

## Sporting Investments - Part 1

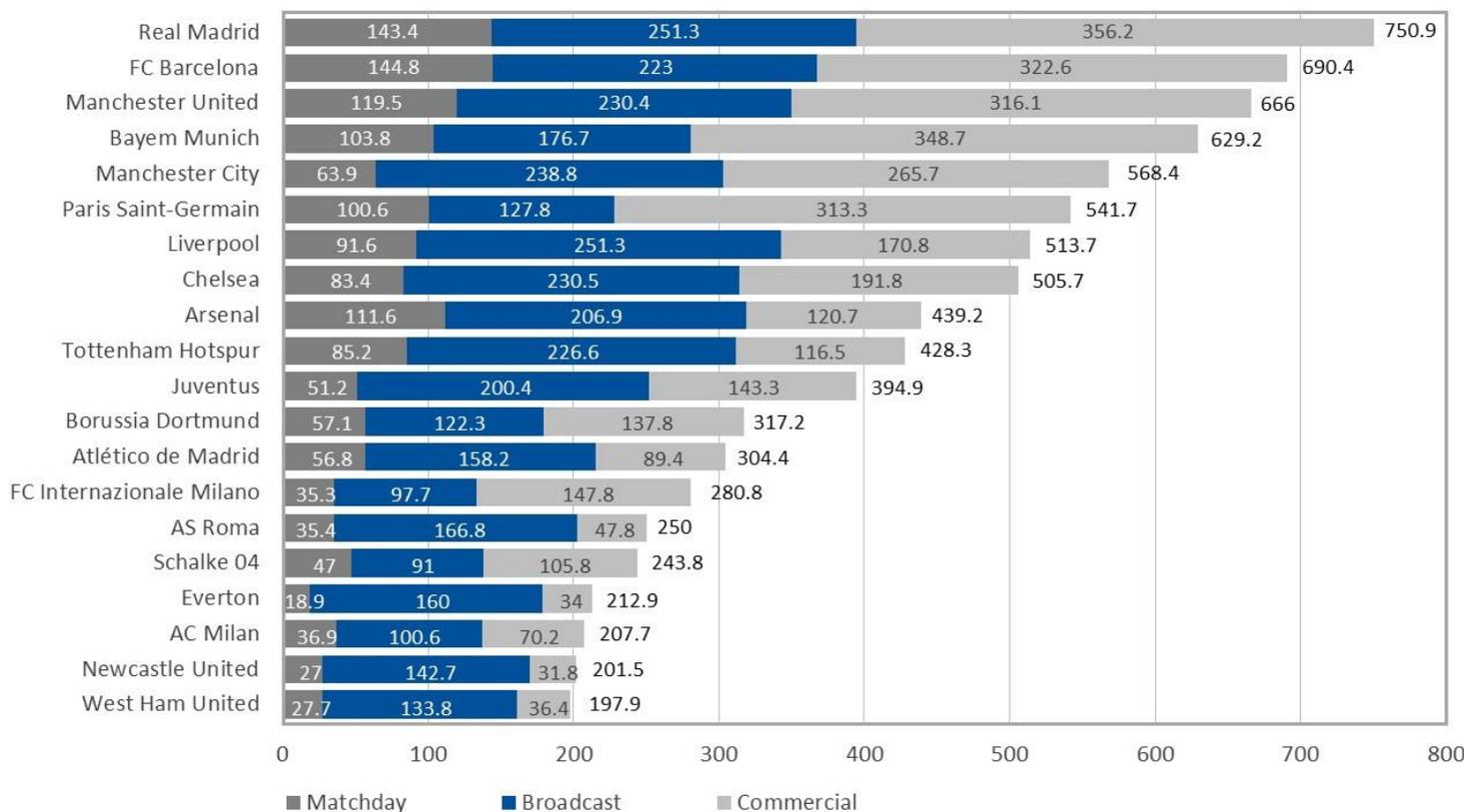
Over the past few weeks, global football leagues have been wrapping up. At the time of writing, there were still two European Championship finals to look forward to. For the most part, players are taking a break on their yachts or islands, agents are wheeling and dealing, and managers are either fighting for their careers or deciding on how to spend a transfer budget approaching the size of a small island nation economy.

Professional football is a fascinating topic. On-pitch action is an obvious draw, but the business and operational side of running an elite football club offers just as much (if not more) entertainment value – if you happen to share the author’s personality type.

Running a top-tier football club is a recursive thing. The team needs to perform on the pitch to support the commercial side. This includes paying the bills, selling tickets and merchandise, and increasing the club’s bargaining power with sponsors. The commercial success of a club will allow it to attract and retain quality players, staff and facilities to name but a few, which is needed to compete at the highest level. The one needs the other. You need money to be and remain competitive, and only if you are competitive will you bring in sufficient cash to cover your expenses.

Football clubs use different tools to solve this conundrum. The clubs in the pound seat use their financial muscle to attract the best players and staff. According to the Deloitte Football Money League ([article published January 2019](#)), the club currently generating the highest revenue is Real Madrid. However, this does not necessarily mean they are the most profitable. **Chart 1** (below) illustrates the revenue per club generated in the 2018 season -

**Chart 1 : Deloitte Football Money League Top 20 (2017/18 Revenue Profile €m)**



Source : Deloitte Analysis

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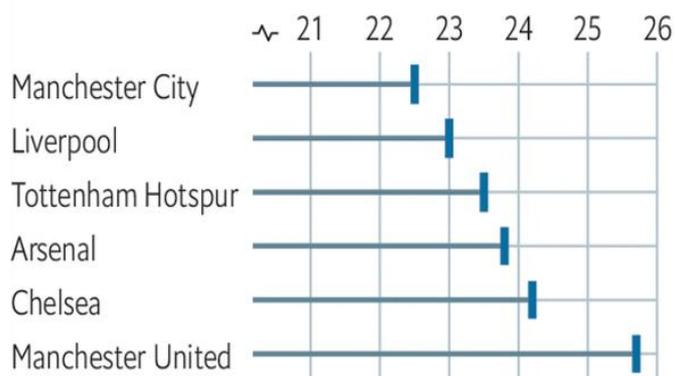
**Chart 1** (above) shows that each of the top four clubs generate more than double the revenue than number 12 on the list. It is an indication that smaller clubs may need a different approach if they are to attract the best players. This could include more playing time for players, or looking to their youth academies, where players can be introduced at a fraction of the cost of buying players at their peak. Although this can be a partial solution, all clubs have to participate in the dreaded transfer market for at least a portion of their talent.

A club's success in the transfer market does seem to have a lasting effect on its overall success. Take a look at the current top three clubs in the English Premier League - Manchester City, Liverpool and Tottenham. Liverpool and Tottenham are playing in the UEFA Champions League Final. Manchester City collected a record 100 league points during the season. Ten years ago, this would have been hard to believe. All three of these clubs have been shrewd in their transfer market dealings over the past few years. **Chart 2** (below), compiled by The Economist, illustrates how the "Big Six" in English Football spent their transfer budgets -

**Chart 2 : Scout's Honour – Selected English Football Clubs**

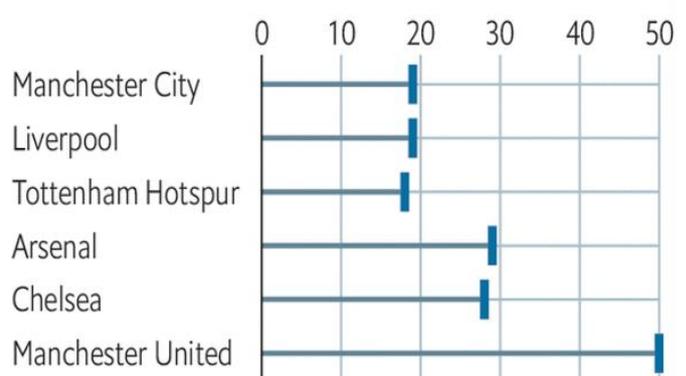
### Average age of players bought

First-team players, since 2016



### Share of players bought from elite clubs\*

First-team players, since 2016, %



Source : 21<sup>st</sup> Club / The Economist

\*21<sup>st</sup> Club rating greater than 800 points (approximately top 15 clubs in Europe)

Although Manchester United were the biggest grossing football club in the world in 2017, they have been falling behind with their results. Much of this can be ascribed to chasing past winners and buying players at their peak. From a commercial standpoint, it can be argued that a well-known player's shirt can be sold immediately to generate revenue for future spending. Juventus shelled out approximately € 100mil on 33-year-old Cristiano Ronaldo. It is tough to argue that this move was not commercially driven, with the aim to increase brand awareness and sell merchandise. Ronaldo is a generational superstar, so there is a benefit to having him in the team. There is, however, a limited pool of players of this calibre. Continuously buying older, high-profile players from big clubs can lead to a higher turnover and a limited budget for developing the next generation of stars. It does not seem to be generating high dividends.

The current top three English clubs have been more muted in the transfer market of late, and typically look at younger players from smaller clubs. Buying from a smaller club allows one to negotiate away from the "sticker price". Larger clubs have more bargaining power, and have many clubs interested in their players. The success of

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these three clubs in the transfer market have led to good results on the pitch and growth in the clubs' income. This creates a platform for future success, but also increases the cost burden of a team that is growing in value. The commercial effort of these clubs will be crucial if they are to remain competitive.

Successful transfer policies seem to have a direct link to sound investing principles. Players are, after all, a significant income-producing asset for clubs. Thus, one would expect some overlap. Simple and sound transfer policies can be applied to how any investment asset is managed. Do not pay a premium for an over-hyped asset. Just like clubs shouldn't be paying ludicrous sums for a player that is at his peak, you should avoid doing the same with your investment assets. Buying at the peak means you have a shorter holding period. Shorter term trading, in all types of assets, is a risky game that most would do well to avoid.

If clubs and investors buy good assets at a reasonable price, hold them for a long period of time and avoid succumbing to short-term trends, the odds for success will immediately be increased.

Kind regards,



**Stefan Keeve** CFA, CFP®

Wealth Manager

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Performance has been calculated using net NAV to NAV numbers with income reinvested. Full performance calculations are available from the manager on request.

### DEFINITIONS (where applicable)

Annualised Return	Annualised return shows longer term performance rescaled to a 1-year period. Annualised return is the average return per year over the period. Actual annual figures are available to the investor on request.
Highest and Lowest Annual Return	The highest and lowest returns, since launch, for any rolling 1-year period have been shown.