

Don't Be Distracted By Brexit Brinkmanship

28 September 2018, Craig Reeves

UK and international headlines prominently feature the ongoing negotiations over Brexit between the UK and the European Union, but as the angry rhetoric is leveraged upwards to secure a deal both sides will be happy with, so the narrative surrounding the health - or otherwise - of the UK economy is becoming misleading. A picture is being painted of businesses grinding to a halt because of political paralysis, but this is far from the case.

As a fund manager specialising in the provision of private credit to thousands of UK SMEs in a variety of sectors, we have daily knowledge of the health and activities of the companies we lend to. This is essential if we are to be able to manage the risk in our portfolios. Our finance teams report a different situation entirely.

A great deal of valuable investment work and business is carrying on. We are seeing record levels of deal flow and economic activity: Brexit does not often occur in the discussions that we have with some of the 5 million SMEs active in the UK. Indeed, 92% of the UK SMEs we work with do not deal with other EU countries.

A growing SME sector

The number of UK SMEs has expanded considerably since the Brexit vote in 2016, and that expansion is being supported in part by sound economic factors. There was an increase of 197,000 small businesses between 2016 and 2017 and according to the Federation of Small Businesses, the number of SMEs employing staff rose by 3% after the Brexit vote. Our generic SME lending business alone has lent more than USD200 million in the last 12 months. This does not look like a moribund part of the economy.

The UK economic fundamentals have not been badly damaged by the negotiations. True, the British Pound jackknives every time a politician makes a Brexit speech in London or Brussels (although other currencies including the Swedish Krona have fallen more this year against the US Dollar), but UK unemployment has fallen consistently since 2016 and the UK 10-year government bond yield has remained lower than many other European nations and solid credit risks, including New Zealand, Australia, Canada and the USA.

In short, our finance companies continue to see strong deal flow, exceptional activity in the critically important SME sector and a community of businesses that seem focused on getting on with business, regardless of the political situation. We continue to provide vital finance to these firms through our private finance enterprises, fuelled to a large extent with overseas capital from major foreign investors who are not fazed by the Brexit vote.

Foreign interest in investing in the UK remains strong - institutional investment appetite for UK lending is high. At Prestige we have hosted 50 site visits from international investors over the last 12 months from as far afield as Brazil, the Middle East, Switzerland, China, Japan and South Korea. Since the Brexit vote we have raised more than USD500 million from overseas investors for exclusively UK-focused direct lending strategies.

According to data from Intertrust, two thirds of institutional investors expect the private debt market to grow in 2018, while 36% plan to increase their allocation to private debt strategies. Intertrust also says that most investors favour direct lending over infrastructure debt or real estate debt. Loan finance and specifically direct lending is becoming a favoured avenue for foreign investment to be deployed in the UK.



Prestige Funds' Craig Reeves

Between them, our finance companies, which carry out the day to day lending and credit oversight work, have lent almost GBP2 billion pounds to SMEs in the UK. This a good indicator of the economic activity that continues regardless of the state of Brexit negotiations.

The focus of many UK SMEs is very much on rising costs and access to credit; practical concerns where Prestige can support them. Our role now extends beyond pure lending to consulting with company management and designing solutions for companies that help them to become more productive and to upscale cash.

As we tell our investors every day, we are confident of the health of the UK SMEs we are dealing with. Clearly when lending money one needs to know and understand the customer and sector, get as much security as possible and continue to monitor them. We understand the nuts and bolts of what makes them profitable and the markets they serve. The Brexit narrative that currently dominates headlines and forces knee jerk reactions from public markets does not, we feel, reflect the reality of the day to day world of helping UK businesses function to their full capacity.

Craig Reeves is Founder of Prestige Funds (www.prestigefunds.com)