

Well, that wasn't expected...

by Richard Perfect
Fund Manager

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.

Sources

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



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