Your investment portfolio and the markets

We explore why your investment portfolio does not always perform in line with popular stock market indices, such as the FTSE 100.

The UK's best-known index is the FTSE 100. It's made up of shares from the 100 largest companies by market value (which is calculated by multiplying the total number of shares by the present share price) on the London Stock Exchange. The index includes business across different industries, from BP and HSBC to AstraZeneca and Tesco, and they are often referred to as 'blue chip' companies.

In contrast, when you invest in a portfolio of Omnis funds, you'll be hold a mixture of shares and bonds from different geographical regions and sectors. This approach means the managers can use their expertise and knowledge to select the most attractive investments. For many of our portfolios, their exposure to the UK makes up less than half of the portfolio. So when the FTSE 100 goes up, the portfolio does not necessarily go up by the same amount.

For example, in a balanced portfolio you might have 30% invested in UK equities and the other 70% in other regions or asset classes. Furthermore, our UK equity funds invest not just in the largest companies that make up the FTSE 100, but look for businesses of all sizes. In fact, at the end of January 2023, less than 18% of the Omnis Balanced Managed Portfolio was invested in these top 100 UK companies. Let's explore why.

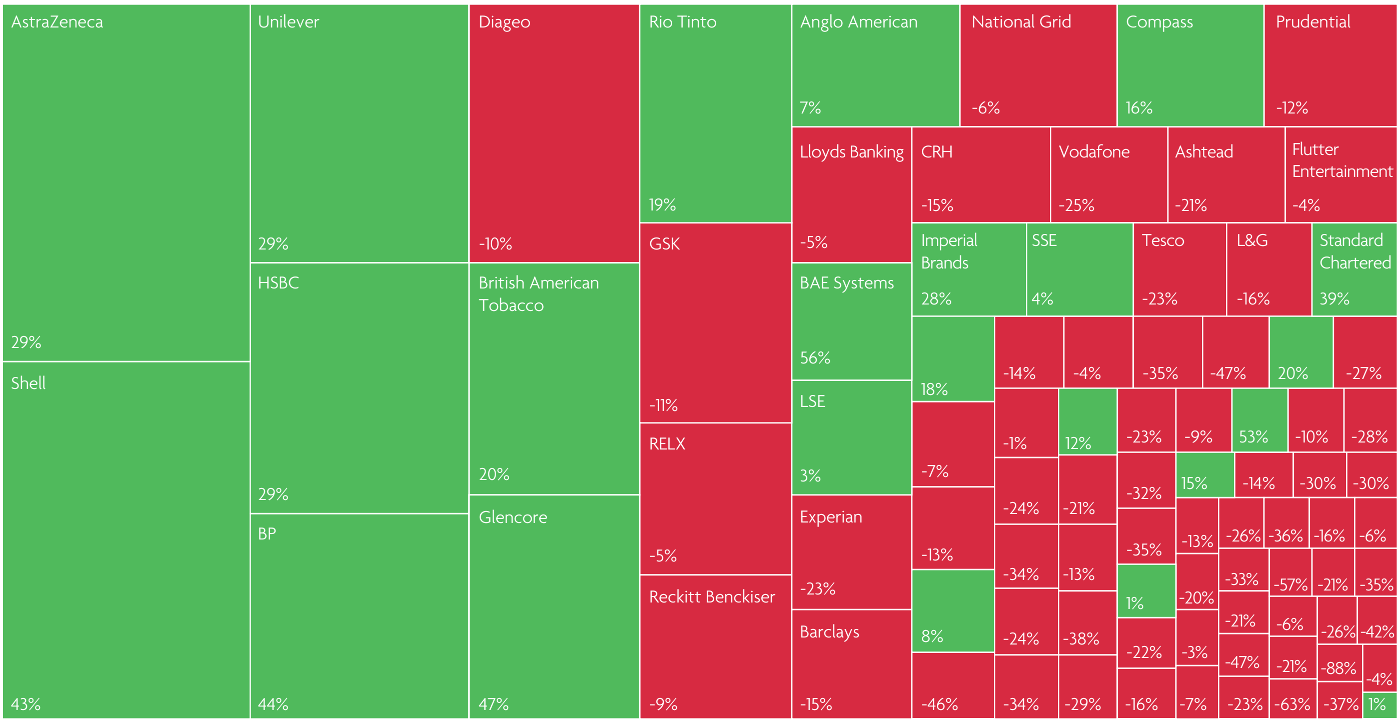
Size matters

The FTSE is very concentrated – the 10 largest companies make up nearly half of the index. Therefore, when we read about how the FTSE 100 is performing, this tends to be a reflection of those top 10 companies, not the top 100. If you invest in a passive tracker fund that follows the FTSE 100, you're relying on these companies to perform strongly.

Figure 1 shows the performance of all companies in the FTSE 100 during 2022, with red representing negative returns and green showing positive returns. The larger the box, the greater the company's weight in the index. You can see that it's very red except for the biggest firms, which dominated returns.

Figure 1: FTSE 100 returns in 2022 by size of company (market value)

The index is dominated by a relatively small number of companies in just a handful of industry sectors, including energy and mining.



Source: Omnis Investments.

Omnis INVESTMENTS

The FTSE 100 also has a large weighting in a small number of industries. They include energy companies such as Shell, which performed well in 2022 because oil prices increased sharply, while mining companies like Rio Tinto also performed strongly as commodity prices increased. As a result, investing in a FTSE 100 tracker also means you don't have diversified exposure to different sectors.

Active investment managers are unlikely to have such high exposure to these big names in order to avoid the concentration risk. Although these businesses performed well in last year's economic environment, they may not do so well in others. For instance, the FTSE 100 underperformed many other regions during the pandemic in 2020, when a slowdown in economic activity drove energy prices down and the demand for commodities declined.

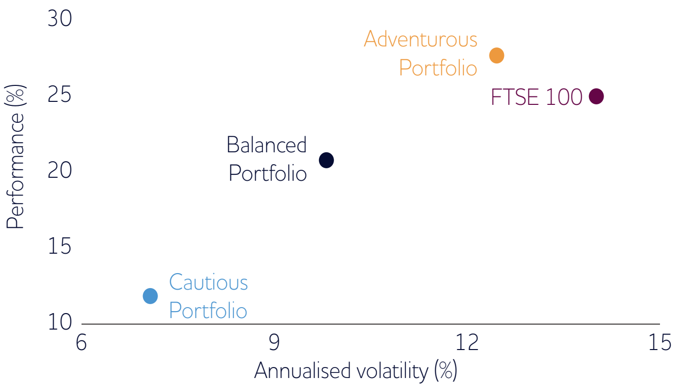
Our investment managers seek out companies they believe will deliver returns over the longer term, and ensure our funds are well-diversified in terms of not being overly reliant on a small number of stocks or sectors.

Investing for the long term

It's important not to focus too much on short-term performance. While in 2022 the UK stock market performed well, many other regions did not and as such well-diversified portfolios generally underperformed the FTSE 100. In contrast, during 2020, as a result of the Covid-19 pandemic, the FTSE 100 ended the year in the red (it fell 11.6% over the 12 months). Most other markets recovered after the initial Covid falls and as a result the Openwork Graphene Balanced Portfolio, for example, ended the year having delivered 5.3% returns.*

Figure 2: Returns and volatility

As you would expect, the UK stock market has been more volatile than our portfolios, which invest in different asset classes and regions.



Source: FE Analytics, 31.01.2018 – 31.01. 2023. FTSE 100 shows total return in GBP. Portfolio returns use Openwork Limited's Strategic Asset Allocation with underlying indices.

*Source: FE fundinfo.

Approved by Omnis Investments on 13 March 2013.

Perhaps more importantly, over five years a Balanced portfolio has delivered comparable returns to the FTSE 100 but with much lower volatility (figure 2). While we can expect that over the long term equity markets will deliver growth, a balanced portfolio can help you manage the risk in line with your financial objectives.

An active and diversified approach

Figure 3 shows this in more detail, where you can see the top 10 holdings in the FTSE 100, including their weight in the index, their weight in the Omnis funds and their combined weight in a Balanced portfolio. Our portfolios have less exposure to these companies than the FTSE 100.

Figure 3: Top 10 FTSE 100 companies

The Omnis funds are diversified in order to avoid investing too much in one company, sector or region.

	Weighting (%)				
Company	FTSE 100	Omnis UK All Companies Fund	Omnis Income & Growth Fund	Balanced Portfolio**	Performance in 2022 (%)
Shell	8.4	4.8	4.1	1.3	43
AstraZeneca	7.9	4.6	0.0	0.6	29
HSBC	6.0	0.0	3.7	0.6	15
Unilever	5.1	4.6	0.0	0.6	6
BP	4.4	5.0	5.4	1.5	44
Diageo	3.8	1.8	0.0	0.3	-10
Glencore	3.5	0.0	0.0	0.0	47
Rio Tinto	3.4	3.5	1.9	0.8	19
BAT	3.4	3.2	0.0	0.4	20
GSK	2.8	2.7	4.2	1.0	-11

Source: Omnis Investments. **Openwork Graphene C2 Balanced Portfolio

As a result of these lower positions, our funds didn't reap the full benefits of the returns from those companies as much as the index did during 2022. What this does mean though is that if those company's shares fall in value, our portfolios are unlikely to fall by as much.

The advantage of investing in a diversified portfolio is that it can deliver smoother investment performance over the long term. When one part of the portfolio is struggling, another part can pick up the slack. History shows that exposure to different asset classes, industry sectors and global regions is one of the best ways to grow your wealth steadily.

If you have any questions about your investments then please contact your financial adviser.

—

www.omnisinvestments.com

Omnis INVESTMENTS