

Well, that wasn't expected...



Richard Parfect
Fund Manager

16 January 2023

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.

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 pre-empt 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.

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

Source: ¹[Home REIT - No place like Home REIT... thankfully | Viceroy Research, Home REIT Regulatory News](#)

With us, investing is personal



For more information, please contact:

Distribution Services

E: distributionservices@momentum.co.uk

T: T: +44 (0)207 618 1803

Important notes - This document is only intended for use by the original recipient, either a Momentum Global Investment Management Limited (MGIM) client or prospective client, and does not constitute investment advice or an offer or solicitation to buy or sell. This document is not intended for use or distribution by any person in any jurisdiction in which it is not authorised or permitted, or to anyone who would be an unlawful recipient. The original recipient is solely responsible for any actions in further distributing this document, and in doing so should be satisfied that there is no breach of local legislation or regulation. This document should not be reproduced or distributed except via original recipients acting as professional intermediaries. This document is not for distribution in the United States.

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, MGIM 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).

MGIM (Company Registration No. 3733094) has its registered office at The Rex Building, 62 Queen Street, London EC4R 1EB. MGIM is authorised and regulated by the Financial Conduct Authority in the United Kingdom (registration no.232357). MGIM is authorised and regulated by the Financial Conduct Authority in the United Kingdom, and is exempt from the requirements of section 7(1) of the Financial Advisory and Intermediary Services Act 37 of 2002 (FAIS) in South Africa, in terms of the FSCA FAIS Notice 141 of 2021 (published 15 December 2021). For complaints relating to MGIM's financial services, please contact distributionservices@momentum.co.uk