



ARTORIUS WEALTH

INVESTMENT OUTLOOK

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MANCHESTER



LONDON



ZURICH

Will football cause BREXIT?

"Some people believe football is a matter of life and death, I am very disappointed with that attitude. I can assure you it is much, much more important than that". Whilst Bill Shankly may only have been joking, the confluence of the European Referendum in the UK and the European Football Championship (*the Euros*) in France may mean that football assumes an overly important role in determining the future of the UK.

Whilst we remain concerned around the potential of the European Referendum to disturb the investment market, and have reflected those concerns in previous *Outlooks*; we suspect that a different perspective may bring some light relief to the BREXIT question.

BREXIT on the pitch

The Euros will start on the 10th June 2016. England will play their first game on 11th June against Russia. Subsequent games are against Wales (16th June) and Slovakia (20th June). Likewise Wales and Northern Ireland would have finished their group games by the 21st June 2016. All three teams could technically be out of the Euros by the time of the Referendum on the 23rd June?

Will BREXIT be an own goal?

Will an early exit from football Euros result in an increased chance of BREXIT on the 23rd June? A football BREXIT - or at least the potential of an England exit from the Euros after being beaten by Wales on 16th June – will no doubt be a traumatic event for some England football fans.

Could an all-too-familiar footballing failure influence voting patterns? Would the stereotypical football fan that drinks lager and reads the *Tabloids* and may have a predilection to BREXIT think that they don't need to vote if the country has already exited the Euros? Or would they vote for BREXIT given England's failure?

Will football tears or cheers trigger a BREXIT?



Source: Artorius Wealth, parentdish.co.uk

On the other hand for those voters with cricketing or rugby concerns, England and Wales are playing in Test matches over coming weeks. Will they be traumatised by the disruption the Euros causes their summer of civilised sport? If so would they want to have a BREXIT to ensure that such an infringement of their sporting civil liberties were undisturbed in the future?

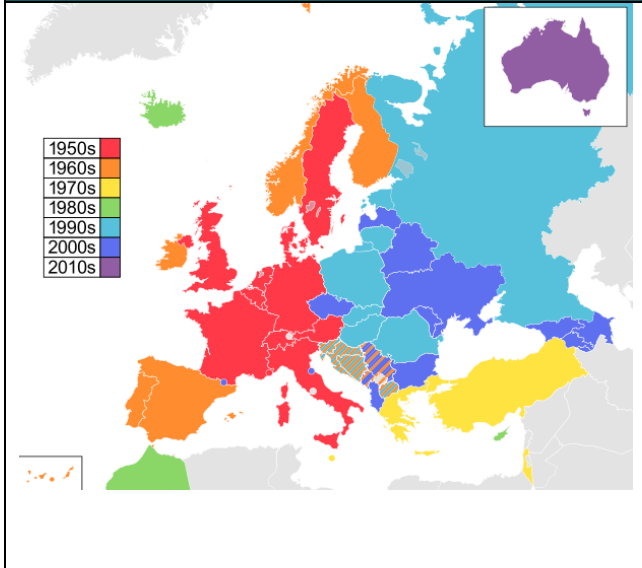
Eurovision Song Contest: a reason for BREXIT?

Whilst the Eurovision Song Contest is unlikely to be won by a UK entrant anytime soon, the original ambition to have a festival of song across a continent that was still in post-war recovery reflected the best of a need for peace and harmony in Europe. Probably hard to lavish such praise now.

The contest has long been accused by some of political bias. According to one study of Eurovision voting patterns, certain countries tend to form "clusters" or "cliques" by frequently voting in the same way.

The spread of participation in the Eurovision Song Contest may be representative of the 'overreach' or 'mission-creep' of 'Europe'. If a BREXIT vote occurs does the UK have to participate and pay more than most for the pleasure?

Participants in the Eurovision Song Contest, coloured by decade of debut.... A European growth story



Source: Artorius Wealth, wikimedia

Is the risk of being out of the EU too large to countenance? Is Norway the model relationship for the UK to have with the EU post a possible BREXIT? Not if Eurovision is a guide. Norway has been last in Eurovision as many as eleven times! Given that Norway is outside of the EU, is that another reason for the UK to vote to remain.

BREXIT risk: portfolio positioning

Naturally whilst this sideways glance at BREXIT risk is humorous, we manage clients' wealth with appropriate judgement and positioning. Equity exposure is global with only c15% of equity exposure directly invested into UK equities.

With a BREXIT risk likely to trigger a fall in sterling, this should be set against the reality that the event risk is as large for a Euro area with problems in Greece, Italian banking and persistent migration pressures across the continent; the Euro is not yet an attractive currency in such an event.

Likewise would a Trump Presidency make one want to invest into US Dollars?

Given the uncertainty we remain underweight equities for clients, and are willing to be risk averse in seeking opportunities.



ASSET ALLOCATION VIEWS

| Equities | ⊖ | Fixed Income | ⊖ | Alternatives | ⊖ |
|------------------|---|------------------|---|----------------|---|
| US | ⊖ | Government | ⊖ | UK Real Estate | ⊖ |
| UK | ⊖ | Investment Grade | ⊖ | Infrastructure | ⊖ |
| Europe ex UK | ⊖ | High Yield | ⊖ | Private Equity | ⊖ |
| Japan | ⊖ | Emerging Market | ⊖ | | |
| Pacific ex Japan | ⊖ | Cash | ⊕ | | |
| Emerging Markets | ⊖ | | | | |

⊕ = Positive view
 ⊖ = Negative view
 ⊖ = Neutral

Source: Artorius Wealth

Our Tactical Asset Allocation (TAA) tilts to the SAA to reflect our shorter-term cyclical views. Actual client portfolios will vary according to mandate, benchmark, risk profile and the availability of individual asset classes in different regions.

ASSET CLASS OVERVIEW

| Equity | SAA | Commentary | TAA |
|--------------------------------------|-----|---|-------|
| US -3 -2 -1 0 1 2 3 | 22% | We increased our negative stance on US equities from 'slight' to 'moderate' in early December. The risk of higher interest rates and tighter credit conditions, as seen in surveys, threaten the subdued economy. This is likely to impact the Small Cap which accounts most of our underweight stance. | -7% |
| UK -3 -2 -1 0 1 2 3 | 7% | We prefer mid-caps, implemented through exposure to the FTSE 250 Index, as they avoid the dominance of the commodity related companies found in the FTSE 100 index. | - |
| Europe ex UK -3 -2 -1 0 1 2 3 | 7% | We are of the opinion that the ECB's commitment to its asset-purchase programme will remain intact and continue to support the region's recovery. | - |
| Japan -3 -2 -1 0 1 2 3 | 0% | Following the Yen's depreciation, the earnings growth of Japan has been robust but challenges remain longer term (i.e. demographics) | - |
| Pacific ex Japan -3 -2 -1 0 1 2 3 | 5% | We have become more concerned over the Asian equity universe. An economic slowdown in China and collapse in commodity prices weighs heavily. Growth risks and monetary policy tightening in the US cause us to reduce exposure in clients' portfolios | -2.5% |
| Emerging Markets -3 -2 -1 0 1 2 3 | 5% | Whilst China weighs on the universe the use of an active fund manager gives clients' portfolios to relatively undervalued asset class | - |
| Global -3 -2 -1 0 1 2 3 | 3% | In contrast to our regional asset allocation we have a global equity theme of water. As the global population grows, water resources are stretched and companies in water industry should benefit from increased expenditure. | - |



| Fixed Income | SAA | Commentary | TAA |
|---|-----|---|-------|
| Cash -3 -2 -1 0 1 2 3 | 0% | We opt for cash in the face of unattractive opportunities, in other asset classes. Long term we look to deploy cash holdings in higher return generating assets, but in times of turbulence cash offers a safe haven. | +9.5% |
| Government -3 -2 -1 0 1 2 3 | 14% | We remain neutral on government bonds overall, as the inflation outlook appears subdued in the near-term. The prospect of further bond buying from the ECB is likely to keep bund yields low, which in turn should prevent yields in other markets rising too far too soon. | - |
| Investment Grade -3 -2 -1 0 1 2 3 | 9% | In the UK and Europe there has been a modest increase in credit spreads in 2016, but returns remain attractive in most scenarios relative to government bond markets. | - |
| High Yield -3 -2 -1 0 1 2 3 | 4% | High yield markets in the UK and Euro area are shielded to date from the US high yield bond market. | - |
| Emerging Market -3 -2 -1 0 1 2 3 | 3% | We believe that valuations are attractive and sufficient to outweigh the potential volatility caused by the Fed's rate rises. | - |
| Alternatives | SAA | Commentary | TAA |
| UK Real Estate -3 -2 -1 0 1 2 3 | 10% | Yields and rental growth of 3% should also make a useful contribution to robust total return in 2016. Valuations appear stretched in absolute terms limiting long-term returns. | - |
| Infrastructure -3 -2 -1 0 1 2 3 | 5% | Valuations remain full, with limited scope for disappointment, but cash flow generation is drawing fund flows. | - |
| Private Equity -3 -2 -1 0 1 2 3 | 6% | The asset class most correlated to the economy, in terms of risk. PE houses are expected to deliver positive returns until the economy slows markedly or credit costs rise to curtail private market activity. | - |

Source: Artorius Wealth

Key: The numbers reflect a quantitative description of our tactical positions relative to the strategic benchmarks. Our Strategic Asset Allocation (SAA) solutions offer a blend of assets that over a medium terms (5-7 years) will, in our view, provided the optimal mix of returns and risk at a given level of risk tolerance. Our Tactical Asset Allocation (TAA) tilts to the SAA reflect our shorter-term cyclical views. The SAA and TAA positions reflect a medium risk sterling on-shore based client portfolio. Views are subject to change and implementation in portfolios will reflect specific client requirements.



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