

Four small cap stocks our managers are backing



We take a closer look at the smaller businesses our investment managers believe are well placed to navigate today's changing market conditions

Strategic asset allocation sits at the core of our investment approach. It provides a long-term framework for delivering returns by spreading risk across a wide range of assets, including equities, bonds, property and alternative investments. Within this mix, smaller companies (or small caps) play an important role.

Small caps can be more volatile in the short term, with share prices that move more than those of larger firms. But they also bring different opportunities, which makes them useful for diversification. This can help smooth out returns across the portfolio. While small caps do not always outperform, history shows they have often delivered stronger returns than large caps in the right conditions.

Omnis invests by appointing some of the world's leading investment managers, selected through a rigorous due diligence process. Each manager is chosen for their expertise in accessing effective, diverse, and often specialised asset classes across global markets. We monitor them continuously, and if changes to their approach or team mean they're no longer the best fit, we act decisively to appoint a new manager, so you can be confident the right expertise is always in place.

Against this backdrop, we asked some of our investment managers to share examples of the smaller businesses they believe are well positioned for today's environment. Here are four that stand out.



DFS Furniture

Omnis UK Smaller Companies Fund,
co-managed by Franklin Templeton

DFS is the UK's leading sofa retailer, with 36% market share across its two brands: DFS and Sofology. Its scale advantages, strong brand recognition and entrenched market position create significant barriers to entry.

It has been a challenging market for sofa retailers in recent years, as customers are taking longer to replace their sofas. Overall, the market is down 10% in total transaction value suggesting a significant drop in sales volumes. Despite this, DFS has grown its market share by 10% over the past decade.

The outlook for the furniture market is improving. Upholstery sales appear to have bottomed out, with card data showing a steady increase in furniture spending. Housing transactions, a key driver of sofa sales, are up 10% this year, which provides a supportive backdrop for DFS.

Its competition is struggling, with one of its largest rivals acquired by an Italian furniture company known for higher-priced sofas, resulting in their traditional customer based confused at their offering.

DFS is outperforming a tough market and continues to gain market share. A faster recovery in earnings is possible if consumer confidence improves, which may be triggered by falling interest rates. A weaker US dollar and declining freight rates are supportive to profit margins for the company with two thirds of sofas imported.

Franklin Templeton believes there is significant runway for recovery in earnings, driven by further market share gains, improving macroeconomic conditions and cost tailwinds.



Gentera

Omnis Global Emerging Markets Equity Opportunities Fund, managed by Lazard Asset Management

Gentera is one of the largest microfinance institutions in Mexico, with a strong focus on financial inclusion for women. Through its group lending model, it has built a predominantly female client base and expanded access to finance in both Mexico and Peru. Operating in a large and underpenetrated market, Gentera has brought millions into the formal financial system.

Its main subsidiary, Compartamos Banco, is among the most profitable banks in Mexico. Gentera continues to deliver strong earnings, supported by limited competition, improving efficiency and early signs of recovery in Peru. Lower interest rates in Mexico could also support more favourable funding conditions.

Lazard's Emerging Markets Equity team views Gentera as a well-run, high conviction holding with strong long-term potential. The team's regular engagement with management, including a recent visit to Mexico, has deepened their understanding of its digital strategy and group lending model. This approach, which includes financial education and community-based guarantees, has helped keep default rates low.

Despite strong performance this year, Gentera's valuation remains attractive. The company is gaining share in the low-income segment and remains well positioned to benefit from digital growth, regulatory support and a growing focus on financial inclusion.



Scout24

**Omnis European Equity Opportunities Fund,
managed by Barings**

Scout24 is a leading online platform in Germany for renting, buying and selling residential and commercial property, similar to Rightmove in the UK. The company is a dominant player in a fragmented and still relatively under-digitised market. As more property activity moves online, Scout24 stands to gain.

Scout24 has shown it can create services that meet customer needs, as reflected in its strong relationships with German estate agents and high penetration of the professional market. The company has expanded its services beyond listings to offer a wider range of digital tools, aiming to build communities of users and deepen engagement. These additional products come with low incremental costs, so wider adoption could support both revenue and margin growth.

It also stands to benefit from Germany's improving economic outlook. Rising consumer confidence and spending could support house prices and transaction volumes, driving greater demand for Scout24's platform.

Even in a subdued housing market, the company has delivered strong earnings growth. If transaction volumes and new listings pick up, profits could accelerate further. Since Barings added Scout24 to the portfolio in August 2023, the shares have returned 90%. This performance has been driven by solid earnings growth and a re-rating of the shares as the market increasingly recognises Scout24's long-term growth potential in a still-evolving digital property market.

A world of investment opportunities

Omnis Investments Limited is one of the UK's largest asset managers with more than £10 billion of assets under management

www.omnisinvestments.com

Issued by Omnis Investments Limited. This update reflects the views of Omnis and our investment managers at the time of writing and is subject to change. The document is for informational purposes only and is not investment advice. We recommend you discuss any investment decisions with your financial adviser. Omnis is unable to provide investment advice. Every effort is made to ensure the accuracy of the information but no assurance or warranties are given. Past performance should not be considered as a guide to future performance.

The Omnis Managed Investments ICVC and the Omnis Portfolio Investments ICVC are authorised Investment Companies with Variable Capital. The authorised corporate director of the Omnis Managed Investments ICVC and the Omnis Portfolio Investments ICVC is Omnis Investments Limited (Registered Address: Washington House, Lydiard Fields, Swindon SN5 8UB) which is authorised and regulated by the Financial Conduct Authority.



Stride

**Omnis US Smaller Companies Fund,
managed by Janus Henderson Investors**

A leading US online learning platform, Stride offers flexible, accredited education programmes for learners of all ages. The company is well-positioned to benefit from a growing shift in the US towards career-focused education and non-degree qualifications. As more students and parents seek practical, skills-based alternatives to traditional college routes, Stride's broad programme offering aligns well with this trend.

Stride has delivered strong revenue growth, driven by the quality of its resources and the flexibility of its learning model. Its career-focused courses are likely to gain further traction if economic uncertainty increases demand for job changes and retraining.

Janus Henderson continue to favour Stride because of its consistently strong financial performance. The company has regularly beaten forecasts and upgraded its earnings outlook. Its focus on career learning has supported solid enrolment growth and rising revenue per student, helping to lift overall sales. While the adult learning segment has faced some pressure, this challenge has been balanced by successful initiatives in areas like healthcare.

Looking ahead, the company's long-term ambitions and innovation, such as the development of AI-powered tutoring, support the case for continued growth. With improving profit margins and a valuation below that of many peers, Stride remains attractively positioned for future success.

Looking forward

Our active approach helps us identify quality businesses in this under-researched part of the market and avoid the weaker ones. That's why we see small caps not just as a risk, but as a long-term opportunity.

To find out more about how we manage your portfolio, please speak to your financial adviser or visit www.omnisinvestments.com

The value of your investment and any income from it can go down as well as up and is not guaranteed.

Investors should read the Key Investor Information Documents (KIIDs) for the funds and the prospectus before investing. These contain full details of the risks and charges. Both are available free of charge from www.omnisinvestments.com