

## Jassy: Jeff's Fresh Prince

## Global Matters Weekly

16 August 2021

– Alex Harvey, CFA

You will likely be aware that last month Amazon founder, Jeff Bezos, was blasted to the edge of space aboard New Shepard, a rocket designed to give fare paying customers an out of this world – and out of their seats – experience. His flight came just days after that of fellow billionaire businessman Sir Richard Branson whose company Virgin Galactic is also opening up a commercial venture. Surely Elon Musk can't also resist the ultimate ride? What fewer readers will know is that just a few weeks before Mr Bezos's pioneering flight he stepped down as CEO of Amazon, handing the reins to Andy Jassy, a 23-year Amazon veteran who in 2003 founded Amazon Web Services (AWS), its cloud computing business, and has grown it into arguably the biggest profit centre under the Amazon banner today. These two events were not directly linked, and Mr Bezos stays on as Executive Chairman, but it does shine a light on an important aspect of business operations and corporate governance: succession planning.

Most of the world's leading companies have a public figurehead who has charted the company's rise to where they are today. These pioneers have an emboldened vision and drive, often with a personality to match. Their influence today extends beyond the bounded corporate sphere into that of the public at large via social media engagement and self-promotion. No-one exemplifies this more today than Elon Musk, CEO of Tesla and spiritual leader to an army of devotees who follow his tweets. Mr Musk is younger than Mr Bezos but as his company grows and his interests pull him in different directions – above ground with SpaceX and below ground with The Boring Company - shareholders will increasingly focus on the executive team in place that maintains day to day operations at Tesla. Mr Musk also has a penchant for attracting the attention of media and regulators. His public musings can and do directly impact Tesla's share price and whilst shareholders have no doubt benefited from his leadership, he is not afraid to court controversy. After tweeting in 2018 that he had "funding secured" for a buyout of Tesla at \$420 he was effectively forced to step down as Chairman, thereby separating the roles of CEO and Chairman. With the stock earlier this year hitting \$900<sup>1</sup> investors might be forgiven for thinking that's no bad thing.

With corporate leadership often comes ownership, and this can be in size where founder CEOs like Messieurs Bezos and Musk are involved. Investors like to see 'skin in the game' and will welcome a degree of co-ownership with the senior executive team. Some of our investment managers actively seek out businesses, more often found in emerging markets, which are listed but retain a sizeable founding family stake. Often these businesses will choose

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to groom a family successor and, in these instances, there is a balance to strike between alignment of shareholder interest and finding the best man or woman for the job as the business matures. Enhanced or preferential voting structures may limit an external investor's say in such matters. The gold-plated shares owned by Deliveroo founder, Will Shu, offer 20 votes a piece and ensure he retains control of the business, but big investors shunned the IPO and the stock fell.

Beyond the corporate level of the invested companies our funds own, we too at Momentum must ensure that our third-party managers have plans in place as senior, and often founding members, of their investment teams take a step back or retire. Our hunting ground tends to be smaller, younger, more niche investment companies and as such, the successful ones will face the same (but perhaps smaller) succession challenges that face Mr Bezos at Amazon. A successful boutique investment business by its nature is likely to have been founded by one or two investment pioneers, but will only flourish with a team to support them, and a new generation of leaders to ultimately take control of the business.

Within our own investment team as well, we are mindful of this balance. We like to 'grow our own timber' as we say, recruiting exciting young talent, some of whom joined after completing a university internship. Director of Investment Management, Andrew Hardy, carved out this route as did Portfolio Manager Richard Stutley. This helps ensure a pipeline of talent and cultivates a strong bond within the team, with more senior members on hand to mentor those starting out their careers. The founding member of Momentum in London, Glyn Owen, remains a key member of the team today in his position as Investment Director.

Succession is inevitable, but its success is not. Earlier tech pioneers like Microsoft show how this can be done. Four decades and three CEOs later and it is one of the most valuable companies in the world today, second only to Apple. As others fight over bragging rights in space, the older and more philanthropic Mr Gates prefers to focus his energy closer to home these days, with planetary and human succession higher up his agenda. With age comes wisdom.

<sup>1</sup> Bloomberg Finance L.P.

## The Marketplace

- Global equities rose 0.9% last week
- Asian economies are continuing to deal with the increasing spread of the delta variant. The outbreak in China is continuing to grow
- Brent crude fell -0.2% over the week to \$70.6 a barrel
- Gold rose 0.9% to \$1780 per ounce

## Market Focus

### US

- US equities rose 0.7% last week
- US inflation data from July showed headline CPI rising 0.5% month-on-month and 5.4% on a year-on-year basis. Core inflation rose by 0.3% vs 0.4% expected, its softest reading since March
- US producer prices surprised to the upside highlighting ongoing inflationary pressures. US July PPI showed prices rose 1.0% last month vs 0.6% expected
- Jobless claims for the week through August 7th were in line with expectations at 375k, down -12k from the previous week representing the fourth weekly decline in the last five weeks
- US JOLTs job opening data showed a record high 10.07m available jobs in June, up from the previous month's record of 9.48m
- The US Senate passed their bipartisan infrastructure package that includes \$500bn of new spending over the next eight years
- The NFIB Small Business Optimism index was slightly lower than expected at 99.7 vs 102.0, down from last month's 102.5 reading
- Preliminary Q2 Nonfarm productivity came in lower than expectations at 2.3% vs 3.2%

### UK

- UK equities rose 1.6% last week
- The UK economy grew 4.8% in Q2 based on a preliminary reading, in line with expectations. This was largely driven by household consumption and government spending
- Fewer than 1% of UK school students and teachers tested positive for Covid-19 in June, significantly lower than last Autumn

### Europe

- European equities rose 1.4% last week
- Germany's final July CPI reading came in at 0.9% month-on-month and 3.8% year-on-year, in line with expectations
- The Euro Area August Sentix investor confidence came in lower than expectations at 22.2 vs 29.0 expected compared to 29.8 the month prior, reflecting renewed fears of rising case counts
- The Bank of France sentiment index similarly fell to 105 in July from 107 in June
- The EU announced that it would not reinstate travel restrictions on non-essential travel from the US

### Asia/Rest of The World

- The benchmark Global Emerging Markets index returned -0.9% last week
- Japanese equities rose 1.4% over the week
- Chinese equities rose 0.2% last week
- Chinese July retail sales grew by just 8.5% year-on-year, weaker than expectations of 10.9%, while industrial production growth similarly underwhelmed at 6.4% year-on-year vs 7.9% expected
- The unemployment rate in China ticked up to 5.1% vs 5.0% expected
- Japan's preliminary Q2 GDP came in at an annualised rate of 1.3% quarter-on-quarter vs 0.5% expected
- China partly shut down the third busiest port in the world due to an infected worker. This follows the Yantian port in Shenzhen being closed in late May for about a month after a similar case there

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Asset Class/Region	Currency	Currency returns			
		Week ending 13 Aug. 2021	Month to date	YTD 2021	12 months
<b>Developed Market Equities</b>					
United States	USD	0.7%	1.7%	19.7%	33.9%
United Kingdom	GBP	1.6%	3.1%	15.1%	20.8%
Continental Europe	EUR	1.4%	3.2%	21.3%	30.8%
Japan	JPY	1.4%	2.9%	9.6%	23.0%
Asia Pacific (ex Japan)	USD	-0.8%	0.6%	0.4%	18.6%
Australia	AUD	1.3%	3.3%	17.9%	29.2%
Global	USD	0.9%	1.9%	17.2%	32.6%
<b>Emerging markets equities</b>					
Emerging Europe	USD	2.0%	2.6%	17.7%	25.6%
Emerging Asia	USD	-1.4%	0.1%	-2.5%	16.0%
Emerging Latin America	USD	0.1%	-0.5%	3.9%	28.6%
BRICs	USD	0.4%	0.9%	-4.1%	10.5%
China	USD	0.2%	0.1%	-12.1%	-0.3%
MENA countries	USD	1.0%	2.7%	24.9%	38.9%
South Africa	USD	0.7%	-0.5%	8.1%	31.5%
India	USD	1.9%	5.2%	17.5%	49.4%
Global emerging markets	USD	-0.9%	0.3%	0.5%	19.0%
<b>Bonds</b>					
US Treasuries	USD	0.0%	-0.3%	-1.8%	-2.5%
US Treasuries (inflation protected)	USD	0.3%	-0.4%	4.0%	6.7%
US Corporate (investment grade)	USD	0.2%	-0.5%	-0.4%	1.9%
US High Yield	USD	-0.2%	-0.3%	3.6%	9.8%
UK Gilts	GBP	0.6%	0.3%	-2.9%	-1.9%
UK Corporate (investment grade)	GBP	0.4%	0.2%	-1.0%	3.3%
Euro Government Bonds	EUR	0.1%	0.3%	-0.9%	1.4%
Euro Corporate (investment grade)	EUR	0.0%	0.0%	0.7%	3.1%
Euro High Yield	EUR	0.0%	0.3%	3.8%	8.8%
Japanese Government	JPY	-0.1%	-0.1%	0.3%	0.4%
Australian Government	AUD	-0.2%	-0.3%	-0.6%	-0.3%
Global Government Bonds	USD	0.2%	-0.2%	-3.4%	-0.8%
Global Bonds	USD	0.2%	-0.3%	-2.5%	0.2%
Global Convertible Bonds	USD	-0.2%	-0.2%	0.1%	12.8%
Emerging Market Bonds	USD	-0.1%	0.2%	-2.3%	0.0%

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<b>Property</b>					
US Property Securities	USD	-0.2%	0.1%	27.2%	37.8%
Australian Property Securities	AUD	-0.8%	1.8%	10.0%	25.3%
Asia Property Securities	USD	1.1%	1.1%	4.0%	9.3%
Global Property Securities	USD	0.4%	1.0%	17.7%	30.0%
<b>Currencies</b>					
Euro	USD	0.4%	-0.5%	-3.5%	-0.1%
UK Pound Sterling	USD	0.0%	-0.2%	1.6%	6.0%
Japanese Yen	USD	0.5%	0.1%	-5.8%	-2.6%
Australian Dollar	USD	0.3%	0.4%	-4.2%	2.9%
South African Rand	USD	-0.5%	-0.8%	-0.4%	18.1%
Swiss Franc	USD	0.0%	-1.0%	-3.4%	-0.6%
Chinese Yuan	USD	0.1%	-0.2%	0.8%	7.2%
<b>Commodities &amp; Alternatives</b>					
Commodities	USD	1.0%	-1.2%	29.0%	46.5%
Agricultural Commodities	USD	3.3%	4.2%	24.6%	56.0%
Oil	USD	-0.2%	-7.5%	36.3%	57.0%
Gold	USD	0.9%	-1.9%	-6.1%	-8.9%
Hedge funds	USD	0.1%	0.2%	3.7%	9.4%

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