BREXIT: OUR INITIAL THOUGHTS

The UK has voted to leave the European Union. This clearly represents a very significant decision for the UK, for the European Union and indeed the wider global economy. Markets are clearly shocked by the decision but this is a time when investors should not be panicked.

A recent independent report commissioned by one of the leading fund management houses concluded that Britain's long-term economic future would be largely unaffected by a decision to leave the European Union. That is not to say that there won't be challenges in the near-term. There will. We now face a period of uncertainty as the exact terms of Britain's exit from Europe are negotiated, which is expected to take some years and will invariably be tortuous. Financial Markets loathe uncertainty as amply demonstrated by this morning's reaction across all asset classes.

It is worth reminding ourselves that on 20th February 2016, when David Cameron announced the date of the EU referendum, the FTSE 100 index was at 5950, the 10 year Gilt yield stood at 1.41% and the sterling / dollar exchange rate was 1.44. Since then the equity markets have risen 6.5% but that rally has been quite narrow, being led by oils (+15%) and the mining sector (+18%). Banks have performed well too, up just under 10%.

So while markets have responded negatively to the uncertainty that follows this vote, and may continue to do so for some time, they have so far only fallen relatively little against the position earlier this year.

Irrespective of our membership of the EU, the global economic backdrop will continue to be challenging. Many of the greatest economic challenges we face now and in the future have the potential to dwarf the economic issues associated with today's outcome. The current risk relating to the EU is as much one of confidence as much as material output. The tone of the referendum has not been edifying but perhaps new political leaders will send the messages of stability and an orderly, negotiated Brexit that markets are craving to hear. We will see.

In the near-term, it is likely that UK GDP will be lower over the next 18 months or so. But, because inflation will (temporarily) be higher following the fall in the pound, nominal GDP could well be little changed. Growth in consumer cash flow will be marginally lower, principally because fuel prices will increase, but exporters will benefit from a weaker pound, so there will be winners as well as losers.

Our portfolios have been constructed to cater for a challenging environment. We hold an element of cash, reduced exposure to property, have a high preponderance of short-dated gilts and our equity exposure has a far stronger bias to overseas markets than many of our peers. We also predominantly employ active fund managers in our portfolios who will be looking to take advantage of the opportunities that such market volatility creates. These have all been conscious decisions on our part and we hope will help to reduce the impact of short term market volatility.

We continue to monitor the situation very closely. We think it is prudent not to make any immediate decisions on asset allocation or fund selection and we want to wait until the dust settles over the next few weeks. Although market conditions such as these can be unsettling, we would strongly urge investors to look through this period of uncertainty and focus on the long-term.

Adrian Ware

Chief Executive Officer