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# Will Brexit affect you?

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On June 23, 2016, U.K. citizens voted to exit the European Union (EU). The outcome was a surprise to most people. Even though it will take at least two years for the U.K. to exit, the news led to immediate sell-offs in global stock markets, a weaker Sterling, and a re-valuing of sovereign bonds. The drama will continue to develop over the next few weeks, although stocks have now fully recovered their losses on hopes that central banks will either increase stimulus or put interest rate hikes on hold.

So, what's next? Over the last couple of years, Greece's potential exit from the EU, or "Grexit," a depreciation in the Chinese yuan, and most recently, "Brexit," have all created short-term market volatility and prompted central banks to react. Our expectation is that there will be more events like this, and more actions taken by central banks. As investors, we do not have a crystal ball to tell us about the next event and its outcome. Instead, we use several reliable tools, including diversification, to minimize the impact of such events. We prefer to invest in high-quality securities that are selected through diligent research by the specialists with whom we partner. They effectively research the world for us, from domestic equity to emerging market equity, small caps to large caps, and the consumer sector to the technology sector. In fixed income, our portfolio managers research opportunities in sovereign bonds and corporate bonds globally. While diversification is a great approach, we are also willing to hold overweight or underweight exposures to investments based on their valuations.

Take Brexit, for example. The polls going into the vote were 50/50, making either outcome a real possibility. We followed the developments closely but refrained from making short-term investment decisions. Instead, our portfolios were optimally blended for our investors based on their investment horizon. The short-dated conservative portfolios held a significant amount of assets in bonds, which performed well as a result of lower interest rate expectations brought on by the Brexit decision. As a result, these portfolios had positive performance. On the other hand, equity performance was poor immediately after the vote and recovered by the end of June – this was only a disadvantage to investors who would have needed to sell right away. In our balanced portfolios, we had investments in bonds that performed well and investments in equity that, prior to recovering, performed poorly after the Brexit vote. As a result, the outcome has had very little impact on portfolio values.

Contrary to this approach, if we had tried to predict the outcome and called for an exit decision, we would have sold our equity positions in advance, missing out on the upside leading to the vote, having relatively better returns for a few days, and then missing the subsequent recovery again. At the end, our returns would only have been lower, not higher.

*Combined top 15 equity holdings as of June 30, 2016 of the Evolution 40i60e Standard portfolio with Alpha-style exposure:*

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|---|---|---|
| 1. Microsoft | 6. Alphabet – Class C | 11. Alphabet – Class A |
| 2. Chubb | 7. Tourmaline Oil | 12. CIBC |
| 3. Altagas | 8. Manitoba Telecom Services | 13. Thermo Fisher Scientific |
| 4. Atco | 9. Toronto-Dominion Bank | 14. Medtronic |
| 5. Simon Property Group | 10. UnitedHealth | 15. Synchrony Financial |