

# Omnis Global Bond Fund



We spoke to the team at Western Asset Management who manage the Omnis Global Bond Fund. They explained how they manage the fund and how it can add diversity to your portfolio.

As the name suggests, the Omnis Global Bond Fund is invested in fixed income assets from around the world – which brings some diversification to portfolios. The fund aims to achieve a return consisting of a combination of income and capital growth that exceeds the global bond market (measured using the ICE Bank of America Global Broad Market Total Return Index) over a five-year rolling period after all fees and expenses.

## Why include bonds in portfolios?

A fixed income fund like the Omnis Global Bond Fund is comprised of investments that pay a fixed interest until their maturity dates. Once matured, investors are paid back the principle amount invested.

Examples of fixed income investments are government-issued bonds, corporate-issued bonds and Treasury bills. Treasury bills are similar to bonds but have maturities of up to one year, whereas government bonds have maturities of more than one year.

Fixed income investments are an important part of building a diversified portfolio and are generally viewed as being lower risk than funds investing in stocks. One of the reasons is that if a company becomes insolvent then bondholders take priority over shareholders in the waiting line for any payments that are due. Investing in government bonds issued by developed countries, such as the US and UK, are considered to be risk free.

There's also more certainty over the returns you can expect to receive from a bond if you hold it until maturity because the coupon payments tend to be fixed.

Including bonds in your portfolio can potentially offset any losses when stock markets fall. They can also help generate a regular source of income.

## Western Asset and its investment process

We appointed Western Asset Management Company to run the fund in November 2021. The manager invests primarily in bonds that are perceived to be undervalued relative to their growth potential.

## Meet the manager

Western Asset Management Company is one of the world's leading bond managers and has focused exclusively on bond investing since it was founded in 1971. It is wholly owned by US-based investment manager Franklin Templeton and manages over £358 billion on behalf of clients (as at January 2022). It has more than 130 investment professionals who work in nine offices across five continents.

The company uses a team-based approach across all levels of the organisation. This allows teams around the globe to share investment ideas and collaborate on investment strategy that then feed into the Omnis Global Bond Fund.



The investment philosophy of Western Asset focuses on identifying bonds that are significantly undervalued or mispriced but have the potential to grow in the long term. The manager believes that investing in undervalued bonds can deliver superior investment returns in the long run and reduce volatility (how much the value of your investments in the fund fluctuates).

The investment approach focusses on things affecting the macroeconomic environment, such as economic growth, inflation and interest rates (known as a top-down approach). It is supported by research on individual bonds from regional and sector analysts located around the world.

The fund's dedicated investment team works closely with all of its regional and sector teams to ensure that the best ideas from the analysts are used in the fund. This analysis includes an assessment of environmental, social and governance (ESG) factors that Western Asset believes can affect the creditworthiness of bond issuers.

By investing in high-quality bonds that are undervalued or mispriced, investors get them relatively cheap and can potentially see strong growth in the future. The fund is actively managed, which means the managers use their expertise to choose each and every investment they make in order to achieve the fund's objective.

### Approach to ESG and engagement

The manager believes ESG factors and how they are managed can affect the risk and return profile of investments. Investment professionals at Western Asset consider a wide range of macroeconomic and geopolitical factors when assessing a company's ESG performance and outlook before investing in the bond.

They evaluate a company's ESG credentials by taking an in-depth look at its track record, strategy and priorities. Some of the ESG factors it looks at during the assessment include climate change, consumer protection policies and board diversity and structure. As part of this comprehensive research process, analysts also engage with these companies to more deeply examine areas of interest and concern to help drive change at these organisations.

Investments that do not meet Western Asset's ESG standards are treated as having higher risk, as the future ability to pay the interest on the bonds may be affected by developments such as legal sanctions, new regulations or shifts in consumer sentiment.

### Market outlook

Covid-19 will continue to remain a challenge for the global economy, with the pace of growth slowing as the year goes on. Inflation has been higher than central banks thought it would be as the global economy recovers from the pandemic. While inflation remains challenging, the team believe it will fall substantially during the year as supply bottlenecks ease and trade improves. It is unlikely that commodity prices or input costs will double again as they did in 2021. Ultimately, people will not want to keep paying higher prices and demand will likely soften as a result.

The team expect the US Federal Reserve and other central banks to withdraw their monetary support, cutting back on their bond-buying programmes as they look to bring inflation under control. While central banks will likely increase interest rates this year, these rises are already expected by the market. Western Asset therefore believes rate hikes will be cautious to ensure global growth continues. There should be a continued recovery of reopening sectors, which bodes well for the performance of corporate bonds.

### Current positioning

The team believes that the higher yielding non-government bonds will outperform government bonds in 2022. It favours corporate bonds (bonds issued by companies), which it says offer good return potential. The manager remains positive on investment grade bonds (high-quality company bonds). This is because many companies have been effective in managing their cash and balance sheets over recent years and have raised capital despite the pandemic.

Regionally, the team favours investing in the US, where it sees better value over Europe, the UK and Japan. The team believes that after the removal of restrictions and vaccine rollout the eurozone growth will likely be quite strong this year, while inflation is edging back up. This could pose a risk to European government bonds.

It also thinks emerging markets have a lot of potential opportunity and should provide the strongest returns this year. The slow rollout of the vaccines in 2021 in emerging markets meant they were behind developed countries in reopening their economies, but growth should pick up this year. While the price of emerging market bonds has fallen over the past year, the team feels it is an undervalued sector that should recover.

### Why we selected Western Asset

We appointed Western Asset to run the fund in November 2021. The firm has a good long-term track record investing in global bond markets. A large part of this success is down to the highly experienced investors in the company who collaborate with each other to share ideas and resources.

The fund is run by co-head of global portfolios Gordon Brown and portfolio manager Richard Booth, who both have over 25 years of investment experience. They are supported by Western Asset's broader investment teams, which includes portfolio managers, economists, research analysts, traders and quantitative analysts.

Western Asset has managed global fixed income portfolios for over 25 years, outperforming the broader market through both positive and negative periods for markets.

*If you want to learn more about how they manage the fund, please speak to your financial adviser or visit our [website](#).*

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