On Thursday, 23 June 2016 Britains went to the polls to vote to stay or leave the European Union. In a massive surprise vote, the UK made their choice.

Exit the European Union! And this morning Prime Minister David Cameron has announced his intentions to resign. World markets and currencies have reacted, resulting in lots of speculation and uncertainty. What does this all mean for investors?

Please note:

- The UK surprise vote to leave the European Union (EU) has been greeted negatively by financial markets and raises political and economic challenges for the UK, EU and the globe.

- The vote in itself does not alter STANLIB's investment philosophy to manage client assets for the long term and with a focus on fundamentals.

- In the short term, we are well positioned for the reaction by financial markets and will use the expected uncertainty and volatility to explore opportunities we can take advantage of.

Economic Focus: Brexit Explained

Kevin Lings, STANLIB's Chief Economist explains the Brexit and elaborates on the various economic implications resulting from this decision.

Click here to view the video.

Investment view: Brexit Explained

Warren Buhai, Senior Portfolio Manager from the STANLIB Multi-Asset Team focuses on the implications of Brexit for our various investments and advises how STANLIB is positioned across our asset classes.

Click here to view the video.

Announcement and Economic and Political Impact

UK voters have opted to leave the European Union, a surprise result that has created uncertainty and financial market volatility. We expect political and economic uncertainty for at least the next two years, as Britain starts the complicated process of exiting the EU.

On the economic front, the decision will have implications on UK trade agreements with Europe, which will have to be renegotiated; Fixed Direct Investment flows into the UK, which may slow as European focussed companies reconsider where to be domiciled and the UK's cost of capital may rise given the possibility of a sovereign credit downgrade.

Ultimately, this will all translate into slower economic growth for the UK or possibly recession. The concerns across the globe are the continued slowdown in economic growth and the fact that central banks are likely to pause the hiking of interest rates, including the US Federal Reserve. We expect low interest rates to persist for longer.

For emerging markets including SA, the economic impact of Brexit will be influenced by how significant the UK is as a trading partner and the terms of renegotiated trade deals, which will now have to occur. On the trade front, Europe remains a more significant trading partner for SA than the UK.

On the political front, it has already been announced that UK premier- David Cameron has tendered his resignation. We expect that across Europe, some countries will also push for referendums on whether to leave the EU or not. Scotland may call for a referendum on whether to leave the UK, while European leaders will be focusing on rallying their countries around the EU. This uncertainty in itself raises questions on the sustainability of the EU, which has been on investors' agendas since the Greek financial crisis a few years ago.

Asset Classes and Positions

The short term reaction by financial markets has been negative as investors digest the surprise announcement. Our Asset Allocation funds (Multi Asset and Absolute Return) have been defensively positioned and will benefit from the current volatility. In the Equity asset class, we have been weary of the Resources sector, which we see as the most vulnerable in the current environment.

In our Fixed Income investment team, our view is that economic growth concerns and interest rates possibly staying lower for longer will create opportunities for us to increase duration. In the local Listed Property funds we are relatively underweight in companies that have UK exposure and in our Offshore Property fund we have an overweight position in the UK but we have exposure to the most dominant and better quality property companies. In addition, subdued interest rates are positive for the Property sector.

We will continue to explore attractive opportunities for our investors by staying true to our investment philosophies and focus on creating long term wealth for our investors.

Regards,

Seelan Gobalsamy
CEO STANLIB