

BYRON

CAPITAL PARTNERS

Brexit

A Personal Perspective

Byron Capital Partners Limited
4 Fitzhardinge Street
London
W1H 6EG
United Kingdom

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Background

My earliest, most vivid memories as a child growing up in south London centre around the period 1973-1975. TV at the time was average (to say the least) with only 2 channels and you used to have walk to the TV and push buttons to change the channels – when you got to 11.00 p.m. the channels simply shut down.

What do I remember from then? Well on the news front, Egypt – Israel, Cyprus erupted big time (I remember a friend in my class crying as his dad was in the British army and had got shipped out to Cyprus), the Vietnam war was on TV every night as was Northern Ireland and then there was the 1974 World Cup and the sublime skills of Johann Cruyff and the Netherlands team. There were also various votes on the Common Market going on in the UK but this was frankly un-interesting.

My recollection of this time was that the UK was generally a miserable place – everything felt shabby and depressed, there was no money – I also have a memory of it always being cold (ironically not of it raining).

Fast forward 30 years – things in the UK feel much better. London has become the capital of the world – arguably the most diverse city on the planet and home to a myriad of nationalities. Living standards in the UK are significantly higher than they were – relative to my memories of the early 70's the country no longer feels shabby or depressed, it feels like there is money around and I don't feel cold anymore.

So what are the factors in my mind that led to the UK feeling a better place today rather than 30 years ago:

1. *Thatcher*

Love her or hate her she was transformational in UK politics and economic approach and in addition caused a change in mind set throughout UK culture by sponsoring an aspirational culture.

2. *Globalisation*

The UK has without a doubt been a major beneficiary of Globalisation centred on London, which has rippled throughout the UK (there is an argument that this benefit has been amplified as a result of the UK being seen as the European HQ for a very many people).

3. *End of the Cold War*

The Berlin wall coming down opened up eastern Europe to the west encouraging trade and development. It also freed up significant financial and intellectual resource to look at other things as opposed to staving off imminent Armageddon.

4. *Consumer culture*

Society has changed significantly in the last 30 years, moving from a society of savers to a society of borrowers. Historically if you wanted to buy a car you saved money for three years and then bought your car. Today you buy your car immediately and pay for it the following three years. In finance parlance you P.V. the experience to today. The obvious problem with this is the leverage coming into the system as it is the leverage, which drives the explosion in sales and asset price values (I could write a lot about this but it's not for here).

What doesn't spring to my mind as being a catalyst for the UK feeling a better place than it was 30 years ago is "an ever closer political union within Europe" or seeing the Prime Minister trot off to Brussels for God knows how many summits on whatever. However, it would be disingenuous to say that the movement of labour and intellectual capital in Europe hasn't contributed to the wealth creation. This is often overlooked in the UK because of the negativity that exists in the UK towards many aspects of the European project by both "In and Out" voters.

Today – so where are we now?

I applaud David Cameron.

He has decided to try and resolve the European question once and for all and we're having a referendum.

Why has he decided to do this?

- I think there is an element of him actually trying to be democratic and let the people have a say. There was a reason there was never a referendum on the Maastricht or Lisbon treaties – the ruling Governments thought they would lose. Gordon Brown actually turned up late to sign the Lisbon treaty, when everyone had left in an effort to make it not look like a big deal.
- Cameron wants to deal with the "cancer" that eats at the heart of the Conservative party once and for all.
- He's a politician – he thinks he's going to win the vote.

I have seldom seen such a unity of purpose among the political establishment/the institutions of this country and "Trade" all advocating the "in campaign". Indeed the country has gone to many a war with significant disharmony among these constituencies.

In the last 48 hours I have seen four UK treasury ministers give a presentation explaining how my Income tax will go up by 8p in the £ if we vote to leave, the National Union of Farmers has come out and said we should vote in (subsidy related maybe?), the Midwives Association has come out and said we should vote "in" as it is better for pregnant woman if the UK is part of Europe.

Any high profile person who seeks to champion the "out" campaign is branded a renegade, loose cannon or a "nutter".

The arguments for staying "In" centre on:

- Everyone will be poorer out
- Everyone will be less safe out
- No one will take us seriously if we're out
- Financial services will be decimated
- Much better if we reform the EU from inside – sort of make it more British
- Immigration is a good thing

The counter arguments go

- Prove we will be poorer – "we'll get back the £35MM a day we contribute"!
- British security services work fine
- We are a member of the UN Security Council and the a member of the G7 - of course people will take us seriously
- Financial Services have already been decimated
- No interest to reform something that is not reformable

- Too much immigration is a bad thing

At the time of writing the surprising thing is that the polls are running neck and neck (although the bookies favour the “in”). With the level of state/institutional support for the “in” campaign this must be extraordinarily worrying for Cameron as he didn’t call a referendum with any expectation of losing. On a personal level for this to be his legacy would be a disaster.

So why are the polls so close? In my opinion:

- Many British do not attribute the success of the country to being a member of the EU
- There is a significant distrust of Europe with the institutions seen to be overly bureaucratic, undemocratic and out of control
- The subliminal message of the UK establishment is we should be happy to trade a bit of sovereignty for some money – this doesn’t resonate so well with the UK mentality – if you go to school here you get taught that we have always prized our sovereignty and paid in blood if necessary – Philip of Spain, Napoleon and 2 World Wars
- Europe looks an absolute mess – the refugee trail from the Middle East, Southern European countries in depression for 10 years, a Banking system propped up by the ECB – nothing really seems to work so well. From a practical perspective who wants to be a part of that.
- People believe they joined a Common Market which has “morphed” into something else and they don’t like what they see – I would also note there is wide spread dissatisfaction in many European countries with the EU.
- Zone 1 London is not representative of the UK electorate – and if you live here you realise the further you get from London – the less enthusiasm there is for Europe.
- Voting demographics – without a doubt there is a fracture in voting intentions with the younger generation definitely more pro Europe than the older generation. The most popular argument I hear for this (including from my 17 year old daughter) is that being part of Europe stopped war – personally I’m not so convinced with the validity of that argument.
- There are also some mutterings from various European politicians threatening consequences if the UK were to vote to leave – this kind of narrative goes down like a lead balloon in the UK. Barack Obama is due in the UK and I am confident he will say something very eloquent and supportive of the UK staying in Europe – again this is high risk for the “in” campaign even if this supportive message is delivered by someone as charming and elegant as the US president – there is significant “backfire” risk.

I’m not going to speculate on what happens to Gilts or EURGBP in this piece.

Conclusion and Outlook

One thought/concern that I increasingly have is that I am not sure what things are going to look like post June 23rd 2016 – I suspect the country irrespective of the result is going to be deeply divided as there is likely to be no resounding victory for anyone and I think it will be extremely difficult to predict where events will go – if there is a vote to “exit” the complications will be enormous and we are in uncharted waters. If the vote is “in” a very large proportion of the population will be furious (as is the situation in Scotland) and there will be a lingering resentment, which will I think impact many aspects of UK domestic politics and as an extension of that the UK’s foreign policy.

The biggest issue the UK actually has with the referendum is that someone needs to win “big” so that there can be no doubt about the winners mandate. At the moment it is not obvious that anyone will win big.

In the words of the political visionaries the Punk Band the Clash, we find ourselves in a situation where the British are asking themselves this:

Should I stay or should I go now?

If I go there will be trouble

An' if I stay it will be double

So come on let me know.

This indecision's buggin' me,

If you don't want me, set me free

Exactly whom I'm supposed to be

Don't know which clothes even fit me

Come on and let me know

Should I cool it or should I blow.

Frederick Dubignon
Chairman and Chief Executive Officer
Byron Capital Partners Limited

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