

From the Portfolio Management Desk

Brexit Update

June 30, 2016

It has been almost a week since we heard the news about Britain's vote to leave the European Union (EU). In that time investors have had a chance to reflect, and the dust has begun to settle. The initial reaction was subdued panic, as we saw markets drop around the world. More recently, it seems cooler heads are prevailing as investors are buying on opportunity, and market increases over the last two days reflect this sentiment. The question is what can we expect next?

Once again, our investment partner on the ground in the UK, Irish Life Investment Managers, provides their perspective:

Comments from Irish Life Investment Managers as at 9:00 AM GMT June 30, 2016:

MARKET PERFORMANCE

Following further falls in equity markets on Monday, equity markets have rallied over the last two trading days so that at the close on Wednesday global equities are now above their closing levels of last Friday although are still down 2.3% in local currency terms and -1.0% in Euro terms from the levels prior to the referendum result becoming apparent. UK equities have in fact recovered to levels above those at the close last Thursday.

	Local Currency	Euro
Global Equities	-2.3%	-1.0%
UK Equities	0.5%	-6.2%
European Equities	-4.8%	-5.0%
U.S. Equities	-2.0%	0.2%
Japanese Equities	-4.2%	0.9%
Pacific Basin Equities	-1.8%	-0.8%
Emerging Market Equities	-1.1%	0.9%

Sovereign bond markets have continued to move ahead with German 10 yields falling to -0.13% while peripheral spreads against Germany have narrowed to approximately 140bps, only 10 points wider than last Thursday.

	Local Currency	Euro
Eurozone 5 Yr+ Sovereign Bonds	2.2%	2.2%
Eurozone 1-5 Yr Sovereign Bonds	0.3%	0.3%
European IG Corporate Bonds	0.2%	0.2%

Having fallen further earlier this week, the British Pound has recovered in recent days and is only marginally lower against the Euro versus Friday's close at 0.821 currently. Similarly, having drifted slightly lower against the U.S. dollar earlier this week, the Euro has recovered to 1.110, close to last Friday's close.

	Exchange Rate	Change
EUR/GBP	0.821	7.0%
EUR/USD	1.11	-2.2%

At the open first thing this morning, markets are down from their closing levels last night with European equities down approximately 1%, UK equities down approximately 0.5% while U.S. futures are down approximately 0.1%. Japanese equities were effectively flat overnight.

REASONS FOR RECOVERY

Central Banks

Markets have been calmed somewhat by the reassurances from global central banks that they continue to provide significant liquidity to the financial system, thus preventing a sharp and sudden tightening of financial conditions across the globe. Suggestions that policy discussions and co-ordination between global central banks should be considered has also provided reassurance that the financial spill overs from the referendum result can be contained.

Expectations of further policy announcements in coming weeks and months from central banks have also been supportive of equity markets.

Politics

The general election in Spain on Sunday did not show any swing towards the left with the incumbent centre right party slightly increasing its share of the vote and number of seats although the election outcome has again resulted in a stalemate with no obvious coalition partnership post the election. The fact that there was no swing towards the left or Eurosceptic parties post the Brexit referendum was a relief to markets and contributed to the narrowing of peripheral bond spreads, particularly in Spain.

European Union

There have been a number of comments from leading EU officials indicating possible reforms will be considered to improve the workings and operations of the EU which have eased fears over the risks posed to the EU by the Brexit outcome. In this context, there had been some expectations of comments post the EU summit meeting on Wednesday regarding commitments from EU members towards ensuring the long term future of the EU and removing some of the perceived risks which emerged in recent days. These however were not forthcoming.

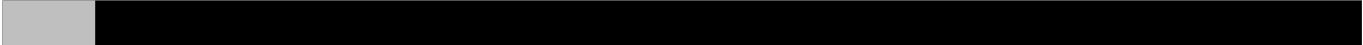
OTHER DEVELOPMENTS

British Conservative Party Leadership Vote

The Conservative party in Britain has brought forward the selection process for its new leader to early September from October in an effort to reduce the uncertainty and power vacuum in the UK.

Informal UK/EU Negotiations

The Brexit camp had been suggesting it wanted to initiate informal discussions with the EU regarding the shape of the possible future relationship between the UK and the EU before activating Article 50 of the Lisbon treaty and officially informing the EU of its intention to leave. Following some conciliatory comments from German Chancellor Merkel over the weekend, the EU took a more hard line stance earlier this week when it said it will not hold informal talks with the UK prior to it officially informing the EU of its intention to leave. As a result, it is now expected that the new UK Prime Minister could activate Article 50 before year end thus beginning the negotiating period much earlier than had been anticipated.



last Friday. This could possibly result in an earlier conclusion to the process although it still may take a number of years.

While there have been some suggestions that the Brexit camp may seek to establish the future relationship with the EU around the Norwegian model, it is still unclear what proposals the UK will ultimately make regarding the shape of the new UK/EU relationship.

Potential Second Referendum

There have been suggestions that a second referendum might be held although the consensus view is that this is unlikely. Leading political figures have indicated that the vote represents a mandate which cannot be reversed and the UK is set to leave the EU and this cannot be changed. It has been suggested that the terms of the agreement reached in relation to the proposed new relationship between the UK and the EU could be put to a referendum but this is expected to be a number of years away.

Scottish Referendum

The Scottish National Party has said that a second Scottish independence referendum is now on the table following the overwhelming majority vote in Scotland to remain in the EU. This can only be ratified by British Parliament and so is not guaranteed but adds to the political disarray in the UK following the vote of no confidence in the Labour leader and the resignation of the Labour shadow cabinet. It has also been suggested that Scotland could veto the UK's exit from the EU but this does not appear to be possible.

Calls for Referendum in Other Countries

Since the Brexit vote Eurosceptic parties in a number of European countries such as France, Denmark, Italy and the Netherlands have called for similar referenda but given these parties are not part of ruling governments these referenda will not be held.

UK Credit Rating Downgrades

Both S&P and Fitch have downgraded the UK credit rating to AA since the Brexit vote. Moody's have placed the UK on negative watch.

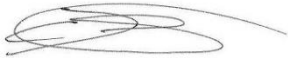
What Does All of This Mean to Counsel Investors?

Counsel investment solutions have limited exposure to Great Britain. Our International Small Cap Specialist, Wasatch Advisors Inc., believes that this is an opportunity to increase weighting of their UK small cap names.

Our position remains unchanged – we believe it is unadvisable for investors to react to geo-political events such as this. We continue to expect heightened volatility in the short term, but we believe that the British economy can withstand this short term volatility as it is supported by a strong, well-capitalized and liquid financial system. We urge investors to refrain from making emotional investment decisions that may affect their long term goals. The Counsel Portfolio Management Team believes that

our mandates are well positioned to endure global events such as this. As always, we recommend that investors invest in a well diversified portfolio, and follow a long term financial plan.

Sincerely,



Corrado Tiralongo
Chief Investment Officer

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