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MEMORANDUM

From: MRA Associates Investment Policy Committee

Date: June 24, 2016

Re: Four Reasons Not to Panic About Brexit

Last night, against predominant expectations, the citizens of Britain voted to exit the European Union (EU). Today we are witnessing the impact of that decision on financial markets. The Pound is losing value against the U.S. dollar, European markets are declining, and we are experiencing stark declines in U.S. markets. However, we believe there are at least four reasons not to overreact to the Brexit vote and today's market volatility:

1. The vote doesn't actually mean anything yet.

   While citizens have voted for Britain to exit the EU, the process of executing on that decision could take several years. The first thing that must happen is that the British government needs to choose to invoke a provision of the EU's governing treaty known as Article 50, which defines the process for withdrawal. Once invoked, it sets a two-year deadline for a negotiated departure. U.K. Prime Minister David Cameron has said that he will invoke the deadline immediately if the Brexit vote were to go through, although he isn't required to do so. In fact, legally the British government is not even bound by the result of the referendum, and could choose to ignore it altogether. They are unlikely to do so, but it is possible that they could delay invoking Article 50 to allow for more time to negotiate new trade deals with the EU.

2. The Brexit vote appears to be resulting in some leadership changes, which will delay progress.

   U.K. Prime Minister David Cameron was against a referendum on leaving the EU, but agreed to hold the vote if he was re-elected in 2015. He campaigned heavily for a "Remain" vote, while at the same time other members of his government campaigned for leaving. As of the time of this writing and in reaction to Thursday's vote, Prime Minister David Cameron has announced that he will step down, which will likely mean an election. Britain could be consumed by addressing leadership within the government for weeks or months, which could postpone a decision on how to proceed.

3. All parties may have to agree.

   If a deal on Britain leaving the EU can be reached within two years, it may need to be approved by all 28 member nations and possibly approved by the Parliament in Scotland, where all major parties were in favor of remaining a part of the EU. The uncertainty of how the process works is partly due to the fact that no country has ever exited the EU.

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4. The outcome of leaving may be no different than staying.

   The U.K. plays a prominent role in trade with EU member countries. During the two years of negotiation, it is possible that the U.K. creates similar trade unions and tariff agreements that currently exist, resulting in little-to-no impact on growth in the region. Norway is an example of a country that is not a member nation but benefits and participates from the single market of the EU.

Although we will experience volatility in the near term, it will not be due to some fundamental change in the global economy. Instead it is a reflection of increased uncertainty about the future. While we have laid out four reasons not to panic, the vote does bring increased uncertainty about Britain's future relationship with the EU and economic growth in the near term. It is also possible that the near-term reaction to a decision to leave the EU may trigger a re-evaluation. Recall that in 2009 when the U.S. Treasury first went to Congress for a $700B bailout fund, Congress voted against the measure, sending markets into a tailspin. The decision was re-evaluated and voted on within a few days, and Congress passed the measure on the second vote.

At this moment, there are no decisions to be made from an investment standpoint. Investors should expect to see volatility in portfolios. Global equities will decline as market volatility increases. Fixed income will likely rally, offsetting some of the declines in equity markets. Multi-strategy investments like reinsurance, farmland, and life settlements will likely be unaffected by the volatility. From an economic standpoint the outcome of the referendum remains unknown. We will continue to monitor markets and the progress of Brexit; however, we remind our clients that direct exposure to developed Europe in their portfolios is underweight, based on already low expectations for growth in the near term. While uncertainty has increased, fundamentally nothing has changed yet. The next few days and possibly weeks provide an opportunity for our clients to witness in real time the benefits of a well-diversified portfolio and the impact of holding unique investments within their portfolios.

As always, if you have any questions please reach out to a member of your engagement team.