



Britain's historic vote to leave the European Union has resulted in a vicious shockwave that is rippling through the global financial markets. Given the near-unanimous expectation for the 'Remain' vote to emerge victorious, the subsequent adjustment in positions is creating a volatile move across currencies, equities and commodities.

What Just Happened?

- The decision for the UK to leave the European Union triggered a massive risk-off trade across the global markets.
 - An unwinding of positions by hedge funds triggers outsized moves to clear the markets.
 - Some context is needed – while dramatic in magnitude, today's decline is essentially an unwind of the market's gains over the past three days.
- Britain's 1992 decision to opt-out of adopting the Euro as its currency illustrates the long-standing skepticism that this sovereign has harbored toward becoming fully integrated in the European Union. The UK was not one of the "original 6" in the Common Market.
- Brexit is sparking fears of additional referendums in other EU member countries. France's Marine Le Pen, president of the National Front party has called for an immediate referendum there. This kind of talk is destabilizing for markets.

What Will Happen Next?

- The Brexit vote triggers a 24-month clock for Britain to renegotiate trade terms and finalize their exit from the EU. The terms of such a negotiation will set an important precedent for the remaining EU members.
 - This negotiation will almost certainly hamper economic growth in Britain; recession, we feel, is likely.
- There will undoubtedly be speculation on the stability of the EU for the next 1-2 years.
 - Fears of further EU disintegration is evidenced by the outsized declines within the peripheral countries.



Cambiar's Game Plan

■ NOW IS NOT THE TIME TO PANIC!

- Many are making comparisons to the Lehman bankruptcy in 2008; it is Cambiar's view that this suggestion is misplaced; financial conditions today are very different.
- Stay the course. The market is clearly in a "shoot first, ask questions later" mode. If past is prologue, significant market disconnects of this nature have often provided attractive entry points for investors with a medium-to-long term time horizon.
 - The biggest risk in the current market environment is an unforced error; reflexive selling would not be the most prudent choice.
- While Cambiar had been in the 'remain' camp, we had reviewed the portfolio with an 'exit' mindset as well. Our team felt comfortable with aggregate portfolio exposures under both scenarios.
- The **Cambiar International Equity portfolio** remains diversified by sector, country and return drivers.
 - As of 6.24.16, the portfolio has a 20% weighting in the UK (EAFE: 18%)
 - The majority of the portfolio's UK exposures are to global companies that derive greater than 50% of their revenue outside of the country.
 - **Financials** – The International Equity portfolio owns a diverse set of businesses that go beyond traditional banking. Holdings include Japanese property/real estate, aircraft leasing, private banking and a Singapore-domiciled bank.
 - A common theme is that our holdings are likely to add value in a prolonged environment of muted interest rates.
 - Sharp price declines in peripheral banks are more a function of EU dissolution fears, vs. a change in fundamentals. A coordinated response by fiscal/monetary authorities would go far in alleviating concerns on this front.
- It is our view that Eurozone officials have the tools and the will to act decisively in providing liquidity to the markets. Such action should help alleviate the extremely high risk premium currently assigned to equities.