
THIRD QUARTER 2014 REVIEW AND OUTLOOK: EXECUTIVE SUMMARY

Global equities finished Q3 modestly lower as late-September volatility reversed what had been a slight gain. Headlines jumped on resurgent volatility as a potential sign a correction may be either here or coming soon, however, we would not read much into short-term swings. Even if a correction is beginning, volatility is normal during bull markets and does not change our outlook: We expect the bull market to continue over the foreseeable future, powered by a growing global economy, a benign political environment and warming investor sentiment.

Size leadership remained choppy during the quarter. Small-cap equities trailed in three of the last four quarters and are down -0.8% year to date.ⁱ In our view, this indicates leadership gradually shifting from small to large cap. While leadership could fluctuate further in the very near term, we expect large cap equities to reward handsomely over the rest of this bull market—which seems poised to continue for some time. That small cap only recently began lagging suggests to us this bull market has considerable room to run.

Market Outlook

We cannot say precisely how long this bull market will last but we do not believe it will end in the next 12-18 months. This view could change—we will not publish our official 2015 forecast before 2014 ends. However, as Ken wrote in his 14 April, 2014 Forbes column, “Only Two Things Can Stop the Bull Market,” bull markets are like vectors: Running until they lose steam amid widespread euphoria, or until a big, unseen negative knocks them off course. Neither condition exists today in our view. Sentiment has warmed yet is far from euphoric heights. Professional forecasters’ optimism grew in Q3, but even their upwardly revised forecasts are still mild at best. Risks exist, but none seem powerful enough to seriously reduce the growing global GDP. Most other risks have been widely discussed for years (China, eurozone, geopolitics), sapping surprise power.

Absent euphoria and any large obstacles, equities look primed for growth. Earnings and revenues are rising apace, allowing firms to invest and buy back shares while maintaining huge cash reserves. Strong business investment, trade and consumer spending pushed US growth to the top of the developed world in Q2, with GDP surging 4.6% (seasonally adjusted annual rate).ⁱⁱ Q3 data and the Leading Economic Index (LEI) show an economy on the rise entering Q4. The UK is not far behind, with Q2 GDP growing 3.7% annualised.ⁱⁱⁱ There, too, LEI and early Q3 indicators point to continued strong growth. China is slowing, but it is hard to argue 7.5% y/y Q2 GDP growth and 12.1% y/y growth in industrial production and retail sales are massive global negatives.^{iv} Yet few acknowledge China’s strength—a testament to how underappreciated global growth remains.

On the political front, the positive effects of post-midterm elections in the US still await. As we have written before, S&P 500 returns were positive in 86.4% of midterm-year Q4s and the following Q1 and Q2.^v The identical frequency is coincidental, but the high frequency of gains is not. Midterms usually bring gridlock, and gridlock looks all but assured this time. When Congress cannot pass laws, alter property rights, redraw regulations or change the distribution of capital and resources. Equities love such stability.

The international political scene is equally favourable. Uncertainty ahead of Scotland’s 18 September independence referendum weighed on UK equities throughout Q3, but with Scotland’s “no, thanks” win, UK shares should reflect the strong underlying economic fundamentals. EU officials selected a new European Commission, appointing pro-euro pols to all key positions. Policies in eurozone nations like France, Spain and Italy are increasingly pro-growth and pro-market. Japan remains a political quagmire, one reason we remain underweight.

We will cover these topics and more in our full Review & Outlook.

Thank you very much for your continued interest in Fisher Investments Europe (FIE). Should you have any questions about any of the information in the Third Quarter 2014 Executive Summary, please contact FIE by mail at 2nd Floor 6-10 Whitfield Street, London W1T 2RE or by telephone at +44 (0)800 144-4731.

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The foregoing information constitutes the general views of FI and should not be regarded as personalised investment advice or a reflection of the performance of FI or its clients. This analysis is for informational purposes only. It has been formulated with data provided to FI and is assumed to be reliable. FI makes no claim to its accuracy. Investing in securities involves the risk of loss. FI has provided its general comments to you based on information they believe to be reliable. There can be no assurances that they will continue to hold this view; FI may change its views at any time based on new information, analysis, or reconsideration.

i. FactSet, as of 01/10/2014. MSCI World Small Cap Index including net dividends, 31/12/2013 – 30/09/2014.

ii. Bureau of Economic Analysis, as of 29/09/2014. Percentage change in GDP, seasonally adjusted annual rate, Q2 2014.

iii. FactSet, as of 30/09/2014. Percentage change in GDP, seasonally adjusted annual rate, Q2 2014.

iv. FactSet, as of 01/10/2014. Year-over-year percentage change in real GDP, Q2 2014. Average year-over-year retail sales and industrial production growth for July and August 2014.

v. Global Financial Data, as of 23/07/2014, S&P 500 Total Return Index from 31/12/1925 – 30/06/2014.

vi. FactSet, as of 03/10/2014. MSCI AC World Index total returns with net dividends, 09/03/2009-30/09/2014.

Terms of Business:

1. Fisher Investments Europe

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2. Communications

Fisher Investments Europe can be contacted by mail at 6-10 Whitfield Street, London W1T 2RE, or by telephone on 0800 144 4731. All communications with Fisher Investments Europe will be in English only.

3. Services

These Terms of Business explain the services offered to professional clients and will apply from when Fisher Investments Europe begins to advise you. As part of its services, Fisher Investments Europe seeks to:

- Reasonably determine your client categorisation;
- Understand your financial circumstances and investment aims to determine whether a full discretionary service and the proposed investment mandate and accompanying benchmark(s) are suitable for you;
- Explain features of the investment approach;
- Describe investment performance as it relates to your investment mandate;
- Provide a full explanation of costs;
- Assist in the completion of documentation;
- Where specifically agreed, review your position periodically and suggest adjustments where appropriate.

4. Discretionary Investment Management Service and Investments

To help you achieve your financial goals, Fisher Investments Europe may offer its discretionary investment management services. In such case, Fisher Investments Europe will delegate the investment management function, as well as certain ancillary services, to its parent company, Fisher Asset Management, LLC, trading as Fisher Investments, which is based in the USA and regulated by the US Securities and Exchange Commission. Where appropriate, Fisher Investments Europe may recommend that you establish a discretionary investment management relationship directly with Fisher Investments. In such case, Fisher Investments Europe acts as an introducing firm. A separate investment management agreement will govern any discretionary investment management relationship whether with Fisher Investments Europe or with Fisher Investments. Subject to applicable regulations, for qualified investors Fisher Investments Europe may recommend an investment in an Undertaking for Collective Investment in Transferable Securities (UCITS) regulated by the Central Bank of Ireland and managed by Fisher Investments.

5. Client Categorisation

Fisher Investments Europe deals with both retail clients and professional clients. As a user of Fisher Investments Europe's institutional services, you have been categorised as a professional client. You have the right to request re-categorisation as a retail client which offers a higher degree of regulatory protection, but Fisher Investments Europe does not normally agree to requests of this kind.

6. Financial Services Compensation Scheme (FSCS)

The activities of Fisher Investments Europe are covered by the FSCS and therefore if (i) you are eligible to claim under the FSCS, (ii) you have a valid claim against us and (iii) we are unable to meet FI's liability towards you because of FI's financial circumstances, the FSCS will be able to compensate you for the full amount of your claim up to £50,000. However, since you have been categorised as a professional client, you are unlikely to be eligible. You can contact us or the FSCS in order to obtain more information regarding the conditions governing compensation and the formalities which must be completed to obtain compensation. Please note that the protections of the FSCS do not apply in relation to any services provided by Fisher Investments.

7. Custody and Execution

Neither Fisher Investments Europe nor Fisher Investments is authorised to hold client money. This means neither Fisher Investments Europe nor Fisher Investments can accept cheques made out to Fisher in respect of investments, nor can they handle cash. All client assets are held at external custodians where each client has a direct account in their own name. If you appoint Fisher Investments Europe or Fisher Investments as your discretionary asset manager, execution of transactions will be arranged through such custodians and brokers and at such prices and commissions that Fisher Investments determines in good faith to be in your best interests. Further information regarding selection of brokers is set out in Fisher Investments' Form ADV Part 2.

8. Risks

Investments in securities present numerous risks, including various market, currency, economic, political, business and other risks, and can be very volatile. Investing in securities can result in a loss, including a loss of principal. Using leverage to purchase and maintain larger security positions will increase exposure to market volatility and is not recommended.

9. Data Protection

To advise you on financial matters, Fisher Investments Europe may collect personal and sensitive information subject to the Data Protection Act 1998. By engaging in business with Fisher Investments Europe, you consent to Fisher Investments Europe processing your data, both manually and electronically, including transferring data outside the European Economic Area, including to its parent, Fisher Investments, in the United States, for the purposes of providing services and enabling Fisher Investments to provide services, maintaining records, analysing your financial situation, providing information to regulatory bodies and service providers assisting Fisher Investments Europe and/or Fisher Investments in providing services.

10. Conflicts of Interest

Fisher Investments Europe has a conflicts of interest policy to identify, manage and disclose conflicts of interest Fisher Investments Europe, Fisher Investments or any of their employees or representatives may have with a client of Fisher Investments Europe, or that may exist between two clients of Fisher Investments Europe. Fisher Investments Europe's conflicts of interest policy covers gifts and favours, outside employment, client privacy, inadvertent custody, marketing and sales activities, recommendations and advice, and portfolio management. In addition, Fisher Investments Europe provides a copy of Fisher Investments' Form ADV Parts 2A and 2B to all clients.

11. Fees

If you appoint Fisher Investments Europe as your discretionary investment manager, you will pay management fees to Fisher Investments Europe as detailed in the investment management agreement. Fisher Investments Europe will pay a portion of such management fees to Fisher Investments as the sub-manager. If you appoint Fisher Investments directly as your discretionary investment manager, you will pay management fees directly to Fisher Investments as detailed in the investment management agreement. If you invest in a UCITS fund managed by Fisher Investments, Fisher Investments will receive its management fee indirectly through the UCITS. Fisher Investments Europe does not charge a separate fee for its introducing or distribution services. You will also incur transaction and custody fees charged by brokers and custodians. However, any such additional fees will be payable directly to brokers/custodians, and neither Fisher Investments Europe nor Fisher Investments will share in any commission or other remuneration.

12. Termination

If you wish to cease using the services of Fisher Investments Europe or Fisher Investments at any time, then send notification and the arrangement will cease in accordance with the investment management agreement. However, if a transaction is in the middle of being arranged on your behalf at that time and it is too late to unwind it, then the transaction may need to be completed first.

13. Governing Law

These Terms of Business are governed by English law.