From the Portfolio Management Desk

The Recent News from Greece

Updated July 8, 2015

There has been a lot of speculation over the past few years about Greece's ability to pay its debt, and its future with respect to its membership in the European Union. The most recent news out of Greece has further fuelled the speculation. On July 5, Greek Prime Minister Alexis Tsipras held a referendum on the latest creditor proposal by the International Monetary Fund (IMF) and the European Commission (EC) - 61.3% of Greeks voted "No" to the proposal, increasing the likelihood of a Greek exit from the Eurozone, and a potential collapse of the Greek banking system. The Greek Finance Minister Yanis Varoufakis resigned on July 6, under pressure from the prime minister and other eurozone governments who viewed him as an obstacle to any future bailout deals. Earlier in the week, the Greek government imposed strict capital controls, closing banks and limiting ATM withdrawals to 60€ ($83 CAD) per day. The situation in Greece is changing daily, and will most likely change again.

Assuming Greece exits the Euro, the expectation is a 50% devaluation of its new currency. This will likely plunge the country into a severe recession, with spiraling inflation caused by increased prices for imported goods and services.

The most obvious concern on investors' minds is that the situation in Greece is unraveling, and severe global market volatility will ensue. The main risk to the markets is contagion; the fear of negative ripple effects on other European countries if Greece exits. We heard the same concerns expressed during the recent debt crises in Ireland, Portugal, Spain, Italy, and Iceland. In all of these cases, markets were volatile in the short term, however after each of these events the markets settled down. Although the situation in Greece is serious, and volatility is likely to remain elevated in the short term, it is unlikely to have the global impact that some media outlets would have us believe. What markets dislike is uncertainty, and once confidence is restored they invariably return to normal.

"Zero Exposure to Greece" - Counsel International Growth

"We have no Greek stocks, and even the revenue exposure is minimal as this is a very small market. This has also been such a slow, drawn out accident that we have seen that companies selling products to Greece have mitigated risk by taking actions such as requiring payment in advance of shipping.

Banks are another area of potential risk, but again, this has been a long time coming, so adjustments should have been made. We hold no banks based in Europe, and hold only a Scandinavian bank subsidiary.

The main area of concern for us, given what is going on with Greece, is the potential for general decrease in risk tolerances by investors, and an increase in discount rates.

Another concern would be the precedent this potentially sets; a country can leave the Euro. Fortunately Spain and Italy are doing better now, but if they were to go through something like this, it would have a bigger impact on Europe."

David Ragan, CFA
Director, Portfolio Manager
Mawer Investment Management
(Sub-advisor to Counsel International Growth)

What does all of this mean to Counsel investors?
Counsel investment solutions have very little exposure to Greece. We believe our international and global investment specialists have done an excellent job assessing the situation and mitigating the risks associated with Greece.

Our portfolios are well diversified geographically, and in most cases have avoided investing in Greece altogether. Counsel International Value, a component of several Counsel portfolios, has a small holding in a Greek bank (EFG Eurobank Ergasias), which represents only 0.8% of the portfolio as at June 29, and within the context of our strategic and tactical portfolios the weighting of that particular bank is very small. Counsel International Growth, on the other hand, is an example of a Counsel mandate with zero exposure to Greece (see sidebar story). It is also important to note that our investment specialists aim to select sound fundamental companies that exhibit strong balance sheets with the ability to generate cash-flows. It is these companies that usually overcome the macro “noise”.

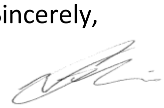
Summary of Recent Developments as at July 8, 2015:

- EC/IMF 2nd program extension expired on June 30. This resulted in Greece losing access to over 20€ billion of pre-approved funding. It is unlikely the 2nd program could be restarted. Instead any future agreement would have to start from the ‘drawing board’ with negotiations on a 3rd program.
- The ECB reviewed Emergency Liquidity Assistance (ELA) on June 30, and may still remove all funding for the Greek banking system. Whether the ECB does this or not will depend on whether it wants to be viewed as a political player - current evidence suggests it does not, and does not want to be viewed as pushing Greece out of the Eurozone.
- IMF repayment of 1.6€ billion was missed. The IMF has indicated that no grace period would be allowed, and Greece is now in default.
- There is potential for social unrest and protests, especially if access to bank deposits is restricted further.
- The referendum held on Sunday, July 5 resulted in a “No” vote. 61.3% of the Greek population did not agree to the proposal from the EC/IMF creditors.
- On July 7, Greece formally requested a new three-year bailout, Eurozone leaders set a July 12 deadline to reach a deal, however Greece must provide a plan by July 10 outlining austerity measures and economic reforms.

It is true that many of Counsel’s investment solutions have exposure to surrounding Europe. However, the European Union has implemented measures such as: Quantitative Easing, European Stability Mechanism, Long-Term Refinancing Operation, and European Financial Stability Facility, enabling it to be in a much better position to manage this issue and reduce systemic risk. Furthermore, Greece contributes and makes up a very small portion of Europe’s equity market and GDP. To provide context, Europe’s equity markets as a whole, amount to approximately 10€ trillion, meanwhile the S&P Greece Broad Market Index has a market capitalization of 19.7€ billion; Greece’s GDP is now less than 1.5% of Europe’s as a whole.

Whatever the outcome in Greece, it isn’t advisable for investors to react to geo-political events such as this. We expect heightened volatility in the short term; however we believe our mandates are well positioned regardless of what happens in Greece over the coming days and weeks. The Counsel Portfolio Management Team will continue its thorough due diligence and ensure our investment specialists continue to manage to the objectives of their respective mandate. As always, we recommend that investors invest in a well diversified portfolio, and follow a long term financial plan.

Sincerely,



Neil Collins
Portfolio Manager, Counsel Portfolio Services

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