IMPERIUM CAPITAL

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StoreREIT telling: three key elements

Global Matters Weekly

25 January 2021

– **Jackson Franks**

For me writing has never been easy, in fact English was my least favourite subject at school. However, I enjoy a challenge and as I think about what to write this week, I take myself back to my English class at school to remind myself of what writing tricks I was once taught. What I remember most is how we were taught the basics of writing a story: each story must consist of a beginning – hooking the reader & setting the scene, a middle – a series of interesting and exciting events, and an end – tie up loose ends & satisfy the reader. As I wrote these characteristics down it suddenly looked very familiar. This is what we expect of and how we critique real estate managers. We look for the successful implementation of a story which follows the same characteristics; a beginning – raising capital & deployment, a middle - asset management initiatives, and an end – disposing of the asset(s) & redeployment of capital.

The beginning. The most crucial part in any story as it's the time to set the scene and hook your readers. As with a real estate manager it's the first insight we get at their deployment capabilities. Are they able to acquire buildings at an attractive yield with the potential to enhance that yield over time? Can they put together cost-effective initiatives to help achieve this and provide capital appreciation for their investors? These are the sorts of initial questions we critique when looking at real estate managers. If they manage to showcase their aptitude to answer these questions the book remains open and we continue to follow the story.

The middle. The manager has set the scene and acquired their portfolio. This is the stage in the story where the action takes place. We look at the manager's competence of successfully implementing their initiatives from turning a building into an asset. Such initiatives will include the manager's ability to let the vacant space, renegotiate existing leases, structure their debt, dividend controls and enhance any of their buildings through development opportunities (to mention a few). Moreover, we critique the validity of the manager's sustainability policy. Does the manager live by this policy, and is there evidence to confirm it, or is it written to tick a box? The built environment is currently responsible for 40% of global energy consumption, 25% of global water consumption and is emitting 33% of greenhouse gas (GHG) emissions. We expect our managers to contribute to the global initiative of reducing these levels through efficient water and power resource utilisation by observing the managers track record in all operational aspect of their assets.

We look at the manager's competence of successfully implementing their initiatives from turning a building into an asset

The end. As with storytelling this is the stage at which we would expect the manager to tie up loose ends and satisfy their investors. The asset(s) would be nicely packaged by virtue of all their hard work throughout the asset management phase and to be sold at a yield which satisfies the investor. However, with real estate we want a sequel, and with that we judge the manager on their redeployment of capital. Can the manager begin the story again and do they have a track record of that story being as good as before?

Only when we are satisfied with all three elements will we consider an investment.

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The Marketplace

- Global equities rose 1.5% last week
- Joe Biden was inaugurated as the 46th US President
- Brent crude rose 0.6% last week to $55.4 a barrel
- Gold rose 1.5% to $1855.61 per ounce

Market Focus

US

- US equities rose 2% last week with the main benchmark index and the technology index hitting new all-time intraday highs. The gains were driven by communications and tech hardware. Cyclicals such as banks and energy stocks underperformed.
- President Biden's new cabinet signalled that the new administration would continue some of Donald Trump's hard-line economic policies toward China, with officials vowing to fight "abusive" trade practices.
- The US services PMI came in 4pts higher than expected at 57.5 and manufacturing PMI 2.6pts higher at 59.1. The composite level of 58.0 is the second-highest reading since 2015.
- Weekly initial jobless claims for the week ending January 16 came in at 900k vs. 935k expected, whilst the previous week's number was revised -39k lower
- President Biden proposed a new pandemic rescue stimulus bill of $1.9 trillion and in his first hours as president signed a series of executive orders focused on combating climate change, including re-joining the Paris Climate Agreement.

UK

- UK Equities fell 0.7% last week
- UK flash PMI came in at 40.6 vs 45.5 expected as strict lockdowns continue to affect the British economy. The services PMI reading came in at 38.8 vs. 45.0 expected, which was the lowest since May 2020.
- Brexit border trouble grows as key customs system reach capacity after being overwhelmed and threatens to trigger more disruption as freight traffic rebounds.
- Bank of England Governor Bailey said that he expected a "pronounced" economic recovery in the UK later in the year due to the rollout of vaccines.

Europe

- European equities gained 0.4% last week
- ECB President Christine Lagarde and her colleagues held the pandemic bond-buying program at 1.85 trillion euros, after a 500 billion-euro boost last month, and reiterated that it will run until at least March 2022.
- The January flash composite Euro Area PMI fell to 47.5, remaining beneath the 50-mark that separates expansion from contraction. Notably, Germany's composite PMI came in at 50.8 vs. 50.0 expected whilst France came in at 47.0 vs. 49.0
- Germany cut its 2021 economic growth forecast to 3% from 4.4% last week
- Italian Prime Minister Giuseppe Conte will work to broaden support for his depleted coalition after falling short of an outright majority in a crucial Senate vote.

Asia/Rest of The World

- The benchmark Global Emerging Markets index returned 2.6% last week
- Japanese equities ended the week flat
- The Japanese central bank left its long and short-term policy unchanged saying it intends to keep easing measures in place until it reaches its price stability target of 2% core inflation.
- The Chinese economy grew by 2.3% in 2020, the only major economy to increase its GDP last year. Chinese equities were the strongest global performer last week, returning 5.9%.

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 22 Jan. 2021	Month to date	YTD 2020	12 months
Developed Market Equities					
United States	USD	2.0%	2.3%	2.3%	17.1%
United Kingdom	GBP	-0.7%	3.7%	3.7%	-10.4%
Continental Europe	EUR	0.4%	2.0%	2.0%	1.7%
Japan	JPY	0.0%	2.9%	2.9%	9.0%
Asia Pacific (ex Japan)	USD	3.1%	8.5%	8.5%	29.7%
Australia	AUD	1.3%	3.2%	3.2%	-1.9%
Global	USD	1.5%	2.5%	2.5%	16.2%
Emerging markets equities					
Emerging Europe	USD	-3.1%	0.8%	0.8%	-14.1%
Emerging Asia	USD	3.7%	9.8%	9.8%	37.8%
Emerging Latin America	USD	-4.6%	-3.3%	-3.3%	-16.5%
BRICs	USD	3.4%	8.2%	8.2%	24.8%
China	USD	5.9%	11.8%	11.8%	40.8%
MENA countries	USD	0.4%	3.5%	3.5%	-0.2%
South Africa	USD	2.8%	4.1%	4.1%	1.8%
India	USD	-0.2%	2.9%	2.9%	16.9%
Global emerging markets	USD	2.6%	7.9%	7.9%	25.5%
Bonds					
US Treasuries	USD	0.0%	-1.2%	-1.2%	6.1%
US Treasuries (inflation protected)	USD	0.5%	0.1%	0.1%	10.7%
US Corporate (investment grade)	USD	-0.1%	-1.2%	-1.2%	7.1%
US High Yield	USD	0.1%	0.5%	0.5%	6.9%
UK Gilts	GBP	-0.3%	-1.8%	-1.8%	4.4%
UK Corporate (investment grade)	GBP	0.0%	-0.9%	-0.9%	5.6%
Euro Government Bonds	EUR	-0.5%	-0.8%	-0.8%	3.5%
Euro Corporate (investment grade)	EUR	-0.1%	0.0%	0.0%	2.2%
Euro High Yield	EUR	0.3%	0.7%	0.7%	2.4%
Japanese Government	JPY	-0.2%	-0.2%	-0.2%	-1.0%
Australian Government	AUD	-0.2%	-0.7%	-0.7%	1.7%
Global Government Bonds	USD	0.1%	-1.2%	-1.2%	8.4%
Global Bonds	USD	0.1%	-0.9%	-0.9%	8.3%
Global Convertible Bonds	USD	1.1%	1.9%	1.9%	24.6%
Emerging Market Bonds	USD	0.2%	-2.0%	-2.0%	3.9%

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

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Asset Class/Region	Currency	Currency returns			
		Week ending 22 Jan. 2021	Month to date	YTD 2020	12 months
Property					
US Property Securities	USD	1.1%	0.9%	0.9%	-9.9%
Australian Property Securities	AUD	0.7%	-2.5%	-2.5%	-16.0%
Asia Property Securities	USD	1.1%	1.5%	1.5%	-9.2%
Global Property Securities	USD	0.8%	0.0%	0.0%	-8.2%
Currencies					
Euro	USD	0.6%	-0.5%	-0.5%	9.8%
UK Pound Sterling	USD	0.5%	0.2%	0.2%	4.2%
Japanese Yen	USD	0.0%	-0.5%	-0.5%	5.8%
Australian Dollar	USD	-0.1%	0.3%	0.3%	12.8%
South African Rand	USD	0.4%	-3.0%	-3.0%	-5.2%
Swiss Franc	USD	0.4%	-0.1%	-0.1%	9.4%
Chinese Yuan	USD	0.0%	0.7%	0.7%	6.3%
Commodities & Alternatives					
Commodities	USD	-1.1%	3.0%	3.0%	-2.8%
Agricultural Commodities	USD	-2.5%	1.8%	1.8%	18.1%
Oil	USD	0.6%	7.0%	7.0%	-12.3%
Gold	USD	1.5%	-2.0%	-2.0%	19.1%
Hedge funds	USD	0.3%	1.3%	1.3%	6.8%

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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