

FISHER INVESTMENTS EUROPE™

EUROPEAN FINANCIALS OUTLOOK



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EUROPEAN FINANCIALS OUTLOOK

European Financials Summary

4

Economic Drivers

5

Sentiment & Political Drivers

12

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EUROPEAN FINANCIALS SUMMARY

We are currently overweight to European Financials in our global portfolios. Recent underperformance is sentiment-driven and we expect strong fundamentals, stability and profitability going forward.

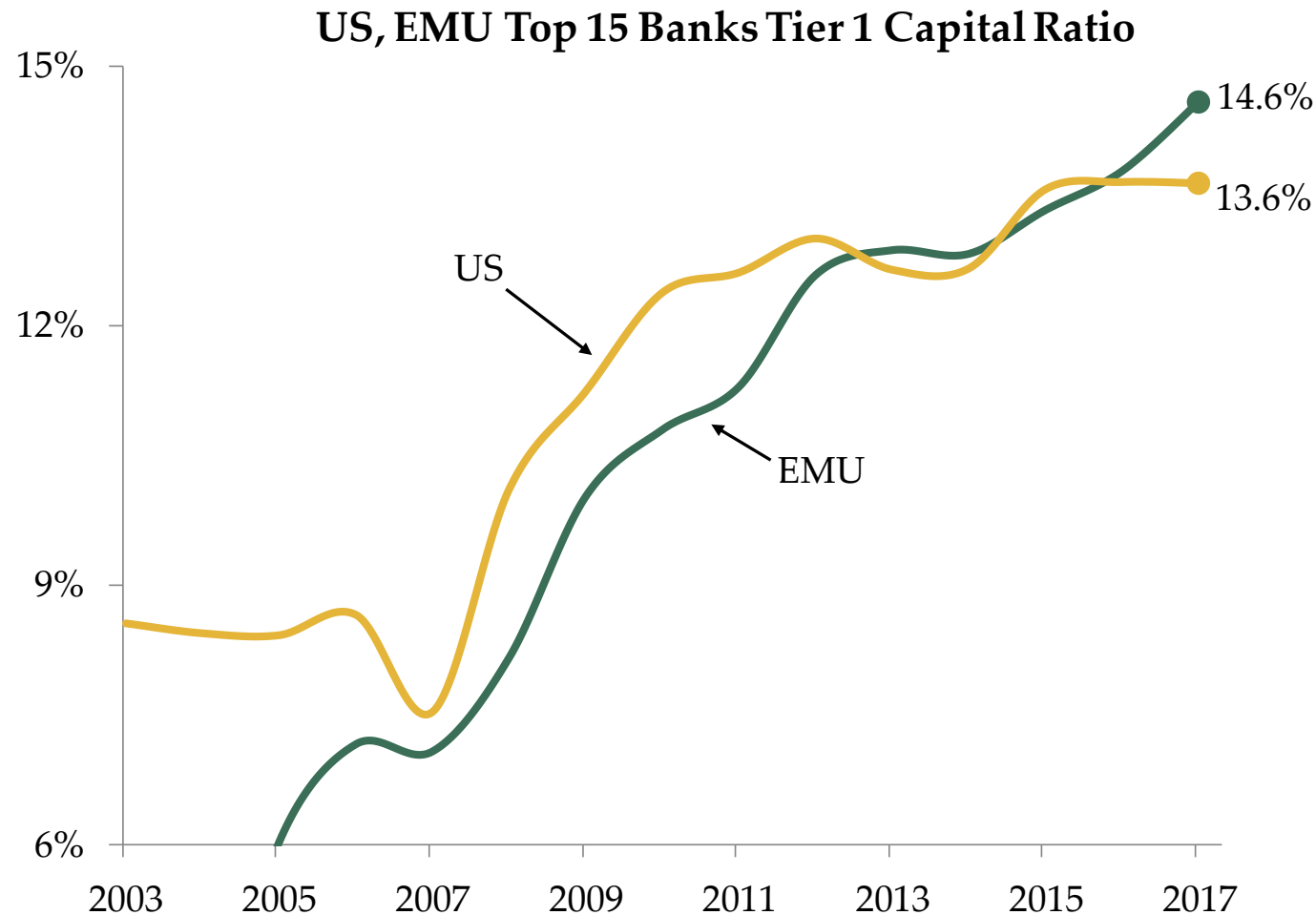
The following outlines our current views in the space:

- **After years of raising capital tied to new regulations since the 2008 financial crisis, European banks are healthy and in compliance.**
- **Asset quality is healthy with EU Non-Performing Loans (NPLs) declining faster than other major countries.**
- **Rising home and real estate prices continue to support collateral values.**
- **EU Senior Loan Officer Operating Survey (SLOOS) forecasts continued loan growth.**
- **EU Leading Economic Index (LEI) remains high and rising.**
- **EU Yield Curve remains positive.**
- **Modestly rising inflation in the region should lead to the end of detrimental quantitative easing (QE) and negative interest rate policies.**
- **Overblown trade and political fears have weakened sentiment for European Financials, setting the floor for positive surprises in the future.**

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BANK BALANCE SHEETS

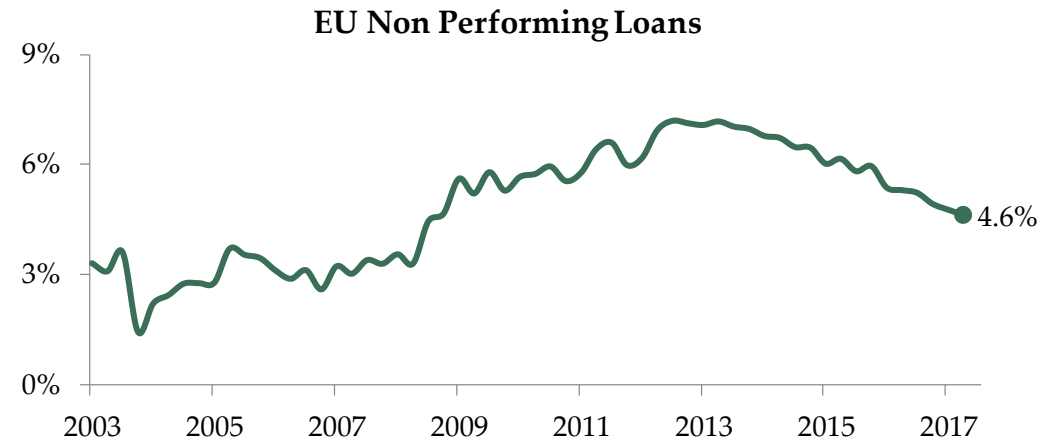
We have recently been through one of the largest regulatory-induced capital restructurings in history, including Basel 3, Dodd Frank, Solvency 2 and MiFID. Nearly all major markets have reached compliance, and EMU Tier 1 Capital Ratios are increasingly strong. New sweeping regulatory measures are unlikely, reducing future uncertainty.



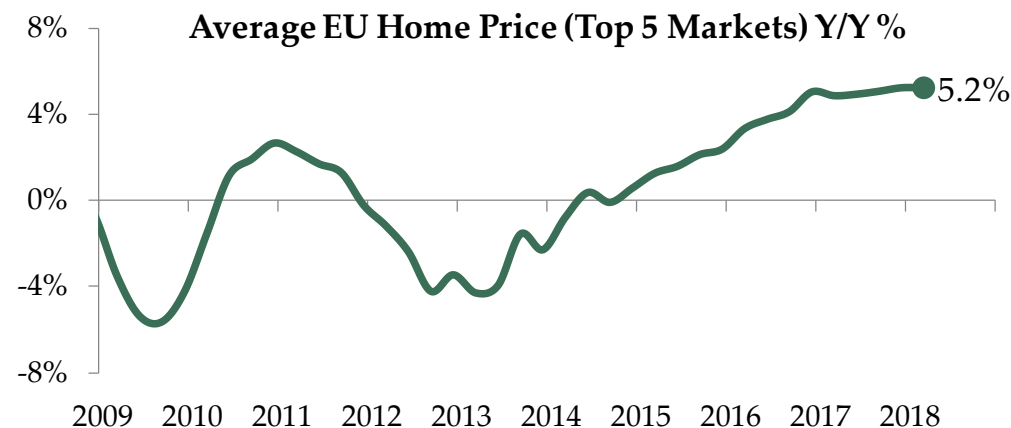
Source: Bloomberg, company filings. Top 15 banks by Tier 1 Capital Ratio/RWA, as of 05/07/2018. Investing in securities involves the risk of loss and there is no guarantee that all or any capital invested will be repaid. Past performance is never a guarantee nor reliable indicator of future results. The value of investments and the income from them will fluctuate with world equity markets and international currency exchange rates. Other methods may produce different results, and the results for individual portfolios and for different periods may vary depending on market conditions and the composition of the portfolio.

IMPROVING ASSET QUALITY

Large European bank Non-Performing Loans are falling quickly. Falling NPL's benefit banks, freeing up capital and improving profits.



Collateral values (real estate) influence balance sheet quality. Rising home prices secure the collateral of the underlying loan, reducing the likelihood of default or the borrower from becoming underwater.

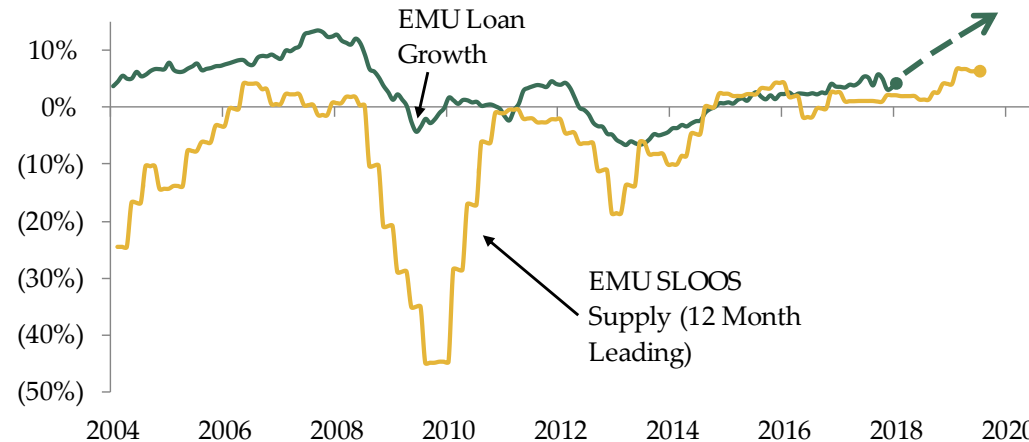


Source: Top Chart- Bloomberg, company filings. Top 15 banks by cap NPL Loans, as of 30/06/18. Bottom Chart- Bloomberg, FactSet. Fisher Investments Research, ECB Avg Top 5 country by GDP. As of 05/07/2018. Investing in securities involves the risk of loss and there is no guarantee that all or any capital invested will be repaid. Past performance is never a guarantee nor reliable indicator of future results. The value of investments and the income from them will fluctuate with world equity markets and international currency exchange rates. Other methods may produce different results, and the results for individual portfolios and for different periods may vary depending on market conditions and the composition of the portfolio.

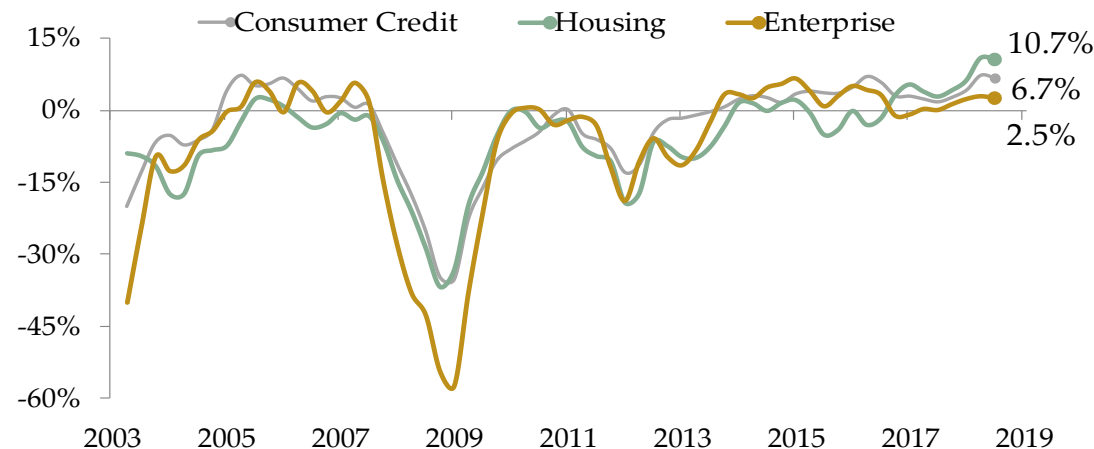
EUROZONE BANKS ARE INCREASINGLY WILLING TO LEND

European banks are increasingly willing to supply credit according to the Senior Loan Officer Operating Survey (SLOOS) reading. The 12 Month Leading SLOOS credit supply is followed by increased EMU loan growth. Increased lending, coupled with the steep, upward sloping yield curve in the EMU should boost future Eurozone bank lending and profitability.

EMU Loan Growth & 12 Month Leading SLOOS Credit Supply



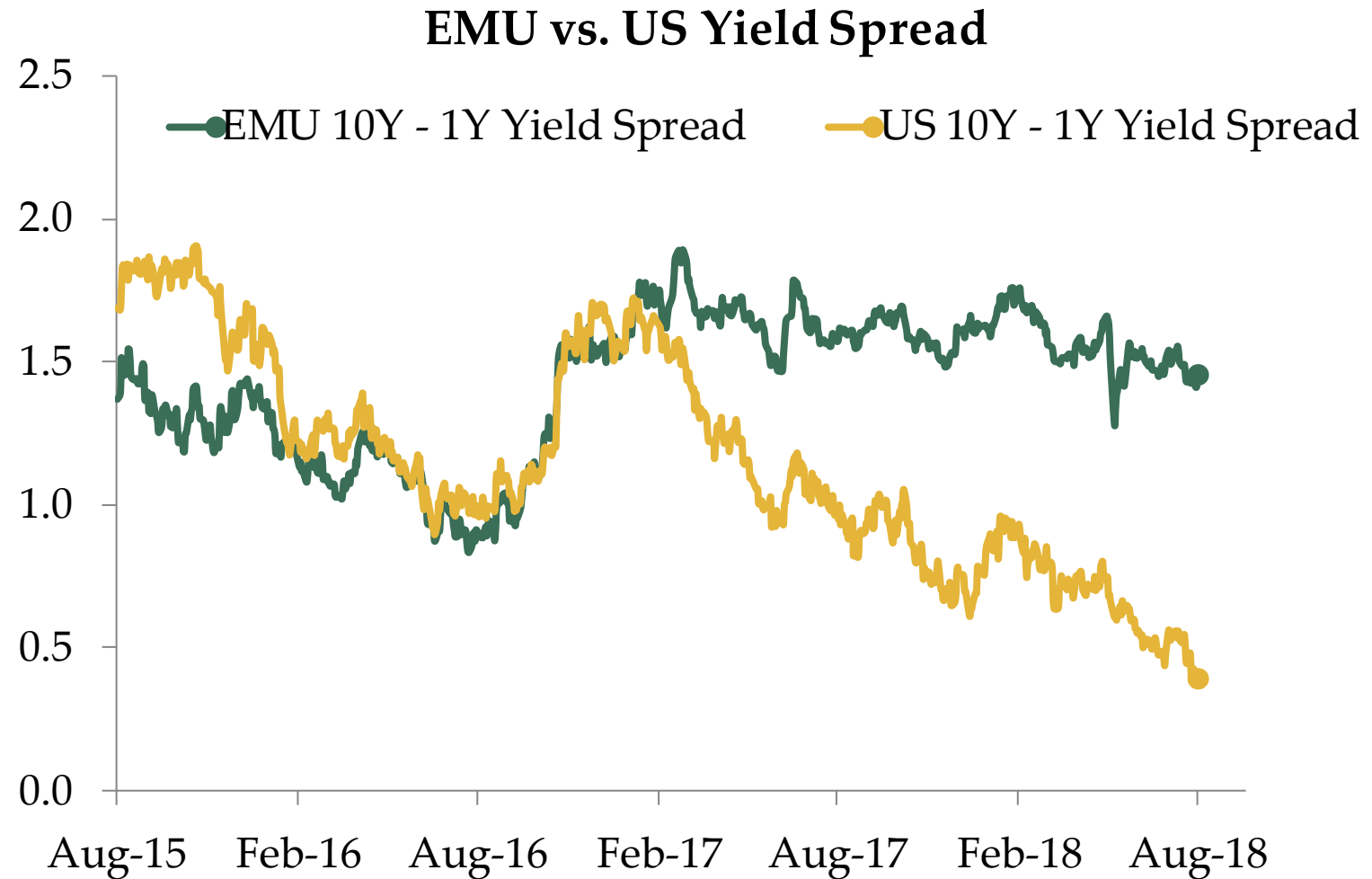
EMU SLOOS Credit Supply by Category



Sources: Top Chart- European Central Bank and Federal Reserve as of 30/06/2018. EMU loan growth and second quarter moving average of EMU Senior Loan Officer Opinion Survey on bank lending 31/05/2004-30/06/2018, projections 31/07/2018-30/11/2019. Bottom Chart- ECB, Quarterly 2QMA. Investing in securities involves the risk of loss and there is no guarantee that all or any capital invested will be repaid. Past performance is never a guarantee nor reliable indicator of future results. The value of investments and the income from them will fluctuate with world equity markets and international currency exchange rates. Other methods may produce different results, and the results for individual portfolios and for different periods may vary depending on market conditions and the composition of the portfolio.

YIELD SPREADS REMAIN WIDE

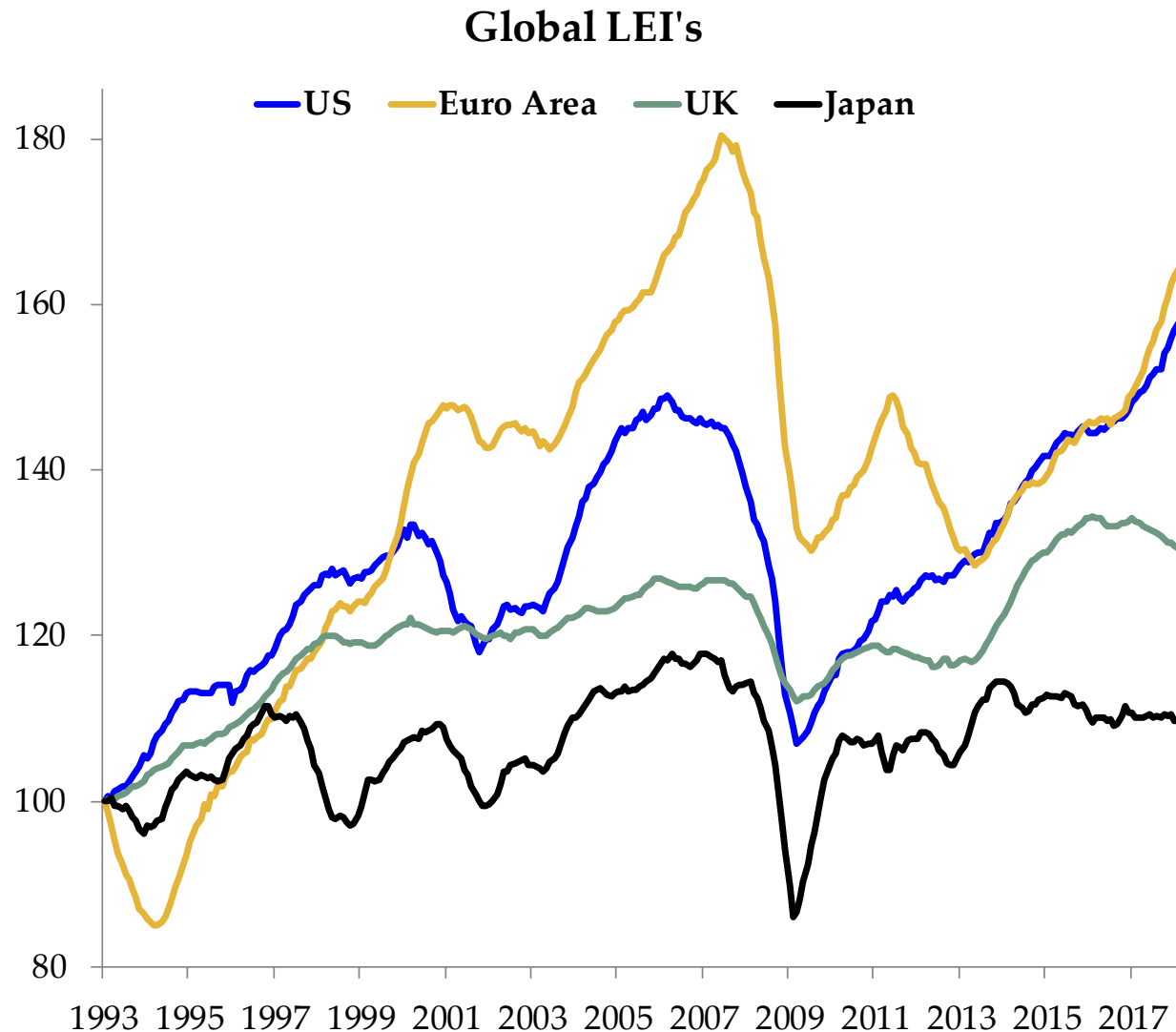
The yield curve is a good proxy for future bank lending and profitability.



Source: FactSet as of 06/07/2018. EMU Bond value weighted index for both 10Yr & 1Yr. Investing in securities involves the risk of loss and there is no guarantee that all or any capital invested will be repaid. Past performance is never a guarantee nor reliable indicator of future results. The value of investments and the income from them will fluctuate with world equity markets and international currency exchange rates. Other methods may produce different results, and the results for individual portfolios and for different periods may vary depending on market conditions and the composition of the portfolio.

GLOBAL LEI'S ARE ALL RISING – LED BY EUROPE

Global economic growth continues, with Europe's LEI's remaining above the rest of the developed world.

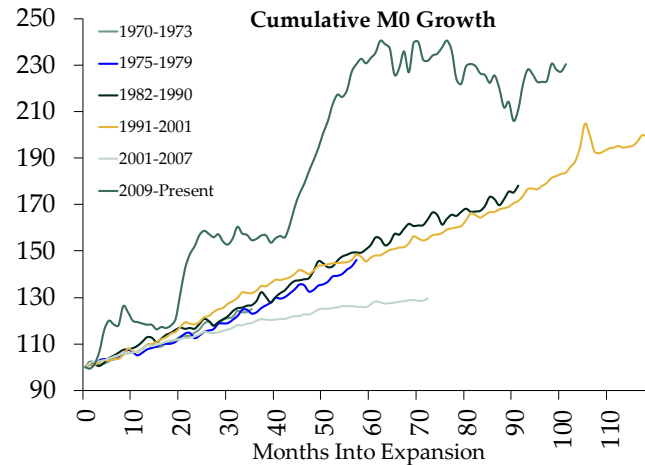


Sources: Conference Board Monthly as of 31/05/2018. Investing in securities involves the risk of loss and there is no guarantee that all or any capital invested will be repaid. Past performance is never a guarantee nor reliable indicator of future results. The value of investments and the income from them will fluctuate with world equity markets and international currency exchange rates. Other methods may produce different results, and the results for individual portfolios and for different periods may vary depending on market conditions and the composition of the portfolio.

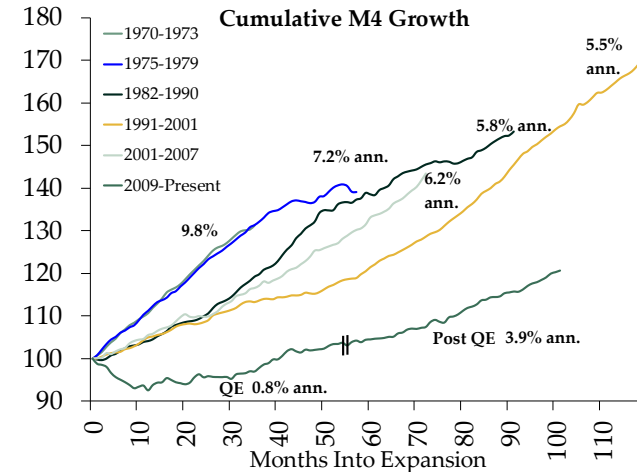
FALSE PERCEPTIONS ON QUANTITATIVE EASING

The European Central Bank (ECB) announced plans to end quantitative easing (QE), an unheralded positive that should spur loan growth. In our view QE hinders rather than stimulates growth, as the easing inhibits lending. The US serves as an excellent example. We believe the sooner the ECB ends QE the better.

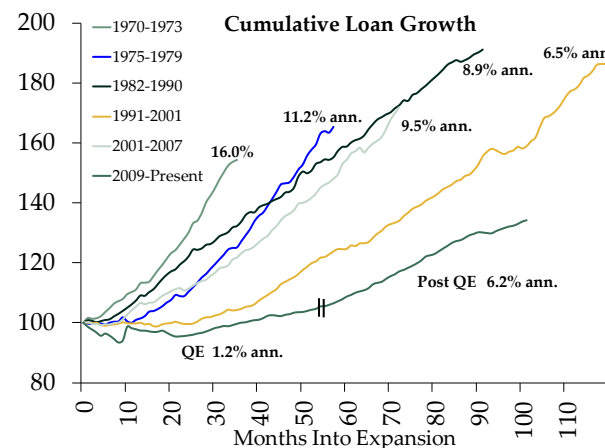
QE's unprecedented expansion of the **monetary base**...



Did not translate to broader **money supply**...



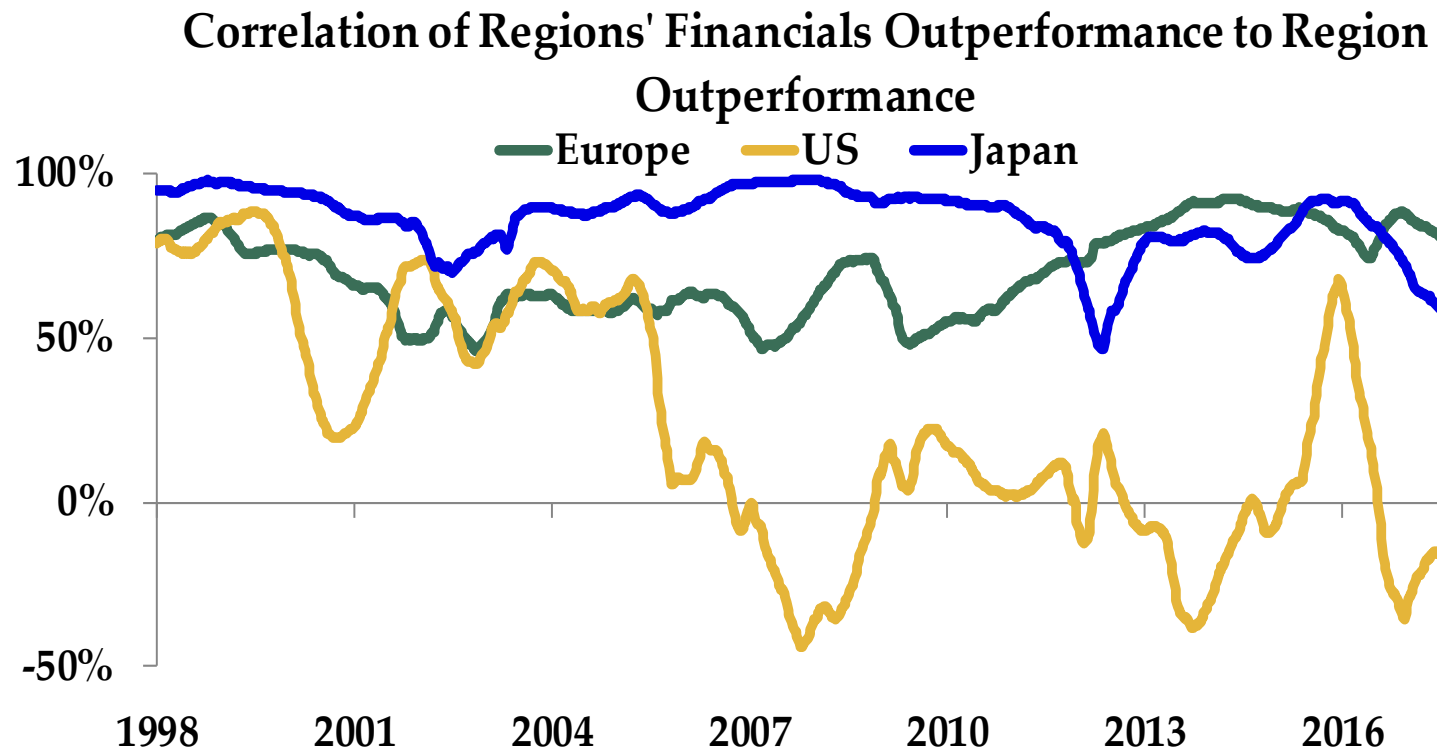
Or **lending**—which accelerated *after* Fed tapering



Source: Federal Reserve and Center for Financial Stability as of February 2018. Investing in securities involves the risk of loss and there is no guarantee that all or any capital invested will be repaid. Past performance is never a guarantee nor reliable indicator of future results. The value of investments and the income from them will fluctuate with world equity markets and international currency exchange rates. Other methods may produce different results, and the results for individual portfolios and for different periods may vary depending on market conditions and the composition of the portfolio.

GLOBAL ECONOMIC TRENDS

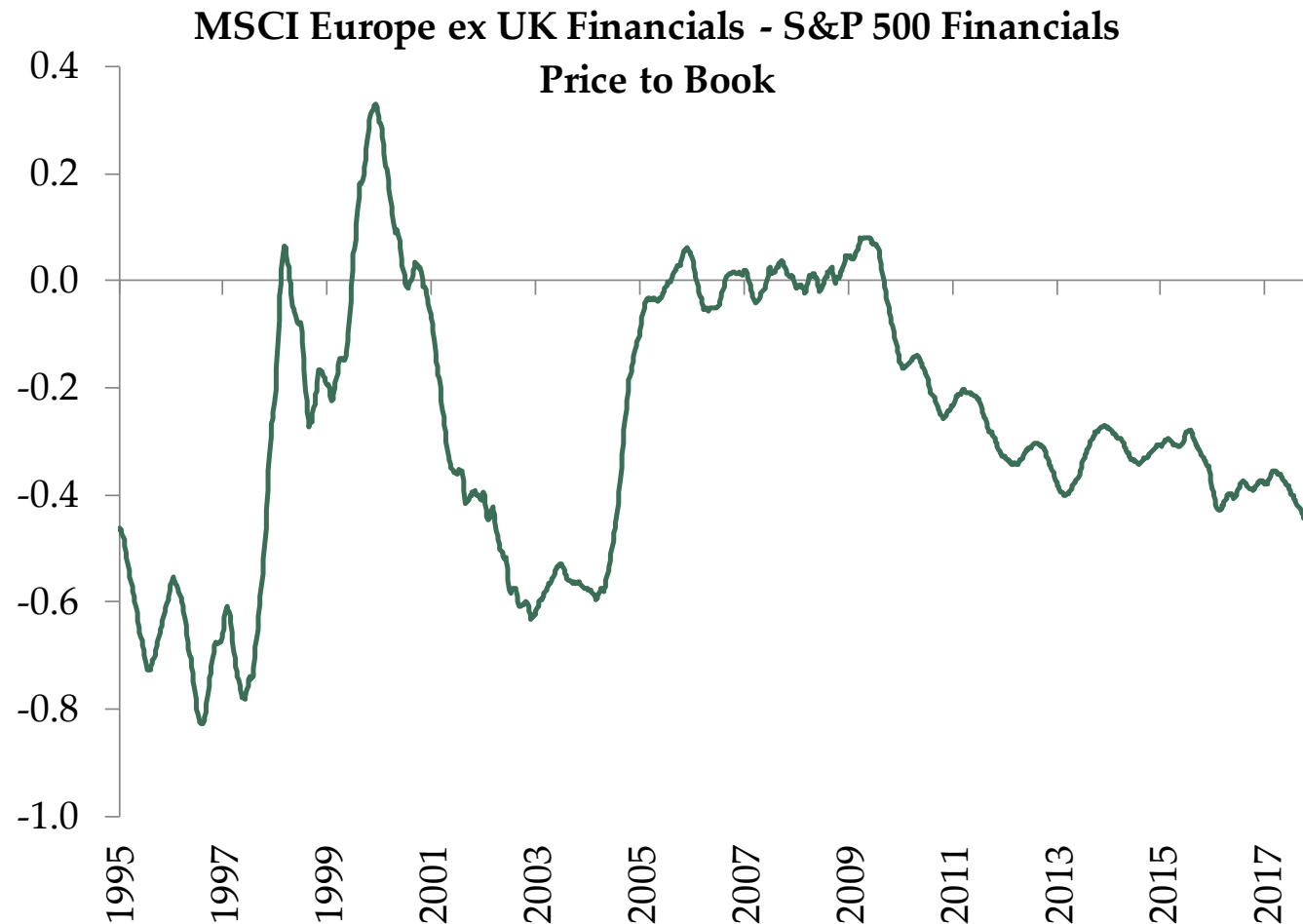
Outside the US, Financials' relative returns are highly correlated to its region's relative returns. Thus, when Europe outperforms the World, European Financials outperform Europe.



Source: FactSet as of 10/08/2018. Illustrates 3 Year Rolling Weekly Correlation. Investing in securities involves the risk of loss and there is no guarantee that all or any capital invested will be repaid. Past performance is never a guarantee nor reliable indicator of future results. The value of investments and the income from them will fluctuate with world equity markets and international currency exchange rates. Other methods may produce different results, and the results for individual portfolios and for different periods may vary depending on market conditions and the composition of the portfolio.

EUROPEAN BANK DISCOUNTS

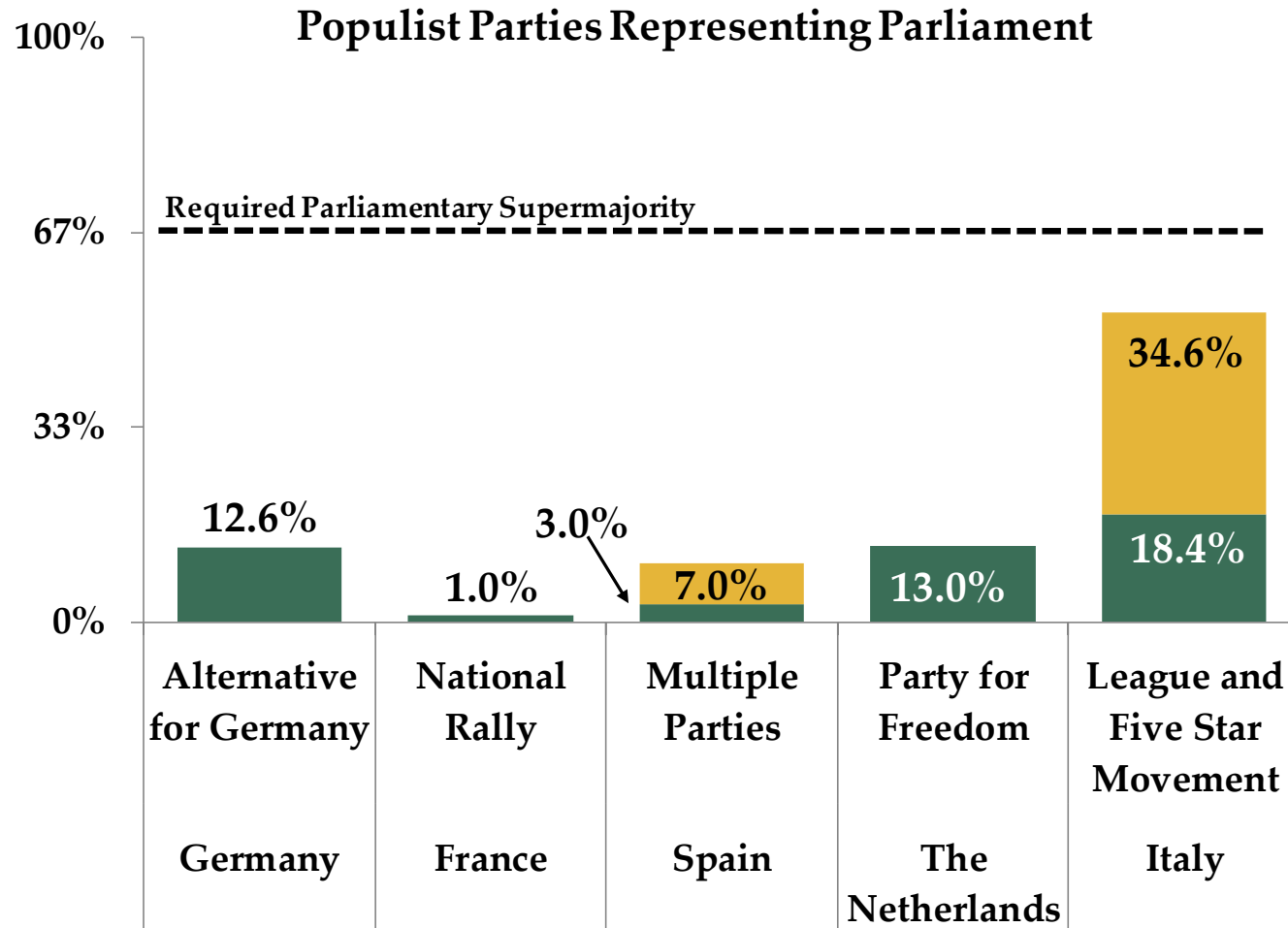
EMU banks still trade at a sizable Price to Book discount to US banks. A number of fears, including populist governments are depressing valuations.



Source: FactSet as of 03/08/2018. Shows 6 month average Price to Book. Investing in securities involves the risk of loss and there is no guarantee that all or any capital invested will be repaid. Past performance is never a guarantee nor reliable indicator of future results. The value of investments and the income from them will fluctuate with world equity markets and international currency exchange rates. Other methods may produce different results, and the results for individual portfolios and for different periods may vary depending on market conditions and the composition of the portfolio.

EUROZONE BREAKUP FEARS OVERBLOWN

Some of the biggest EU sceptic political parties, like Italy's Five Star Movement and multiple parties in Spain, have recently backed off their EU exit rhetoric. While populism and Euro-scepticism have increased, a country's exit from the EU would require a 2/3 Parliamentary Supermajority – no country is close to this.

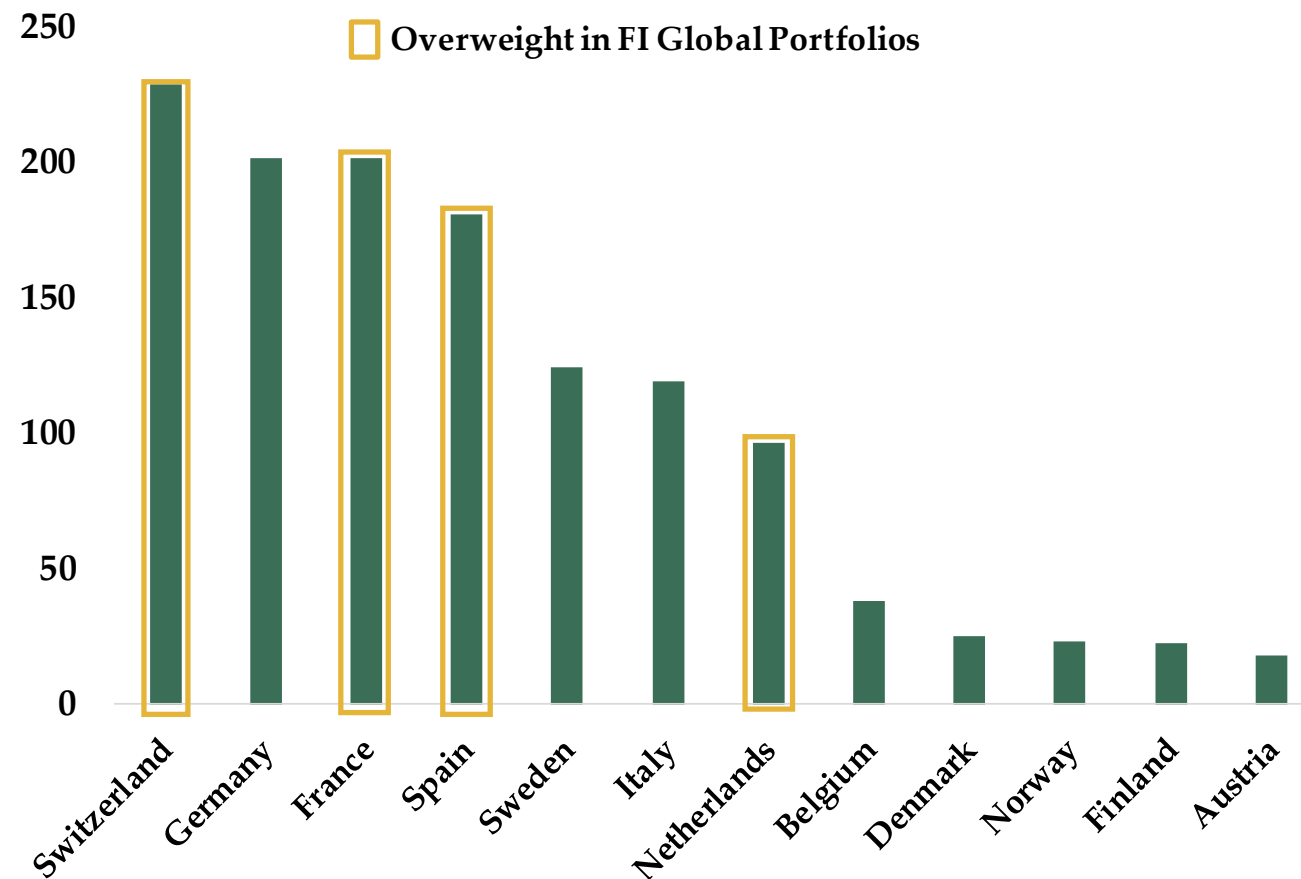


Source: European Commission, as of 25/07/2018. Percent of seats in parliament represented by populist parties that want a Euro exit, 03/2018. Investing in securities involves the risk of loss and there is no guarantee that all or any capital invested will be repaid. Past performance is never a guarantee nor reliable indicator of future results. The value of investments and the income from them will fluctuate with world equity markets and international currency exchange rates. Other methods may produce different results, and the results for individual portfolios and for different periods may vary depending on market conditions and the composition of the portfolio.

LARGEST PLAYERS IN EUROPEAN FINANCIALS

The Eurozone continues its moderate economic expansion, poised to benefit from an enhanced banking sector with improved access to credit. Despite concerns over the sustainability of the Euro creating a drag on sentiment, we expect this lingering political uncertainty to fade. As investors get confirmation that high levels of rhetoric don't translate into legislative change, they will likely return to the region.

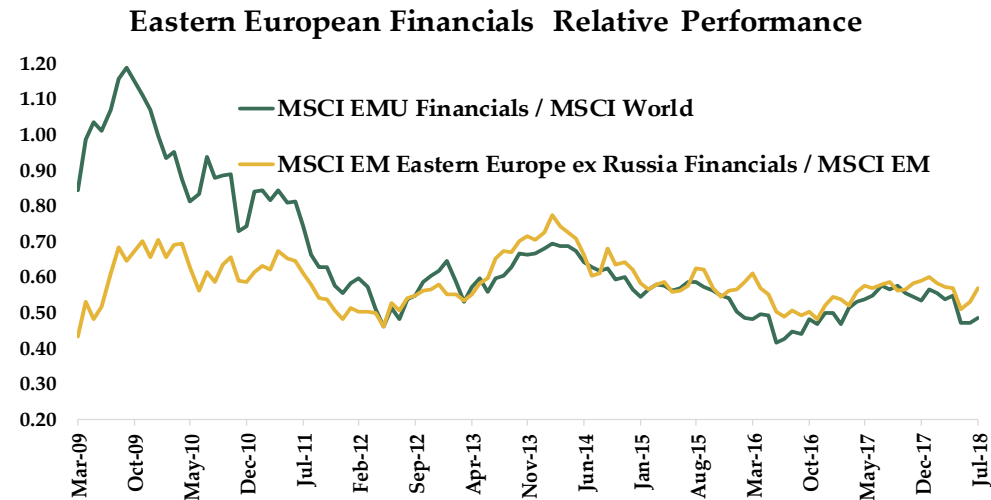
MSCI ACWI European Financials by Market Value, \$B



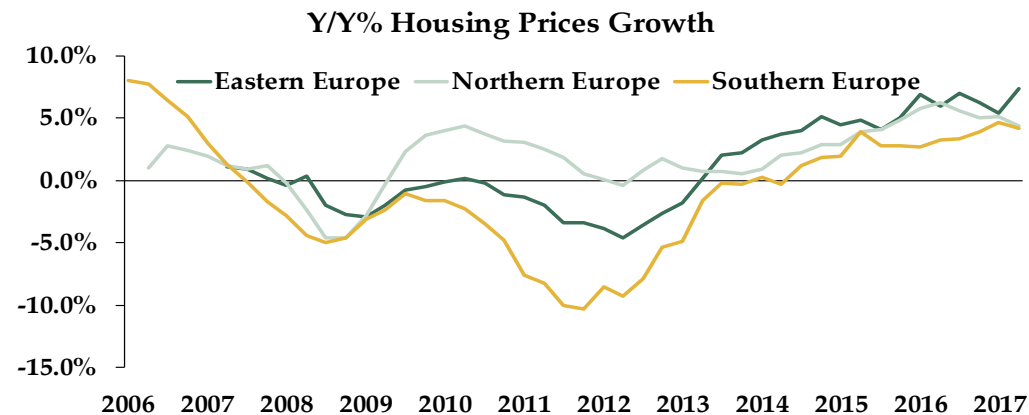
Source: FactSet as of 31/07/2018. Excludes the United Kingdom and Ireland. Investing in securities involves the risk of loss and there is no guarantee that all or any capital invested will be repaid. Past performance is never a guarantee nor reliable indicator of future results. The value of investments and the income from them will fluctuate with world equity markets and international currency exchange rates. Other methods may produce different results, and the results for individual portfolios and for different periods may vary depending on market conditions and the composition of the portfolio.

EASTERN EUROPE

Eastern European Financials' relative performance to EM tracks Western Europe's relative performance to the World.



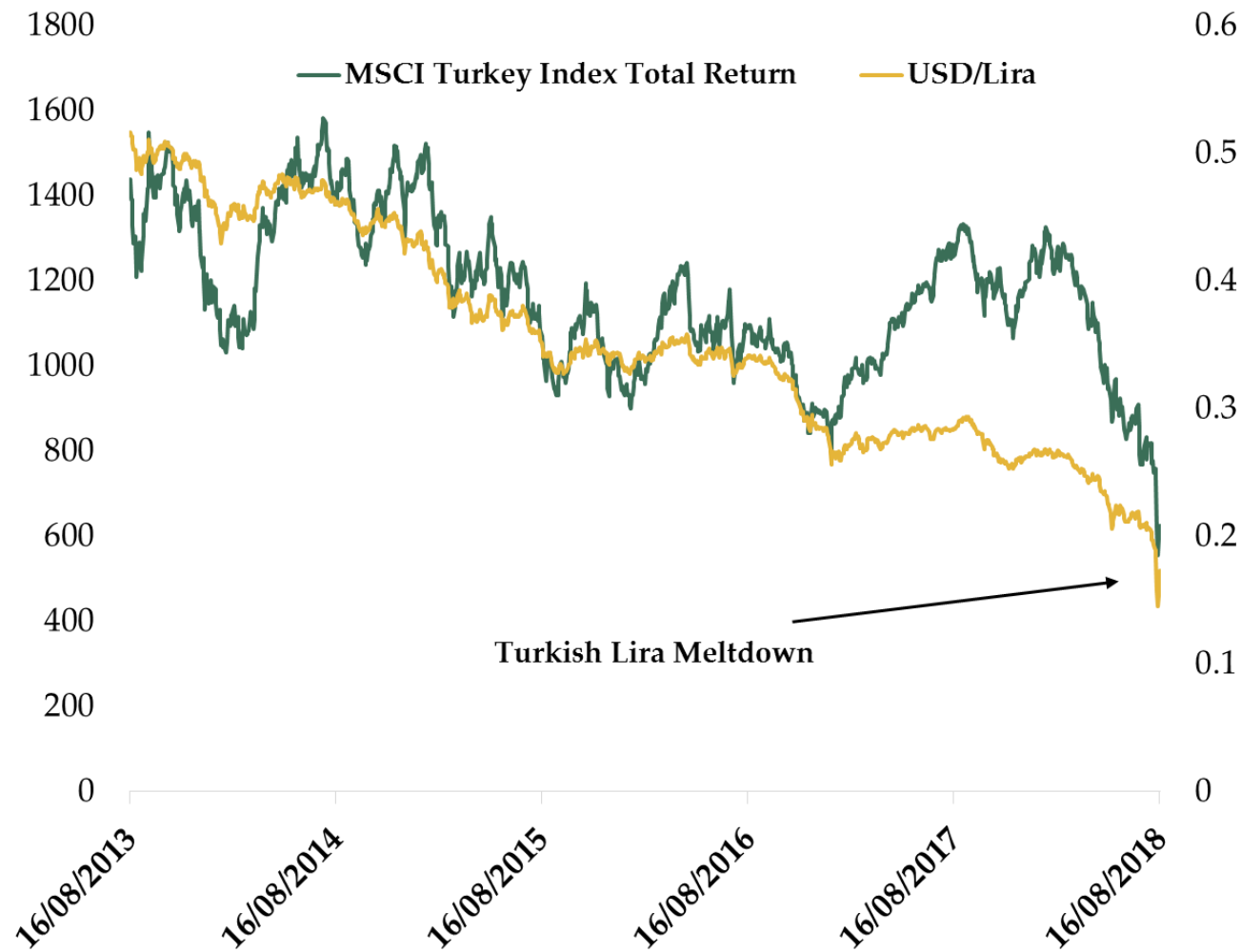
The housing market in Eastern Europe has been strong, which should support the banking sector and future loan growth in the region.



Source: Top Chart- FactSet as of 31/07/2018. Bottom Chart- Source: FactSet, as of 31/03/2018. Eastern Europe includes Poland, Czech Republic and Hungary. Northern Europe includes Germany, France, Netherlands, Belgium and Austria while Southern Europe includes Italy, Spain, Greece, Ireland and Portugal. Investing in securities involves the risk of loss and there is no guarantee that all or any capital invested will be repaid. Past performance is never a guarantee nor reliable indicator of future results. The value of investments and the income from them will fluctuate with world equity markets and international currency exchange rates. Other methods may produce different results, and the results for individual portfolios and for different periods may vary depending on market conditions and the composition of the portfolio.

TURKEY

Although Turkey is a current focus of the global financial media, Turkish equities and the lira have been falling for the past five years.



Sources: FactSet as of 16/08/2018. Investing in securities involves the risk of loss and there is no guarantee that all or any capital invested will be repaid. Past performance is never a guarantee nor reliable indicator of future results. The value of investments and the income from them will fluctuate with world equity markets and international currency exchange rates. Other methods may produce different results, and the results for individual portfolios and for different periods may vary depending on market conditions and the composition of the portfolio.

TURKEY CRISIS IS CONTAINED

Turkey represents a mere 1.05% of global GDP and since 1960 has never exceeded 1.23% of global GDP – nowhere near wallop potential. For an economy this size to cause a global crisis, there must be a “transition mechanism” – a logical reason its problem could disrupt other, larger nations’ economies and financial systems. The probability of the Turkish crisis leading to a global contagion is small. Further, Turkish debt comprises only 0.43% of total EU bank assets, minimising the effect of the Turkish crisis on European Financials.



Sources: Bloomberg as of 31/12/2017 – the latest data available. Investing in securities involves the risk of loss and there is no guarantee that all or any capital invested will be repaid. Past performance is never a guarantee nor reliable indicator of future results. The value of investments and the income from them will fluctuate with world equity markets and international currency exchange rates. Other methods may produce different results, and the results for individual portfolios and for different periods may vary depending on market conditions and the composition of the portfolio.

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For purposes of defining “years with Fisher Investments,” FI was established as a sole proprietorship in 1979, incorporated in 1986, registered with the US SEC in 1987, replacing the prior registration of the sole proprietorship, and succeeded its investment adviser registration to a limited liability company in 2005. “Years with Fisher Investments” is calculated using the date on which FI was established as a sole proprietorship through 30 June 2018.

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FIE delegates portfolio management to FI. FI's Investment Policy Committee is responsible for all strategic investment decisions. FIE's Investment Oversight Committee (IOC) is responsible for overseeing FI's management of portfolios that have been delegated to FI. Matters arising pursuant to FI's portfolio management policies are elevated to the IOC.

The foregoing information has been approved by Fisher Investments Europe.

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