globalmatters Weekly

momentum
global investment management

INVESTMENT WEEK
INVESTMENT MARKETING AND INNOVATION AWARDS 2023
WINNER
Best Blog or Blog Series

"I'm from the government and I'm here to help"

Richard Parfect
Portfolio Manager

24 July 2023

President Reagan referred to those words as being the "nine most terrifying words in the English Language". August 1986 feels like a distant era and in many ways it is, however the debate over what any government's role should be in a capitalist free market system is as relevant today as it was back then. The primary and most important function of an elected government is the defence of the realm; I doubt President Zelenskyy is spending much time thinking about reform of Ukraine's education system or how to pay for public health programs. Therefore, how and to what extent government should reach into these other areas is something of a philosophical political debate.

Central governments, not least that of the UK, do not have a fantastic record when it comes to efficiently allocating taxpayer capital into physical projects. However, perhaps that is a little harsh as it depends upon what the objective is. Is it simply to make a profit, or alternatively is to try and influence the course of events in altruistic ways; with the expectation that money is likely to be lost in the process? The problem is that the objectives of such spending are rarely communicated.

Climate change is an increasingly hot topic (pun intended). One of the problems in addressing that is how to help developing nations adopt clean energy, when dirty energy may be more accessible or cheaper. It is therefore in addressing this conundrum that the Foreign, Commonwealth and Development Office (FCDO) decided to support the Initial Public Offering (IPO) of a new investment trust in 2021 with $32 million of taxpayer capital.

Thomas Lloyd Energy Impact Trust (TLEI) had the laudable ambition of investing in various construction ready infrastructure and renewable energy assets in Asia, India, Philippines, Vietnam, Bangladesh, and Indonesia (countries that are on the front line of climate change impacts). Targeted returns to investors were for 10-12% per annum.[1] At the time of the IPO, a key hook offered to investors was that they would be investing alongside the UK Government, the implication being (deliberate or otherwise) that could provide a degree of comfort on the due diligence already carried out and execution risks had been appraised by them.

We decided not to invest at the time, as despite the laudable aims, the targeted returns (given the risks) did not compare favourably against proven operating assets of a similar nature closer to home. Furthermore, the "attraction" of the UK Government having done rigorous due diligence felt far from compelling. Unfortunately, things have not gone well for TLEI. The shares were suspended in April 2023 due to "material uncertainty regarding the fair value of certain of its assets and liabilities", the issue surrounded problems over the proposed construction of a 200MW solar plant in India that could cause a $8.2 million impact.[2] An update on 12 July 2023 brought to light a number of non-completion liabilities facing the investment that could amount to $33.5 million; quite significant for a trust that last reported Net Assets of $142 milion.[3] The shares remain suspended and are yet to publish their report and accounts for December 2022.[4]

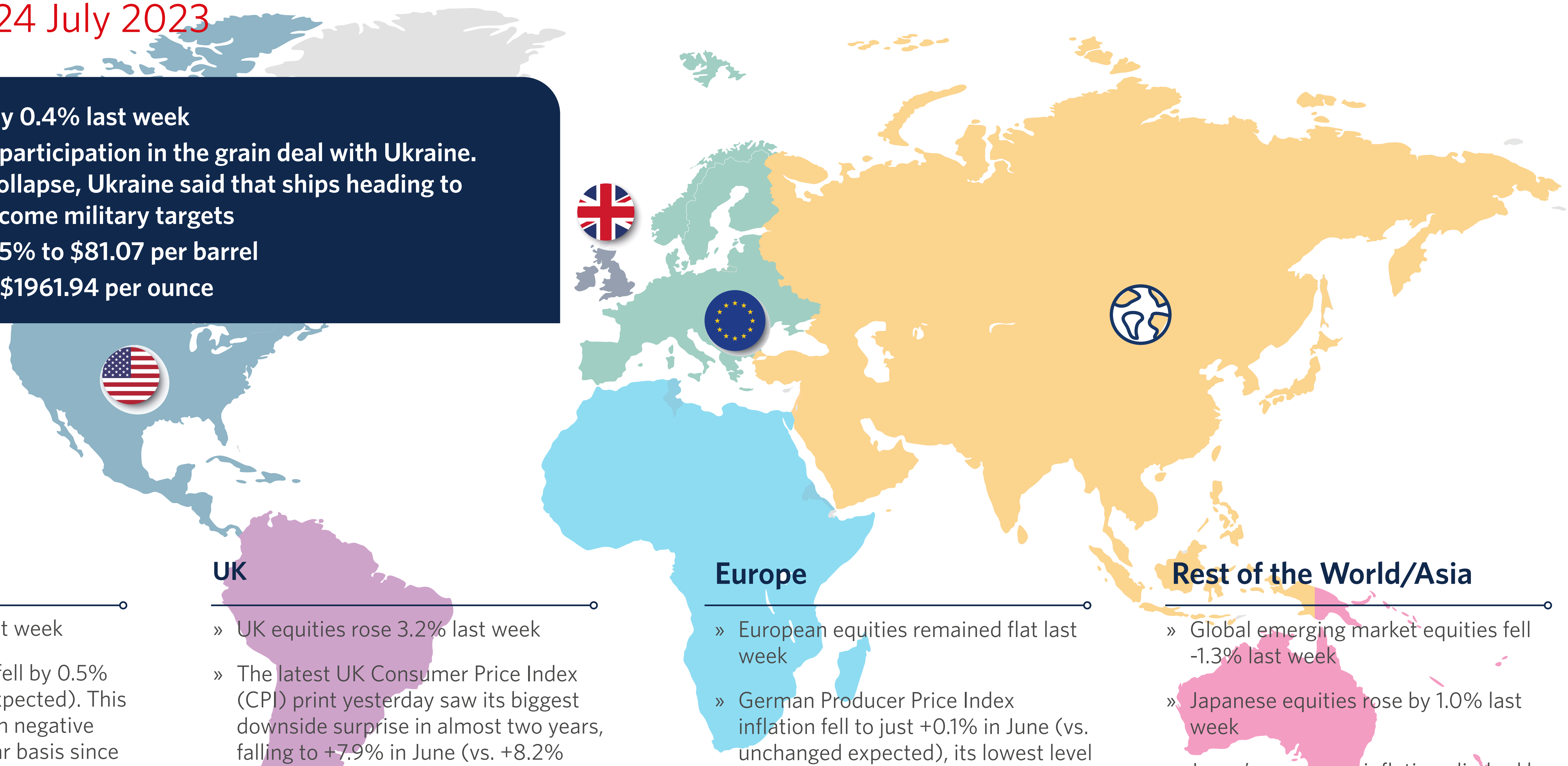
Investing in investment trusts is not risk free (we previously wrote about the collapse of Home REIT). Due diligence needs to be conducted at every level and an assessment made of whether the valuation and returns on offer are sufficient compensation for those risks. However, when good quality management teams are found, they can deliver compelling value; there have been various success stories raising primary capital for renewable energy (and other assets) in the UK over the last decade, for example the £3.9 billion Greencoat UK Wind.

It therefore remains a significant frustration for us that the Financial Conduct Authority (FCA) (the regulator, and by extension, an arms' length branch of government) has in place retail cost reporting guidelines that results in mis-leading over reporting of costs to investors of investment trusts (see link here to our previous comment on this). The result has been a loss to "UK plc" and increased risks for retail investors. Those guidelines are resulting in multi-asset investors, such as ourselves at MGIM, having to reduce the allocation given to investment trusts in portfolios in order to reduce our optical "look through" costs. Consequently, retail investors who wish to gain access to specialist investment trusts are being forced to conduct their own due diligence. Given recent examples of some trusts permanently losing shareholder capital, it is indeed terrifying that the government (via the FCA) has provided "help" to retail investors resulting in cost (mis)disclosure.

Retail investors who wish to gain access to specialist investment trusts are being forced to conduct their own due diligence.

Sources: [1]Thomas Lloyd Energy Impact Trust PLC 2022 Interim Report [2]24 April 2023 Thomas Lloyd Energy Impact Trust RNS, [3]Net Asset Value, Dividend, and Operational Update 3 November 2023, [4]12 July 2023 Thomas Lloyd Energy Impact Trust RNS. Unless stated all other sources are Bloomberg Finance L.P.

Market Focus - 24 July 2023



- **Global equities rose by 0.4% last week**
- **Russia suspended its participation in the grain deal with Ukraine. Following the deal's collapse, Ukraine said that ships heading to Russian ports may become military targets**
- **Brent crude rose by 1.5% to $81.07 per barrel**
- **Gold rose by 0.3% to $1961.94 per ounce**

US

- US equities rose 0.7% last week
- US industrial production fell by 0.5% in June (vs. unchanged expected). This is the first time it's been in negative territory on a year-on-year basis since the pandemic
- The US labour market continues to show signs of tightness as US initial jobless claims fell to 228k (vs. 240k expected) over the week
- The Philadelphia Federal Reserve released their manufacturing business outlook survey with the headline expectations index for six months from now up to a 23-month high of 29.1
- The housing market also showed some strength, with the National Association of House Builders housing market index rising to 56 as expected, which marks its seventh consecutive monthly gain

UK

- UK equities rose 3.2% last week
- The latest UK Consumer Price Index (CPI) print yesterday saw its biggest downside surprise in almost two years, falling to +7.9% in June (vs. +8.2% expected)
- UK core CPI was also beneath expectations at +6.9% (vs. +7.1% expected)
- In UK by-elections, the Conservative government suffered a double by-election defeat after Selby and Ainsty (considered a safe seat) voted for Labour in the biggest ever reversal of a numeric majority in a by-election in history

Europe

- European equities remained flat last week
- German Producer Price Index inflation fell to just +0.1% in June (vs. unchanged expected), its lowest level since November 2020
- Despite signs of falling inflation, European Central Bank officials remain committed to further hikes, with Bundesbank President Nagel saying that "we have to hike next time"

Rest of the World/Asia

- Global emerging market equities fell -1.3% last week
- Japanese equities rose by 1.0% last week
- Japan's consumer inflation climbed by +3.3% year-on-year in June (vs. +3.2% expected), and slightly higher than May's +3.2% increase
- Core consumer prices in Japan rose +3.3% year-on-year in June, in line with market expectations
- Despite the higher-than-expected prints, Bank of Japan (BOJ) Governor Kazuo Ueda indicated that the central bank would maintain its ultra-easy monetary policy as there is still some distance to achieving its inflation target
- Australia's service sector activity shrank for the first time since March, as the Judo Bank's flash estimate of services Purchasing Managers' Index came in at 48.0 in July, down from 50.1 in June

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

Market Summary

Asset Class / Region	Currency	Week ending 21 July	Month to date	YTD 2023	12 months
		Cumulative returns			
Developed Markets Equities					
United States	USD	0.7%	2.0%	18.9%	14.8%
United Kingdom	GBP	3.2%	1.8%	4.4%	8.6%
Continental Europe	EUR	0.6%	0.6%	13.4%	14.5%
Japan	JPY	1.0%	-1.2%	21.3%	19.2%
Asia Pacific (ex Japan)	USD	-1.7%	2.5%	5.6%	3.6%
Australia	AUD	0.2%	1.5%	6.1%	12.7%
Global	USD	0.4%	2.1%	17.5%	15.6%
Emerging Markets Equities					
Emerging Europe	USD	0.0%	6.9%	20.8%	53.9%
Emerging Asia	USD	-1.9%	2.6%	6.7%	2.5%
Emerging Latin America	USD	1.6%	2.9%	22.0%	38.0%
BRICs	USD	-1.1%	2.6%	2.2%	0.1%
China	USD	-2.6%	2.5%	-3.1%	-9.6%
MENA countries	USD	0.3%	2.7%	5.8%	-5.1%
South Africa	USD	0.0%	7.4%	1.6%	6.9%
India	USD	1.1%	3.0%	10.7%	16.9%
Global emerging markets	USD	-1.3%	2.9%	7.9%	5.4%
Bonds					
US Treasuries	USD	0.0%	0.2%	1.9%	-2.3%
US Treasuries (inflation protected)	USD	0.4%	0.4%	2.4%	-2.4%
US Corporate (investment grade)	USD	0.1%	0.4%	3.7%	0.5%
US High Yield	USD	0.0%	1.1%	6.6%	6.0%
UK Gilts	GBP	1.5%	1.0%	-2.6%	-15.0%
UK Corporate (investment grade)	GBP	1.4%	2.1%	1.1%	-6.3%
Euro Government Bonds	EUR	0.5%	0.0%	2.6%	-5.6%
Euro Corporate (investment grade)	EUR	0.3%	0.7%	2.8%	-1.4%
Euro High Yield	EUR	0.0%	0.6%	5.0%	6.1%
Japanese Government	JPY	0.2%	-0.7%	2.1%	-0.7%
Australian Government	AUD	0.0%	0.5%	1.7%	0.7%
Global Government Bonds	USD	-0.6%	0.9%	1.8%	-1.7%
Global Bonds	USD	-0.4%	1.0%	3.2%	-0.2%
Global Convertible Bonds	USD	-0.3%	2.7%	7.6%	7.6%
Emerging Market Bonds	USD	0.2%	1.6%	5.0%	7.5%

Asset Class / Region	Currency	Week ending 21 July	Month to date	YTD 2023	12 months
		Cumulative returns			
Property					
US Property Securities	USD	0.9%	4.2%	9.1%	-0.5%
Australian Property Securities	AUD	-0.8%	2.4%	4.0%	-1.1%
Asia Property Securities	USD	-0.6%	1.0%	-6.0%	-6.5%
Global Property Securities	USD	0.4%	4.3%	5.4%	-1.7%
Currencies					
Euro	USD	-1.0%	1.9%	3.9%	9.3%
UK Pound Sterling	USD	-1.9%	1.1%	6.3%	7.6%
Japanese Yen	USD	-2.1%	1.9%	-7.5%	-2.6%
Australian Dollar	USD	-1.6%	1.0%	-1.2%	-2.3%
South African Rand	USD	0.8%	4.7%	-5.1%	-4.8%
Swiss Franc	USD	-0.5%	3.4%	6.5%	12.0%
Chinese Yuan	USD	-0.7%	0.9%	-4.0%	-5.9%
Commodities & Alternatives					
Commodities	USD	2.0%	6.1%	-1.4%	-0.8%
Agricultural Commodities	USD	2.9%	6.4%	6.9%	13.3%
Oil	USD	1.5%	8.2%	-5.6%	-21.9%
Gold	USD	0.3%	2.2%	7.6%	14.6%
Hedge funds	USD	0.0%	0.3%	0.9%	1.6%

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

For more information, please contact:

Distribution Services

E: distributionservices@momentum.co.uk

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