

(il)Liquidity of property

Global Matters Weekly

26 February 2024

– Jackson Franks — *Portfolio Analyst*

Towards the end of last year, St James's Place (SJP), M&G Investments, and Canada Life all announced closures and suspensions of open-ended UK property funds. This trend isn't new; since the 2016 Brexit referendum, property funds allowing daily transactions have faced suspensions several times due to the challenge of matching liquidity with the illiquid nature of property assets. However, some firms like Legal & General Investment Management (LGIM) and other major UK fund groups have pledged to keep their open-ended property funds open, bringing back the debate on whether the UK regulator should restrict retail investors from investing in open-ended property funds.

At Momentum Global Investment Management (MGIM), we do not invest in open-ended real estate funds because of the clear liquidity mismatch of offering daily dealing on an illiquid asset such as a property. Due to the length of time it takes to sell a property, a minimum of 3 months, but in time of market stress often longer, when the sector sees an increased level of redemptions the open-ended property strategies are unable to cope with the cash demand and therefore suspend dealing. Gating the fund enables the manager to postpone redemptions for a period of time so they can raise the cash required to pay investors by selling an asset or raising further capital. This could be an uneasy time for retail investors who are wanting to reduce their exposure to the sector but are unable to do so.

Open-ended property funds are not the only way to gain direct exposure to the property market. At MMGIM we gain exposure to the sector for our clients through Real Estate Investment Trusts ("REITs") and a private equity vehicle known as the Momentum Africa Real Estate Fund ("MAREF"), which are suitable for retail and qualified institutional investors respectively. A private equity style vehicle, such as MAREF, has its advantages and disadvantages for investors. Investors would be locked into the strategy for the duration of the fund's life. This gives the manager time to generate returns undistracted by the impulses of investor flows. Having said that, this style is illiquid and if the investor

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requires liquidity during the life of the fund (the majority are 8+ years), they cannot redeem.

REITs, similar to private equity vehicles, have a fixed pool of capital for the investment manager to invest across the sector whilst offering a similar liquidity experience to investing in publicly traded stocks. REITs are easy to understand from an investor's perspective: by leasing space and collecting rent on its acquired real estate, the company generates income which is then paid out to shareholders in the form of dividends. REITs are required to distribute 90% of their taxable income to shareholders which is significantly higher, on average, than other equities. However, because REITs are listed on the stock market, their share price is driven by two factors: (1) the valuation of their underlying assets and (2) broader market sentiment and buying/selling pressures. The manager never has to face redemptions, as investors simply sell their shares in the market if they so wish.

It is critical that any investor in the real estate sector understands and appreciates the illiquid nature of the underlying asset class. At Momentum, we manage this illiquidity risk by sizing our real estate exposure appropriately and investing in liquid REITs instead of open-ended daily investment vehicles, thus avoiding the risks arising from an asset-liability mismatch. Although the listed status of a REIT introduces an element of equity market risk and pricing volatility, which is particularly evident in these uncertain times, investors can still liquidate their holdings if so required, or indeed add to their holdings at what might prove to be heavily discounted valuations. Neither of these options are available to holders of most UK open-ended property funds at this point.

The Marketplace

- Global equities rose 1.5%
- Headline US and Japanese equity indices reached new highs
- Brent crude fell 2.2% to \$81.6 barrel
- Gold rose 1.1% to \$2035.4 per ounce.

Market Focus

US

- US equities rose 1.7% to new highs driven by the technology sector, despite being closed on Monday for President's Day
- The Federal Reserve's Christopher Waller said January's jump in CPI warrants caution in deciding when to start cutting rates
- US February PMI for Manufacturing was 51.5 (vs 50.5 expected), Services 51.3 (vs 52.4)
- Weekly initial jobless claims were 201K (vs 217k expected)
- US January Existing Homes sales were 4m (vs 3.96m expected)

Europe

- European equities rose 1.4%
- Germany's GDP quarter-on-quarter was -1.3%, in line with expectations

UK

- UK equities rose 0.2%
- The February composite PMI was 53.3 (vs 52.9 expected), with Manufacturing at 47.1 (vs 47.5 expected) and Services 54.3 (vs 54.2 expected)

Asia/Rest of The World

- Global emerging market equities rose 1.2%
- Japanese equities rose 1.4%, reaching new highs and eclipsing their 1989 peak. Markets were closed on Friday for the Emperor's Birthday
- Chinese equities rose 2.7%. Hong Kong and mainland stocks rallied as the move against quants reduced short-selling concerns
- China's quants face a clampdown as the two key mainland exchanges vowed to tighten oversight after freezing the accounts of a major hedge fund for three days. The firm had dumped \$360 million of stock within a minute on Monday
- Russia's invasion of Ukraine has entered its second year since the conflict began

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Asset Class/Region	Currency	Currency returns			
		Week ending 23 Feb. 2024	Month to date	YTD 2024	12 months
Developed Market Equities					
United States	USD	1.7%	5.1%	6.8%	28.3%
United Kingdom	GBP	0.2%	1.5%	0.3%	1.3%
Continental Europe	EUR	1.4%	2.8%	4.8%	12.3%
Japan	JPY	1.4%	4.3%	12.4%	38.1%
Asia Pacific (ex Japan)	USD	1.3%	5.1%	0.1%	3.7%
Australia	AUD	0.1%	-0.2%	1.0%	9.3%
Global	USD	1.5%	4.1%	5.4%	23.8%
Emerging markets equities					
Emerging Europe	USD	2.5%	5.6%	8.1%	35.0%
Emerging Asia	USD	1.6%	6.6%	1.0%	4.7%
Emerging Latin America	USD	-0.5%	0.4%	-4.5%	19.9%
BRICs	USD	1.9%	6.5%	0.5%	1.5%
China	USD	2.7%	9.8%	-1.9%	-16.3%
MENA countries	USD	0.5%	4.0%	4.1%	13.6%
South Africa	USD	-1.9%	-4.7%	-10.2%	-7.0%
India	USD	1.0%	2.6%	2.9%	27.9%
Global emerging markets	USD	1.2%	5.5%	0.6%	6.9%
Bonds					
US Treasuries	USD	0.3%	-1.4%	-1.7%	2.0%
US Treasuries (inflation protected)	USD	0.1%	-1.5%	-1.3%	1.8%
US Corporate (investment grade)	USD	0.4%	-1.3%	-1.1%	5.9%
US High Yield	USD	0.5%	0.3%	0.3%	11.2%
UK Gilts	GBP	0.5%	-1.4%	-3.7%	-0.3%
UK Corporate (investment grade)	GBP	0.7%	-0.3%	-1.4%	5.8%
Euro Government Bonds	EUR	0.3%	-1.0%	-1.4%	4.4%
Euro Corporate (investment grade)	EUR	0.3%	-0.7%	-0.6%	6.0%
Euro High Yield	EUR	0.4%	0.5%	1.4%	9.8%
Japanese Government	JPY	0.3%	0.5%	-0.3%	-0.1%
Australian Government	AUD	0.1%	-0.8%	-0.7%	2.7%
Global Government Bonds	USD	0.4%	-1.6%	-3.2%	0.8%
Global Bonds	USD	0.5%	-1.4%	-2.6%	3.2%
Global Convertible Bonds	USD	-0.4%	0.1%	-2.0%	4.0%
Emerging Market Bonds	USD	0.9%	0.8%	-0.5%	9.1%

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

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Asset Class/Region	Currency	Currency returns			
		Week ending 23 Feb. 2024	Month to date	YTD 2024	12 months
Property					
US Property Securities	USD	0.4%	1.5%	-2.8%	2.0%
Australian Property Securities	AUD	-1.7%	3.1%	4.5%	10.2%
Asia Property Securities	USD	1.1%	0.2%	-5.5%	-7.7%
Global Property Securities	USD	0.3%	0.2%	-3.6%	2.0%
Currencies					
Euro	USD	0.4%	-0.2%	-2.2%	2.3%
UK Pound Sterling	USD	0.6%	-0.3%	-0.7%	5.7%
Japanese Yen	USD	-0.1%	-2.7%	-6.4%	-10.4%
Australian Dollar	USD	0.4%	-0.5%	-4.0%	-3.3%
South African Rand	USD	-2.1%	-3.1%	-5.2%	-5.2%
Swiss Franc	USD	0.0%	-2.4%	-4.7%	6.1%
Chinese Yuan	USD	0.0%	-0.4%	-1.3%	-3.9%
Commodities & Alternatives					
Commodities	USD	-0.9%	-1.8%	-0.2%	-0.2%
Agricultural Commodities	USD	-0.5%	-1.6%	-0.1%	-0.1%
Oil	USD	-2.2%	-0.1%	5.9%	-0.7%
Gold	USD	1.1%	-0.7%	-1.3%	11.8%

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