

# Manager Sentiment Shifts on Brexit

Stockholm (HedgeNordic) – Perhaps mirroring the effect of Donald Trump’s election, where hedge funds had previously been apprehensive and had overwhelmingly backed his opponent – only to bask in euphoria at market reactions to the election result and previously unforeseen opportunities – hedge fund managers are now also warming to the Brexit result, according to the latest study by Preqin.

The report, “Impact of Brexit on Hedge Funds” – surveyed 276 hedge fund managers, 108 investors and culled extensive data from its online services last month to gauge how reactions to Brexit had evolved in the past half year. Despite the majority being hit by the immediate market turbulence following the vote, with the vast majority (71%) pricing in a vote for Remain, just 21% of firms have experienced a negative impact from Brexit while 32% report a positive effect on their performance as of last month.

“The UK’s decision to exit the European Union was largely unexpected by the hedge fund industry – 71% of managers surveyed in early June 2016 believed that Britain would choose to remain in the Union,” said Amy Bensted, head of hedge fund products at Preqin. “As a result, in the immediate aftermath of the decision, more hedge fund managers reported that Brexit had negatively affected performance than positively and we saw UK- and Europe-focused funds make losses in June. Fast-forward five months, and Preqin’s survey of fund managers in November 2016 reveals that hedge funds have been able to better capture the volatility arising as a result of the referendum and generate better performance. Looking forward into 2017, more hedge fund managers continue to believe in positive Brexit impact on their portfolios than a negative one going forwards,” she said.

Preqin now finds that a quarter of hedge fund managers expect the impact of Brexit to be positive for their portfolios. Investor confidence also appears to have returned to the UK since the referendum, with the proportion looking to invest more in the UK over the coming year rising to 13% currently from 7% immediately following the referendum.

UK- and Europe-focused hedge funds incurred steep losses in June 2016, immediately following the referendum result. Both UK- and Europe-focused hedge funds recovered steep losses in June over Q3, however, showing YTD gains of 1.91% and 0.99% respectively as of end October. The majority of investors do not think Brexit will alter their hedge fund commitments in either the EU or the UK. Three-quarters of investors plan to invest at the same level in the UK over the long term, while 81% of investors will maintain their current level of investment in EU-based hedge funds.

“Given that the UK government has yet to trigger Article 50, it is unsurprising that uncertainty still prevails about the wider impact of Brexit on the hedge fund sector,” Ms. Bensted added. “Until these effects become clearer, the majority of hedge fund managers and investors are conducting their business as before. However, they will be keeping a close watch on any further Brexit developments over the coming months, as well as possible further complications represented by upcoming French and German elections.”

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