



Brexit: overview and outcomes

For professional investors only

The impact of the UK's vote to leave the European Union (EU) – 'Brexit' (British exit) – is likely to be felt across Europe's political and investment landscape for many years to come.

This guide provides a high level overview of the situation at the time of writing and explores the many questions still left unanswered.

Background

When and why did the UK join the EU?

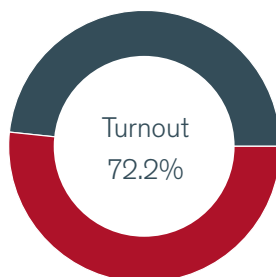
The EU's origins can be traced back to 1951 when six European nations formed the European Coal and Steel Community in a belief that closer economic ties would help prevent conflict between nations. In 1973, the UK, seeking stronger trade links, joined what had by then become the European Community and in a referendum in 1975, some 67% of the electorate voted in favour of continued membership. Over time, treaty changes and additional countries joining meant that the community developed into the European Union in 1993.

Why was the 2016 referendum called?

Some of the UK electorate felt that the UK never opted to join the EU as it currently stands following its significant expansion. Concerns surrounding the UK's sovereignty, the free movement of people, and the EU's call for an 'ever closer union' led to a rise in Euroscepticism. The Prime Minister (PM) and leader of the Conservative Party, David Cameron, subsequently called for a referendum on continued EU membership as part of his re-election campaign in 2015.

What was the outcome of the vote on 23 June 2016?

48.1% (16,141,241)
Remain a member of the EU



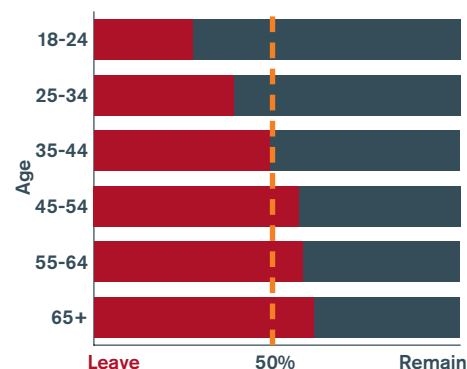
51.9% (17,410,742)
Leave the EU

Source: Electoral Commission

The UK voted to leave the EU by a small majority. This led to the resignation of the pro EU PM David Cameron, who will step down from his position by October.

Broadly speaking, Scotland, Northern Ireland and metropolitan cities such as London, Bristol, Manchester and Liverpool voted to remain part of the EU. This is in contrast to Wales, most of rural

and suburban England, and former industrial areas which voted to 'Leave'. There was also a stark divide between younger voters ('Remain') and older voters ('Leave'), with higher turnout amongst older voters seen as a key determinant.



Source: Lord Ashcroft Polls, based on a survey of voters post referendum

What next?

What is Article 50 and why is it so important?

Article 50 is included in the Lisbon Treaty, which became law in December 2009. It sets out a basic five-point plan should any country wish to leave the EU. It has never been invoked.

If or when the UK formally notifies the EU of its intention to withdraw, Article 50 will be triggered. The next part of the process should take no longer than two years but the details have never been firmly established and are therefore vague. While Article 50 is being implemented the UK would still be bound by EU laws and in the free trade area of the EU 'single market' but with no involvement in internal EU discussions or decisions.

Range of scenarios

There are a wide range of paths towards or away from Brexit that could be taken. Below are four possibilities at the time of writing.

1. Article 50 is triggered (at some point)

While some EU foreign ministers have urged the UK to start the process immediately, the EU has no power to influence the timing of the Article 50 notification. Much work will need to be done on evaluating the costs, benefits and implementation options surrounding this potentially momentous decision. David Cameron's replacement will probably not take office until at least September. There is little chance of the government making any important decisions on the referendum result until his successor is installed.

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2. A change in attitude

If the UK public significantly changed their attitude to the decision, before Article 50 was invoked, this may avert a Brexit. Already, a number of anecdotal reports suggest that some 'Leave' supporters claim that they did not fully understand the impact of the referendum. Additionally, some of the politicians who led the 'Leave' campaign appear to be backtracking on key campaign promises relating to the benefits of leaving the EU; Boris Johnson, the highest profile leaver, also removed himself from the party leadership race. Any further Brexit-related market turbulence, impact on the housing market or the broader economy or more significant warnings from the corporate sector could shift sentiment further in this direction. Article 50 notification could be put to a parliamentary vote or a second referendum.

3. Devolved parliament/assemblies force a deferral

Under the Scotland Act 1998, Scotland has a veto on any measures that eliminate EU laws from Scotland, such as a Brexit. While in theory this could be overcome by the UK parliament, it would be seen as a politically hostile gesture: the Scottish electorate is much more in favour of remaining in the EU and may consider a second UK independence referendum following the 'Leave' vote. One way around this would be for the UK government to ask the devolved parliaments/assemblies of Scotland, Northern Ireland, and Wales to vote on Brexit, before Article 50 is invoked. Given that at least one of the three would probably reject Brexit, it would give the government an option to defer invoking Article 50.

4. Vote of no confidence leads to general election

Another scenario would be if pro-EU members of the Conservative Party decided that the only way to prevent the UK's departure from the EU was to join a vote of no confidence in the government. This would lead to a general election in the UK and potentially to the appointment of a remain-orientated government. This, in turn, could lead to the UK re-opening talks with Europe, potentially negotiating some form of 'associate' EU membership status that preserved access to the single market and enough control on immigration to placate the British public.

Possible timeline?

The many uncertainties make it very difficult to predict how the UK's relationship with the EU is likely to evolve. As per the above there are a variety of possible scenarios and the situation remains extremely fluid. The below is one path the process could take and demonstrates the various stages that have to be passed. Actual events, however, may be quite different.



By early September 2016: Election of a new Conservative Leader and UK Prime Minister

Two candidates will be selected and voted on by Conservative Party members.

2016/2017: Article 50 triggered

The new PM is likely to seek parliamentary approval to submit Article 50. Significant opposition could prevent the motion from passing and possibly trigger a 'snap' general election.

2017: Negotiations begin

If Article 50 is triggered, negotiations commence between the EU and UK (including representatives from England, Scotland, Wales and Northern Ireland).

2018-19: Decision on the future UK/Europe relationship

Agreement to be reached on the UK's links or otherwise with the European single market. A second referendum on Scottish independence might also occur, if not before.

Economic and market impact

Given the range of potential scenarios it is very difficult to give meaningful economic or market expectations. While the direct impact of Brexit on the world economy is likely to be modest, it is still expected to weigh on investor confidence at a time when the global recovery remains fragile. Regardless of how the situation plays out, Brexit-related uncertainties will take some time to dispel and in these conditions it will be more important than ever to remain flexible from an investment perspective.

Key questions yet to be answered:

- When will Article 50 be triggered? Will it ever be triggered?
- Who will the next Conservative leader be?
- Will there be a 'snap' general election?
- Will the UK have a second referendum?
- How aggressive will Europe's stance be on negotiations?
- Will the UK go against the 'Leave' voters and strike a compromise 'Norway option' deal?
- Will other European countries follow a similar path to the UK?

Glossary

Article 50 – Article 50 is included in the Lisbon Treaty, which became law in December 2009. It sets out a basic five-point plan should any country wish to leave the EU.

Norway option – An agreement made by Norway with the EU. Norway agreed to free movement of labour, EU regulations and budget contributions in return for full access to the single market.

Single market – A group of countries trading with each other without restrictions or tariffs. The European single market came into effect on 1 January 1993.

Snap election – An election called earlier than expected. It is usually held to capitalise on a unique electoral opportunity or to decide a pressing issue.

Nothing in this communication is intended to be or should be construed as advice. The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested. Views as at 30 June 2016.

Contact us

General enquiries: **+44 (0)800 832 832**

Email: **support@henderson.com**

Website: **henderson.com**

Henderson
GLOBAL INVESTORS