

# Brexit Fallout: Some Win, Some Lose - Most Uncertain

Stockholm (HedgeNordic) - In the wake of Brexit, HedgeNordic, in the first of a series of articles on the historic development, takes a first look at immediate sentiments and repercussions in the Alternative Investments industry.

## Shock and Awe

"The vote on the U.K.'s membership of the European Union has major consequences for the U.K. itself, the EU and the international community... this was not the OECD's recommended course of action" - OECD Secretary General Angel Gurría

Stock markets agreed, crashing immediately following the U.K.'s decision to leave the European Union on June 24th, shocking global markets and sending risk assets across the world into a tailspin. In the U.S., the Dow fell 600 points and trading was halted after falling 5% on the S&P 500 futures, while the Nasdaq fell over 4%, largely wiping out 2016 gains across the board. The British Pound appeared ready to collapse, while gold and U.S. Treasuries rallied. Markets regained their composure somewhat in ensuing days, but the vast uncertainty surrounding the as-yet unclear terms of Britain's exit - alongside leadership contests in likely both the U.K.'s major political parties, not to mention rumblings of an upcoming second Referendum for Scotland to leave the U.K. - mean the uncertainty will continue. Risk appetite is therefore likely to be severely diminished over the coming months and years.

Hedge funds - naturally - hedged their bets, with some opting to wait out the results of the Referendum, others successfully betting on "Brexit," and still others betting on either outcome. The minority of Hedge Funds betting on Leave were rewarded with outsize returns as U.K. and European stocks fell precipitously following the vote. As the Financial Times reports, funds such as Marshall Wace, TT International and Odey Asset Management, which is projected to gain some 15% from the Brexit outcome, made gains on short positions against U.K. stocks. Those buying bonds, such as computer-driven funds Winton Capital Management and Aspect, and those shorting the British pound, such as Atlantic Investment Management, also benefited. For instance, Winton's systematic trading strategy ensured a gain of 3.1%, following Thursday's result.

## "History usually rhymes"

Other Macro-orientated funds, according to Business Insider, also profited from taking the long view. NuWave Matrix, which runs a CTA/systematic Macro strategy with \$60m in AUM, was up 12%. "...Brexit was a binary outcome, but by the same token, history has a number of examples of binary outcomes," said Chief Operating Officer Craig Weynand. "History doesn't repeat itself, but it usually rhymes." Quadratic Capital Management, run by Ms Nancy Davis and with \$428m in AUM, also posted its best returns since inception in 2015, albeit not by betting on Brexit, but by deploying options strategies that make money during risk-off events like Brexit.

One line separating winners and losers appears to have been PMs who donated to and bet on both sides during the Brexit campaign. Other Hedge Funds simply avoided betting ahead of the Referendum, due to the degree of uncertainty surrounding the outcome. The financial and political establishment consensus had been that Britain would vote Remain, buoyed by polls suggesting the vote swinging to do so earlier last week, which, given the outcome, limited potential gains.

According to a Preqin poll earlier in June, four out of five European Hedge Funds expected Britain to remain in the EU, with most bets optimistic on such an outcome given the majority of political polling suggesting as much. Ryan Tolkin, CIO with Schonfeld Strategic Advisors, with \$12.5b under management and which also did well following last week's result, suggested the worst may yet be to come, underpinning his Fund's approach of using market-neutral equity and quant strategies, which reduces its market exposure while capitalizing on volatility: "Right now, everybody's trying to figure out how their portfolio is positioned and what are the initial impacts," Mr Tolkin said. "Long-short portfolios are going to experience a fair bit of pain over the next few days."

### **What next?**

Bank of England Governor Mark Carney has assured investors that £250 billion in extra funds have been pledged to calm market volatility, though that volatility is expected to persist as further Brexit-related developments unfold. According to Laura O'Brien of Trinity Fund, the general impact will be long-term, as opposed to affecting day-to-day fund operations, and will depend on, first, the ability of both the U.K. and the European Union to hew to the Article 50 timetable of withdrawal over the stipulated two years, and second, the exit model that will be adopted during trade deal negotiations between the two. Of the latter, the U.K. could either: 1) agree to remain as a European Economic Area (EEA) member, ensuring that EU Alternative Investment rules (AIFMD, MIFID II) would continue to apply, 2) adopt the "Swiss model" and join the European Free Trade Association, thereby negotiating Free Trade Agreements (FTA's) by Sector, or 3) withdraw completely, in which case it would have to depend on its WTO membership to negotiate trade deals.

Trinity suggests either decision could have considerable and complicated effects on both the EU and non-EU Alternative Investments industry, including in marketing, operations and legal areas, adding to the sense of uncertainty, market volatility in the longer term and presumably, important strategy adjustments among hedge funds. In the near term following the shock of the Brexit vote, Oliver Reed & Partners Ltd. suggest, markets are now likely to become more settled until further details emerge, with the main shocks being felt among international investors as opposed to U.K. ones, and with central banks ready to step in with credit, unlike after the 2008 financial crisis, to calm volatile sentiment. Constant re-contextualization of the situation is therefore indispensable going forward.

Meanwhile, in his immediate reaction to Brexit, Mr Ernst Grönblom, of Helsinki Capital Partners (more Nordics-specific reporting from HedgeNordic will be forthcoming) likely spoke to the sentiments of many by invoking the following:

"An nescis, mi fili, quantilla prudentia mundus regatur?" ("Do you not know, my son, with how little wisdom the world is governed?") (- Axel Oxenstierna, Lord High Chancellor of Sweden, 1612-1654).

Indeed, history often rhymes.

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