

# Omnis Portfolio Funds

## Investment manager reports

For the 12-month period ending 30 September 2022



We explain how the global economy and financial markets have evolved over the past 12 months, with individual comments about fund performance from the managers responsible for each strategy.

### View from the Omnis investment team

Robert Jeffree  
Chief Investment Officer  
at Omnis Investments



Over the past 12 months, we have navigated an ever-changing macroeconomic and market environment. Following a pickup in economic growth in Spring 2021 as Covid-19 vaccines paved the way for economic reopening, we saw inflation pick up sharply, initially due to a backlog of supply chain disruptions, and from Q1 2022, due to the ongoing war in Ukraine driving energy and food prices higher. Over the review period the Bank of England and the US Federal Reserve began raising interest rates to combat inflation.

Just prior to the review period, in September 2021, financial markets were rocked by the news that Chinese property developer Evergrande would likely default on its interest payments to bond holders. The S&P 500 dropped more than 4% over the month, the worst drop in over a year. The UK's economic rebound continued on its slowdown trajectory, with attention turned to the effects of Brexit on the economy. Such was the volatile backdrop to markets and economies as we entered the period under review.

Volatility in markets continued in October 2021 as a global shortage of natural gas supplies impacted on energy and fuel price across the world. Despite this volatility, markets enjoyed some of their best days since July 2021. October also saw the Bank of England warning that the global rise in inflation could slow the UK's economic recovery.

Markets rallied for most of November despite inflation remaining high and the economic recovery slowing down, but still in expansion. However, this market trend was short-lived as towards the end of the month, Omicron, a new variant of the coronavirus spooked markets across the world.

The Omicron variant caused markets to experience a period of volatility, which lasted well into December. Despite this, most global equity markets ended 2021 with solid gains. The UK's inflation rate surged prompting the Bank of England to raise interest rates and the US Federal Reserve (Fed) decided to accelerate the tapering of its bond-buying programme sooner than expected.

Markets reversed in 2022 due to concerns that the Fed would increase interest rates more aggressively to control inflation in 2022 and investors began to worry that such an aggressive interest rate hike cycle could choke global growth.

On 24 February 2022, Russia initiated an invasion of Ukraine. A wholesale Russian invasion of Ukraine takes us back to a world we thought we had left behind decades ago. From a social and political perspective, the impact will be huge. From an investment perspective, sentiment was rocked causing an increase in volatility that has persisted for much of this year. The resulting rise in energy prices, has proved to become yet another headwind for economic growth around the world.

Ahead of the invasion, Omnis had become concerned about the prospect of sanctions and capital controls on Russia, which could limit our investment managers' ability to sell holdings in the region if necessary. We had exposure to a small number of Russian and Ukrainian holdings in our funds. As such, Omnis Investments, as Authorised Corporate Director (ACD) of its funds, reviewed this exposure to Russia and Ukraine and decided to take action to ensure investors were not exposed to the risk of sanctions or capital controls. Omnis instructed its investment managers to sell their Russian and Ukrainian holdings immediately, and all holdings were sold before military activity picked up and before any sanctions were imposed. As such, within the funds in the Omnis Portfolio Investments ICVC, there is no direct exposure to Russia or Ukraine and an embargo into investing in the region will remain in place further notice.

Stock markets were volatile in March, as oil and gas prices continued to soar with Brent crude at one point reaching \$139 a barrel. The International Monetary Fund (IMF) and World Bank warned that increasing commodity prices are likely to fuel inflation for some time. Concerns that the world economy could suffer a period of stagflation – surging consumer prices combined with weak economic growth – also became more prevalent.

April brought further economic effects from the war in Ukraine, as rising inflation prompted the IMF to cut its forecast for global economic growth for the rest of 2022 and 2023. US and European stock markets fluctuated during the month as investor concerns once again revolved around central banks and their measures to tame rising inflation by increasing interest rates.

Markets continued to be unsettled in May amid fears of an economic downturn and potential recessions. There was a continuation of energy and food supply issues caused in part by the war in Ukraine and supply chain disruption in China, which was and is still mired in zero-Covid policies. Recession fears also affected financial markets, with rising inflation and supply chain problems driving up the cost of living and putting pressure on company profits. In May, the Fed raised its benchmark interest rate by 0.5% points for the first time since 2000 and revealed plans to shrink its \$9 trillion balance sheet in an effort to tackle high inflation.

At its June meeting, the Fed announced the largest hike in interest rates since 1994, raising the rate by 0.75 percentage points to 1.5%. Stock markets in the run-up to the Fed's decision fell in June, as concerns mounted over the likely rise in rates in a more aggressive move to tackle surging inflation.

In July, markets however rallied as investors looked to balance their assessment of the risk of a global slowdown with the prospect that central banks might scale back their plans for interest rate rises. A strong US employment report for June and strong consumer spending eased recession fears slightly. But US inflation figures for June came in higher than expected at 9.1%, putting a further focus on the Fed, which raised interest rates by a further 0.75 percentage points, the second such hike in as many months. There was some positive news in the UK, as figures showed economic growth of 0.5% for the economy in May after two consecutive months of contraction. The news followed a Bank of England financial stability report stating that global economic conditions had worsened due to rising inflation. The inflation rate in the Euro area rose to 8.6% in June, prompting the European Central Bank to raise interest rates for the first time since 2011, taking it from a negative rate of -0.5% to zero. The European Commission also cut its growth expectations and increased its inflation forecast for the region.

The market rally continued into August, with investors contemplating the next moves from major central banks in their efforts to tame inflation, but at the same time spare their economies severe knock-on effects. Investors reacted positively to a strong jobs report from the US. The news also strengthened speculation that the Fed could slow the pace of interest rate rises. However, markets dipped towards the end of August in the wake of central bankers warning investors to prepare for a more sustained period of rate rises. The Bank of England raised interest rates in August by 0.5 percentage points, taking the rate to 1.75%. It had been the biggest rate rise in 27 years, and the Bank said it hoped these rate rises would help combat rising inflation, which it believed would remain at double digits for the remainder of the year. Britain's GDP contracted in the second quarter by 0.1%.

September started with a jolt for gas prices in Europe, which rose by over a third in the wholesale markets after Russia abruptly announced it would be suspending supplies through the Nord Stream 1 pipeline. The World Bank issued a warning during the month that a global recession may be getting closer as central banks continue to fight rising inflation by raising interest rates. Liz Truss became the new Prime Minister of the UK and announced a relief package of £150 billion in an effort to help UK households deal with the rising energy costs coming this winter. Chancellor of the Exchequer Kwasi Kwarteng announced an emergency fiscal statement that focused on boosting the UK's economy. In response, the pound plunged to its weakest level against the dollar for decades due to the uncertainty surrounding the UK's economic outlook following the government's new fiscal plans. In an unusual step, The Bank of England stepped in to announce that it would start buying long-dated government bonds to calm markets and protect pension funds. The pound did however recover within a week of the fiscal statement, even before the Chancellor U-turned on one of the tax cuts announced.

What has perhaps characterised this year was the lack of diversification that bonds have provided in this equity market sell-off. During the period, global equities (as defined by MSCI All Countries World Index) fell 17.7% and UK gilts (as defined by ICE BofA UK Gilt Index) had fallen 26.0%.\* In the past 69 years, there have only been 9 calendar years where stocks and bonds had fallen simultaneously. Higher and more persistent inflation, because of the war in Ukraine, has led to central banks having to raise interest rates. Expectations for higher interest rates has led to bond yields rising (and bond prices to fall). This unusual environment in which central banks are raising interest rates into an already slowing economic environment has made equity market investors concerned about the additional economic damage that these higher rates may cause.

\*Source: FE fundinfo

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## Investment outlook

It has become clear that global growth has peaked and whilst inflation remains elevated, we believe that we are at or approaching peak inflation levels, which will take the pressure off central banks to continue raising interest rates aggressively. We believe interest rates will continue rising but the pace of rate hikes will begin to slow down from here. Any dispersion in approaches between global central banks will continue to have an impact on currencies. The market is expecting interest rates in the US to peak above those in the UK for example, which has led to USD strength this year.

The political landscape will also continue to influence markets. Political instability in the UK had caused market turmoil towards the end of the reporting period and the subsequent appointment of Rishi Sunak as Prime Minister (after the review period had ended) and his approach to fiscal discipline appears to have calmed markets down, though it is yet unknown what the impact of his fiscal policies will have on an already slowing economy. In the US, midterm elections will be in focus, and in China, the government's strict zero-Covid policies will come under pressure, as the country's economic growth continues to falter.

We have experienced significant market volatility this year and we expect volatility to continue over the short term. We believe many earnings forecasts have failed to fully account for the worsening economic outlook, and that equity markets could have further to fall. Despite the poor performance from government bonds this year, we believe that at current yields we can expect bonds to deliver protection for diversified portfolios as we navigate a global recession over the next 12 to 24 months.

Of course, whilst we are likely to experience more challenging periods in the short term, it is important to separate out the economic environment from investment opportunities. Our funds are actively managed by our specialist investment managers who continue to search for investment opportunities regardless of the more challenging economic environment. As we look further ahead, whilst we have become more cautious on the global outlook, our managers continue to find interesting investment opportunities.

## Views from Baring Asset Management

Investment manager of the  
Omnis European Equity  
Opportunities Fund

**BARINGS**

European indices started the period positively, before suffering significant selling in the first quarter of 2022 in response to Russia's invasion of Ukraine. The asset class remained under pressure throughout the period as sharply higher headline inflation and fears of an economic slowdown prompted further selling.

This created a highly volatile market backdrop, with equity markets that were subject to sharp, top-down driven moves in indices, resulting in marked underperformance by companies with higher quality characteristics (such as high return on equity, low debt to equity and strong historic earnings growth). In addition, companies' positive earnings revisions did not drive share price performance.

The portfolio's structural tilt to Growth and Quality characteristics, provided less downside protection in a falling market than is normally the case. Stock selection had a negative impact on relative performance, despite positive earnings revisions. Energy and Defence sector companies in the benchmark, while not held on ESG and Quality grounds, performed very strongly, despite weak profitability.

Over the medium term, we expect earnings revisions to be a key driver of share price performance. In this context, we continue to follow our quality Growth at a Reasonable Price (GARP) investment approach. We prioritise well-established business franchises, proven management, strong balance sheets and good Environmental, Social and Governance (ESG) credentials. We focus our research on identifying companies with these higher quality characteristics whose strategic vision is credibly designed to build on these innate strengths and further improve their profitability and growth.

Examples of companies added to the portfolio over the period include Edenred, a leading provider of employee benefits solutions and fleet management activities. We also purchased payments processor Worldline, as weakness year to date provided an attractive entry point for a business that is set to benefit over the medium term as consumers continue to switch from cash to card payments, whilst opportunities exist for further consolidation in the European market. In the Netherlands, we purchased shares in Wolters Kluwer, a leading global provider of information services across the health, accounting, tax and legal professions. Finally, we added Dutch insurer ASR and French insurer Axa to the portfolio, as both companies should be relatively well insulated from cost inflation and are well placed going into a tougher economic cycle.

In terms of stock performance over the period, GTT, a French company specialising in systems that transport and store liquefied natural gas, was one of the fund's top contributors to relative returns. The geopolitical situation is creating a focus on greater energy independence, which in turn has had a positive impact on the company's order book. Danish pharmaceutical company Novo Nordisk also outperformed, caused in part by strong quarterly earnings momentum.

In contrast, medical technology company Getinge underperformed as component supply issues continue to affect production and hospital spending budgets remain under pressure, while the outlook for demand for products addressing acute Covid-19 hospitalizations remains uncertain. This holding was sold over the period. Jewellery company Pandora also detracted from relative performance, largely due to macroeconomic concerns as consumer confidence has declined amidst fears of a cost-of-living squeeze while forecasts of economic growth are being cut. However, Pandora is relatively well positioned going into this downturn and the tougher economic environment may actually present opportunities to capture market share from competitors, whilst valuations remain attractive.

## Views from Western Asset Management

Investment manager of the  
Omnis Global Bond Fund



Fixed income assets traded in a wide range during the period. Markets battled with the emergence of a new Covid variant, an escalation of geopolitical tensions between Russia and Ukraine and rapidly accelerating inflation across the developed world.

The period began with the discovery of the Omicron Covid variant in Q421. This caused significant volatility in fixed income markets. This was followed by Russia launching a full-scale invasion of Ukraine in February 2022. This sent shockwaves through financial markets, prompting a flight to safety with risk assets selling off and government bond yields falling. A number of United Nations (UN) countries announced a broad range of sanctions limiting Russian activities overseas, including Russia's participation in global financial markets. Moody's, S&P and Fitch all downgraded local Russian sovereign debt to junk and Russia was removed from global bond indices. Energy and other commodity prices rose sharply.

Throughout 2022 year-to-date, inflation has been the dominant theme, reaching record highs in a number of developed market economies. This has prompted aggressive action from central banks such as the Federal Reserve, European Central Bank and the Bank of England, among others, who have all hiked policy interest rates sharply. As a result, global government bond yields rose sharply as markets priced-in accelerated monetary policy tightening schedules and higher peak policy rates. However, more recently concerns have turned to the risk of a monetary policy-induced recession with an increasing number of economic data points deteriorating. As a result, global government bond yield curves flattened. Towards the end of Q3 2022, UK assets in particular, underperformed as markets reacted aggressively to the government's new fiscal stimulus package announcement. The speed and magnitude of the selloff triggered significant collateral calls on UK pension fund LDI (Liability Driven Investments) hedges and prompted emergency intervention by the BoE to maintain financial stability.

The fund held an overweight to US, UK, Australian and Canadian duration during the period, in particular during 2022. This detracted from relative returns as yields rose (and bond prices fell). An underweight to core European duration offered some respite and was additive to returns. We increased the underweight position to Japanese duration on several occasions, and added to core European and UK duration throughout the period. The portfolio also tactically traded US yield curve positioning, while maintaining a yield curve flattening bias.

Geopolitical tensions, inflation concerns, and higher developed market (DM) government bond yields pushed local emerging market (EM) government bond yields higher. Emerging market central banks continued their aggressive monetary policy hiking cycles. In China, a strict Covid policy and concerns over the property market have led to a weakening of leading economic activity indicators.

Macroeconomic volatility weighed heavily on spread product performance. Hard currency emerging market bonds and corporate bonds underperformed as spreads widened materially. US Agency MBS spreads widened with diminishing support from the Federal Reserve. An overweight to local (Mexico, Russia) and hard currency emerging market government bonds detracted from returns in the fund, whereas an underweight position to US agency MBS contributed to performance. The fund sold all Russia-related exposure on 15 February 2022. A short US inflation swaps position added value as inflation expectations moderated during 2022. In September, the portfolio purchased long UK inflation-linked Gilts.

The US dollar strengthened as the Federal Reserve aggressively tightened monetary policy and as global growth concerns mounted. Currency positioning was a drag on performance, as the US dollar strengthened. Underweight positions in the Australian dollar and the pound provided useful diversification and contributed to returns. During the period, the portfolio tactically traded the Japanese yen, switching from short to long, and tactically traded the Chinese renminbi and the pound, switching from long to short during the period.

**Views from FIL Pensions  
Management (sub-delegated  
to FIL Investment  
Management Singapore)**

Investment manager of the  
Omnis Global Emerging Markets  
Equity Leaders Fund



The portfolio underperformed the benchmark as Emerging market equities fell over the review period. A confluence of issues, including higher inflation and the subsequent central bank response, Covid-19 related lockdowns in China, the war in Ukraine and broader geopolitical tensions, as well as a protracted regulatory overhang weighed on the asset class. A decent earnings season and vaccination progress provided some respite to markets at the start of the period, but the emergence of the Omicron variant of Covid-19 towards the end of 2021 kept markets in check. Risk aversion was further fuelled by Russia's invasion of Ukraine in late February 2022. As a result, the West announced a series of increasingly severe sanctions against Russian businesses and individuals, including freezing the assets of Russia's central bank to prevent it from using its foreign currency reserves. Elsewhere, the US Federal Reserve has been raising borrowing costs since March 2022 in an effort to ease price inflation. Fears are rising that these moves will tip the US into recession, which will likely lead to a slowdown in global economic growth.

From a sector perspective, stock selection in consumer discretionary and consumer staples detracted from performance. Conversely, the lack of exposure to health care names added relative value and the overweight stance in industries also contributed to performance. At a stock level, selected holdings in China underperformed. The position in clothing manufacturer Shenzhou International Group declined as investors remained wary of near-term Covid-19 impact on its operations and the slow production capacity recovery in Vietnam. The position in power tool supplier Techtronic Industries also detracted from returns amid headwinds from Covid-19 shutdowns, logistics issues, electricity outages, and input cost hikes. Nevertheless, there is still a good outlook ahead for the company with support from its leading position, a strong brand portfolio and its focus on the development of innovative technology to drive sustainable growth. In consumer discretionary, Zhongsheng Group, the biggest automobile dealer in China, emerged as a notable detractor from returns despite posting much better half year results than its peers as the investors were fearful about new car margin decline.

On a positive note, our conviction holdings in regional financials contributed positively to the relative performance. The position in Bank Central Asia advanced over the period. The bank was aided by exceptionally good quarterly results backed by strong loan growth across customer segments, which exceeded market expectations. The bank is also well positioned to benefit from the economic recovery in Indonesia, rising interest rate environment, and high commodity exposure which is expected to improve asset quality. India-based two-wheeler manufacturer Eicher Motors was another notable contributor. It is a market leader in the underpenetrated premium motorcycle segment, which continues to benefit from 'premiumisation' with very low risk of electrification.

IT remains our largest sector overweight, though we have reduced our allocation to the sector over last few months. We sold the position in India-based service provider Tata Consultancy Services amid lower demand and an expensive valuation. However, we continue to add hardware industry leaders such as TSMC and SK Hynix. We believe these companies are well ingrained into global technology supply chains and will continue to benefit from the long-term structural shift towards high-end computing products, electric vehicles and artificial intelligence. In India, we have initiated a new position in ICICI Bank and scaled up the allocation in Axis Bank. Both these Indian banks have strong operational metrics along with optimistic medium-term growth visibility. Also, rising interest rates should help increase their NIMs (Net Interest Margin) and ROE (Return on Equity).

## Views from Somerset Capital Management

Investment manager of the  
Omnis Global Emerging Markets  
Equity Opportunities Fund

**SOMERSET**  
CAPITAL MANAGEMENT LLP

Markets continued their downward trend as global inflationary factors persisted, interest rates rose, and the US looked increasingly likely to enter a recession.

In China, businesses continue to struggle with lockdowns. There has still been little sign of improvement in economic data, and while an end to China's zero-Covid policy remains likely at some point, the timing is far from predictable. Financial stress in the large and overextended property development sector is also acting as a headwind to growth.

However, continuing weakness in the Chinese stock market is improving its risk-reward profile for equity investors. China still offers areas of strong long-term growth and high-quality companies that benefit from structural trends, including the shift to electric vehicles, and is now a more attractively priced market. We do not believe now is the right time to reduce exposure to China.

Exposure to Brazil was the largest positive contributor to relative performance over the period. Almost uniquely among global currencies, the Brazilian Real has strengthened against the US dollar this year, reflecting the fact that the Real was already cheap.

Elsewhere, the Asian technology sector remained weak as it suffered from demand that is declining from super-normal levels, driven partly by Covid-related stay-at-home stimulus-funded spending on electronics. Inventories are elevated across the semiconductor industry owing to overordering at the peak of the cycle and will take time to digest. However, valuations have decreased since the start of the year, the MSCI EM Information Technology Index has de-rated from 2.9x Price/Book to 1.8x (a 40% correction). We think it is too early to add to this area but are monitoring valuations and industry conditions.

Key changes to the portfolio over the period included the sales of Alibaba, Converge ICT, Sea Ltd and Wizz Air. Alibaba, although cheap, faces rising regulatory risk and falling market share. We replaced it with JD.com, another Chinese e-commerce platform which benefits from better growth prospects and a greater focus on shareholders. Converge ICT was suffering from increased competition from the state-owned incumbents in the Philippines broadband market.

We initiated a position in Milkyway, which provides warehousing for hazardous chemicals in China, where the industry is characterised by structural undersupply due to regulatory barriers to entry. We also bought Mega Lifesciences, a growing branded Over the Counter and generic drug business with pan-Asian operations, and Porto Seguro, the most profitable auto insurer in Brazil. Both are highly cash-generative and were acquired at reasonable valuations.



## Views from Jupiter Asset Management

Investment manager of the  
Omnis Income & Growth Fund



The period under review was dominated by worries over rising inflation and interest rates. Furthermore, the Russian invasion of Ukraine caused an immense economic shock. The sharp rises in raw material prices caused by the banning of Russian supply led to further economic worries. The optimism at the start of the period was replaced by a worry over the size and duration of a global recession caused by high inflation and rising interest rates. This was further exacerbated by significant economic uncertainty in the UK following a change in the leadership of the Conservative party. The patterns of performance were mixed with lowly valued shares benefiting from a rise in interest rates but this being replaced with widespread risk aversion following the Russian invasion.

Valuation dispersion between the most highly valued and lowly valued shares still remains very elevated with regard to history. Having reached the highest level of dispersion in nearly 50 years in August 2020, dispersion still remains in the 96th percentile notwithstanding some strong returns to value over the last two years. This level of dispersion is very unusual over the long run and gives us optimism about future returns as this gap closes. The timing of this is unpredictable but would be a tailwind for our style of investing compared to the headwind faced for much of the last decade.

Over the period, these were the top five purchases for the fund:

- **Barclays:** The company is valued at 0.5x tangible book value which we think is too low for a business that can generate 10%+ Return on Equity (ROE).
- **HSBC:** The business has a very strong franchise in Asia which is very out of favour at the moment.
- **Intel:** The business has lost its manufacturing lead to Taiwan Semiconductor Manufacturing Company (TSMC) and is dealing with a downturn in PC demand. As a result, the shares of the company have become very out of favour. We believe that the new management can restore the business, which could lead to significant upside to compensate for the risk.
- **Continental:** The business has a very strong tyre franchise which is currently under pressure from cost inflation in raw materials. In time they will be able to recover these costs. The shares are very lowly valued.
- **Centrica:** The business has had a difficult few years. The balance sheet is now strong and as one of the survivors in retail energy supply they should make an adequate distribution margin. Previously the industry had been loss making. The concerns around the industry mean this is not reflected in the valuation.

Over the same period, these were the top five sales for the fund:

- **Capita:** We sold our position for better ideas rather than add to the position. The investment has not been successful.
- **BT:** We reduced our position size following strong performance at the start of the year following the purchase of a stake in the business by a French billionaire.
- **BAE systems:** We reduced our position size following strong performance.
- **Kingfisher:** We reduced our position size in favour of other opportunities.
- **Block H &R:** We reduced our position size following strong performance.

On a stock specific basis the biggest contributors came from companies where the unexpected occurred. When this is combined with a low valuation there is the potential for strong appreciation. BAE, the UK's largest defence company, performed very strongly following the Russian invasion. Defence companies were lowly valued prior to this due in part to "exclusion" based investing leading to little interest in the companies. Sadly, the ability to defend the western world is always likely to be necessary. H&R Block performed very strongly as the US's leading assisted tax filing business showed some continuing growth when the starting valuation was pointing to a decline in the business over the medium term.



ITV and Easyjet were among the biggest detractors as the stock market took a very dim view of the medium-term prospects of the businesses. ITV is investing in its on-demand service, ITVX, which is depressing near term profits but is vital to the long-term health of the business. Worries over the outlook for both the on-demand business and advertising expenditure led to a sharp fall in the share price. Easyjet had a poor operational performance over the summer and with worries over reduced consumer spending the shares fell sharply. Both companies now trade on very depressed valuations. For example, ITV trades on just 5x the ten-year average earnings which is a valuation normally associated with a business in exceptional distress. It is worth noting that ITV had its best ever year for advertising last year, the balance sheet is in its best position for seven years and the pension deficit funding is nearly finished.

## Views from Schroder Investment Management

Investment manager of the  
Omnis Japanese Equity Fund

## Schroders

A combination of stock market weakness and yen weakness against the pound pushed returns down over the period. Market leadership has changed several times during the period but, overall, investors have tended to focus on the profit outlook and valuations for individual stocks, which has helped to support the fund's performance.

Aside from the invasion of Ukraine, equity markets were focused primarily on the US inflation outlook and its impact on interest rates. As concerns subsequently grew over the possibility of rising rates tipping the US economy into recession, Japan remained a significant outlier as the chance of any substantive change in its monetary policy receded still further. This virtually guaranteed a growing interest rate differential between Japan and the US, which has been a major factor in the sharp and ongoing yen weakness in 2022.

Market events in Japan were then overshadowed by the shocking assassination of former Prime Minister Shinzo Abe on 8 July. Mr Abe, who resigned in August 2020 as Japan's longest serving prime minister, was shot while delivering a campaign speech in Nara, two days ahead of nationwide Upper House elections. Although Japan has had two Prime Ministers since Mr Abe, he remained a hugely influential figure within the ruling Liberal Democratic Party (LDP) and his absence will alter the internal dynamics of the party. In the immediate aftermath, however, the resulting strong support shown for the LDP in the Upper House elections solidified the position of current Prime Minister Kishida and improved political stability.

By August, Investors were generally becoming more optimistic over some early signs, or hope, that US inflation may soon be approaching its peak. Conversely, but equally encouraging, were signs that Japanese inflation may be becoming entrenched at a moderate, but sustainable rate, after decades of deflation. The Bank of Japan may be the one major central bank that is happy to see some external upward pressure on inflation.

The first estimate of GDP growth for the second quarter was also released in August. The quarter-on-quarter annualised rate of 2.2% was slightly below consensus expectations but the detailed breakdown was interpreted more positively with some resilience in consumption and capital expenditure. The GDP figure itself was subsequently revised up but, compared to expectations at the beginning of the year, it is clear that Japan's domestic economic recovery has been slower than expected. There are some external factors behind this, including the Shanghai lockdowns, but consumption and mobility data has clearly weakened around each successive wave of Covid infections in Japan. Despite consistently lower infection and mortality rates than other developed countries, there are persistent concerns over hospital capacity and a relatively high level of risk aversion in Japan.

Aside from macro data, the main influence on individual stocks has come from a succession of positive surprises from corporate results announcements. Although profit momentum has inevitably slowed somewhat recently, profit margins appear to have remained resilient so far, despite increasing cost pressures. With many companies having made conservative forecasts for this fiscal year, there is scope for upward revisions in the coming months.

Although global factors have produced a volatile market background over the past 12 months, the portfolio has generally benefited from strong gains from stock selection. For the full 12 months, the strongest individual contributions have come from relatively defensive stocks such as NTT, a major telecom service provider and Tokio Marine Holdings, one of Japan's largest insurers.

The largest offsetting negative came from Daiichi Sankyo, a pharmaceutical supplier. This stock is not held in the portfolio but outperformed over the period, creating a negative impact on relative performance. Among stocks held, the largest negative contribution came from Ibiden, a ceramics producer specialised in packaging for integrated circuits, which underperformed in line with the general weakness in technology stocks.

During the year we added several new positions, especially in some smaller cap stocks where we see attractive valuations and the potential for long-term growth. For example, Miura is a small cap boiler maker, whose recent quarterly results showed strong domestic business, while maintenance revenue continued to rise ahead of expectations. Overseas boiler sales were also strong, except for China, where the recovery has lagged expectations slightly. At

a recent meeting with management, we felt the commitment to an ROE (Return on Equity) target above 10% is stronger than before and we also anticipate improvement in shareholder remuneration policy in the future. The company also indicated that ESG (Environmental, Social and Governance) disclosures will be enhanced in future and potentially some carbon reduction target could be announced which we believe would be regarded as a positive move.

We also recently added a position in Intage, a leading marketing research company in Japan that has strong competitiveness in consumer panel research. The company is benefiting from increasing demand from corporate clients looking to identify changes in consumer behaviours after the Covid-19 pandemic. However, valuations have been left at a relatively low level, mainly due to its small-cap status, but Intage is now experiencing pressure from activist investors to improve their conservative capital policy. As a result, we already saw signs of improvement in their shareholder remuneration, including share buyback announcements, that should also lead to the further revaluation.

## Views from AXA Investment Managers UK

Investment manager of the  
Omnis Short-Dated Bond Fund



Investment  
Managers

Due to expensive valuations, persistently elevated inflation, a hawkish US Federal Reserve (Fed) and Omicron-related uncertainties, we continued to de-risk the portfolio in the fourth quarter of 2021. As such, we further increased our overall exposure to sovereign debt by as we switched out of nominal bonds into inflation-linked bonds (US, Germany, France), to benefit from supportive inflation indexation over the next couple of quarters. Elsewhere, we continued to reduce our exposure to high yield and emerging markets, by mainly reducing US high-yield due to expensive valuations and less supportive technical factors as the Fed was expected to start tapering quantitative easing and subsequently raise interest rates. Our exposure to investment grade markets was broadly stable during the fourth quarter. Therefore, the portfolio ended the quarter significantly underweight risk versus its neutral allocation with high cash and sovereign debt positions. The average portfolio credit rating moved to A- from BBB+. At a sector level, we also continued to de-risk, reducing our exposure to cyclical names. The duration (measure of the sensitivity of investments to a change in interest rates) of the portfolio remained close to one year during the fourth quarter as we feared that an increasingly hawkish Fed and persistent inflationary pressures would lead to higher yields.

The de-risking and our very low duration at only one year at the start of 2022 allowed us to not only limit the negative impact from the broad market weakness but also to give us room to re-risk the portfolio over the course of 2022 to benefit from much more attractive valuations as yields rose and credit spreads widened. As such, our overall sovereign exposure fell as we reduced our allocation to nominal sovereign debt and took profit on our French inflation-linked bonds in March while adding to UK ones in May. We retained exposure to US, German, and UK inflation-linked bonds at the end of the review period to benefit from still-supportive inflation indexation. Towards the end of September 2022, we bought some short-dated UK gilts following the significant spike in yields caused by the 'mini-Budget'. We also increased our exposure to investment grade markets, focusing particularly on the sterling credit market due to very attractive spread and yield valuations. An increase in our exposure to high-yield and emerging markets focused particularly on European high-yield which significantly underperformed due to its proximity to the war in Ukraine. Most of the increase was done through the secondary market as issuance remained very scarce from February onwards.

The portfolio ended the review period slightly underweight risk versus its neutral allocation as being overweight cash and sovereign debt, underweight investment grade credit and overweight high-yield and emerging market. The average portfolio credit rating fell to BBB from A-. At a sector level, we increased our exposure to financials as they should directly benefit from higher yields and increased our exposure to defensive and cyclical sectors respectively. The duration was very actively managed throughout the period to benefit from the high level of interest rate volatility.

## Views from Threadneedle Asset Management

Investment manager of the  
Omnis Sterling Corporate Bond Fund



As measured by the fund's benchmark, sterling investment-grade (IG) corporate bonds suffered heavy losses in total-return terms over the 12 months under review. A sharp rise in underlying UK government bond (or gilt) yields was compounded by a significant widening in credit spreads (the difference in yields offered by corporate bonds versus those available on similarly dated 'risk-free' government bonds). The fund also fell heavily in value over the period, though it held up a little better than the index on a gross basis. The main determinant of performance relative to the index was credit selection, which is as we would expect, given our bottom-up investment strategy, though other factors also had an impact, as outlined below.

In the fourth quarter (Q4) of 2021, credit spreads widened but this was offset by strength in longer-dated gilts. While yields on shorter-dated gilts rose, those further out on the curve fell along with longer-term growth and inflation expectations as major central banks turned more hawkish. The fund was underweight at the short end of the curve and overweight at the long end, so these developments helped relative performance. With regards to credit strategies, however, the fund had long had a slight overweight in credit risk, or 'beta', including off-benchmark exposure to high-yield bonds, which means it was somewhat more sensitive than the market as a whole to changes in spreads. This was marginally disadvantageous as concerns about the emergence of the Covid-19 Omicron variant in late November and surging European wholesale gas prices pushed spreads wider.

Volatility picked up markedly in 2022. Government bonds weakened as markets factored in increasingly aggressive interest-rate hikes and the removal of monetary stimulus in response to inflation that continued to soar to multi-decade highs. Stocks and credit spreads, too, came under increasing pressure amid fears that this mixture of inflation and monetary tightening could tip major economies into recession. These concerns were exacerbated from mid-February onwards, as Russia's invasion of Ukraine put even more upward pressure on inflation and increased the risk of recession in Europe, given the region's overreliance on Russian gas.

Aside from a spell in July and early August – when gilt yields fell and credit spreads tightened alongside a brief rally in equities – sterling bond markets continued in this vein until September, when a new source of turmoil emerged. In response to the new UK chancellor's fiscal plans, gilt yields surged to levels similar to those on Greek debt, hundreds of mortgage deals were withdrawn, and the Bank of England (BoE) was forced to intervene in bond markets to avert a pensions crisis. In the two months prior to the chancellor's unexpected "fiscal event", we had modestly increased the fund's duration (interest-rate sensitivity) as we felt there was some scope for a retracement in yields should the BoE raise rates by less than the market was expecting. While the overweight in duration was modest, the extent of the rise in gilt yields meant this had a negative impact on relative performance.

As well as raising duration, we also increased risk moderately through the spring and early summer as valuations (spreads) became more attractive. Accordingly, this overweight had a bigger negative effect as spreads widened significantly. More positively, the fund saw a larger boost from favourable credit selection during the most recent period of volatility. Beta was reduced in September but still finished the period slightly overweight. We have also maintained the portfolio's tilt towards more defensive areas of the market: towards the end of the reporting period, and going into Q4 of 2022, overweights included the utilities and food-and-beverages sectors.

With regards to specific trades within the fund, we took part in a wide range of new issues over the period. The largest concentrations of these were in banks (such as Santander, JPMorgan, HSBC, Triodos, BPCE, Bank of America and NatWest) and real-estate companies (including Jigsaw, Annington, P3, Places for People, Saltaire (the funding vehicle for the government's Affordable Homes Guarantee Scheme), Accent, Peabody and Prologis). Others from outside these sectors included new deals from PepsiCo, Zurich, Vier Gas Transport, Diageo, Broadcom and Magallanes, the AT&T subsidiary created for the spin-off of WarnerMedia prior to its merger with Discovery.

Trades in the secondary market included starting new positions in Berkshire Hathaway (investment), Vonovia (real estate) and Clarion (the UK's largest housing association), while increasing exposure to issuers such as National Grid, Heathrow Airport, Netflix, Anglo American and Southern Gas Networks, among others.

**Views from FIL Pensions  
Management (sub-delegated to  
FIL Investments International)**

Investment manager of the  
Omnis Strategic Bond Fund



Fixed income markets posted negative returns across both developed and emerging markets as extreme bond market weakness continued over the period. Investors remained concerned over sticky multi-year high inflation readings, which led to interest rate hikes by global central banks and worries around a synchronised slowdown in global economic activity. An energy crisis in Europe, no signs of de-escalation in the Russia–Ukraine conflict and Covid-19 related lockdowns in China exacerbated an already challenging macroeconomic backdrop. The fund's duration exposure was the primary detractor from returns as sovereign bonds sold off and yields across US Treasuries, Gilts and German bunds moved higher. Subsequently, exposure to the US dollar, sterling and euro interest rate risk weighed on returns. However, these losses were partially offset by the small exposure to Canadian dollar duration.

There was a notable but lesser negative impact from credit exposure as spreads widened over the period, which was partially offset by positive coupon income contribution. Our broad exposure to European investment grade bonds hampered returns. We added exposure to the asset class in March but yields have risen further amid heightened geopolitical tensions and secondary impacts of sanctions on Russia, and the shutdown of the Nordstream 2 natural gas pipeline. The exposure to the Chinese property sector also impacted returns amid lingering weakness in the country's housing market despite stimulus measures from both the central and local governments. At a sector level, the exposure to quasi sovereigns, property and financials underperformed basic industry, energy, and utility names. From an issuer standpoint, the exposure to Chinese real estate companies, Sino Ocean Land Treasure, Shimao Group Holdings, and Red Sun Properties Group were among the major detractors from returns. The exposure to Germany-based Allianz and Vonovia also performed poorly. Conversely, the allocation to French automobile company Groupe Renault and Greece-based Piraeus Bank contributed to returns.

We remain defensive, with continuing exposure to investment grade bonds, where valuations remain relatively attractive, while we continue to remain cautious on high yield and emerging markets. Over the last quarter we reduced our duration exposure but remain slightly long on average. Given the extent of the rise in yield across government bond markets, we retain a preference for US-dollar duration given its typical safe-haven properties and higher relative yields. The high risk of a hard economic landing makes US and core Europe duration relatively attractive on expectations that in the long run central banks will eventually have to pivot and cut interest rates as inflationary pressures ease and the growth picture continues to deteriorate. We are cautious however on adding too much as interest rate volatility continues to be very high.

## Views from Franklin Templeton Fund Management

Investment manager of the  
Omnis UK All Companies Fund



**FRANKLIN  
TEMPLETON**

On a sector basis, an underweight to and stock selection in banks and basic resources detracted from relative returns, as did an overweight to and stock selection in the retail sector. In contrast, an underweight position in travel and leisure and accretive stock selection in personal care, drug and grocery stores and telecommunications added relative value.

Technical translation business RWS Holdings was one of the largest detractors from relative performance. The company's share price fell over 45% over the period, influenced by the announcement in the first quarter of 2022 that full-year results will be toward the lower end of market expectations. Despite this, we retain conviction in the company's prospects and believe that the current valuation does not reflect the inherent quality of the business.

Alternative asset manager Intermediate Capital Group was also amongst the largest detractors for the fund over the year. The shares declined 50% during a difficult period for the sector which has been buffeted by higher interest rates. We remain invested as the company has continued to raise funds from investors at an impressive rate despite the increased macro concerns and our view is that this will continue, whereas the share price is still reflecting a more pessimistic outcome.

In contrast, oil and gas major BP was the greatest contributor to returns over the period. The shares rallied as the sector continues to provide a safe haven across equity markets. Continued elevated energy prices mean that the company is on track to generate as much as \$40bn in operating profit, almost double last year's number.

Tobacco company Imperial Brands was another strong contributor to relative performance over the year where the company's share price advanced 29%. The sector has performed well in 2022, with investors seeking out defensive businesses with strong value characteristics.

In terms of activity, we initiated a position in paper and pulp manufacturer DS Smith. We also sold the position in life insurer Prudential, and initiated positions in asset manager Liontrust Asset Management and testing business Spirent Communications. In our opinion, Liontrust is a uniquely placed fund management business, which has achieved market-leading growth rates through successful product development and launches.

During Q3 2022 we disposed of the position in consumer healthcare business Haleon which we received as the company was spun out of pharmaceutical business GSK. The level of debt and weak growth rates for the business combined with large share overhang prompted this decision.

We also switched the diversified mining exposure in the portfolio from BHP to Anglo-American. This change brings a more diversified mining business into the portfolio at a more attractive valuation.

Other changes over the year included the addition of luxury watch company Watches of Switzerland and the removal of JD Wetherspoon and contract catering business Compass Group.



## Views from Threadneedle Asset Management

Investment manager of the  
Omnis UK Gilt Fund



UK government bonds (or gilts) had an extremely volatile and weak twelve months, with yields (which move inversely to price) rising sharply as markets factored in increasingly aggressive interest-rate hikes in response to soaring inflation. Gilts were especially weak in September 2022, following the new UK government's growth-focused 'mini-budget'; investors were alarmed at the lack of detail on how the stimulus would be funded and the absence of the usual independent projections from the Office for Budget Responsibility (OBR).

The fund began the period 0.55 years overweight (long) duration (which measures the sensitivity of bonds to changes in interest rates) relative to the benchmark. In the first half of October 2021, we increased the long duration position versus the benchmark, as the yields on offer for certain bonds traded around year-to-date highs. Later in the month, we trimmed back some duration and participated in the UK's second new issuance of 'green gilts', which mature in 2053. At the start of November, the fund reduced exposure to ultralong bonds. After the Bank of England (BoE) opted against a rate hike, there was an increase in the yield differential between longer-dated bonds versus shorter-dated bonds. Against this backdrop, we sold bonds maturing in 2031 and purchased issues with longer maturities. Activity in December was focused on reducing duration through sales and switches between bonds with different maturities. The fund outperformed in the fourth quarter of 2021, due to curve positioning and the tactical trading of duration.

January was a quiet month for activity. We increased the overweight in 15- to 25-year gilts but trimmed the overweights in both shorter- and longer-dated gilts. In early February, we switched some exposure from 10-year gilts into their 5-year counterparts as the yield differential between these bonds reduced. Around mid-month, the fund switched some 2061 gilts into gilts maturing in 2039 as the yield available on shorter-dated bonds increased versus longer-dated bonds. As this trend in yields started to reverse into month end, we sold bonds maturing in 2046 and reinvested the proceeds into shorter-dated issues. During March, the portfolio had a sizeable underweight in ultralong versus long-dated gilts, as the yield on offer was greater in the latter. Over the month, as the spread moderated, this trade was reduced to take profits. Meanwhile, we continued to add duration in shorter-dated gilts, as we did not think the BoE would deliver as many rate hikes as the market had priced in. Overall, the fund underperformed in Q1 2022: our modest long duration position versus the benchmark was disadvantageous as yields rose sharply across the curve.

Activity was limited in Q2 to modest switching between maturities. In June, we increased overall fund duration. The fund underperformed in Q2 2022, owing to the outright long duration position, which proved unfavourable as gilt yields rose sharply and volatility across all markets increased substantially.

Activity in July was focused on taking advantage of yield-curve mispricing via duration-neutral, relative-value trades. We switched into old coupon bonds, which had significantly underperformed their new coupon peers at the start of July, while reducing the relative underweight in ultralongs considerably. September was an extremely weak and volatile month for gilts with falls in gilt prices the most severe for over 40 years. Our overweight duration stance detracted as yields rose sharply after the chancellor delivered his mini budget. Subsequently, we moved to a very small underweight position and traded the yield curve tactically given the significant moves that occurred. By the end of the review period, overall fund duration had fallen to 0.05 years short versus the benchmark.

## Views from Franklin Templeton Fund Management and FIL Investments International

Investment managers of the  
Omnis UK Smaller Companies Fund



The period under review was particularly difficult for investment in UK smaller companies; with marked under-performance relative to the broad market. UK equities started the year subdued by growing fears of rising inflation and the threat of a new Omicron coronavirus variant. The narrative at the time was very much whether inflation would prove to be transitory or enduring in nature. There was no respite for investors concerned with inflation as the soaring CPI levels combined with strong employment data drove the Bank of England's Monetary Policy Committee to embark on a rate hiking cycle exceeding any in recent decades. The defensively minded UK market fared well relative to global indices, buoyed by the protection against inflation and rising rates that is inherent in much of the index, including sectors such as energy, resources and specialist financials. However, this element of protection was insufficient to immunise against an absolute drop in the value of UK equities throughout the year.

The growth oriented and consumer focussed small and mid-cap indices weighed the UK market down, as the period of relative index underperformance exceeded that of the global financial crisis. As the UK consumer grappled with rising interest rates and surging energy bills, discretionary spend was compromised to the detriment of the consumer stocks prominent in these small and mid-cap indices.

### Franklin Templeton Fund Management

On a sector basis, an overweight allocation to consumer products and services and a lack of exposure to energy and utilities detracted from relative returns, as did stock selection in travel and leisure. Conversely, stock selection in real estate, health care, media and financial services contributed to relative results.

At the stock level, our continuing position in media company LBG Media was a large detractor from performance with the shares down 58% over the year. The company reported half year results with all operational metrics showing good performance and guided to meeting full year expectations. However, with the seasonality of the business being second half weighted and needing advertising spend and yields to increase to meet expectations, investors sold down due to the deteriorating macro-economic outlook and tough short-term conditions for media businesses which rely on advertising revenue income.

Confectionery company Hotel Chocolat was another significant detractor from returns. The shares retrenched 57% as the company reported a strong trading update, with growth ahead of expectations, but flagged that higher costs in the near term would weigh on margin performance. Also, against an uncertain economic backdrop, the company is taking a more prudent approach to capital allocation by de-prioritising international growth, notably in the United States (US) and Japan, to focus on the profitable UK market. While the change of strategy is disappointing, we believe it is reasonable in the current environment. The shares fell to a valuation below the May 2016 public market listing, despite recently delivering profits three times higher than at float. We viewed the price fall as irrational and added to our position.

Conversely, fund administration business JTC PLC was among the greatest contributors to relative results at the stock level. Analysts upgraded their outlook for the business after an acquisition in the fourth quarter of 2021. Cyber security business NCC Group was also a significant contributor to relative returns. The shares advanced over 16% as the market reacted positively to the trading update and a change in CEO.

In terms of activity, we participated in the initial public offering (IPO) of Devolver Digital, which focuses on independent video games. The company has a very strong back catalogue of 90 games, the majority of which have been profitable, alongside an exciting pipeline of new titles. With a great reputation in the industry, the company focuses on nurturing innovation and supporting developers through a very experienced team.

We sold information technology reseller Bytes Technology Group PLC on valuation grounds. We also sold out of shipbroker Clarkson PLC. In our view, risks were building for the business and, out of prudence, we liquidated the position. We disposed of our holding in IG Design after the company released a January trading update indicating that profitability would be further impacted by supply chain delays and cost inflation.

Other names added include LBG Media, Calnex solutions, and Bodycote, whilst our additional disposals included insurance companies R&Q, Conduit and housebuilder Countryside Partnerships.

#### **FIL Investments International**

At a sector level, the underweight stance in the information technology sector held back relative performance, while the overweight exposure to consumer discretionary names also detracted. Conversely, the overweight stance in industrials added value.

The holding in pub operator JD Wetherspoon fell amid concerns over weakening consumer sentiment and rising costs. Given the company's focus on low selling prices, the group may find it harder than competitors to pass on spiralling costs to customers. Shares in retailer Marks & Spencer also declined due to concerns over a weakening economic outlook and rising inflation. Moreover, Ocado Retail, the joint venture between Ocado and Marks and Spencer, warned it expects a fall in sales this year following a decline in trading in recent weeks as customers trade down. Shares in packing firm Essentra also declined despite the announcement of first half results showing strong revenue and profit growth in both the filters and components businesses.

Merger and acquisition activity added value. The holding in professional services firm RPS Group was the leading contributor as consulting and engineering services provider Tetra Tech outbid WSP in an acquisition battle for the company. Meanwhile, positive results supported key holdings. Shares in H&T Group rose as it raised its dividend for the first half of 2022, driven by a considerable rise in profit through a strong performance from the pawnbroking business. The position in publishing group Wilmington added value as it swung to a profit in fiscal 2022 and revenue rose on improved efficiency and a recovery from the Covid-19 pandemic. The holding in educational publisher Pearson also rose after the company lifted its dividend as its profit for the first half of 2022 surged and maintained its full-year expectations for revenue and adjusted operating profit.

A new position was added in engineering services company John Wood. The business has had a tough few years following the acquisition of Amec with aggressive accounting, regular exceptionals, too much debt and an industry downturn. Following the sale of Built Environment, the balance sheet has improved considerably, and a new CEO has been appointed. The end market outlook is also more positive, while stock valuation also looks attractive. Speedy Hire was another new position. The company is very pro-cyclical (tool hire), geared into the construction market which has undergone a significant turnaround and improvement in recent years. The stock was trading below book value, which has historically been an attractive entry price. In terms of notable sales, we significantly reduced the position in SThree, a recruitment company with significant downside in a recessionary scenario.

**Views from T. Rowe Price  
International (sub-delegated  
to T. Rowe Price Associates)**

Investment manager of the  
Omnis US Equity Leaders Fund

**T.RowePrice<sup>SM</sup>**

The portfolio underperformed the Russell 1000 TR Index for the 12-month period ended 30 September 2022. Sector allocation drove relative underperformance, but stock choices mitigated some of the losses. Consumer staples was the largest detractor from relative returns, due to our underweight position and adverse stock choices including Olaplex Holdings. Stock selection and a slight overweight position in the consumer discretionary sector also hurt returns, with E-commerce giant Amazon and electric car manufacturer Tesla detracting from returns. The energy sector further also weighed on performance due to both security choices and an underweight allocation. Baker Hughes was a notable underperformer.

Elsewhere, the communication services sector was the largest contributor to relative results due to beneficial stock picks with T-Mobile U.S. and Liberty Formula One posting positive returns for the period. Security selection in financials also added value as discount broker Charles Schwab and property and casualty insurance company Chubb outperformed.

The health care sector is our second-largest absolute position and our largest overweight position relative to the benchmark. Our allocation to the sector emphasises select managed care and pharmaceutical companies positioned to benefit from industry consolidation as well as the increasing focus on providing cost-effective solutions. Innovative life science tools and services companies that are focused on meaningfully improving patient outcomes also represent, for us, some of the more attractive opportunities in the sector.

Consumer staples is one of our smallest absolute positions and our biggest underweight position relative to the benchmark. Our positions in the sector generally focus on companies in unique situations with the potential to develop sustainable competitive advantages – in particular, those that we think are on the right side of long-term structural changes in their respective industries.

During the period, we took advantage of select buying opportunities as we identified high-quality companies trading at compelling valuations. We initiated positions in consumer tech giant Apple, electric car producer Tesla, life science tools company Thermo Fisher Scientific, and blue-chip oil and gas company Exxon Mobil, and added to our position in Visa. Conversely, we trimmed names in the portfolio where we did not have complete confidence in their balance sheets or where we found better risk/reward ideas. We sold shares of Microsoft and Amazon and eliminated our positions in diversified health care company Johnson & Johnson, global food and beverages manufacturer PepsiCo, and insurance brokerage Marsh & McLennan.

**Views from T. Rowe Price  
International (sub-delegated  
to T. Rowe Price Associates)**

Investment manager of the  
Omnis US Smaller Companies Fund

**T.RowePrice<sup>SM</sup>**

Stock selection in health care contributed to relative results. Medicaid managed care company Molina Healthcare did well during the period. The company's results have reflected strong execution in the core business despite pandemic-related cost headwinds. In July, the company raised 2022 results guidance and provided an early view into 2023 guidance. We believe that Molina will continue to make progress in its operational turnaround and expand its presence via tuck-in acquisitions. Option Care Health has performed well through the pandemic, despite significant headwinds. The company's acquisition of Infinity Infusion Nursing last year positioned it well to handle industry-wide staffing challenges. The company's most recent quarterly results point to continued strength in execution. We believe that Option Care Health should benefit from ongoing merger synergies, the shift of health care to the home, and the potential for additional mergers and acquisitions in a fragmented industry.

An underweight allocation to consumer discretionary, one of the worst-performing sectors for the benchmark, also added value.

Stock choices in real estate further boosted returns. Shares of student housing company American Campus spiked on the announcement that it would be acquired by Blackstone Group. Apple Hospitality is a real estate investment trust (REIT) company that owns a portfolio of upscale hotels concentrated in industry-leading brands Marriott, Hilton, and Hyatt. Normalizing leisure and business travel trends, post pandemic, supported solid quarterly results.

Conversely, stock selection in financials weighed on relative performance. An underweight allocation also proved detrimental. PROG Holdings is the market leader in virtual rent-to-own; it was spun off from Aaron's in December 2020. Shares plunged upon management's downward revision to previously issued second-quarter and fiscal year guidance. The company had experienced Covid-19 omicron-induced weakness in the first quarter that was exacerbated by inflationary pressures that limited consumer spend and triggered increased delinquencies and higher write-offs. Shares of Western Alliance Bancorporation, a large community bank operating in California, Nevada, and Arizona, were hampered by weak mortgage results due to rising interest rates. We believe that the company's strong balance sheet growth and robust forward outlook more than offset mortgage headwinds. Shares of Signature Bank sold off on concerns regarding its exposure to cryptocurrency. We believe the reaction was overdone and continue to favour the bank for its growth potential across the numerous non-crypto segments, including fund banking, venture banking, and mortgage servicing. We have a positive view of the company's growth-oriented focus and unique culture and the opportunities afforded by its extension to the West Coast.

An underweight position in energy, the top-performing sector for the benchmark, hindered relative returns.

Industrials and business services, information technology, health care, and financials remain the dominating sectors in the portfolio, all with greater than 10% of the equity allocation. During the period, we continued to find select opportunities within names across various industries where we feel valuations may underestimate the sustainability of growth or turnaround potential within the company. Specific new positions added to the portfolio during the period included Allegiant Travel, CMS Energy, Herc Holdings, and Pebblebrook Hotel Trust.

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**Find out more**

*For more information please get in touch with your financial adviser, or visit the strategy funds page on the Omnis [website](#).*

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

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