June 2022 | Fund focus

Three stocks for today's investment landscape

We spoke to the Barings Asset Management team to find out about their top three European stocks and what makes them stand out from the crowd.

The Omnis European Equity Opportunities Fund invests in European equities, with at least 50% of the fund being invested in small and medium-sized companies that have a market capitalisation – the total value of a company's shares – of €20 billion or less at the time of the fund's investment. It aims to achieve a return consisting of both income and capital growth which exceeds the FTSE World Europe ex UK Total Return index over a rolling five-year period.

The fund is actively managed by the team at Barings Asset Management, which means they choose which assets to invest in. The team takes a flexible approach, investing primarily in companies whose earnings are likely to grow more than the average company, and where the company's share price appears to be undervalued relative to their economic potential. We recently caught up with them to explore three stocks that they believe offer the most value in the current investment environment.

Huhtamäki

Huhtamäki is a Finnish consumer packaging company with a market capitalisation of €3.7 billion. Its products include food and drink packaging and disposable containers, with clients including fast-food giants such as McDonald's.

Barings likes the firm because it occupies a particularly defensive area of the market – the food services industry – which should continue to do well even as economic growth slows down. This sector has experienced a strong period of recovery since Covid-19 lockdowns as people begin to eat out more.

Although Huhtamäki is based in Finland, it is a global leader in its field and around 40% of its profits come from North America. Its exposure in the region should continue to be an advantage as consumer spending remains resilient despite rising inflation.

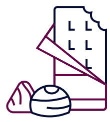
The company has demonstrated its pricing power by passing on cost inflation to consumers. Its shares appear to not account for the prospects of the business and as such they are perceived by Barings to be cheap relative to the value of the company. Barings believes the sustainability credentials of Huhtamäki's products (such as its innovative plastic-free moulded fibre packaging, which is plant based, recyclable and compostable) also give the firm an underappreciated competitive edge.

Meet the manager

Barings has been in the asset management business since the 1950s. It is wholly owned by MassMutual, a US-based mutual company, and manages over $460 billion on behalf of clients (as at December 2021). It has a long-term approach to investment management and its philosophy centres on taking advantage of the mispricing of stocks from their fundamental fair values.

BARINGS

Barry Callebaut



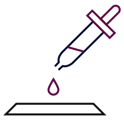
Barry Callebaut is the largest global manufacturer of cocoa, chocolate and confectionary products, with a market capitalisation of €11.3 billion. Based in Switzerland, the company provides its products to customers around the world who then brand them as their own.

The firm is in a defensive sector that offers a resilient growth profile, with more companies now looking to outsource the production of their chocolate products. It's also expanding into new markets and leading the way in developing sustainable cocoa.

As well as offering strong pricing power and innovation, Barry Callebaut has a strong balance sheet and is a quality partner for very large consumer staples companies, such as Nestlé, Unilever and Hershey's. For these reasons Barings believes the company's valuation is not reflective of its quality, making it a particularly attractive investment.

Omnis INVESTMENTS

Tecan



One of the more recent purchases for the Fund is Switzerland-based Tecan, which has a market capitalisation of €3.8 billion. It produces instruments and consumables to make testing more efficient for the diagnostics, life science and forensics industries. Tecan's customers range from small companies and academic institutions to hospitals and pharmaceutical companies.

The firm fuels innovation through automation and developed new machines to speed up the testing process during the Covid-19 pandemic. As a result, share prices rose during the height of the pandemic but have since fallen sharply, with some investors now viewing them as too expensive.

Yet Barings believes Tecan is now undervalued – the equipment it provides is not solely intended for Covid-19 testing and its machines should help facilitate other medical procedures that were delayed due to lockdowns. The company also executed its largest M&A transaction during the pandemic, buying medical devices manufacturer Paramit for $1 billion to expand its presence in the US and Asia. The high barriers to entry for this sector also mean Tecan has fewer competitors, is strictly regulated and partners with high-quality companies.

To discuss this fund in more detail please get in touch with your financial adviser – you can also find monthly factsheets and investor literature online here.