

# Omnis European Equity Opportunities Fund



We spoke to the team at Barings Asset Management who recently took over the management of the Omnis European Equity Opportunities Fund.

The Omnis European Equity Opportunities Fund's aim is to achieve a return consisting of both income and capital growth which exceeds the *FTSE World Europe ex UK Total Return index* over a rolling five-year period. The *FTSE World Europe ex UK Total Return index* is the benchmark for the fund and measures the performance of equity shares of leading companies listed in Europe, excluding the UK.

We appointed Barings Asset Management to run the fund in May 2021. The fund has adopted a flexible approach, investing primarily in companies that are perceived to be undervalued relative to their economic potential.

The fund will invest in European equities (shares) with at least 50% being invested in small and medium-sized companies that have a market capitalisation – the total value of a company's shares – of €20 billion or less at the time of the investment.

It is envisaged the fund will be concentrated and hold between 40 and 80 stocks at any given point in time.

## Investment process

The team's investment philosophy reflects their understanding that equity markets are both inefficient and risky. The manager believes inefficiencies are greatest at the individual company level and that, over the long-term, an active manager that carefully selects stocks to invest in can add value through a disciplined approach. Barings' approach focuses on the analysis of individual companies rather than the industry or economic environment (known as a bottom-up approach).

The team follows a 'growth at a reasonable price' (GARP) investment style, which looks to identify companies that are undervalued but show consistent earnings growth. Based on this approach, businesses will need to demonstrate they are sustainable and have financial capacity. They will also have to show their management team is fully aligned to the strategic aims of the business and how they have favourable environmental, social and governance (ESG) characteristics.

The investment team is supported by specialist European investment analysts who follow the same disciplined, bottom-up stock selection process, built on extensive and regular interaction with management teams at the companies they are considering

## Meet the manager

Barings has been in the asset management business since the 1950s. It is wholly owned by MassMutual, a US-based mutual company, and manages over \$345 billion on behalf of clients (as at December 2020). It has a long-term approach to investment management and its philosophy centres on taking advantage of the mispricing of stocks from their fundamental fair values.

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investing in. They evaluate companies over a five-year time horizon to identify those with unrecognised growth opportunities as well as assessing their ESG performance.

The fund is actively managed, which means the managers choose which assets to invest in. When considering a recommendation, the portfolio managers conduct analysis to understand the impact to the characteristics of the portfolio using proprietary models developed by Barings' in-house specialist teams.

## Approach to ESG and engagement

The managers believe ESG factors add value to the portfolio as they can uncover risks not apparent from traditional analysis as well as helping to identify and promote more sustainable business practices and investment opportunities. ESG considerations also provide additional insight into the assessment of a company's potential.

When analysing companies, the managers look for signs of improving or deteriorating ESG standards. As part of the due diligence process each company is evaluated on a range of ESG topics and scored from 'unfavourable' to 'exemplary'. These topics can be grouped into three categories:

- Sustainability of the business model
- Corporate governance credibility
- Hidden risks on the balance sheet

Within these categories are nine sub-categories that companies are assessed on, including employee satisfaction, environmental footprint and business ethics.

The team has regular meetings with companies to discuss strategy and ESG dynamics. Companies are closely monitored for any progress they have made on specific ESG issues the team has engaged them on. As shareholders, Barings use their voting rights to support good practices and to drive change towards more sustainable standards.

## Portfolio snapshot

Since taking over management of the fund, Barings has begun transitioning the portfolio to one they feel matches their investment process. The team has also slightly increased the number of holdings from 43 to 45 and reduced the expected volatility, or risk, of the portfolio. It aims to build a portfolio that has approximately 50 holdings.

One company Barings has added is Swedish outdoor power product manufacturer Husqvarna. The business has industry-leading positions in robotic lawnmowers and electric handheld power tools. The company also offers garden watering products, cutting equipment and diamond tools for the construction and stone industries.



The manager believes that, while the company has been pigeon-holed as a Covid winner, management is driving this business to be structurally higher quality with clear first-mover advantages. Initiatives to drive the efficiency of the group and margin benefits are also supportive of the firm's growth prospects, while its ESG credentials are improving, enhancing the group's competitive advantage.

Barings has also added Netherlands-headquartered mail, parcel and ecommerce business Post NL to the portfolio. The manager's view is that the competitive position and the extensive automation that Post NL has created will enable the company to outgrow the broader market on a consistent basis. The company has also used strong cash flow generation to drive through network improvements and extend its leadership on efficiency, automation and customer service.



It remains undervalued but the shift towards parcel delivery during the pandemic means the company is well-placed for growth. While it has been priced as a business in terminal decline, this is a well-invested service provider that should continue to deliver an earnings surprise and rise in value.

## Outlook

While the investment focus is to invest in companies that meet the team's criteria, macroeconomic factors are incorporated into the team's analysis of companies. The team believes European equities still offer value and should be boosted as lockdown measures across the Continent are eased.

The team favours smaller companies as they offer better growth, governance and more unique opportunities than large-cap companies. While small caps may not enjoy the scale advantages of their larger counterparts, the smaller size grants the asset class an inherent growth potential and performance advantage over the longer term. As small-cap companies are under-researched as an asset class relative to large caps, this means they remain undervalued, providing plenty of opportunity for investors.

Looking ahead, the reopening of economies should lead to a strong recovery in economic activity worldwide. Trade is forecast to recover while investment and private consumption are seen as likely to rebound on pent-up demand and falling unemployment rates. Manufacturing data also suggests that economic activity is returning to normality. In addition, companies have been shoring up their balance sheets during the pandemic and we'll see those that have done well during the pandemic put that capital to good use. Together, these conditions should provide a robust backdrop for investing in smaller companies.

## Why we have selected Barings to manage the fund

As an investor in Omnis funds, we review and monitor our investment managers, making changes where necessary.

Omnis strives to be responsible stewards of our clients' investments within a framework of good governance and transparency, ensuring the best manager is appointed for each fund.

Barings' investment approach is well-suited to meet the fund's objectives and we have high conviction that the team's experience in European equities, particularly their knowledge in the small and mid-cap space, will be beneficial for the fund over the long term.

If you want to learn more about how they manage the fund, please [click here](#) to listen to our podcast.

To discuss this fund in more detail please get in touch with your financial adviser and you can find monthly factsheets and investor literature online [here](#).

[www.omnisinvestments.com](http://www.omnisinvestments.com)

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