IMPERIUM CAPITAL

momentum

# Opportunities in unlisted investments

Weekly Digest

23 September 2019

*– Stephen Nguyen, CFA*

Against a mixed backdrop equity and bond markets have risen sharply this year. The US equity market is once again touching all-time highs while a large proportion of high-quality debt is trading at negative yields. What should investors do when everything appears expensive is a question, I hear a lot. Thankfully most people who make this observation are looking through a narrow lens. Have they looked beyond the US stock market, or outside of investment grade debt to more esoteric parts of the fixed income markets? And critically, have they considered investments that are not publicly listed?

Listed securities are traded on official exchanges. One of the main benefits for investors is that these investments are subject to enhanced reporting requirements which makes carrying out due diligence easier. The second key advantage is liquidity: official exchanges provide an approved list of securities, and these investments end up being the most visible to investors and hence the most heavily traded, so listed securities are more likely to be fairly priced through the ups and downs of the investment cycle.

Despite these advantages, more experienced investors do not need to limit themselves to listed investments to the exclusion of everything else. Given the size of our research team at Momentum, we are able to find the most appropriate solution to gain exposure into this unlisted universe, true to our philosophy of being outcome based multi asset investors.

The risks associated with investing in unlisted or illiquid securities have attracted attention in recent months and these securities are certainly not for everyone. Buyers need to contend with illiquidity, risk of dilution and of course, loss of capital as these investments may be at an earlier stage of their lifecycle when the risk of failure may be greater. However, we believe that the risk and reward trade-off merits further consideration as part of a diversified portfolio.

If you are able to navigate these pitfalls successfully, then investing in unquoted companies or projects can offer attractive pay-offs. Investors can tap into higher growth/disruptive opportunities that smaller and often more nimble companies provide. Early stage investing (pre-listing) enable investors access to businesses growing substantially faster than their listed peers. With the decline in public listings in recent years along with the fact that many firms are now opting to stay private for longer, investors only looking at public market may miss out on the best years of a company's growth.

Of course, with a high potential for returns so too are the potential risks so therefore it is important investors consider how best to access these opportunities. As is typical of our process, we believe the outsourced route is the best option. It is much better to hire experienced specialists rather than trying to do this oneself and doing so helps to mitigate the aforementioned risks.

Further – and we say it time and time again – get your liquidity profile right. That means a closed-end company rather than an open-ended pool of capital that can be recalled at inopportune times. Closed-ended structures allow the fund manager to buy and sell when the time is right. If the price isn't right, we are not forced sellers (and nor is the manager). Finally, a robust portfolio construction process where position sizing is thoroughly analysed, will ensure the risks are appropriately managed.

This is an exciting part of the market and one we increasingly research and utilise with the aim of tapping into opportunities that are outside the average investor's reach.

IMPERIUM CAPITAL

momentum

Weekly Digest 23 September 2019

## The Marketplace

- A strong week for oil prices after last week's refinery attacks
- No real progress in US-China trade war talks as delegation cancel US visit
- Brent crude gained 6.7% ending the week at $64.7 a barrel
- Gold rose 0.9% ending the week at $1503.5 an ounce

## Market Focus

### US

- The Fed lowered its federal funds target rate by 25 basis points as expected
- US equities had a modest week with large caps outperforming small caps. Overall the main index declined by 0.5%
- US Treasuries increased 1% due mainly to increased geopolitical risk in the middle east as investors sought haven assets
- Chinese trade negotiators cancelled a planned visit to US farm states.

### Europe

- Germany's ZEW institute showed that the current mood amongst financial experts was at its lowest level in nine years citing Brexit uncertainty and trade disputes as the main reasons
- European markets had a flat week ending up +0.1% at Friday's close.

### UK

- The Bank of England's Monetary Policy Committee voted unanimously to keep the bank rate at 0.75%
- Sterling had a mixed week, constrained by positive sentiment of a Brexit deal on the upside and an increased chance of that the Bank of England will cut short terms rates on the downside
- Equity markets fell by -0.2% on the week
- UK unemployment hit a low of 3.8% as year-on-year average weekly earnings increased by the same amount during July.

### Asia/Rest of The World

- Attacks on Saudi oil facilities causes oil prices to rise by 13% last Monday, the largest one day gain in 3 years. Prices remained volatile for the duration of the week, finishing up around 6%
- The Bank of Japan voted to leave policy unchanged, leaving short term interest rates at -0.1% and continuing to target a 0% yield on their 10-year government bond
- Chinese stocks declined on the week as the trade war with the US undercut several economic indicators
- Turkish stocks declined by -2.8% on the week.

*Past performance is not indicative of future returns.*

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

IMPERIUM CAPITAL

momentum

## Weekly Digest

23 September 2019

| Asset Class/Region | Currency | Currency returns | | | |
|---|---|---|---|---|---|
| | | Week ending 20 Sept. 2019 | Month to date | YTD 2019 | 12 months |
| **Developed Market Equities** | | | | | |
| United States | USD | -0.5% | 2.3% | 20.6% | 3.6% |
| United Kingdom | GBP | -0.2% | 2.1% | 12.9% | 4.0% |
| Continental Europe | EUR | 0.1% | 3.2% | 20.6% | 6.3% |
| Japan | JPY | 0.4% | 6.9% | 9.7% | -7.4% |
| Asia Pacific (ex Japan) | USD | -0.8% | 3.6% | 9.7% | 0.6% |
| Australia | AUD | 0.9% | 2.5% | 23.3% | 13.9% |
| Global | USD | -0.4% | 2.8% | 18.4% | 2.1% |
| **Emerging markets equities** | | | | | |
| Emerging Europe | USD | -0.1% | 4.9% | 19.1% | 17.0% |
| Emerging Asia | USD | -0.3% | 4.0% | 8.1% | -1.3% |
| Emerging Latin America | USD | -0.8% | 3.4% | 7.1% | 10.4% |
| BRICs | USD | -1.2% | 3.4% | 11.1% | 6.0% |
| MENA countries | USD | 0.0% | -1.5% | 3.0% | 3.4% |
| South Africa | USD | -4.2% | 4.7% | 3.3% | -0.2% |
| India | USD | 1.7% | 3.0% | 3.0% | 3.2% |
| Global emerging markets | USD | -0.5% | 3.9% | 8.0% | 1.0% |
| **Bonds** | | | | | |
| US Treasuries | USD | 1.0% | -1.5% | 7.5% | 10.6% |
| US Treasuries (inflation protected) | USD | 1.0% | -1.3% | 8.1% | 7.7% |
| US Corporate (investment grade) | USD | 1.4% | -1.1% | 12.6% | 12.8% |
| US High Yield | USD | 0.2% | 0.7% | 11.8% | 6.9% |
| UK Gilts | GBP | 2.1% | -0.8% | 10.6% | 13.1% |
| UK Corporate (investment grade) | GBP | 1.1% | -0.5% | 10.5% | 10.6% |
| Euro Government Bonds | EUR | 0.4% | -1.0% | 9.3% | 10.5% |
| Euro Corporate (investment grade) | EUR | 0.0% | -1.0% | 6.5% | 5.8% |
| Euro High Yield | EUR | -0.1% | 0.3% | 9.8% | 5.5% |
| Japanese Government | JPY | 0.3% | -1.4% | 3.4% | 4.8% |
| Australian Government | AUD | 1.0% | -0.8% | 10.3% | 13.9% |
| Global Government Bonds | USD | 0.6% | -1.4% | 6.5% | 7.8% |
| Global Bonds | USD | 0.5% | -1.0% | 6.5% | 7.1% |
| Global Convertible Bonds | USD | -0.4% | 0.8% | 7.2% | 1.5% |
| Emerging Market Bonds | USD | 0.9% | 0.6% | 9.3% | 9.7% |

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

| Asset Class/Region | Currency | Currency returns | | | |
|---|---|---|---|---|---|
| | | Week ending 20 Sept. 2019 | Month to date | YTD 2019 | 12 months |
| **Property** | | | | | |
| US Property Securities | USD | 1.7% | 1.6% | 24.3% | 14.2% |
| Australian Property Securities | AUD | 0.3% | -3.1% | 16.7% | 11.6% |
| Asia Property Securities | USD | -0.8% | 3.0% | 9.0% | 8.7% |
| Global Property Securities | USD | 0.8% | 1.7% | 18.3% | 11.0% |
| **Currencies** | | | | | |
| Euro | USD | -0.6% | 0.2% | -3.9% | -6.4% |
| UK Pound Sterling | USD | 0.1% | 2.6% | -2.0% | -5.7% |
| Japanese Yen | USD | 0.2% | -1.4% | 1.6% | 4.3% |
| Australian Dollar | USD | -1.7% | 0.6% | -3.9% | -7.1% |
| South African Rand | USD | -2.6% | 1.5% | -3.8% | -4.2% |
| Swiss Franc | USD | -0.2% | -0.2% | -1.0% | -3.2% |
| Chinese Yuan | USD | -0.2% | 0.9% | -3.0% | -3.4% |
| **Commodities & Alternatives** | | | | | |
| Commodities | USD | 1.7% | 4.2% | 7.3% | -4.5% |
| Agricultural Commodities | USD | -0.3% | 2.3% | -8.0% | -9.2% |
| Oil | USD | 6.7% | 6.4% | 19.5% | -18.3% |
| Gold | USD | 0.9% | -1.3% | 17.3% | 24.7% |
| Hedge funds | USD | 0.3% | 0.5% | 5.8% | -0.3% |

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

## Important notes

This document is only intended for use by the original recipient, either a Momentum GIM client or prospective client, and does not constitute an offer or solicitation to 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, Momentum GIM 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).

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

*Momentum Global Investment Management Limited is authorised and regulated by the Financial Conduct Authority in the United Kingdom, and is an authorised Financial Services Provider pursuant to the Financial Advisory and Intermediary Services Act 37 of 2002 in South Africa.*