

EU Referendum Vote - Brexit Update

24th June 2016, 10.15 am

This morning it was announced that the Referendum vote has gone in favour of Leave. Needless to say, this was contrary to the majority of recent opinion polls and market movements yesterday which were implying the opposite outcome.

As at the time of writing, many of the 'expert' forecasts of the immediate impact of such a result on currency and equity markets has not yet come to pass. For example, only three days ago George Soros predicted that such a vote would lead to a drop for the currency of at least 15%. At the time of writing the US Dollar/GBP Sterling exchange rate is trading at 1.39 vs 1.48 at yesterday's close and 1.47 at the start of 2016. So the fall from yesterday is currently 6%.

Similarly, UBS forecasted on Wednesday this week that the FTSE 100 could fall after a Brexit Vote to as low as 4900. At the time of writing the FTSE 100 stands at 6030, a fall of 5% from yesterday's close and similar to the close of the previous week, of 6021.

A common theme of this referendum is that 'expert' views by financial commentators and pollsters have frequently been wrong.

The only near certainty, in our view, is that overall volatility of markets is likely to rise and the fundamental question should always be two-fold:

1. How can I dampen down my overall portfolio by investing in different assets that are likely to be impacted by differing degrees and often different directions to unpredictable events?
2. How can I actually benefit in times of uncertainty?

We believe the answer to No.1 is greater diversification across and within various asset categories. Take the latest event – for a GBP sterling investor many of the falls in overseas markets has been reduced partially or fully by the falls in sterling. Within the UK market the impact on the largest UK stocks, in which our UK equity exposure is focused, has been less than smaller/medium sized companies due to their greater overseas exposure.

The underlying overseas bond and equity exposure (calculated as non GBP cash, non UK bonds, non UK equities, and non GBP hedged investments) is 34% for the SCM Bond Reserve Portfolio, 41% for the SCM Absolute Return and 46% for the SCM Long-Term Return Portfolios.

As a result, even though the headline level of the FTSE 100 is down 3.4% from the end of 2016, as at 10.15 am today all three of our GBP SCM Portfolios remain in positive territory so far this year:

- SCM Bond Reserve Portfolio is currently +7.6% YTD
- the SCM Absolute Return Portfolio is +2.3% YTD
- the SCM Long Term Portfolio is +2.5% YTD

The answer to No.2 remains a simple strategic one – to be well diversified, seek out assets deemed attractive on old fashioned fundamental yardsticks, and take advantage of market opportunities as they present themselves.

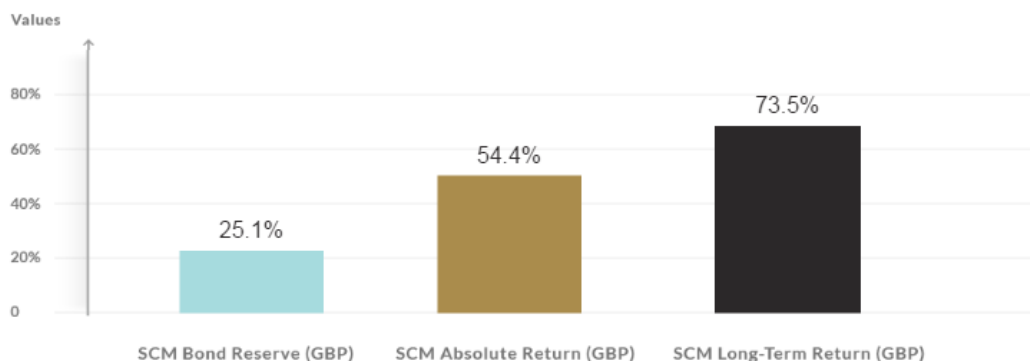
For example, so far this month we have held off making a change to our Japanese equity exposure until today’s outcome. Given the sharp rises in the Japanese Yen against GBP prior to today’s result and post today’s result, we are evaluating the merits of switching our Japanese equity exposure into a hedged product. We continue to evaluate similar opportunities as they present themselves.

Nervousness at these volatile times of daily market falls and rises is natural and understandable, but investing should be seen in the context of the longer term.

Our performance since inception and over individual years is shown below:

SCM Portfolio Performance

Performance Since Inception To 30/05/2016



	12m to 31.05.16	12m to 31.05.15	12m to 31.05.14	12m to 31.05.13	12m to 31.05.12	12m to 31.05.11
SCM Bond Reserve (GBP)	3.5%	5.5%	-2.2%	8.8%	7.6%	
SCM Absolute Return (GBP)	-3.6%	8.3%	1.3%	19.2%	-5.4%	11.2%
SCM Long-Term Return (GBP)	-3.0%	10.6%	2.0%	22.5%	-5.4%	12.9%

Past performance should not be seen as a guide to future returns. The value of investments and the income from them can go down as well as up and investors may not recover the amount of their original investment.