25 November 2021 | Fund focus

Omnis Income and Growth Fund

We spoke to the team at Jupiter who manage the Omnis Income and Growth Fund. They explain how they manage the fund and how undervalued companies can provide strong investment opportunities.

The Omnis Income and Growth Fund aims to provide a return (comprising of both income and capital growth) above that of the FTSE All-Share Total Return Index over a five-year rolling period after all fees and expenses are deducted. This index is the benchmark for the fund and measures the broad performance of around 600 companies listed on the London Stock Exchange.

The portfolio is focused on companies trading in the UK, such as housebuilding, retail and property, alongside healthcare, science and innovation, which may be exposed to the UK economy or derive their revenues from abroad. The manager does not target specific industries but tends to focus on large and medium-sized companies.

The fund aims to invest at least 70% in the shares of UK-listed companies, including those that are listed but not incorporated in the UK. The balance of the portfolio can be invested in overseas holdings, which helps to diversify the fund and give access to attractive investment opportunities when they arise. The fund currently has a small position (1.58%[1]) in unlisted securities which is actively being reduced.

Investment process

The fund is managed by the value investing team at Jupiter. It is led by Ben Whitmore, who has over 27 years of investment experience. The team at Jupiter believe that a major factor in the success of an investment is down to whether or not the price paid to own the shares is high or low relative to the fair value of the business – known as value investing. This strategy involves buying unappreciated or ignored stocks that are undervalued but are an attractive long-term investment opportunity.

Value investors seek stocks that trade at a significant discount to their 'intrinsic value'. This is the true value of what a share is actually worth, even if some investors think it is worth a lot more or less than that amount. The intrinsic value is found by analysing a company's revenue, cash flow, expenses and debt. Value investing relies on the premise of lower-priced shares coming back into favour as either company profits move closer to the industry average or fears about the business worrying the stock market prove to be unfounded or not as severe as first thought. By investing in stocks that are undervalued, investors get them relatively cheap and can potentially see strong share price and earnings growth in the future.

Meet the manager

Founded in London in 1985, Jupiter Asset Management has nearly £60.7 billion of assets under management. The group seeks to add value for investors through the delivery of outperformance over the medium to long term. It has established a reputation for attracting and retaining some of the best fund managers in the industry who are given the flexibility to invest as they see fit, within the investment remits and restrictions of the funds.

JUPITER ASSET MANAGEMENT

Investment approach

The manager's investment approach focusses on individual companies rather than the industry or economy as a whole (known as a bottom-up approach). As not all low-valued shares make good investments, the Jupiter team has to weigh up the price they pay for a share against their view of the quality of the company's business.

They assess the quality of the business in terms of the strength of its market position in comparison to its competitors. They also look at any recent or potential changes in its industry and the company's ability to turn profits into cash – especially when that cash can be paid out to investors as income in the form of dividends.

The manager carefully considers environmental, social and governance (ESG) risk factors when assessing the investment potential of companies. The fund is actively managed, which means the managers use their expertise to pick investments that meet its objectives.

[1] As at 31 October 2021.

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Portfolio snapshot

Jupiter holds a diversified portfolio of undervalued stocks which they believe will deliver returns for investors. The manager has reduced risk in the portfolio by increasing the number of holdings, adding 13 companies so far this year, including HSBC, Royal Mail and easyJet.

One holding the manager likes is specialist emerging markets asset manager Ashmore Group. The manager believes the company is undervalued because emerging markets as an asset class have fallen out of favour with investors in recent years.

Meanwhile, Ashmore's assets under management fell 3.3% to $91.3 billion in the last quarter, with net outflows of $1 billion, which has also impacted the company's market value. However, the manager puts Ashmore in the top five UK firms in terms of margins, returns and profits. The company also has an extremely strong balance sheet.

Another holding is ITV, which is Britain's biggest free-to-air commercial broadcaster and sells content around the world. There are concerns about the decline in TV viewing, driven by shifting tastes in younger age groups who are watching content on other platforms.

However, despite this change in viewing habits, the manager says ITV is going from strength to strength and could easily be valued higher. The broadcaster is on track to enjoy the best year for advertising revenues in its 66-year history, which for the first nine months surged by 30% year-on-year to £1.3 billion.

It also expects total advertising revenues for the year to be up by 24% compared with 2020 to hit an all-time high. Jupiter believes the growing demand for content on platforms such as Netflix, which ITV can sell to, means the company will remain a dominant force in broadcasting.

A third undervalued high-quality company the manager likes is tech giant Intel. After having a near monopoly on the manufacture and design of semi-conductor chips for decades, Intel has seen its market share shrink in recent years. This was caused by a delay in the launch of next-generation processing chips used in smartphones and computers, which has allowed competitors to gain ground.

Despite these problems, the company still has a huge market share, with over 80% of the desktop and mobile markets. Jupiter says that, with demand for chips soaring, even if Intel loses further market share this won't necessarily translate into lower profits or revenues.

Why did Omnis pick Jupiter to run this fund?

The Omnis Income and Growth Fund is managed by Ben Whitmore, who joined Jupiter in 2006 and is currently head of strategy in the value equities team. He is assisted by Dermot Murphy, and the two have been working together for a number of years. Ben has a strong track record as a value investor, consistently delivering returns above the benchmark over the long term. Over the past year, the team has also doubled in size, allowing it to engage with more companies.

We firmly believe that Jupiter's approach to value investing can outperform the market and deliver strong investment returns for clients over the long term. ESG-related factors are integrated into investment processes across the entire firm and fund managers are supported by a specialist sustainability team.

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

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