

FIRST QUARTER 2020 REVIEW & OUTLOOK

EXECUTIVE SUMMARY

08 April 2020

PORTFOLIO THEMES

- We continue to favour larger, high-quality companies, but our assessment of the market's future path will determine if we shift toward smaller cyclical firms.
- Unlike many past cycles where the bull market's leading category underperformed in the subsequent bear, large Technology equities have held up relatively well during this bear market. Consequently, we are not yet convinced the bounce out of this bear market will be a conventional new bull led by small value.

MARKET OUTLOOK

- **The Duration of the Shutdowns Matter More than the Size:** The historic speed of this downturn reflects the economic impact and uncertainty arising from the unprecedented institutional response to the coronavirus.
- **Equities Likely Lead the Economic Recovery:** Equities should start recovering well before COVID-19 is gone, restrictions are removed, or the economy recovers.
- **The Eventual Recovery Should be Swift:** Sharp drops are usually followed by swift recoveries creating a "V" pattern—investors should prepare for the positive side of the "V".

Global equities fell sharply in Q1 dropping -21.4%, going from all-time highs in January to a bear market with record-breaking speed.ⁱ The sudden fall, combined with society's understandable worries about COVID-19's impact on their health, their loved ones and their community, has spread fear to every corner of the world—and the marketplace. Separating these emotions from market analysis is difficult but vital. While we have empathy and sympathy for those most impacted by this virus, our analysis is focused on how markets likely respond looking forward.

Never before has a pandemic caused a bear market—but never before has society responded to a pandemic by voluntarily halting economic activity. History will judge the success of these measures from a public health perspective. Regardless, though, this is a global tragedy—the illness, its human and emotional toll, and the resulting institutionally induced economic fallout.

We take our responsibility to our clients extremely seriously and, as an essential business under national, regional and local guidelines, we are working hard to ensure our clients' needs are met during these challenging times. As an investment manager, we think it is critical to look forward—and to us, that requires separating our view of the illness and the economy, then further separating these views as we analyse capital markets. Many investors excessively entangle them, thinking all three are tightly correlated and prone to parallel movement. Equities anticipate future shifts few fathom—just as Q1's rapid fall preceded any economic fallout. We are confident markets will similarly anticipate brighter days far before any data—case counts, deaths or economic statistics—show they are coming. That is, for example, exactly how equities nearly always bottom and then surge before recessions end, often a long time before.

ⁱ Source: FactSet, as of 07/04/2020. MSCI All Country World Index return with net dividends, USD, 31/12/2019 – 31/03/2020.

This downturn's speed and severity are a painful shock. Significant down days heighten panic, with many investors overly fixating on real-time momentary developments. As we look forward, our analysis is focused with the understanding that markets look beyond the next few months toward a scenario further into the 3 – 30 month timeframe that equities generally anticipate. It isn't hard to envision a post-coronavirus world that looks relatively bright. The virus's endgame is a vaccine. That will come. It will be micro-studied and widely chronicled as it evolves. But equities should rebound long before a vaccine arrives in volume within the 3 – 30 month timeframe markets weigh most.

The coronavirus wasn't even known to researchers until mere months ago—and much about it remains unclear. Beyond this, will government mandated social distancing and COVID-19 containment guidelines expire soon, or will government's around the world extend them again? Will regional and local restrictions, which cover a large portion of economic activity, outlast centralised government policy? Will infection rates fall in Europe and allow normal life to resume, or will containment efforts there long endure? How will emerging markets (EM) be impacted relative to developed markets?

These questions can't be answered now, but all have resolutions. Yet equities should increase long before those resolutions emerge. While this bear's cause is unique, the market is functioning as it always has: as a leading economic indicator. The bear struck well before any data confirmed the institutionally induced economic contraction. It will likely end similarly fast, before data hint at an economic recovery.

With almost all bear markets that have an associated recession, the recession is necessary to correct the prior expansion's excesses. The classic example is 2000 – 2002. It takes time to correct and rectify those problems, building the base for the next economic expansion. This economic contraction isn't like that. There was no broad-based excess or froth. The economy was otherwise in strong shape and the bull market vibrant.

Emerging markets behaved much like developed markets in Q1 falling -23.6% during the quarter.ⁱⁱ While some EMs (like China and South Korea) appear past the worst of the virus, many others are far earlier in the fight and data have yet to even hint at the fallout. EM governments aren't waiting to enact policy responses to the likely economic impacts. Many have announced or implemented an array of monetary moves and fiscal measures designed to alleviate COVID-19-related economic pain. For example, China approved \$170 billion in tax cuts and spending, South Korea passed several measures aimed at containing coronavirus and supporting impacted businesses and individuals and Brazil approved \$29 billion in planned social spending. Monetary measures have also been enacted in China, South Korea, India, Brazil and other EM countries including cutting interest rates, relaxing banks' reserve requirements and loosening lending standards.

Since we believe this is an institutionally induced economic contraction, we hesitate to approach it as we would traditional recessions. If it is a long contraction, it may be beneficial to shift portfolios into the more cyclical categories that typically do best early in economic recoveries. But if it remains a sharper, shorter contraction—and equities keep behaving as they normally would in a massive correction (which they have) rather than a long bear—then we would expect the high-quality, growth-oriented companies that led before the downturn to continue leading in the recovery. That has been the case thus far, explaining why our strategies—which emphasise these traits—held up well versus their respective benchmarks to date. However, we are monitoring this closely.

The full Review & Outlook, available in the coming weeks, will detail all of this and much more—including political developments, economic data and earnings, the global fiscal and monetary response to the economic disruptions, oil prices, interest rates and COVID-19 itself.

Most importantly, remember: While the day-to-day situation changes, markets' functioning is timeless. Equities should price a recovery long before most investors can fathom it. Panics nearly always precede better returns 12 – 18 months into the future.

ii Source: FactSet, as of 07/04/2020. MSCI Emerging Markets Index return with net dividends, USD, 13/12/2019 – 31/03/2020.

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2. **Communications:** Fisher Investments Europe can be contacted by mail at Level 18, One Canada Square, Canary Wharf, London, E14 5AX; by telephone on +44 0800 144 4731; or by email to FIEOperations@fisherinvestments.co.uk. All communications with Fisher Investments Europe will be in English only. Fisher Investments Europe's web address is <https://institutional.fisherinvestments.com/en-us/mifidii>.
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. Fisher Investments Europe offers restricted advice only (meaning it does not offer independent advice based on an analysis of the whole of the market), as more fully explained in Clause 4 below. As part of its services, Fisher Investments Europe seeks to:
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 - b. Understand your financial circumstances and investment aims to determine whether the full discretionary investment service described in Clause 4 and the proposed investment mandate and accompanying benchmark(s) (or an Undertaking for Collective Investment in Transferable Securities ("UCITS") with a similar mandate and benchmark for which Fisher Investments Europe's parent company serves as investment manager) are suitable for you;
 - c. Explain features of the investment strategy;
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 - e. Provide a full explanation of costs;
 - f. Assist in the completion of documentation;
 - g. Where specifically agreed, review your position periodically and suggest adjustments where appropriate.

Fisher Investments Europe will not provide ongoing services unless you enter into an agreement for discretionary investment management services or invest in a UCITS as described in Clause 4.

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- 8. Data Protection:** To advise you on financial matters, Fisher Investments Europe may collect personal and sensitive information subject to applicable data protection laws. By providing such information to 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, or otherwise permitted by law. Upon request, you are entitled to obtain access to and to rectify the data relating to you.

- 9. Custody and Execution:** Neither Fisher Investments Europe nor Fisher Investments is authorised to hold client money. Neither Fisher Investments Europe nor Fisher Investments will accept cheques made out to it in respect of investments, nor will 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 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 the investment management agreement with Fisher Investments Europe (the "IMA").

If you appoint Fisher Investments Europe as your discretionary asset manager, Fisher Investments Europe or Fisher Investments, pursuant to an outsourcing agreement with Fisher Investments Europe, will arrange for the execution of transactions through those custodians and brokers and at such prices and commissions that it determines in good faith will be in your best interests. Further information regarding the selection of brokers is governed by the IMA. Fisher Investments Europe does not structure or charge its fees in such a way as to discriminate unfairly between execution venues.

The brokers and dealers to which your transactions may be allocated will use various execution venues, including without limitation:

- a. Regulated Markets in the USA or elsewhere (usually those exchanges where companies have their primary listing and other exchanges on which their securities are admitted to trading);
- b. Multi-Lateral Trading Facilities ("MTF") and Organised Trading Facilities ("OTF") in the USA or elsewhere (i.e. a multilateral system, operated by an investment firm or a market operator, which brings together multiple third-party buying and selling interests in financial instruments—in the system and in accordance with non-discretionary rules—in a way that results in a contract);
- c. Systematic Internalisers (which are investment firms dealing as principal and providing liquidity on a systematic basis);
- d. Other liquidity providers that have similar functions to any of the above;
- e. Counterparties that may access the above venues on behalf of Fisher Investments Europe or Fisher Investments (or their clients) or trade on their own account.

You must be notified and approve of any off-venue trades prior to execution unless previously agreed to by you directly with the custodian. As a result of brokers/dealers using the execution venues mentioned above, your transactions may be executed on an execution venue that is neither a regulated market in the European Union nor an MTF in the European Union and therefore you will be required to expressly consent to the execution policy of Fisher Investments Europe by signing the IMA.

Fisher Investments Europe's top five trading venues are listed on its website.

Generally, financial instruments will not be affected if a custodian suspends payments or goes bankrupt. This is due to the fact that you will normally be able to take possession of your financial instruments based on the custodian's registration of your rights. Generally, it is only if the custodian fails to handle your financial instruments or register your rights correctly where you may not be able to take possession of the financial instruments.

If you appoint Fisher Investments Europe as your discretionary asset manager, you will receive a periodic statement every calendar quarter. This statement compares the performance of your account with that of a relevant benchmark in order to facilitate the assessment of performance achieved by the account. For performance, management fee calculation and reporting purposes, exchange traded equity securities are valued based upon the price on the exchange or market on which they trade as of the close of business of such exchange or market. All equity securities that are not traded on a listed exchange are valued using a modelled estimate of the bid price, also known as a bid evaluation, provided by Fisher Investments Europe's primary pricing service. Fixed income securities are valued based on market quotations or a bid evaluation provided by Fisher Investments Europe's primary pricing service. All securities are valued daily given a price from Fisher Investments Europe's primary pricing service is provided; otherwise, all securities are valued on at least a monthly basis.

- 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 discretionary investment management services. RMs employed by Fisher Investments Europe are paid a variable component of their total remuneration, calculated as a percentage by reference to management fees paid to the Investment Manager during the first three years of the client relationship. Such remuneration will not increase or impact the fees payable by you. Details on Fisher Investments Europe's conflicts of interest policy are available on request. In addition, Fisher Investments Europe provides a copy of Fisher Investments' Form ADV Parts 2A and 2B to all clients, detailing additional conflicts of interest applicable to Fisher Investments.
- 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 IMA. 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 at any time, then send notification and the arrangement will cease in accordance with the IMA. 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. Complaints:** Fisher Investments Europe seeks to provide a high standard of service to clients at all times. If you have a complaint about services, please contact Fisher Investments Europe:
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 Fisher Investments Europe Limited
 Level 18, One Canada Square
 Canary Wharf, London, E14 5AX
- or by calling: +44 0800 144 4731
- or by emailing: FIEOperations@fisherinvestments.co.uk

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14. Governing Law: These Terms of Business are governed by English law.

Should you have any questions about any of the information provided above, please contact FIE by mail at Level 18, One Canada Square, Canary Wharf, London, E14 5AX or by telephone at +44 (0)207 299 6848.

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