

Well, that wasn't expected...

Global Matters Weekly

16 January 2023

– Richard Parfect — *Fund Manager*

Having booked my first skiing holiday in 11 years with some friends in Chamonix towards the end of January, I'm seeing news articles showing temperatures approaching 10c and zero snow on the ground. When I booked the trip for my group, of all the things I considered that might scupper the trip; no snow in the Alps, in January, was not one of them.

Investing is far from immune to such tales of the unexpected. At Momentum Global Investment Management (MGIM), one of the areas we focus on are specialist REITs, where we select asset managers to operate in specific areas of the property market that we feel offer the best opportunities for risk adjusted returns. When combined with tactical timing, we have found success with examples that include AEW UK REIT and LondonMetric. However, this does not come without risk.

Risk is integral to investing; it is ultimately what determines returns. Nevertheless, the actual risk sometimes diverges from the risk that would reasonably be expected from the strategy or asset type and it's by monitoring this that active management on our part can add value.

A very recent example is our recently exited investment in Home REIT. We had been very supportive towards this REIT as it apparently ticked many boxes: inflation linked rental income supporting a progressive dividend; increasing the supply of accommodation for various types of homeless individuals and families; reducing the financial burden on local authorities that traditionally pay for expensive, poor quality, temporary B&B accommodation.

Despite these optical benefits and strong share price performance, we initially became concerned by personnel changes at the asset manager and poor disclosure of financial difficulties being faced by one of its tenant Community Interest Companies (CIC) "Circle Housing". A few months back one of our team members, Gary Moglione, then performed some in-depth analysis of the various CIC and charitable tenants of the REIT.

Risk is integral to investing; it is ultimately what determines returns

It was an expansive project, but in summary, our concerns grew significantly when we discovered connections between different tenants that raised questions over effective diversification. The quality of the tenants failed to match our previous expectations. Finally, a meeting with the manager failed to satisfy any of our concerns. If anything, they were deepened.

The risks we were uncovering were far exceeding what we had initially anticipated for the asset type. The often quoted "government backing" as tenant of last resort felt inadequate for the risks that would be faced in any resolution process upon failure. Furthermore, with the general sell off that had occurred across various asset classes amidst the Gilt and government crisis of the Autumn, we felt there were better opportunities elsewhere. Our initial reductions were commenced at the start of November and as our concerns grew, we accelerated the program and finally exited on the 18 November when the shares were still trading around 75p.

We have watched with dismay (and significant relief) as subsequent to our exit there was a published "short report" by Viceroy Research LLC in the US¹. This triggered a chain of events that saw the shares collapse to 38p, the publication of the annual results has been delayed, and the shares suspended from the market. While we cannot preempt the investigation by the auditor, this could be a sad example of a failure of public markets to achieve a stated financial and social objective. It is also a reminder to us that the greatest risks sometimes lurk in the least expected places. Furthermore, it shows that it is not just skiers that take a gradual climb followed by a steep descent; assuming there's some snow around.

The Marketplace

- Global equities returned 3.3% last week
- The World Bank released its latest round of economic projections, with global growth projection for 2023 now at 1.7%, marking a downgrade from 3.0% forecasted in June
- Brent crude rose by 8.5% to \$85.28 per barrel
- Gold rose 2.9% to \$1920.23 per ounce

Market Focus

US

- US equities returned 2.7% last week
- Monthly Consumer Price Index (CPI) came in at -0.08% in December, the biggest monthly decline since April 2020, driven by falling energy prices. Year-on-year CPI was taken down to a one-year low of 6.5%. These releases have led to growing expectations that The Fed would downshift the pace of rate hikes at the February meeting
- Core CPI, which strips out food and energy, was up by 0.3% on the month, ticking up from its 15-month low in November
- Weekly initial jobless claims over the first week of 2023 came in at 205k vs 215k expected

Europe

- European equities returned 2.0% last week
- Euro Area unemployment remained at a record low of 6.5% in November, pointing to a historically tight labour market that could lead to further wage and inflationary pressures
- The French government outlined a plan that would see the country's retirement age rise to 64 by 2030, up from 62 at present
- The European Central Bank's Consumer Expectations Survey for November showed a decline in 12-month inflation expectations from 5.4% to 5.0%

UK

- UK equities returned 1.8% last week
- Industrial production and manufacturing production for November fell by 0.2% and 0.5%, respectively
- GDP expanded by 0.1% in November, marking a slowdown from a 0.5% rise in October

Asia/Rest of The World

- Global emerging market equities returned 4.2% last week
- Japanese equities rose by 1.5% last week
- Chinese equities returned 4.2% last week as Covid-19 restrictions continued to ease
- Tokyo's core consumer prices advanced 4.0% year-on-year in December – the fastest pace in four decades
- Inflation in China accelerated to 1.8% year-on-year in December, in line with market expectations, driven by rising food prices despite economic activity remaining soft due to Covid-19.

Global Matters Weekly

16 January 2023

Asset Class/Region	Currency	Currency returns			
		Week ending 13 Jan. 2023	Month to date	YTD 2023	12 months
Developed Market Equities					
United States	USD	2.7%	4.2%	4.2%	-13.2%
United Kingdom	GBP	1.8%	5.1%	5.1%	9.5%
Continental Europe	EUR	2.0%	7.0%	7.0%	-5.5%
Japan	JPY	1.5%	0.6%	0.6%	-2.5%
Asia Pacific (ex Japan)	USD	4.2%	7.6%	7.6%	-12.9%
Australia	AUD	3.1%	4.1%	4.1%	2.6%
Global	USD	3.3%	5.2%	5.2%	-12.6%
Emerging markets equities					
Emerging Europe	USD	1.8%	2.4%	2.4%	-70.5%
Emerging Asia	USD	4.3%	8.3%	8.3%	-16.4%
Emerging Latin America	USD	5.1%	7.8%	7.8%	13.5%
BRICs	USD	3.8%	8.3%	8.3%	-16.5%
China	USD	4.2%	12.1%	12.1%	-13.9%
MENA countries	USD	1.2%	1.6%	1.6%	-11.5%
South Africa	USD	6.6%	10.5%	10.5%	-1.4%
India	USD	1.8%	0.9%	0.9%	-9.4%
Global emerging markets	USD	4.2%	7.7%	7.7%	-16.1%
Bonds					
US Treasuries	USD	0.6%	2.4%	2.4%	-9.0%
US Treasuries (inflation protected)	USD	0.4%	1.6%	1.6%	-9.3%
US Corporate (investment grade)	USD	1.3%	3.2%	3.2%	-11.3%
US High Yield	USD	1.6%	3.9%	3.9%	-7.2%
UK Gilts	GBP	1.6%	2.7%	2.7%	-21.5%
UK Corporate (investment grade)	GBP	2.0%	3.6%	3.6%	-16.4%
Euro Government Bonds	EUR	0.6%	3.3%	3.3%	-15.7%
Euro Corporate (investment grade)	EUR	0.8%	2.0%	2.0%	-12.0%
Euro High Yield	EUR	1.5%	2.5%	2.5%	-9.3%
Japanese Government	JPY	-0.7%	-0.6%	-0.6%	-6.1%
Australian Government	AUD	1.5%	2.6%	2.6%	-7.5%
Global Government Bonds	USD	1.8%	3.1%	3.1%	-14.4%
Global Bonds	USD	1.7%	3.3%	3.3%	-14.0%
Global Convertible Bonds	USD	3.0%	4.0%	4.0%	-15.0%
Emerging Market Bonds	USD	1.8%	3.1%	3.1%	-19.9%

Source: Bloomberg. Past performance is not indicative of future returns

Global Matters Weekly

16 January 2023

Asset Class/Region	Currency	Currency returns			
		Week ending 13 Jan. 2023	Month to date	YTD 2023	12 months
Property					
US Property Securities	USD	4.1%	5.9%	5.9%	-18.3%
Australian Property Securities	AUD	4.5%	4.5%	4.5%	-16.3%
Asia Property Securities	USD	1.0%	1.9%	1.9%	-8.6%
Global Property Securities	USD	3.9%	5.6%	5.6%	-17.6%
Currencies					
Euro	USD	1.8%	1.1%	1.1%	-5.5%
UK Pound Sterling	USD	1.0%	0.9%	0.9%	-11.0%
Japanese Yen	USD	3.5%	2.6%	2.6%	-10.7%
Australian Dollar	USD	1.4%	2.2%	2.2%	-4.4%
South African Rand	USD	2.1%	1.3%	1.3%	-8.5%
Swiss Franc	USD	0.2%	-0.5%	-0.5%	-1.7%
Chinese Yuan	USD	1.9%	2.9%	2.9%	-5.1%
Commodities & Alternatives					
Commodities	USD	4.5%	-0.1%	-0.1%	15.0%
Agricultural Commodities	USD	1.4%	-0.6%	-0.6%	7.8%
Oil	USD	8.5%	-0.7%	-0.7%	1.0%
Gold	USD	2.9%	5.3%	5.3%	5.5%
Hedge funds	USD	0.4%	1.1%	1.1%	-2.7%

Important notes

This document is for information purposes only and does not constitute any investment advice. This document is only intended for use by Newport Distribution Ltd and their clients. This does not constitute an offer or solicitation to any person in any jurisdiction in which it is not authorised or permitted, or to anyone who would be an unlawful recipient.

Prospective investors should take appropriate advice regarding applicable legal, taxation and exchange control regulations in countries of their citizenship, residence or domicile which may be relevant to the acquisition, holding, transfer, redemption or disposal of any investments herein solicited.

Any opinions expressed herein are those at the date this document is issued. Data, models and other statistics are sourced from our own records, unless otherwise stated. We believe that the information contained is from reliable sources, but we do not guarantee the relevance, accuracy or completeness thereof. Unless otherwise provided under UK law, Momentum GIM does not accept liability for irrelevant, inaccurate or incomplete information contained, or for the correctness of opinions expressed.

The value of investments in discretionary accounts, and the income derived, may fluctuate and it is possible that an investor may incur losses, including a loss of the principal invested. Past performance is not generally indicative of future performance. Investors whose reference currency differs from that in which the

underlying assets are invested may be subject to exchange rate movements that alter the value of their investments.

Under our multi-management arrangements, we selectively appoint underlying sub-investment managers and funds to actively manage underlying asset holdings in the pursuit of achieving mandated performance objectives. Annual investment management fees are payable both to the multimanager and the manager of the underlying assets at rates contained in the offering documents of the relevant portfolios (and may involve performance fees where expressly indicated therein).

Momentum Global Investment Management (Company Registration No. 3733094) has its registered office at The Rex Building, 62 Queen Street, EC4R 1EB

Momentum Global Investment Management Limited is authorised and regulated by the Financial Conduct Authority in the United Kingdom.

© Momentum Global Investment Management Limited 2023