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The Trades



December '20 **One portfolio, Deal or No-Deal**

by Cranley Macfarlane

In a previous life I trained as a lawyer, and in my first European Law tutorial we were told that it was impossible for the UK to leave the European Union, so complex were the multitude of laws and regulations that bound the two. While my tutor was wrong about the UK leaving the EU, he was certainly right about the complexity. I never took up a career as a lawyer, and so instead of having to worry about the 'Hows' of Brexit, I am more concerned with the 'Whats', and I leave the 'Whys' to those who still have the energy.

What type of Brexit deal will we get? With another deadline looming it is still not clear, and it is a brave investment manager who is positioned for one outcome.

What will be the economic impact if there is no trade agreement? Again, no one truly knows, and the answer

depends on your timeframe. What is clear is that those who say the disruption will not matter are likely to be wrong, but so too are those predicting Armageddon.

So, what action should we take? In the Endeavour Fund we invest globally and so the impact of Brexit on many of our investments is limited. However, around a fifth of the portfolio is invested in UK and European company stocks and these are vulnerable to volatility, at least in the short term.

One area we can build protection for a no deal scenario is through unhedged foreign currency exposure. Due to our investments in non-UK companies and government bonds, we have significant exposure in Yen, Swiss Franc, Euros and US Dollar, which will increase in value should Sterling fall. As the prospect of no deal has increased, we have partially unhedged our exposure to these foreign currencies to allow us to benefit should Sterling indeed fall. In this way we strive to reduce downside losses for the Fund, yet we will still benefit from the equity upside should a deal emerge.

Brexit is a highly emotive issue, but from an investment standpoint it is one of a number of challenging crosswinds we must negotiate at the moment. If the politicians cannot agree a deal it will be a depressing failure of statecraft, and another Sunday deadline will be missed in a month of Sundays stretching out behind us; but on Monday the world will keep on turning. With an end to the pandemic in sight and a re-opening of the economy (and pubs) to look forward to, there is still plenty to be hopeful for next year, deal or no deal.