IMPERIUM CAPITAL

momentum

Global Matters Weekly

17 August 2020

Fast forward 10 years

– Jackson Franks

For those gamers out there, who have ever enjoyed the likes of SimCity, TROPICO or even Age of Empires, former R&B singer and now entrepreneur Akon is set to bring our gaming visions to reality. Akon, originally from Senegal, announced in January 2020 that his vision is becoming ever closer to reality as he finalised the agreement to develop Akon City. Akon City is set to be developed over the next 10 years in two phases. Situated near Mbodième, a small coastal village in the west of Senegal, Akon City will be 100% cryptocurrency based with AKoin (a cryptocurrency established by Akon) at the centre of all transactional life. Additionally, Akon City's energy resources will be renewable, with a focus on solar energy led by the charity Akon established in 2014, Akon Lighting Africa, which has already scaled solar power solutions throughout 18 African countries to date, impacting millions of households. Although many people may question Akon's futuristic vision, it spurred me to think about how global real estate may look 10 years from now, and it could be very different.

> with the sector made up of tangible assets a reversionary value can be attributable to each development

Fast forward ten years and questions from children born within this decade may be very strange to anyone born prior to COVID-19; what was a shopping mall? What do you mean you travelled to the same building every day to work? Hold on, you used to wait one to three days for a delivery? There is no doubt that COVID-19 has had an impact on the global real estate market but with the sector made up of tangible assets a reversionary value can be attributable to each development, despite the be all or end all trends being reported in sub-sectors today.

> Recently, Simon Property Group, a mall operator, announced they are in talks with Amazon about turning their department-store sites into Amazon fulfilment centres

Over the next decade, I believe landlords will spend less CAPEX on acquiring new assets and subsequently use this capital to realise the reversionary value of their existing portfolios' non-performing assets instead of selling them at substantial discounts. Let's take shopping malls and retail warehousing as an example. These are normally developed within a town centre or a mile outside, which results in having a fantastic catchment area. Most of these assets are not underperforming due to the location or supporting infrastructure but instead are being impacted by the underlying cashflows of tenants due to the change in the way consumers shop. With 'last mile' deliveries the most expensive and important factor to the success of ecommerce, landlords of shopping centres and retail warehouses could utilise the location of their assets to move with the consumer spending trends. Recently, Simon Property Group, a mall operator, announced they are in talks with Amazon about turning their department-store sites into Amazon fulfilment centres. I suspect this trend will continue and ten years from now deliveries will be one to three hours, not one to three days.

In addition, with the global economy entering its worst recession since World War II, first time home buyers looking to get on the property ladder may be forced to wait longer. This however does create an opportunity within the private rental sector (PRS). With the trend of employees and employers looking at more flexible working conditions there is growing demand for more residential and working space per household. Over the next ten years landlords may well look to regenerate all or part of their non-performing assets into residential units to rent directly to the market.

> We take comfort from the experience our managers have amassed across all the operational aspects that come with owning property and the active approach to managing their assets and tenants

Although I don't see the world being run on cryptocurrency anytime soon, I do believe the real estate assets we see today will look and feel very different ten years from now. We take comfort from the experience our managers have amassed across all the operational aspects that come with owning property and the active approach to managing their assets and tenants. We know our managers are highly skilled in the form of their asset management capabilities which will doubtless be an important factor in delivering positive shareholder returns as the world progresses.

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The Marketplace

- The S&P 500 index moved to within 0.2% of its all-time high in February
- Russia announced regulatory approval for a vaccine - the first country to do so
- Brent crude rose 0.9% ending the week at $44.8 a barrel
- Gold fell -4.4% to end the week at $1945.1 an ounce

Market Focus

US

- Democratic presidential nominee Joe Biden announced California Senator Kamala Harris as his vice-presidential running mate
- President Trump signed four executive orders amid the stalemate over the relief bill, including continuing expanded unemployment benefits
- Nonfarm payrolls gained as jobs rose by 1.76m against 1.48m expected, and the unemployment rate fell to 10.2% against 10.6% expected
- Inflation came in at 0.6% for the month-on-month core CPI reading, against 0.2% expected
- Weekly initial jobless claims came in at 963k against 1.1m expected in the week through 8th August, falling below a million for the first time since the start of the Covid-19 pandemic. The continuing claims reading came in at 15.5m against 15.8m expected
- US equities rose 0.7% and government bonds returned -1.1% last week.

Europe

- Euro Area industrial production missed estimates as it increased 9.1% in June against 10.3% expected
- Germany's ZEW monthly survey of economic sentiment rose to 71.5 from 59.3 in July, indicating that investors' outlook for the economy has improved
- However, Germany recorded its biggest daily increase in coronavirus cases in over three months
- European equities gained 1.4%

UK

- Q2 GDP showed a -20.4% contraction, considerably worse than the Q2 GDP reported by the US, France and others. However, the June GDP reading showed a month-on-month increase of 8.7%, beating the 8.0% reading expected
- Labour market data showed a -220k fall in employment in the three months to June, against -300k expected
- The UK imposed a mandatory quarantine of 14 days for all those travelling from France, the Netherlands and four other countries
- The UK's Brexit negotiator, David Frost, announced intent to reach an agreement with the EU in September, leaving time to ratify the agreement before the transition period concludes at the end of the year
- UK equities gained 1.4%

Asia/Rest of The World

- Further Chinese sanctions on US officials were announced, including Republican senators Marco Rubio and Ted Cruz
- Hong Kong police arrested Jimmy Lai, a prominent democracy activist and entrepreneur under the national security law passed in June
- New Zealand has re-imposed some lockdown measures as it suffers a fresh outbreak of coronavirus
- China's activity data showed industrial output for July rose by 4.8% year on year against 5.2% expected, while retail sales came in at -1.1% against 0.1% expected year on year

Past performance is not indicative of future returns.

Source: Bloomberg. Returns in local currency unless otherwise stated.

Asset Class/Region	Currency	Currency returns			
		Week ending 14 August 2020	Month to date	YTD 2020	12 months
Developed Market Equities					
United States	USD	0.7%	3.2%	5.3%	20.4%
United Kingdom	GBP	1.4%	3.6%	-18.6%	-13.1%
Continental Europe	EUR	1.4%	3.4%	-6.7%	5.4%
Japan	JPY	5.0%	8.5%	-4.4%	11.1%
Asia Pacific (ex Japan)	USD	0.6%	2.1%	3.4%	18.7%
Australia	AUD	2.0%	3.4%	-6.9%	-4.1%
Global	USD	1.2%	3.5%	2.2%	16.3%
Emerging markets equities					
Emerging Europe	USD	4.1%	5.8%	-18.4%	-3.1%
Emerging Asia	USD	0.0%	1.6%	7.5%	26.5%
Emerging Latin America	USD	0.5%	-2.4%	-29.9%	-20.1%
BRICs	USD	-0.1%	0.6%	2.0%	19.2%
China	USD	-0.4%	0.8%	14.1%	35.6%
MENA countries	USD	2.3%	3.1%	-12.3%	-11.5%
South Africa	USD	1.4%	-2.0%	-21.2%	-7.9%
India	USD	0.0%	1.2%	-11.9%	-2.0%
Global emerging markets	USD	0.4%	1.4%	-0.4%	16.0%
Bonds					
US Treasuries	USD	-1.1%	-1.3%	9.2%	7.7%
US Treasuries (inflation protected)	USD	-0.7%	-0.5%	8.6%	8.4%
US Corporate (investment grade)	USD	-1.6%	-1.2%	7.1%	8.6%
US High Yield	USD	-0.5%	0.1%	0.7%	5.2%
UK Gilts	GBP	-1.5%	-2.3%	7.8%	4.5%
UK Corporate (investment grade)	GBP	-0.6%	-0.8%	4.5%	4.6%
Euro Government Bonds	EUR	-0.7%	-0.5%	2.7%	0.2%
Euro Corporate (investment grade)	EUR	0.0%	0.1%	0.4%	-0.6%
Euro High Yield	EUR	0.5%	1.0%	-2.6%	0.2%
Japanese Government	JPY	-0.5%	-0.6%	-1.3%	-3.3%
Australian Government	AUD	-0.5%	-0.4%	4.0%	1.5%
Global Government Bonds	USD	-0.9%	-1.1%	6.9%	5.2%
Global Bonds	USD	-0.6%	-0.7%	6.4%	6.0%
Global Convertible Bonds	USD	0.2%	0.9%	10.9%	17.5%
Emerging Market Bonds	USD	-0.6%	0.9%	3.9%	7.9%

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

Asset Class/Region	Currency	Currency returns			
		Week ending 14 August 2020	Month to date	YTD 2020	12 months
Property					
US Property Securities	USD	-1.6%	0.0%	-15.7%	-11.7%
Australian Property Securities	AUD	3.4%	4.0%	-19.3%	-22.7%
Asia Property Securities	USD	3.4%	4.2%	-16.1%	-6.5%
Global Property Securities	USD	0.2%	1.6%	-16.0%	-8.6%
Currencies					
Euro	USD	0.6%	0.5%	5.5%	6.3%
UK Pound Sterling	USD	0.5%	0.0%	-1.2%	8.6%
Japanese Yen	USD	-0.4%	-0.6%	2.0%	-0.7%
Australian Dollar	USD	0.3%	0.4%	2.1%	6.4%
South African Rand	USD	1.6%	-2.0%	-19.5%	-11.3%
Swiss Franc	USD	0.6%	0.4%	6.3%	7.0%
Chinese Yuan	USD	0.3%	0.4%	0.2%	1.1%
Commodities & Alternatives					
Commodities	USD	1.3%	3.9%	-18.7%	-11.6%
Agricultural Commodities	USD	2.6%	1.3%	-6.6%	2.5%
Oil	USD	0.9%	3.5%	-32.1%	-24.7%
Gold	USD	-4.4%	-1.6%	27.7%	27.7%
Hedge funds	USD	0.0%	0.8%	1.0%	4.8%

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

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Momentum Global Investment Management (Company Registration No. 3733094) has its registered office at The Rex Building, 62 Queen Street, EC4R 1EB

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