TAM INTERNATIONAL INVESTMENT NOTE

Expecting the unexpected.

"The one thing we can all be sure about in politics is you are as well to expect the unexpected."

- Charles Kennedy

When Michael Gove, co-convenor of Vote Leave, was woken in the small hours by his wife to be informed that the UK had voted to leave the EU, he apparently said "Gosh. I suppose I had better get up". Indeed he did. To say the result was unexpected is as understated as his waking words. The last bookies odds on 23rd June put the odds on leaving at 6/1 which was double the odds the day before. Remain looked nailed on at 1/10 which, to put it in perspective was the same odds as England were to beat Iceland for a place in the Euro 2016 quarter final three days later.

Following the result, 10 to 1 was also the long odds of Theresa May becoming the next Prime Minister; Boris Johnson being by far the favourite ahead of Michael Gove. These seemed fair odds since Theresa May wasn't even a member of Leave. She was a Remainer throughout the campaign, albeit a rather shy and retiring one having given only two speeches.

So the UK voted out, England lost to Iceland and Theresa May is set to be Prime Minister by Wednesday evening. An accumulator bet on all three would've netted over £500 for a £1 bet such was the gap between likelihood before the event and how things turned out. But as we said on the eve of the referendum, if speculation ahead of event sounded like gambling, it's because it was. Forgetting the England game (please), and from an investment perspective, the penalty for positioning client portfolios with total confidence of a Remain result would've been very bad for performance

As markets in Europe opened on 24th June there was already talk of a "Black Friday" event in store for markets following an 8% drop in the Japanese stock market and similar losses across Asia. The 8% rise in the FTSE 100 index masked the fact that investors were buying only those stocks that benefited from the 12% drop in Sterling, basically, the biggest UK firms with international exposure to foreign currency revenues such as tobacco, defence, pharmaceuticals, oil and mining. The rest of the UK stock market sold off heavily. There were also losses in the UK property sector where liquidity issues, which affected other asset classes, took their toll.

However, TAM client portfolios were well diversified through the market turmoil with investments in overseas shares and high cash positions thanks to profits taken on almost all the property investments back in May. As a result, TAM client portfolios were generally stable with losses contained, a position from which we would look to recover strongly with the large cash balances we now have ready to invest when we think the time is right and the opportunity outweighs the risk.

Now that markets have settled from the volatility post the referendum result, we look back now at a period of relative under-performance against the benchmark. However, all of the main TAM benchmarks contain elements within them of assets that we do not want to invest in, either now or then. One part of the benchmark is made up of Gilts and we maintain our view that they are expensive for the low returns on offer and are vulnerable to better than expected news on the economy and a pick-up in inflation. The other part of TAM benchmarks is the FTSE All Share index dominated by US dollar exposed large-cap stocks which are now very expensive and also vulnerable to a recovery, or even some stability, in Sterling.

We have not chased these assets in a speculative rush because our emphasis coming into the binary event of the EU referendum was protection of client portfolios whatever the result. This was no time for betting heavily on black or red but instead about defending portfolios so as not to lose money.

Preservation of wealth is paramount to being well placed for the real long term opportunities that are emerging as we come to terms with the new investment landscape. We are confident that the relative performance will be recouped through a combination of existing strategies which invest in undervalued assets and also looking for short term opportunities as we have done in previous periods of excessive volatility. We will be watching markets closely and informing you of any actions that we take.

TAM ASSET MANAGEMENT INTERNATIONAL LIMITED
Cyber Tower, Ebene, 72201, Mauritius

+230 454 6400

+230 454 5413

www.tamint.com