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weekly

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Understanding our investors requirements and risk tolerance through open dialogue enabled us to build a robust process which mitigates their risks whilst enabling the fund to aim to hit its return objective

26 April 2021

ESL, what not to do.

by Jackson Franks

As an avid Watford football club supporter, the announcement of a newly formed European Super League (ESL) on the 18th April felt like a break-up. The dream of one day getting to see my club play at the highest level had disappeared overnight. For those who didn't see the news, twelve of the "biggest" European football teams broke away to form the ESL, of which six were English. The newly formed competition was designed to challenge the existing UEFA Champions League bringing more games between the largest European clubs. My disappointment didn't last long as three days later most founding members ended their involvement, despite a guaranteed place in the league for its entirety and a not so small c.$300m founder's fee. So why did the ESL end as quickly as it started? To me the answer is simple, not understanding their clientele. The ESL was not an evolution of the sport but instead was a fundamental change in three commonly used core principles: (1) mandate – best performing clubs changed to the so called biggest clubs (2) philosophy – positive or negative implications based on performance changed to no implications and (3) process – open competition changed to a closed competition.

At Momentum, we pride ourselves on understanding our clients' needs through engagement and market research. Our focus is on designing, building and managing outcome-based investment solutions, delivered through multi-asset portfolios and tailored client vehicles. Although our core principles may evolve over time the fundamentals of our principles will remain the same: (1) mandate – provide investment solutions, (2) philosophy – outcome-based investing and (3) process – designing, building and managing investment products.

One investment vehicle in which we manage is the Momentum Africa Real Estate Fund, also known as MAREF[1]. MAREF is a closed ended pooled vehicle whose mandate is to finance and develop commercial real estate within sub-Saharan Africa excluding South Africa. The fund's investment philosophy is to provide global Grade A standard properties to the continent at the lowest possible rental rate for its occupiers, whilst delivering its return objective to its investors. Operating in sub-Saharan Africa comes with heightened risk factors. Understanding our investor's requirements and risk tolerance through open dialogue enabled us to build a robust process which mitigates their risks whilst enabling the fund to aim to hit its return objective. These risks include, (1) secured title and zoning of land, (2) costing and design, (3) pre-letting 60% of gross lettable area (GLA) and (4) securing debt funding. At the outset of any project, an extensive due diligence is conducted on the title and zoning of land. In sub-Saharan Africa the land registries are not as established as the developed world and are only now in the process of being digitalised. The importance of ensuring the land is secured and zoned is vital before investing our client's capital due to a higher risk of land claims. MAREFs appointed developer, Eris Property Group (EPG), that is MGIM's sister company, decommission risks 2 and 3 above. EPG underwrite the delivery and the capital cost to MAREF and therefore the total project cost presented to investment committee is the final cost. If the cost were to go above the presented amount, it would be at the cost of EPG not MAREFs investors. Consequently, the costing and design will be at stage 4 before a project is presented to MAREFs investment committee. Mitigating risk 1, 2 and 3 above enables MAREF to source third party debt funding. MAREF is mandated to gear a project up to 60% of the total development cost, and once sourced ensures the project is fully funded from day 1. Only once these four key risks have been mitigated does a project get presented to the investment committee for approval.

Understanding your client's requirements and objectives whilst communicating your mandate, philosophy and process is key to establishing a successful working relationship. Now the ESL knows what their clients don't want, I wouldn't be too surprised to see a newly presented version of the ESL in years to come.

[1] MAREF is an African commercial real estate development joint venture between MGIM and EPG. The Fund is closed for new investments. More details can be found on the Momentum website. https://momentum.co.uk/channels/institutional-investor/real-estate.

Market Focus

- Global equities fell -0.2% last week
- The Biden administration met its goal of 200mn coronavirus vaccine shots in the first 100 days
- Brent crude fell -1.0% last week to $66.1 a barrel
- Gold stayed flat at $1777.2 per ounce

US

- US equities fell -0.1% last week
- The weekly initial jobless claims for the week ending 17th April fell to a post-pandemic low of 547k against 610k expected
- The Chicago Fed's national activity index rose to 1.71 in March, against 1.25 expected
- President Biden announced a new target to reduce US greenhouse gas pollution by 50-52% in 2030 compared to 2005 levels
- The Markit composite PMI rose to 62.2, the highest reading since data began in 2009
- Existing home sales fell to an annualised rate of 6.0mn in March against 6.1mn expected

Rest of the World/Asia

- The benchmark Global Emerging Markets index returned 0.3% last week
- Japanese equities fell -2.3% over the week
- An increasing number of areas in India have moved to tougher restrictions in light of the spike in cases
- The CPI release from Canada showed inflation rose to 2.2% in March, up from 1.1% in February
- Canada's central bank boosted its growth outlook and brought forward their estimate of when economic slack would be absorbed from 2023 to the second half of 2022
- Japan's manufacturing PMI was 53.3, against 52.7 last month, and Australia's reading was 59.6 against 56.8 expected

Europe

- European equities fell -0.4% last week
- The EU exercised an option for a further 100mn doses of the Pfizer-BioNTech vaccine, with all doses planned to be delivered this year
- The European Commission's advance consumer confidence reading for April came in at -8.1, versus -11.0 expected, its strongest reading since the pandemic began
- The composite PMI for the Euro area rose to 53.7 from 53.2 last month
- Germany's composite figure dropped from 57.3 last month to 56.0, while France's figure rose to 51.7 from 50.0 in March

UK

- UK equities fell -1.1% last week
- UK PM Johnson cancelled his planned visit to India next week as the country was added to the UK's travel ban list on the back of a surge in coronavirus cases
- The unemployment rate came in at 4.9% in the three months to February, against 5.0% expected
- The seven-day reported average of coronavirus case numbers fell to its lowest level since early September
- The CPI reading for March rose to 0.7% year-on-year, less than the 0.8% rise expected, in the second consecutive month that inflation has surprised to the downside

Past performance is not indicative of future returns. Source: Bloomberg, returns in local currency unless otherwise stated.

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Market Summary

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Asset Class / Region	Currency	Cumulative returns: Week ending 23 April	Month to date	YTD 2021	12 months
Developed Markets Equities					
United States	USD	-0.1%	5.3%	11.6%	51.2%
United Kingdom	GBP	-1.1%	3.4%	8.8%	21.6%
Continental Europe	EUR	-0.4%	2.7%	10.7%	36.8%
Japan	JPY	-2.3%	-2.0%	7.1%	37.1%
Asia Pacific (ex Japan)	USD	0.4%	3.1%	5.9%	55.0%
Australia	AUD	0.0%	4.0%	8.4%	39.1%
Global	USD	-0.2%	4.9%	10.0%	51.5%
Emerging Markets Equities					
Emerging Europe	USD	0.0%	2.2%	2.8%	32.2%
Emerging Asia	USD	0.5%	2.7%	4.9%	55.9%
Emerging Latin America	USD	0.5%	5.3%	-0.3%	55.8%
BRICs	USD	1.0%	2.1%	2.0%	44.4%
China	USD	1.8%	3.2%	2.8%	42.2%
MENA countries	USD	1.1%	2.4%	13.9%	45.1%
South Africa	USD	-2.5%	2.9%	15.4%	73.4%
India	USD	-2.4%	-4.7%	0.2%	57.4%
Global emerging markets	USD	0.3%	2.9%	5.2%	54.8%
Bonds					
US Treasuries	USD	0.1%	1.1%	-3.6%	-4.7%
US Treasuries (inflation protected)	USD	0.2%	1.2%	-0.6%	5.8%
US Corporate (investment grade)	USD	0.2%	1.4%	-3.3%	4.8%
US High Yield	USD	0.0%	0.9%	1.7%	19.9%
UK Gilts	GBP	0.3%	1.3%	-6.2%	-7.0%
UK Corporate (investment grade)	GBP	0.2%	1.2%	-3.5%	5.6%
Euro Government Bonds	EUR	-0.1%	-0.5%	-2.8%	2.9%
Euro Corporate (investment grade)	EUR	0.0%	0.2%	-0.5%	6.4%
Euro High Yield	EUR	-0.1%	0.5%	2.1%	16.4%
Japanese Government	JPY	0.2%	0.4%	-0.1%	-0.9%
Australian Government	AUD	0.0%	0.6%	-3.5%	-3.1%
Global Government Bonds	USD	0.4%	1.7%	-4.1%	2.0%
Global Bonds	USD	0.3%	1.6%	-3.1%	5.0%
Global Convertible Bonds	USD	0.0%	2.4%	1.6%	34.7%
Emerging Market Bonds	USD	-0.2%	2.0%	-5.4%	11.4%

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

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		Cumulative returns			
Asset Class / Region	**Currency**	**Week ending 23 April**	**Month to date**	**YTD 2021**	**12 months**
Property					
US Property Securities	USD	1.8%	6.5%	15.6%	43.4%
Australian Property Securities	AUD	-1.3%	2.7%	1.6%	35.5%
Asia Property Securities	USD	-1.4%	0.2%	8.2%	20.1%
Global Property Securities	USD	0.5%	4.7%	10.4%	39.0%
Currencies					
Euro	USD	0.8%	2.8%	-1.2%	11.7%
UK Pound Sterling	USD	0.2%	0.4%	1.5%	12.1%
Japanese Yen	USD	0.8%	2.4%	-4.3%	-0.4%
Australian Dollar	USD	0.1%	1.6%	0.6%	21.3%
South African Rand	USD	0.2%	3.4%	2.7%	33.7%
Swiss Franc	USD	0.6%	3.0%	-3.2%	6.4%
Chinese Yuan	USD	0.4%	0.9%	0.5%	8.8%
Commodities & Alternatives					
Commodities	USD	1.9%	6.7%	18.5%	75.1%
Agricultural Commodities	USD	5.5%	9.7%	17.9%	60.8%
Oil	USD	-1.0%	4.0%	27.6%	209.9%
Gold	USD	0.0%	3.8%	-6.2%	3.0%
Hedge funds	USD	-0.2%	1.0%	2.5%	14.8%

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

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