Brexit Flash: impact on our strategies

Balanced/Patrimonial

- For the **Patrimonial** strategies, the impact of a Brexit is very low on an overall portfolio level. Due to relatively high 3-year duration overall in the FI pocket, we are gaining on position in low-risk sovereign bonds, while the negative impact of equity performance (just 10-11% exposure on portfolio level) is limited. Gold position is also helping us protect the portfolio as a risk-off asset class. Very diversified portfolio is ensuring stable portfolio. Hence, the objective of capital preservation is being met.

European/Eurozone Equities

- Regarding **Euroland**, the Brexit impact is neutral in terms of relative performance. The overweight in some specific names in Italy is neutralized by the underweight in financials in general and the overweight in technology. Going forward we see some opportunities in the quality growth segment, while keeping an eye on the peripheral exposure as well. Given the ECB intervention, we regard short term damage to the Eurozone equity markets as limited.
- Regarding **Europe**, the important underweight on the UK market is not helping the relative performance as the underweight in Switzerland and the overweight in some peripheral markets (Italy is a higher beta market) is detracting performance for now.
- Regarding **European small caps**, the relative performance is very positive given the 17 % underweight to the UK segment, which itself is heavily penalized on the Brexit issue (like homebuilders for example).

Global Equities

- In the **European dividend funds**, we are 7% overweight in the UK due to the dividend fund's threshold, and resulting from the bottom up approach. There are two outliers in terms of overweight positioning UK: UK homebuilders underperform (strong FCF+DVD visibility) while UK pharma outperforms.
- In the **World and World Dividend** strategies, both funds are slightly overweight UK (1-2%) but tilted towards defensive names (UK pharma/tobacco) and exporters; sole exception is UK

homebuilder Taylor Wimpey in World Dividend fund. Both funds are underweight financials although World has an overweight position within EUR financials. Both funds have a slight overweight position in peripheral banks.
- **World Sustainable** holds an underweight position in the UK with three defensive/export oriented stocks. It holds no financials and is largely underweight USD.

Listed European real estate

- In **Petercam Securities Real Estate Europe**, we were neutral UK at 25% ahead of the referendum, we did not make a big bet on the outcome of the referendum but decided to reduce London exposure and offices in particular ahead of June 23, also because of the looming end of the cycle. On an individual stock level, we were broadly underweight to the most exposed London names & large caps. Neutral on the two large hybrids Office/retail Land Securities and British Land as we saw as much upside (Bremain) as downside (Brexit) risk given their important discount to NAV ahead of the referendum. The fund of course cannot escape from the plunge of the sector but on relative terms, gains are ranging +60-75bp today vs. benchmark (source Factset)
- For **Petercam Real Estate Europe Dividend**, the UK exposure is much smaller: 11-12% as the dividend yield of most UK REITS is below the sector average. The only "Brexit exposed name" is British Land and limited to 2.5%. The remaining 9% are essentially concentrated in high conviction small & mid caps. Also outside of the UK, the lower exposure to large caps offers some protection. Hence overall, the fund shows its traditional resilience in market stress situations showing a nice relative outperformance versus the market.

Fixed Income

- The departure of the UK from the European Union inflicts a deflationary and growth shock to the financial system.
- We prepared the Fixed Income fund range to a large extent over previous months notwithstanding that Bremain was our base case scenario.
- We expect flight to quality towards US and core European Government Bonds to be sustained over the summer. The ECB purchase program will limit contagion towards € periphery

government bond markets. We hold onto a neutral interest rate duration stance for our **Government Bond Funds**. We hold a modest overweight duration contribution towards Italian and Spanish Government Bonds. We have no exposure to Portugal. Our tracking error budgets versus benchmarks are kept within a tight range of 0.95% to 1.15%.

- In **Global Inflation Linked Bonds** we are neutral interest rate duration and profit from our currency diversification and low tracking error versus benchmark. Our tracking error budget sits at a modest 0.50%.
- In **Emerging Market Local Currency Government Bonds** we witness modest spill-over from the risk off behaviour. Our main exposures in EMFX are built around RON/MYR/ZAR/MXN and on average lose between 0.50% to 2.5% versus the Euro. On average EM government bond spreads widen by 20bp to 30bp. We expect no forced selling as the asset class is not suffering from crowding which was the case back in 2013.
- In **€ Investment Grade credit** we do not expect a generalized risk-off reaction given the launch of the Corporate Sector Purchase Program (CSPP) launched by the ECB on June 8th. However we assess that the credit risk premium will consolidate at a higher range in between 90bp to 110bp reflected through the Itraxx Main credit index. Our main IG funds hold onto modest tracking error readings versus benchmarks of 0.50% and 1.00% respectively. The exposure to periphery is measured and taken through corporates that passed our credit screening and security selection process.
- We expect that the **High Yield** market will perform better than historical positive correlations of around 50% to the Equity market would suggest. In short term high yield the negative impact is around 1% whereas the € High Yield and our Global Higher Yield funds drop a measured 3.00% today. High yield will be receive indirect 'protection' from the CSPP purchase program and bank liquidity provisioning by the ECB.
- Our **Unconstrained Global Bond** strategy gains given our allocation of about 42% to USD Treasuries and USD quality credit. At the same time we hedged GBP exposure and hold onto core Eurozone credits. Periphery exposure is limited to 5% of AuM. EM FX exposure sits at 4%. Credit hedges remain in place through long CDS Crossover protection.

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