



# QC • PARTNERS *Quarterly Update*

INNOVATION.VALUE.RISKMANAGEMENT

June 2016 – August 2016 | High volatility after Brexit vote

As at 15<sup>th</sup> August 2016

## Brexit - to leave or not to leave?

The referendum on Britain's departure from the European Union was the main theme preoccupying stock markets in the last three months. Share prices, implied volatility and exchange rates were already responding nervously to the opinion poll results in the weeks leading up to the referendum.

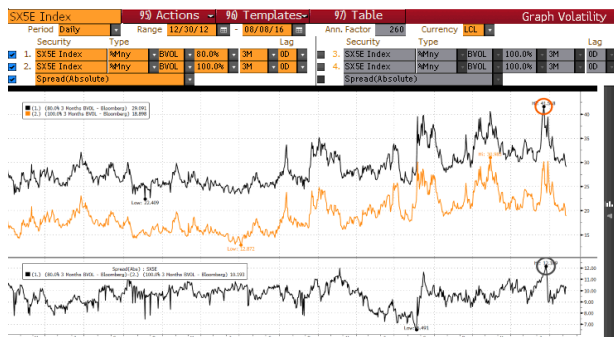
## Increase in implied volatility

Once the Brexit supporters were in the lead in the opinion polls, market operators started worrying about the possible consequences of an EU exit. This caused the implied volatility to head upwards noticeably, especially in the two weeks leading up to the referendum.

In relation to an option with a strike price at-the-money and the same term, the implied volatility of the option mentioned above even reached its highest reading since 2011 (grey circle).

## Share prices: Dowsurge followed by upsurge after Brexit

The publication of the referendum results initially sent share prices into a nosedive worldwide. For example, the DJ EUROSTOXX 50 saw 13% wiped off its value on the day of this announcement alone (orange squiggle).



1: implied volatility DJ EUROSTOXX 50\*

This increase in implied volatility was most obvious among short-dated options with a strike price way out-of-the-money. For example, the implied volatility of a three-month option with a strike price 20% out-of-the-money marked the highest level since 2012 (orange circle).

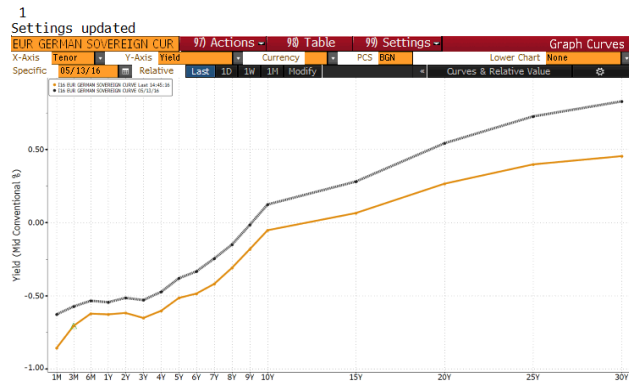


2: DJ EUROSTOXX 50\*

However, within the space of a few days share prices were already bouncing back, with European and Asian indices able to recuperate their Brexit losses in full. Nonetheless, these indices remain clearly mired in the loss zone in 2016. In the case of the US American indices, in contrast, this movement came to a halt with the S&P 500 marking a new all-time high.

## Interest rates still low

Yields on German sovereign bonds (Bunds) hit new record lows across all maturities in response to the Brexit vote, with maturities up to and including ten years even trading at negative yields at the moment. The yield decline since the last quarterly report is most prominent among the longer maturities.



3: Yield-curve – German sovereign bonds\*

At the same time, spreads of bonds from German federal states have narrowed in relation to Bunds since the last quarterly report.

## RiskProtect III Plus

Against the backdrop of the volatility increase described above in the run up to the Brexit referendum, we had already tactically raised the option exposure of RiskProtect III Plus at that juncture by taking out September options with strike prices way out-of-the-money. In this way we were able to collect very attractive additional option premiums at very moderate risk. When making these exposures, the strike prices were between 30 and 40% out-of-the-money, which in turn corresponds to a safety buffer of 30-40% on the back of extremely low downside risk. The graph below shows, as an example, an option on the DJ EUROSTOXX 50 maturing in September 2016 and with a strike price of 1,800 points. The green circle shows the exposure time shortly before the referendum, while the red circle the closure of the position following the referendum.



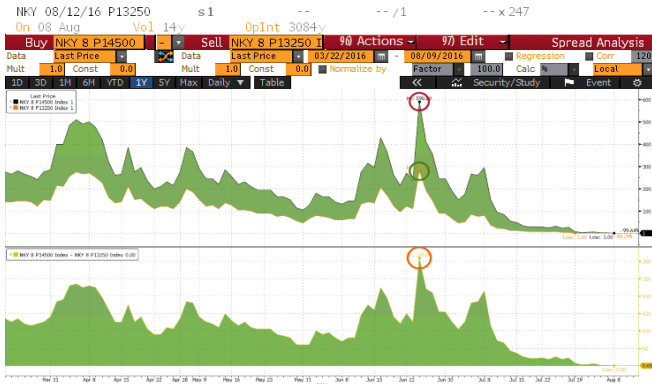
4: Options - DJ EUROSTOXX 50, time to maturity September 2016, strike price 1800\*

In addition, we used the price dip directly following the announcement of the results to gain exposure to further options in all regions. This enabled the fund to profit very well from the attractive volatility before as well as directly after the referendum as well as from the subsequent decline in volatility. The highest performance contributions were generated by the euro indices DJ EUROSTOXX 50, DAX and FTSEMIB as well as the Japanese Nikkei 225.

## PremiumIncome

As regards our PremiumIncome fund, the options exposure was gradually reduced in the two weeks prior to the Brexit referendum with the option expiry dates on Japanese, European and American indices. In this way, excellent use was made of the plunge in share prices following the Brexit outcome to build up additional spread positions. The trade example shown below depicts a spread position on the Nikkei 225. The circle shows the sale of the put option at a higher strike price, the green circle the purchase of the put option at a lower strike price. The orange circle shows the price of the spread position and, by extension, the net premium intake from this transaction (see fig. 5).

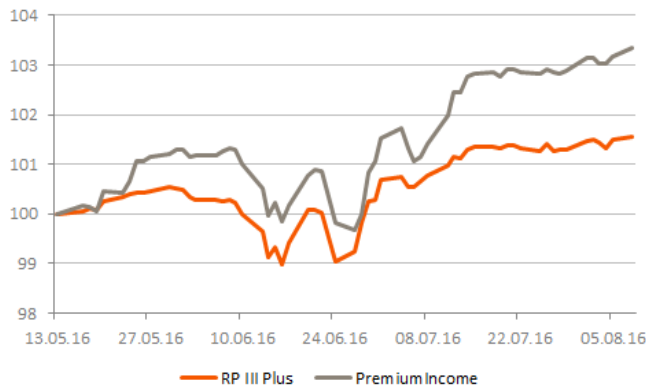
In addition to the spread positions on the Japanese Nikkei 225, positions on the Hang Seng China Enterprise Index and the euro indices DAX and DJ EUROSTOXX 50 generated the highest performance contributions during this review period.



5: Spread-Position - Nikkei 225\*

### Performance of our mutual funds

Thanks to very high trading activity and our tactical and countercyclical exposure management, our two mutual funds RiskProtect III Plus and PremiumIncome managed to profit excellently from the marked fluctuations on equity indices as well as from the implied volatility, translating these fluctuations into positive performance.



6: Performance comparison: PremiumIncome and RiskProtect III Plus since last quarterly\*

*Since the last quarterly report, both funds managed to mark several new record highs.*

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\*Source: Bloomberg / own calculations