

SECOND QUARTER 2022 REVIEW & OUTLOOK

EXECUTIVE SUMMARY

13 July 2022

PORTFOLIO THEMES

- We believe a recovery is likely in the back half of 2022 and high-quality companies that led the decline will likely lead the recovery.
- We remain constructive on global equities and believe that growth and Technology will lead when global markets recover.
- Economic growth and inflation expectations likely continue to moderate as supply and labour constraints subside, supporting our preference for growth equities.

MARKET OUTLOOK

- **Continued Negative Volatility is Not a Foregone Conclusion:** Global markets have likely priced in well-known fears including a mild recession, which is far from certain, in our view. Meanwhile, positive economic factors are largely ignored.
- **Investor Sentiment Supports an Unexpected Recovery:** Depressed sentiment, driven by concerns on inflation, global monetary policy, China's lockdowns and a variety of other factors has significantly lowered investor expectations, increasing the likelihood that markets realise a better-than-expected outcome.
- **Global Markets Typically Reward US Political Gridlock:** The incumbent party routinely loses power during the midterm year, reducing political uncertainty and the likelihood of extreme legislation. Increased gridlock likely acts as a tailwind for global markets in the back half of the year.

Equities' rocky, fear-filled first half intensified in Q2, with global developed markets approaching a -20% decline in May and piercing that threshold in mid-June. Emerging market equities have fared slightly better this year, but are in the midst of a protracted downturn as well. From a technical standpoint, history will recall this as a bear market, although we don't think that a backward-looking label has much forward-looking significance. The difference between a steep correction and a shallow bear market is not meaningful as both usually precede strong rebounds. Nevertheless, we recognise our bullish stance and related emphasis on growth has weighed heavily on absolute and relative returns in Q2.

The full Review will detail our perspective on the downturn and its many fears—including a potential recession, rising interest rates, inflation, supply chain issues, China's lockdowns, oil and gas prices, American political acrimony and more. What is important for investors now is to look forward. We believe capturing the bounce that typically follows sharp downturns is crucial. So is having the correct sector and style emphasis. Once markets breach -20% from a prior high, the low is generally quite near. Median returns for global developed markets 6 and 12 months from lows after -20% drops are 25.9% and 33.3%, respectively.ⁱ

ⁱ Source: FactSet, as of 30/06/2022. MSCI World Index price returns, 31/12/1969 – 30/06/2022.

As 2022 dawned, we expected the first half would likely be volatile, with moments of genuine fear, although we never expected a downturn of this magnitude. We also expected equities to rally in the year's second half as post-midterm political gridlock became apparent and uncertainty fell. We are now entering that period, and the stage looks set for big returns most can't fathom now. This might sound overly optimistic given where equities are, but global markets have made up big deficits in quick fashion before. In 2019, after equities endured a nearly -20% decline late in 2018, global developed markets were back at breakeven by mid-year. In 1998, equities were negative on the year in October—but a Q4 rally lifted full-year returns to 22.8%.ⁱⁱ While the exact timing of any recovery is only clear in hindsight, equities can flip bad years to good very quickly.

The vast majority of individual and professional investors can't fathom a recovery. Headlines continually emphasise bad news and ignore good—or obfuscate it with an abundance of objections. While a shallow recession is possible, equities are likely already pricing this in, and most indicators don't signal one is underway or imminent. In the US, durable goods orders have risen in seven of the last eight months, accelerating to 0.7% m/m in May from April's 0.4%.ⁱⁱⁱ The outlook for technology investment also seems bright. A recent JPMorgan survey of 142 chief information officers controlling over \$100 billion in annual enterprise spending suggested budget growth for corporate technology expenditures of 5.3% this year and 5.7% next year.^{iv} Of course, budget plans aren't written in stone, but the available evidence doesn't show Corporate America broadly cutting back investment. Elsewhere indicators also remain positive. Purchasing managers' indexes (PMIs) for the UK, eurozone and Japan remained expansionary in June, albeit with eurozone surveys signaling slower growth.

Yet as the full Review will show, headlines blare ad nauseam that we are in a recession. Some investors perceive falling business survey readings as recessionary, even though most officially registered expansion. Slower growth, but growth nonetheless. The occasionally inverted 10-year to 2-year US Treasury yield spread continues garnering attention while the more meaningful, wider 10-year to 3-month spread goes unnoticed. Ken Fisher has long called this fixation on negatives and dismissal of contrary evidence "the pessimism of disbelief." It often accompanies market lows, and it reigns now. The pessimism of disbelief helps markets pre-price worries, reducing their surprise power. Even if a shallow recession materialised, its market impact from here likely wouldn't be huge.

Usually, large downturns feature at most two or three scary stories—be it COVID-19 in 2020, tariffs and hedge fund liquidations in 2018 or China's devaluation in 2015. This time, we see no fewer than seven, possibly more depending on how you tally interconnected worries. Their sheer number amplifies uncertainty and increases downside volatility. However, it also primes markets for a big relief rally as these concerns fade. Lately, we have observed that it takes about four months for headline fears to drift out of the public consciousness.

ii Source: FactSet, as of 27/06/2022. MSCI World Index price returns, 31/12/1997 – 31/12/1998.

iii Source: Census Bureau, as of 27/06/2022.

iv "Despite Recession Fears, Companies Aren't Pulling Back on Technology Investments," Susan Caminiti, CNBC, 01/07/2022.

Our emphasis on growth equities worked against us during the downturn, as those were hit hardest while some fears benefitted traditionally value-heavy sectors like Energy and Utilities. Now many tout value's leadership and extrapolate it far forward, arguing value normally leads after bear markets. Yet as the full Review will detail, value's leadership this year is heavily entwined with market direction amid sentiment-driven swings. On days when global stocks fell, growth routinely underperformed. Growth led 72.7% of the up days.^v So in an up environment, we think growth should lead. Further supporting that, what falls the most usually bounces the highest. Today that is growth equities in Tech, the Tech-like portion of the Communication Services sector, e-commerce and Luxury Goods. They are likely to be the recovery's biggest beneficiaries. The effect won't necessarily last forever, but it often does for at least six or more months after market lows.

Fears of a recession in the developed world also weighed on EM equities in Q2. This is perhaps most visible in EM Materials, which fell -20.6% in the quarter.^{vi} In our view, this is predominantly sentiment-based. Recession fears tend to have an outsized impact on commodity-oriented industries as people presume an economic downturn will hit demand for oil, copper, steel and other key growth-sensitive inputs hard. Yet Western economic indicators broadly don't indicate a significant recession is underway or imminent, which we think creates a bullish gap between sentiment and reality. If the developed world simply trends sideways, it should bring commodity exporters some relief.

China's emergence from this spring's COVID-19 restrictions—which helped it lead all EM nations with a 3.4% return in the quarter—offers another counterpoint to global recession fears.^{vii} Shanghai ended its two-month lockdown on 1 June, with most activities returning. Beijing and several other locations followed suit, enabling some of the targeted stimulus measures announced in recent weeks to begin kicking in. Since then, some parts of Shanghai and Macau have reinstated restrictions, leading to concerns that any economic bounce will be short-lived, but we think this is too hasty. For one, policymakers announced they would cut quarantine timeframes for travelers late in the month, suggesting a lighter approach. Also, data already started improving in May despite restrictions remaining at the time, indicating Chinese businesses are getting better at managing restrictions. While consumption and residential real estate remain headwinds, strong activity at factories and ports—combined with targeted stimulus boosting money supply and velocity—points to continued modest economic growth this year. Additionally, there were further signs of China's Tech regulatory push easing in the June, with some apps previously banned from signing up new users will be allowed to resume, including Didi. China also approved about 60 video games in early June, the largest number seen July 2021—about when the regulatory push began.^{viii}

While the global economy shows pockets of weakness and strength, it is a better reality than the picture painted by increasing numbers of recession forecasts. Such a wide gap between reality and expectations indicates to us a bear market trough is near. When negativity drives fear and sentiment overshoots to the downside, markets are primed to rebound as uncertainty clears. We don't know when, but priced-in pessimism sets the stage for a growth-led recovery over the foreseeable future.

v Source: FactSet, as of 01/07/2022. MSCI World Growth Index frequency of outperformance versus MSCI World Value Index on days the MSCI World Index rose, 31/12/2021 – 30/06/2022.

vi Source: FactSet, as of 06/07/2022. MSCI Emerging Markets Energy and Materials Index returns in USD with net dividends, 31/03/2022 – 30/06/2022.

vii Ibid. MSCI China Index return in USD with net dividends, 31/03/2022 – 30/06/2022.

viii China's Regulators Exclude Tencent, NetEase as They Approve 60 Online Game Titles in June," Pearl Liu and Zhou Xin, South China Morning Post, 07/06/2022.

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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:

- a) Reasonably determine your client categorisation;
- 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;
- d) Describe investment performance as it relates to the investment strategy;
- 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.

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 portfolio management function, as well as certain ancillary services, to its parent company, Fisher Asset Management, LLC, trading as Fisher Investments, which has its headquarters in the USA and is regulated by the US Securities and Exchange Commission. In certain limited circumstances 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 UCITS regulated by the Central Bank of Ireland and for which Fisher Investments serves as investment manager.

5. CLIENT CATEGORISATION

Fisher Investments Europe deals with both retail clients and professional clients. All clients and potential clients who deal with Fisher Investments Europe's institutional relationship managers ("RMs") will be treated as professional clients, either through qualification as a professional client or, in the case of local municipal authorities, through opting up to be treated as a professional client. Accordingly, you are 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")

Whilst the activities of Fisher Investments Europe are covered by the FSCS, compensation under the FSCS in the event Fisher Investments is unable to meet its liabilities because of its financial circumstances is only available to eligible claimants. Because you have been categorised as a professional client, you are unlikely to be eligible. In addition, the protections of the UK regulatory regime, including the FSCS, do not apply in relation to the services of Fisher Investments or any non-UK service providers or to the extent your assets are invested in non-UK funds or ETFs. In the event you are eligible and do have a valid claim, the FSCS may be able to compensate you for the full amount of your claim up to £50,000 per person per firm. You can contact Fisher Investments Europe or the FSCS (www.fscs.org.uk) in order to obtain more information regarding the conditions governing compensation and the formalities which must be completed to obtain compensation.

7. RISKS

Investments in securities present numerous risks, including various market, currency, currency fluctuation, economic, political, instability, business, differences in financial reporting, liquidity risk, interest rate risk, credit risk, 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 risk of loss and is not recommended. Investments in securities are only suitable for clients who are capable of undertaking and bearing a risk of loss. Specific risks associated with particular types of securities that may be held in your account are explained further in the IMA. Past performance is not a guarantee nor a reliable indicator of future investment returns. Fisher Investments Europe cannot guarantee and makes no representation or warranty as to future investment returns or performance. There is no guarantee for avoidance of loss, which is impossible with investments in securities, and you have not received any such guarantee or similar warranty from Fisher Investments Europe or any representatives thereof.

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.

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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.

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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.

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