Global Matters Weekly

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ESL, what not to do.

by Jackson Franks

As an avid Watford football club supporter, the announcement of a newly formed European Super League (ESL) on the 18th April felt like a break-up. The dream of one day getting to see my club play at the highest level had disappeared overnight. For those who didn't see the news, twelve of the "biggest" European football teams broke away to form the ESL, of which six were English. The newly formed competition was designed to challenge the existing UEFA Champions League bringing more games between the largest European clubs. My disappointment didn't last long as three days later most founding members ended their involvement, despite a guaranteed place in the league for its entirety and a not so small c.$300m founder's fee. So why did the ESL end as quickly as it started? To me the answer is simple, not understanding their clientele. The ESL was not an evolution of the sport but instead was a fundamental change in three commonly used core principles: (1) mandate – best performing clubs changed to the so called biggest clubs (2) philosophy – positive or negative implications based on performance changed to no implications and (3) process – open competition changed to a closed competition.

At Momentum, we pride ourselves on understanding our clients' needs through engagement and market research. Our focus is on designing, building and managing outcome-based investment solutions, delivered through multi-asset portfolios and tailored client vehicles. Although our core principles may evolve over time the fundamentals of our principles will remain the same: (1) mandate – provide investment solutions, (2) philosophy – outcome-based investing and (3) process – designing, building and managing investment products.

One investment vehicle in which we manage is the Momentum Africa Real Estate Fund, also known as MAREF[1]. MAREF is a closed ended pooled vehicle whose mandate is to finance and develop commercial real estate within sub-Saharan Africa excluding South Africa. The fund's investment philosophy is to provide global Grade A standard properties to the continent at the lowest possible rental rate for its occupiers, whilst delivering its return objective to its investors. Operating in sub-Saharan Africa comes with heightened risk factors. Understanding our investor's requirements and risk tolerance through open dialogue enabled us to build a robust process which mitigates their risks whilst enabling the fund to aim to hit its return objective. These risks include, (1) secured title and zoning of land, (2) costing and design, (3) pre-letting 60% of gross lettable area (GLA) and (4) securing debt funding. At the outset of any project, an extensive due diligence is conducted on the title and zoning of land. In sub-Saharan Africa the land registries are not as established as the developed world and are only now in the process of being digitalised. The importance of ensuring the land is secured and zoned is vital before investing our client's capital due to a higher risk of land claims. MAREFs appointed developer, Eris Property Group (EPG), that is MGIM's sister company, decommission risks 2 and 3 above. EPG underwrite the delivery and the capital cost to MAREF and therefore the total project cost presented to investment committee is the final cost. If the cost were to go above the presented amount, it would be at the cost of EPG not MAREFs investors. Consequently, the costing and design will be at stage 4 before a project is presented to MAREFs investment committee. Mitigating risk 1, 2 and 3 above enables MAREF to source third party debt funding. MAREF is mandated to gear a project up to 60% of the total development cost, and once sourced ensures the project is fully funded from day 1. Only once these four key risks have been mitigated does a project get presented to the investment committee for approval.

Understanding your client's requirements and objectives whilst communicating your mandate, philosophy and process is key to establishing a successful working relationship. Now the ESL knows what their clients don't want, I wouldn't be too surprised to see a newly presented version of the ESL in years to come.

[1]MAREF is an African commercial real estate development joint venture between MGIM and EPG. The Fund is closed for new investments. More details can be found on the Momentum website.
momentum.co.uk/channels/institutional-investor/real-estate

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