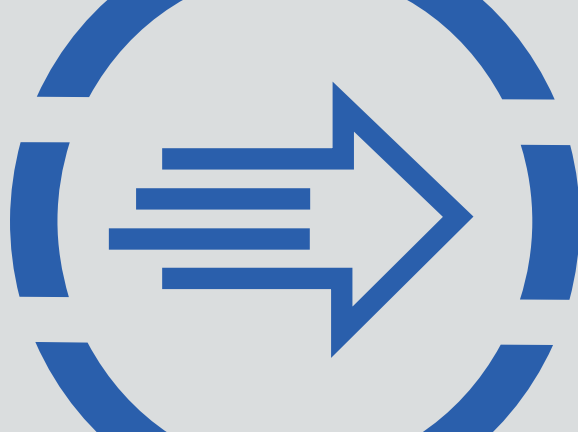


Omnis UK Smaller Companies Fund



We spoke to the team at Franklin Templeton who manage the Omnis UK Smaller Companies Fund. They explained their approach and the growing opportunities for investing in UK small businesses.

The Omnis UK Smaller Companies Fund aims to grow in value by more than the Numis Smaller Companies ex-Investment Trusts TR Index over a five-year rolling period after all fees and costs are deducted. This index is the benchmark for the fund and measures the broad performance of UK smaller companies listed on the London Stock Exchange and the Alternative Investment Market (AIM).

The managers target fast-growing UK companies that are typically valued between £100 million and £1 billion. The fund will invest at least 70% in the equity securities of these smaller UK companies.

The fund seeks to build a relatively concentrated portfolio with overall risk managed through diversification in a mix of high-quality growth companies, undervalued companies and companies with good recovery opportunities.

The fund has delivered a total return of 54%, after all fund charges, since September 2018, when the fund was launched, beating its benchmark, which returned 27% over the same period.¹

Investment process

The team's investment philosophy is to invest in attractively priced companies with strong balance sheets and sustainable cash flows, which are managed with a view to building long-term value for shareholders. The manager takes a long-term view of opportunities, looking beyond the short-term flow of news which can drive market sentiment and lead to a difference between the current share price of a company and its true underlying value.

These market inefficiencies can be particularly severe in smaller companies due to a lack of quality external research and information. Rigorous in-house research is therefore at the heart of the fund's investment process as the manager believes it helps to deliver returns in UK smaller companies.

The team at Franklin Templeton reduces risk by making sure no single company share dominates the fund's investments.

Meet the manager

Franklin Templeton is one of the biggest names in investing. With more than 70 years of experience managing investments, the company is now entrusted with more than £1.2 trillion of assets from clients worldwide. It has more than 1,300 investment professionals and offices in 34 countries, including three in the UK – Edinburgh, London and Leeds.



**FRANKLIN
TEMPLETON**

Typically, they try to keep shareholdings in any individual company between 1% and 5% of the fund's total value. Franklin Templeton also includes environmental, social and governance (ESG) considerations when assessing companies, as it believes these factors are critical to generating sustainable long-term returns.

Franklin Templeton focuses on the analysis of individual stocks rather than on the industry in which the company operates or on the greater economy as a whole (known as a bottom-up approach).

The fund is actively managed, which means the managers can use their expertise and knowledge to select the most attractive investments. They aim to build a concentrated portfolio that holds between 35 and 60 stocks. The fund currently has 43 holdings.

Why smaller companies?

Because of their size, smaller companies tend to have the potential for more growth than larger ones. UK smaller companies tend to receive less attention from research analysts than medium-sized and large business. As such, they are under-researched as an asset class, and therefore frequently undervalued, presenting investors with greater opportunities over the long term.

¹ Source: FE fundinfo – Performance measured from 28 September 2018 to 30 September 2020 on a total return basis.

Smaller companies are often more nimble and versatile, so they are able to adapt more easily to changes. For example, over the past year UK smaller companies performed more strongly during the pandemic than larger firms, which can be more exposed to global economic headwinds. That's why a diversified portfolio comprising companies of different sizes can help reduce volatility and enhance returns over the long term.

Strategic themes

Just over 60% of the holdings in the fund fit into the following four key portfolio strategic themes:

Digital economy

The digital economy is growing rapidly, providing plenty of investment opportunities in small companies that could be about to take off. The pandemic has accelerated digital transformation with companies moving operations online and staff to remote working. Small companies are often the biggest beneficiaries of new technology as they can implement changes quickly and use it to disrupt established industries.

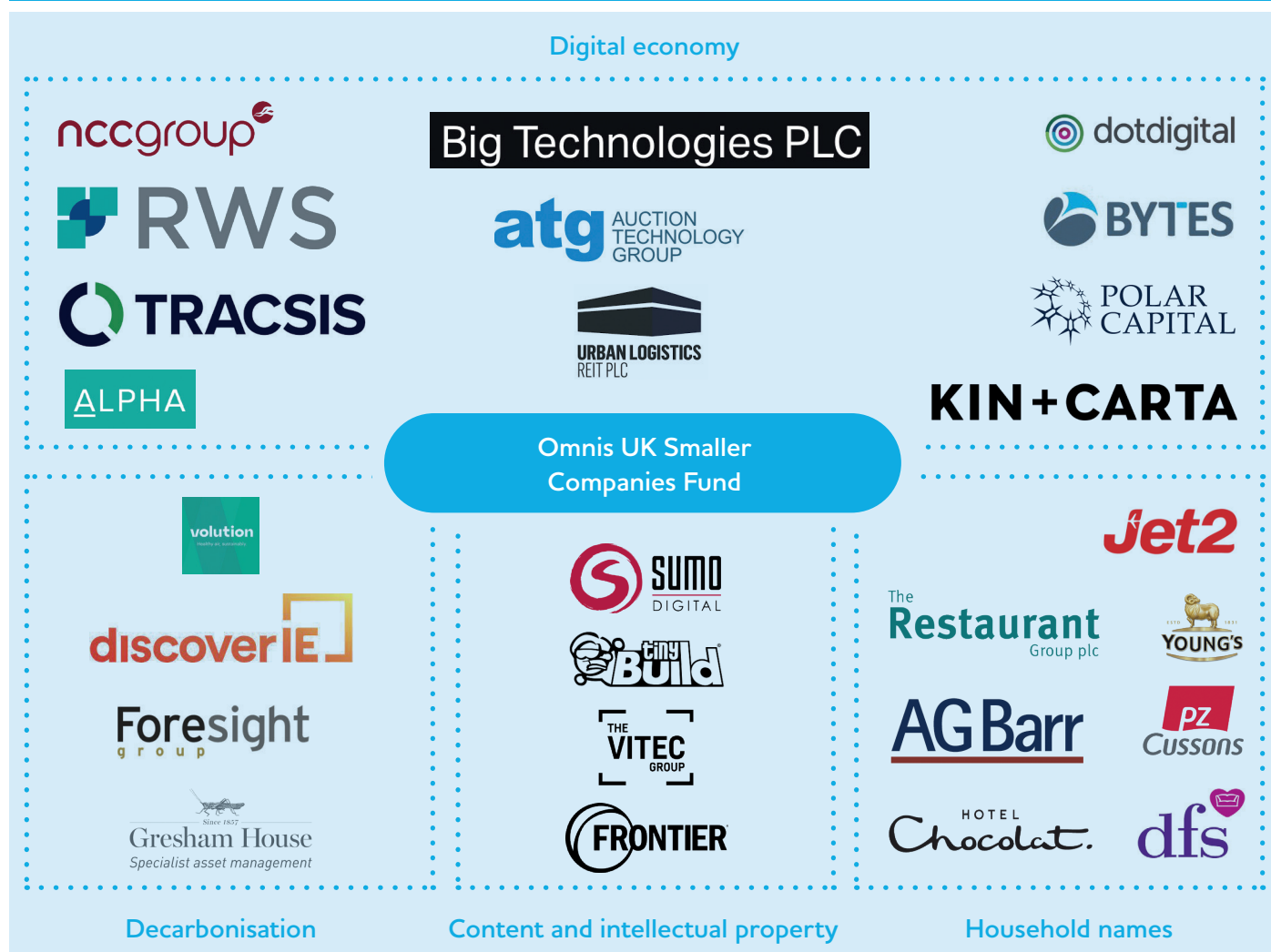
A recent addition to the portfolio is digital transformation business Kin + Carta. The company helps businesses take advantage of digital opportunities so they can find new areas of growth. It has seen a surge in demand from companies looking to improve the digital side of their business since the pandemic began.

Decarbonisation

From wind turbines to solar power, UK smaller companies are at the forefront of developing green technologies that will lower carbon emissions in the future. Low-carbon technology and clean energy are estimated to be worth £42.6 billion a year to the UK economy, with growth expected to accelerate in the coming years.

One of the larger positions in the portfolio is ventilation manufacturer Volution Group. Its profits soared by 68.8% in the year to August 2021 after benefiting from the drive to increase ventilation and fresh airflow in public spaces and homes to prevent the spread of Covid-19. The manager says that new energy regulations means the company is well-positioned to increase its market share.

Portfolio strategic themes and key investment holdings



Household names

Consumer stocks help to bring balance to a portfolio and are benefiting from the post-lockdown economic recovery. Consumer brands from smaller companies are often more easily able to react to changing behaviour and adapt to new market conditions than their larger counterparts.

A company the manager likes in this space is British chocolatier Hotel Chocolat, which has over 100 shops in the UK. At the same time, booming digital sales at home and abroad have helped revenues increase by a fifth and as part of its expansion plan, the company is opening new stores the US and Japan.

Content and intellectual property

The manager also sees long-term opportunities in the UK's blossoming content and intellectual property sectors, which includes creative industries, such as gaming as well as film and television production. The UK has a world-leading games sector, including some of the biggest and most innovative development companies. The manager says that with more people now continuing to play games following last year's lockdowns, there is a clamour for content in the market.

One name that stands out is video game developer and publisher Frontier Developments. The company has capitalised well on the gaming industry boom since the pandemic began with revenue growing 19% to £90.7 million. It is also expanding into mobile gaming has a host of sequels and new releases planned, including Jurassic World Evolution 2 and F1 Racing Simulator.

Why did Omnis pick Franklin Templeton to run these funds?

The team offers a genuine core approach to investing in UK equities and has built a formidable reputation of expertise in medium and smaller company stocks – a real standout feature compared to rival managers in the UK equity sector.

Franklin Templeton believes sustainable investing and a focus on ESG analysis can help deliver stronger investment performance and long-term value to clients. By identifying the ESG indicators that provide material insights not yet captured by the market allows it to target investments it believes are best positioned to deliver sustainable returns for clients.

If you want to learn more about how they manage the fund, please speak to your financial adviser.

www.omnisinvestments.com

Issued by Omnis Investments Limited. This update reflects Omnis and Franklin Templeton views at the time of writing and is subject to change. The document is for informational purposes only and is not investment advice. We recommend you discuss any investment decisions with your financial adviser. Omnis is unable to provide investment advice. Every effort is made to ensure the accuracy of the information but no assurance or warranties are given. Past performance should not be considered as a guide to future performance.

The Omnis Managed Investments ICVC and the Omnis Portfolio Investments ICVC are authorised Investment Companies with Variable Capital. The authorised corporate director of the Omnis Managed Investments ICVC and the Omnis Portfolio Investments ICVC is Omnis Investments Limited (Registered Address: Washington House, Lydiard Fields, Swindon SN5 8UB) which is authorised and regulated by the Financial Conduct Authority.

omnis
INVESTMENTS