An Update from The Investment Committee

The Omnis Investment Committee oversees all aspects of the Omnis investment offering.

The Committee met recently to discuss the Omnis funds and the performance of the external fund managers who have been selected to manage them over the nine months since their launch on 3rd March 2014. This bulletin summarises the principal discussion points from that meeting and is the third in a series of regular updates from the Committee, which takes seriously its responsibility to ensure the funds are properly managed at all times.

Openwork Graphene Model Portfolios

Holding the fund managers to account is one of the key responsibilities of the Omnis Investment Committee, so too is finding the best way for investors to access their skills. This is where the Openwork Graphene Model Portfolios come in.

The portfolios are a blend of the seven Omnis funds, which have been designed specifically to complement each other in the portfolios, with allocations determined by the Investment Committee in line with Openwork’s approved asset allocation. The three portfolios match the risk and reward expectations of a Cautious, Balanced or Adventurous investor in the following way:

- **UK Equity**
- **US Equity**
- **Other Developed Markets Equity**
- **Emerging Markets Equity**
- **UK Bond**
- **Global Bond**
- **Alternatives**

The Openwork Graphene Model Portfolios will automatically rebalance twice a year, ensuring that your portfolio holds the correct proportion after rebalancing. Though it is too early in the life of the portfolios for the benefits to be apparent, rebalancing is expected to add real value over the medium- to long-term.

**FP Omnis UK Equity Fund**

The UK has been something of a laggard among the developed equity markets, both over the year-to-date and the three months to the end of November. A primary reason for this underperformance is the prominence of the resources and energy sectors in the UK equity indices. Oversupply has put downward pressure on commodity prices – the price of a barrel of oil is down some 37% over the year to the end of November – which in turn has depressed the share prices of companies such as Rio Tinto and Royal Dutch Shell.

With 12% of the portfolio invested in energy stocks and 7% invested in the resources sector¹, the FP Omnis UK Equity Fund, managed by Schroders, has not been immune to such significant market forces. However, the losses suffered in these sectors have been offset by astute stock selection elsewhere. Most noticeably, several holdings in smaller companies - including Halfords, Just Retirement and Photo-Me – have made strong positive contributions to returns despite lacklustre returns from small cap. stocks in general. Overall, the fund has performed broadly in-line with the UK equity market over the period since launch.

¹ Source: State Street Bank & Trust Company as at 28th November 2014.
In contrast to the UK, equity markets in the US have hit a series of successive record highs over the past three months. Despite concerns over contamination from Europe which unsettled equity markets in late September and early October, the US economic recovery has thus far proved robust. Significant gains for equity investors in late October and November were underpinned by marked improvements in the labour market, inflation being tamed by the falling price of oil and an upward revision to initial estimates of headline economic growth in the third quarter.

In the eyes of The Boston Company Asset Management (“TBCAM”), manager of the FP Omnis US Equity Fund, the most important aspect of the rising equity market has been its selective nature. In the wake of the financial crisis, equities have tended to move more-or-less in unison under the guidance of central banks. Consequently, there has been little reward for identifying and investing in attractive opportunities in individual companies. However, evidence has started to emerge over recent months suggesting that perceptive individual stock selection is now being rewarded.

By way of example, Apple, Microsoft and IBM all released third quarter 2014 earnings reports in October. While Apple and Microsoft beat consensus forecasts, IBM fell short of expectations. Figure 1 below highlights the different reception accorded to these results by the equity markets. The investment philosophy of TBCAM is very much geared towards reaping the benefits of individual stock selection; Apple and Microsoft are the two largest holdings in the portfolio, while IBM is not held in the FP Omnis US Equity Fund at all.\(^2\)

**Figure 1**

*Apple, Microsoft and IBM Share Price Performance*

![Apple, Microsoft and IBM Share Price Performance](source: Bloomberg, 31st May 2014 to 30th November 2014, price returns in US dollars)

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2 Source: State Street Bank & Trust Company as at 28th November 2014
FP Omnis Developed Markets (Ex UK, Ex US) Equity Fund

Thomas White International ("TWI"), the manager of the FP Omnis Developed Markets (ex UK, ex US) Equity Fund has faced challenging environments in Japan and Europe, its two largest markets. Both economies are marred in a fight against the threat of deflation and stalling economic growth. Though such conditions hardly appear favourable for investors, the resolve of policymakers has created a very different dynamic in equity markets. In Japan, aggressive measures – commonly termed “Abenomics” after Prime Minister Shinzo Abe – have helped lift equity markets to their highest level since October 2007, some 132% above their mid-financial crisis nadir. In Europe, policy support has been more restrained (primarily as a result of the complex politics of the currency union) and equity market gains over the past three months have been more measured.

Over the period since launch, the performance of the FP Omnis Developed Markets (ex UK, ex US) Equity fund has been somewhat disappointing. For the most part, this is attributable to an investment environment dominated by ‘top-down’ macroeconomic factors that has not favoured the ‘bottom-up’ stock selection process employed by TWI. More recently, as it has in the US, differentiation at the stock level has begun to come to the fore, particularly in Europe. Thus far, however, the fund’s performance has failed to respond.

While the Omnis Investment Committee is monitoring the fund closely, it is important to remember that the investment process implemented by Thomas White International is focused on the medium- to long-term: it is imprudent to read too much into short term returns. As the theme of differentiation becomes more established in equity markets, this should create more favourable conditions in which we expect TWI’s approach to add value for investors.

FP Omnis Emerging Markets Equity Fund

The emerging markets have suffered a somewhat turbulent year, with the bumps and troughs amplified further in the past three months. Politically-motivated economic sanctions and the tumbling oil price have combined to create a formidable headwind for the Russian economy, reflected in – and subsequently exacerbated by – the marked decline of the rouble. Similar themes have played out in Brazil, though nowhere near as dramatically. Initial optimism turned to resignation as Dilma Rousseff retained the presidency while corruption and falling commodity prices have weighed heavily on investor sentiment. Though falling commodity prices are at least in part attributable to the slowing of Chinese economic growth, Chinese indices have jumped to three-year highs in response to signs that policymakers may roll out additional stimulus measures. India, meanwhile, has proved a bright spot. Following his election in May, Prime Minister Modi is pushing ahead with structural reforms while Raghuram Rajan continues to implement sound policy at India’s central banks. Indian equity markets have responded positively.

After a difficult couple of months immediately after the fund’s launch, there has been a notable improvement in the performance of the FP Omnis Emerging Markets Fund. In the wake of the Brazilian election result, allocations to Brazil were decreased, with the proceeds largely redirected to China. This has proved a shrewd decision. Elsewhere, performance has been helped by stock selection, particularly in the financials sector.

The FP Omnis Emerging Markets Fund is managed by Jupiter Asset Management, with ultimate responsibility for the fund lying with Kathryn Langridge. Having managed the fund since launch, Kathryn is leaving Jupiter at the end of 2014. Responsibility will be passed on to Ross Teverson, a well regarded investment manager with a strong track record in emerging markets. The Omnis Investment Committee has met with Ross and was impressed with his investment philosophy and process. Nonetheless, the Committee is closely monitoring the fund to ensure the handover of responsibilities is not in any way detrimental to investors.

3 Source: Bloomberg
FP Omnis UK Bond Fund

The year to date has been an extraordinary one for UK bond markets. Faced with the ignition of the UK economic recovery and the accompanying prospect of higher interest rates, few would have voiced a positive outlook for bonds at the start of the year. Nonetheless, as the pace of UK economic growth has become more measured, as policy measures have succeeded in taming the housing market and as falling oil prices have subdued inflation, UK bond markets have enjoyed gains of a magnitude more typically associated with equity markets. This trend, which has persisted almost uninterrupted throughout the year, continued over the past three months; the ten-year gilt yield (which moves inversely to the price of the ten-year gilt) fell from 2.37% at the end of August to 1.93% at the end of November 4.

In line with the general consensus, Threadneedle Asset Management, the manager of the FP Omnis UK Bond Fund, maintained a relatively cautious stance throughout much of the year in expectation of rising interest rates. Furthermore, despite generating strong positive returns, the fund’s allocation to corporate bond holdings has been outstripped by the exceptional gains made by gilts. Consequently, though the fund has generated strong absolute returns, it has not quite kept pace with the broad UK gilt market over the period since launch.

FP Omnis Global Bond Fund

Strong gains have not been confined to the UK’s bond market. Headline government bond yields have fallen in the US, Japan and across Europe over the year to date. The decline in yields has been particularly noticeable in Europe (see Figure 2). Though recognising the need for additional stimuli, the actions of the European Central Bank are constrained by political considerations. Mario Draghi, governor of the Bank, has succeeded in soothing fears over the integrity of the European Union but has been unable to spark meaningful economic growth. Consequently, yields on Italian, Spanish and Portuguese ten-year government bonds have halved thus far over 2014 while those on the German ten-year bond have marched steadily towards a series of record lows.

Schroders Investment Management, the manager of the FP Omnis Global Bond Fund, aims to identify and exploit key economic and market themes to generate investment returns. One of the themes for which the fund is currently positioned is that of ‘policy error’ at the European Central Bank – effectively the consequences of the political restrictions placed on Mr Draghi noted above. The fund has therefore been well positioned to benefit from the decline in European yields (which move inversely to bond prices) and has generated solid returns over the year to date, and over the past three months.

4 Source: Bloomberg

Source: Bloomberg, 31st December 2013 to 30th November 2014
FP Omnis Alternative Strategies Fund

Octopus Investments, manager of the FP Omnis Alternative Strategies Fund, is able to utilise a variety of tools in seeking to generate positive absolute returns regardless of the prevailing economic and market conditions. Though one such tool – access to a broad range of specialist ‘alternative’ investment strategies – accounts for the majority of the fund’s investments, another – the ability to rapidly increase and decrease exposure to equity market risk – has been particularly beneficial over the past three months.

Concerned by indications that equity investors were becoming complacent, Octopus reduced equities and built up cash allocations over the course of September. By early October, cash accounted for some 22% of the portfolio’s net assets. Such caution proved prudent as equity markets underwent a sharp sell-off, triggered by fears that global growth would be derailed by Europe’s economic woes. Subsequently, Octopus adroitly judged the market reaction to be excessive and raised equity allocations to 20% by the middle of October. The fund therefore participated in the pronounced equity market recovery that persisted to the end of November.

The fund has generated meaningful absolute returns since launch, fulfilling its absolute return mandate. Equally importantly, it has done so while managing risk in a conservative, prudent and proactive manner.

FP Omnis ‘Multi-Manager’ Funds

Comprising the FP Omnis Advanced, Balanced, Cautious and Distribution funds, the Omnis Multi-Manager range is managed by Octopus Investments. As with the FP Omnis Alternative Strategies Fund, Octopus actively allocates between asset classes seeking close control of investors’ exposure to specific risks. Equity allocations were reduced across the board in September to ‘de-risk’ the funds and, subsequently, rebuilt in October after the sharp fall in equity markets presented an attractive buying opportunity.

In addition to managing risk through asset allocation, the portfolios can be further refined by Octopus’ careful selection of beset-of-breed third party investment managers. Octopus has recently been increasing allocations to more active, contrarian investment managers seeking to identify attractive opportunities at the stock level.

FP Omnis ‘Multi-Asset’ Funds

Comprising the FP Omnis Multi-Asset Threadneedle Advanced, Balanced and Cautious funds, the Omnis Multi-Asset range is managed by Threadneedle Asset Management. Threadneedle adopts a measured, medium-term view to asset allocation. Consequently, the composition of the portfolios was held relatively constant throughout the three months to the end of November, despite the volatility in the markets. At the end of November, the Advanced, Balanced and Cautious funds held 97%, 71% and 43% of net assets in equities respectively.

The FP Omnis Multi-Asset funds are ‘funds of funds’ – that is, they invest in a range of other investment funds. This range is limited to other funds managed by Threadneedle Asset Management. In this way, the Omnis Multi-Asset funds are able to benefit from the stock selection skills of well-regarded specialist fund managers such as Leigh Harrison, manager of the Threadneedle UK Equity Alpha Income and Threadneedle UK Equity Income funds that feature among the ten largest holdings of the Omnis Multi-Asset funds.

For more information about Omnis, including fund factsheets, please contact us on 01793 567 800 or through the website at www.omnisinvestments.com.

The authorised corporate director of the FP Omnis Portfolio Investments ICVC is Fund Partners Limited (Registered Office Cedar Park, Cobham Road, Wimborne, Dorset BH21 7SB) which is authorised and regulated by the Financial Conduct Authority, 25 North Colonnade, London, E14 5HS.

You may also obtain a copy of the Scheme Prospectus and the Key Investor Information Document by contacting the Authorised Corporate Director on 0845 140 0070.

5 Source: State Street Bank and Trust Company as at 28th November 2014
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