fund manager believes are undervalued by the market.

By thoroughly researching the factors affecting a company and its industry, it targets a wide set of opportunities across different industries and countries.

Omnis Global Bond Fund

This Fund provides exposure to global fixed income and currency markets, providing valuable diversification opportunities.

Omnis Japanese Equity Fund

This Fund invests in undervalued but good quality Japanese stocks, with a slight bias towards small and medium-sized companies, generating strong potential earnings growth and providing earnings visibility over the long-term. The Fund targets companies that exhibit some form of competitive advantage, such as a technological edge or dominant market share.

Omnis US Equity Leaders Fund

This Fund invests in the shares of larger companies in the United States. It relies on research at both a company and industry level to identify what the fund manager believes will provide the best returns for investors.

Omnis US Smaller Companies Fund

This Fund invests in shares of smaller companies in the United States. It uses research to unearth companies that the fund manager believes have been undervalued by investors, despite having solid business plans, financial flexibility and strong leadership teams.

How to invest in the Omnis Managed Portfolio Service

The Omnis Managed Portfolio Service is available exclusively through financial advisers who are part of the award-winning Openwork Group, one of the UK's largest financial advice businesses which also includes Omnis Investments.

A guide to how the portfolios work is available from your Openwork Financial Adviser or from omnisinvestments.com