FISHER INVESTMENTS EUROPE™

FIRST QUARTER 2018

MARKET PERSPECTIVES

FIRST QUARTER 2018 REVIEW AND OUTLOOK
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FIRST QUARTER 2018 REVIEW AND OUTLOOK
EXECUTIVE SUMMARY

Portfolio Themes

- **Quality Tilt:** As the bull market progresses, we favour equities with stronger balance sheets and consistent margins.
- **Overweight to Information Technology:** The Information Technology sector is heavily skewed toward large, high-quality firms—a segment we expect to outperform in the later stages of a bull market. The sector should also benefit from robust global IT spending driven by the growing demand for products and services related to mobile, cloud computing and the "Internet of Things."
- **Underweight to Commodity-Oriented Sectors:** The Energy and Materials sectors likely continue to struggle as supply growth constrains commodity prices.

Market Outlook

- **Growing Investor Confidence:** Investor optimism typically increases as a bull market matures. Recent correction angst notwithstanding, US sentiment has improved but is not yet euphoric. Meanwhile, growing optimism in the US remains unmatched by European investors.
- **Strong Economic Drivers:** In both developed and emerging markets, economic drivers remain strong. We believe these fundamentals will come to the forefront as sentiment improves.
- **European Leadership:** As eurosceptic fears fizzle and renewed gridlock reduces legislative risk, Europe should continue to outperform in 2018.

A tumultuous first quarter of 2018 saw the MSCI All Country World Index (ACWI) finish down -1.0% as increased volatility tested investors' patience.[i] After posting strong returns in January, global markets tumbled, with the S&P 500's pullback crossing -10%, reaching official correction territory. The MSCI ACWI came close but regained some ground in the quarter's final week.

Last quarter's volatility doesn't shock us—nor does it change our outlook. 2017 was unusually calm, with only a handful of declines exceeding 1% and no drawdown approaching correction territory. Bracing for more volatility this year is prudent. Yet, bigger swings don't preclude the great year we anticipate. Corrections usually end as quickly as they start—trying to time them often leads investors astray.

As Benjamin Graham famously quipped: "Markets are voting machines in the short term and weighing machines in the longer term." Short-term swings come from sentiment—emotional reactions (or overreactions) to recent events. Longer term, markets weigh fundamentals. We still consider today's positive drivers to significantly outweigh the negatives. Forward-looking indicators like the yield curve, new orders in services and manufacturing, and The Conference Board's Leading Economic Indexes suggest global growth should continue powering corporate earnings growth. Major governments remain gridlocked, unable to significantly disrupt property rights or commerce. Party infighting, White House turnover and increasing focus on upcoming midterm elections only add to US political gridlock.

Globally, we expect Continental European equities likely outperform the US. Sentiment toward Europe remains overly cautious. Pundits lament slight slowdowns in eurozone purchasing managers' indexes and presume the expansion there is stalling. They continue fixating on the ECB, worrying its "tightening" monetary policy risks renewed weakness, ignoring the fact that last year's eurozone outperformance and strong economy occurred while the ECB slowed its long-term asset purchases. In our view, this shows positive surprise potential appears greater in Europe, although we still expect US equities to do well.

Meanwhile, Emerging Markets (EM) overall are growing and contributing to broader global expansion. Economies with growing services sectors and bustling consumer classes are leading and countries reliant on commodity prices are now beginning to recover. However, while the global expansion is benefitting EM broadly, several countries face domestic economic and political

i *Source: FactSet, as of 04/04/2018. MSCI All Country World Index return with net dividends in USD, 31/12/2017 – 30/03/2018.*

challenges. Looking ahead, the EM countries best situated to benefit from the bull market's current economic drivers have strong trade ties and factor prominently in global Tech.

It is difficult to know how much longer this pullback will last, although we believe it has all the indicators of a normal correction—not the start of a bear market. Like most corrections, it was sharp and fast. Meanwhile, pundits searched for reasons to justify the drops, projecting a far larger impact. In February, inflation and rising interest rates were hot topics—then they were quickly forgotten. In March, discussion largely shifted to tariffs. Trade tensions—particularly between China and the US— have spurred concerns of a trade war between the world's two largest economies.

However, we believe these fears are overblown. Current tariffs lack the scale to meaningfully impact the global economy, and harsh rhetoric has given way to more moderate actions. In a bear market, investors do the opposite, seeking justification for their optimism and overlooking reasons why more pain might await. While bull markets climb a wall of worry, bear markets usually start as investors slide gently down a mild slope of hope.

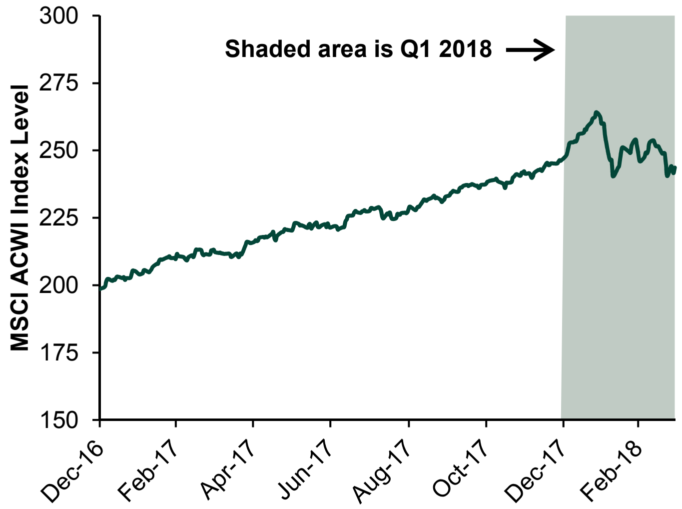
Yet sentiment during this correction has been calmer than during this bull's earlier corrections—likely a reflection of overall improving sentiment. Investors took the recent correction as a given in a bull market lasting over nine years and counting. We believe a recovery will eventually prove them correct, but corrections usually feature more angst than this one has so far, suggesting more volatility may come before an eventual rebound. That said, more volatility shouldn't prevent a great year for equities.

THEMATIC UPDATE AND MARKET OUTLOOK

Q1 RECAP

After a simultaneously calm and good year for equities in 2017, this year's volatility may seem particularly steep. However, in our view, the recent drawdown has the hallmarks of a typical correction—not a bear market. The selloff was steep, beginning with a bang amid overblown media headlines fixating on extrapolations to explain volatility. By contrast to these sharp initial drops, bear markets usually roll over slowly. Since the nine-day selloff between 29 January and 8 February, markets have fluctuated between large drops and sharp surges (Exhibit 1).

Exhibit 1: The Back-and-Forth Quarter



Source: FactSet, as of 04/04/2018. MSCI ACWI Index return with net dividends in USD, 31/12/2016 – 31/03/2018.

THE CORRECTION'S "CAUSES"

Like most corrections, recent volatility appears sentiment-driven. A classic sign: People search for causes and, once they identify an alleged culprit, presume we have seen only the tip of the iceberg—bigger problems lurk below the surface. In this correction, investors identified a tiny (and later revised away) wage growth acceleration and presumed 1970s-style inflation loomed. When data dispelled this and the fear dissipated, pundits latched onto tariffs, warning of a trade war even though the proposed tariffs lacked the scale to meaningfully disrupt global growth. This hunt for justification is typical behaviour during corrections. Meanwhile, the onset of a bear market typically sees investors finding reasons to dismiss real negatives. This was evident in 1999's inverted yield curve and flood of junk IPOs, indicators investors discounted as "old economy" relics.

THIS BULL STILL HAS ROOM TO RUN

Late in a bull market, rising optimism drives investors to bid equities up (Exhibit 2). These big returns fuel fear of missing out—and ultimately, the euphoria typifying market peaks. Investors today don't seem euphoric. That suggests stronger, positive returns lie ahead before investors lose touch with reality.

Exhibit 2: Bull Market Returns by Thirds

Bull Start	Bull End	Bull Length (Years)	% of Bull Return by Third of Lifespan		
			First Third	Second Third	Final Third
01/06/1932	06/03/1937	4.8	62%	4%	34%
28/04/1942	29/05/1946	4.1	51%	12%	37%
13/06/1949	02/08/1956	7.1	39%	10%	51%
22/10/1957	12/12/1961	4.1	60%	-4%	45%
26/06/1962	09/02/1966	3.6	59%	26%	15%
07/10/1966	29/11/1968	2.1	59%	-4%	46%
26/05/1970	11/01/1973	2.6	73%	6%	21%
03/10/1974	28/11/1980	6.2	59%	-6%	47%
12/08/1982	25/08/1987	5.0	37%	23%	40%
04/12/1987	16/07/1990	2.6	42%	49%	9%
11/10/1990	24/03/2000	9.5	26%	29%	45%
09/10/2002	09/10/2007	5.0	58%	12%	30%
Median ex Current		**4.5**	**51%**	**12%**	**37%**

Source: Global Financial Data, Inc., as of 21/11/2017. Calculations are based on S&P 500 price returns in USD for the periods shown.

GLOBAL GROWTH BUOYS THE BULL

The global economy appears to be growing far and wide entering Q2, which should buoy corporate revenues and profits. In the US, GDP grew 2.3% annualised—slower than Q4's 2.9%, but still healthy. [ii] Consumer spending, business investment, and exports and imports rose. While imports don't add to GDP, they do signal strong demand. Monthly data like consumer spending and industrial production were mixed in Q1 but overall point to growth. Meanwhile, purchasing managers' indexes (PMIs)—surveys measuring the breadth of growth—remain nicely expansionary. All together, these hint at slower-but-still-positive GDP growth. That is widely expected, and we believe it is nothing to fear. This may also stem from a statistical quirk. A few years ago, the government admitted its seasonal adjustment for economic data wasn't accurately adjusting Q1 figures, bringing repeated evidence of false slowdowns. They attempted to fix this, but many economists believe they failed.

ii Source: US Bureau of Economic Analysis, as of 08/05/2018.

Expansion continued in nearly all major nations. Eurozone GDP grew 1.7% annualised in Q1.[iii] Meanwhile, eurozone PMIs slowed, leading many to lament "peaking" growth—deeming last year a short-lived high. We disagree. These PMIs remain expansionary (above 50). New orders, echoed by The Conference Board's eurozone LEI, point to growth ahead.

This looks like normal growth rate variability. Further, this slowdown seems largely attributable to an extreme winter storm that hit Europe in Q1, colloquially referred to as the "Beast from the East". This storm dropped snow as far south as Rome. Investors reading so much into a minor, likely weather-driven slowdown illustrates that the eurozone's gap between reality and sentiment remains wide, even after last year's outperformance. This is a key reason we remain overweight to the region.

UK GDP also grew in Q1, albeit only slightly but again confounding Brexit fears. GDP has grown every quarter since the vote. PMIs fell sharply right after the vote—likely because, as surveys, they tally sentiment—but reversed the next month. While many argued Brexit uncertainty would stifle business investment and drive away bank jobs, data disagree. London office vacancies fell, and mergers & acquisitions involving British firms are up. Financials' job transfer announcements trail initial estimates by wide margins. Inflation, which many feared would squeeze consumers due to the weak pound, also slowed in Q1, aiding sentiment. In March, the UK and EU finalised a post-Brexit transition agreement maintaining UK firms' single-market access through December 2020, reducing uncertainty.

Elsewhere, from Japan, Canada and Australia to Emerging Markets like China, Brazil and Taiwan, the global expansion continued in Q1. Broad-based economic growth is a great engine for corporate sales and profits.

Politically, Inactivity Should Reign

Gridlock seems likely to bullishly dominate most major developed world countries. In the United States, intraparty gridlock, looming midterm elections and the political capital spent on last year's tax cuts likely mean few major new laws this year. Politicians usually retreat from major legislation in election years, fearing voter backlash. We don't expect large shifts this November, yielding either a continued small Republican Congressional majority constrained by ideological differences or a Democratic majority at odds with the White House. Both imply inaction, which equities tend to appreciate. Active governments create winners, losers, unintended consequences and uncertainty.

Outside of the US, gridlock should also rule. UK Prime Minister Theresa May's minority government is struggling to retain power, much less pass big legislation. Months after last September's Federal Election, German lawmakers finally established a coalition government—the same as the old, which accomplished little legislatively. Italy's election was indecisive, with coalition talks still ongoing. Some fear a possible populist coalition between The League and Five Star Movement, but the ideological divide between these parties is vast. It is unlikely a coalition between these groups would accomplish much. That is typical for Italy, which had six governments in the last decade. While many bemoan the lack of reform gridlock could bring, it also makes it unlikely politicians succeed in rolling back positive economic reforms implemented in the last few years.

iii Source: Eurostat, as of 08/05/2018.

The Trans-Pacific Partnership (TPP) Successor

In March, 11 nations signed the Comprehensive & Progressive Agreement for Trans-Pacific Partnership (CPTPP)—a free-trade pact covering more than $10.5 trillion, or about 13%, of global GDP. This deal is what the Trans-Pacific Partnership (TPP) morphed into after the US withdrew last year. Members include Developed Markets like Japan, Canada and Australia, as well as Emerging Markets like Mexico, Chile and Peru. CPTPP ranks as the third-largest free-trade pact in the world, trailing only the North American Free Trade Agreement (NAFTA) and the EU. Although signing already occurred, the pact will become effective when at least six participants ratify it, which some anticipate happening before year's end.

The agreement counters the popular narrative that global trade is currently in dire straits. Populist politicians around the world have gained popularity by campaigning against freer trade, ostensibly to protect domestic industries. Many fear a global trade war is brewing after the United States first announced broad steel and aluminum tariffs in March followed by punitive tariffs directed toward China shortly after—and China responded with retaliatory duties of its own. Yet for all the harsh rhetoric and high profile spats, the world has been strengthening its trade ties, not weakening them. The CPTPP, for example, removes nearly all tariffs and improves market access among participating nations. Businesses can now compete for government contracts in other countries and don't need a local physical presence to do business in another CPTPP country. These developments facilitate commerce—which equities generally respond favourably to—even though they don't garner the same attention as trade war speculation.

A Long Time Coming

The CPTPP took nine years of negotiations and survived the exit of the biggest potential participant: the US. The US left the then-TPP in January 2017, prompting obituaries for any sort of trade agreement coming into being. However, the other 11 nations moved forward with negotiations—a sign of the desire for freer trade across the global economy. While the US could always return to trade talks, this doesn't seem likely in the near future.

In April, the Trump Administration suggested it would look into rejoining the agreement, though it backed off that claim a couple days later. However, the prospect of the US rejoining the CPTPP was always low, as many US-demanded provisions like intellectual property rights were suspended in the current agreement. Also, the Executive branch of the US government doesn't have the ultimate say on whether the US joins CPTPP. Congress is the deciding party on any finalised deal, so any US involvement would likely be a lengthy process.

However, while freer trade benefits the global economy, the CPTPP isn't integral to more growth. The world has done fine without the CPTPP, and the US's non-participation is the absence of a potential long-term positive, not an outright negative. Despite some headline-grabbing trade spats, the notion global trade is in distress is overwrought, in our view.

US Commentary

US COMMENTARY

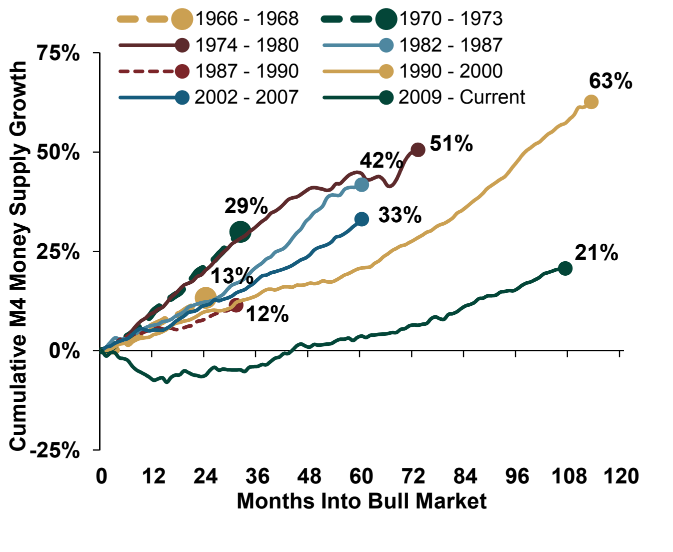
THE INFLATION ILLUSION

When recent volatility first arose, pundits tied it to a rise in interest rates and argued inflation was back. They presumed this meant faster Fed rate hikes and higher long rates, harming corporate profits. When January's US employment report showed a wage uptick, inflammatory headlines warned a 1970s rerun was beginning.

To us, this vastly underrates deflationary pressures—and hugely overstates inflationary pressures. There was never real evidence inflation loomed. Rather, investors read into interest rates' uptick from very low historical levels. January's exaggerated wage growth was a mere 2.88% y/y, up from December's 2.83%.[iv] This miniscule increase was nothing more than a rounding error, which was revised away in February. Further, wages don't drive inflation. As Milton Friedman taught decades ago, inflation is always and everywhere a monetary phenomenon: more money chasing a relatively stable (in the short run) amount of goods and services.

Money supply grows most through lending, which has slowed lately in the United States. Broad money supply, as measured by the Centre for Financial Stability, has grown the slowest in this cycle of any modern expansion—a paltry 2% annualised (Exhibit 3).

Exhibit 3: Money Supply Growth in the Last 8 Bull Markets



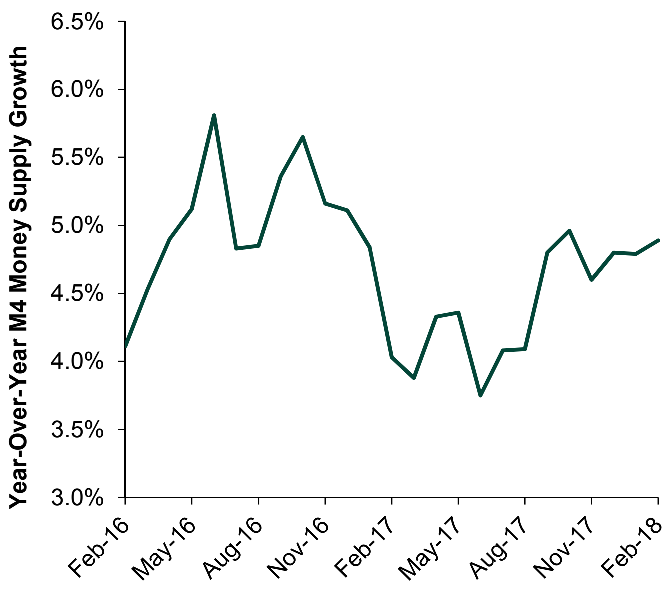
Annualized M4 Growth			
1966-1968	**1970-1973**	**1974-1980**	**1982-1987**
6.4%	10.3%	7.0%	7.2%
1987-1990	**1990-2000**	**2002-2007**	**2009-Current**
4.3%	5.3%	5.9%	2.1%

Source: Centre for Financial Stability, as of 04/04/2018.

Early on, slow money supply growth was largely due to the Fed pinning short-term rates near zero while depressing long rates through quantitative easing's bond purchases. Though considered stimulus, it was nothing of the sort. Reducing long-term rates narrowed the spread between short- and long-term rates. Banks borrow short term (deposits, overnight borrowing) to fund longer-term loans (mortgages, business loans, etc.). Hence, the Fed's reducing the spread made lending less profitable—discouraging banks from making loans.

Many assume Fed rate hikes will boost long rates. But this, too, is backwards. Long-term interest rates are market-set and depend heavily on inflation expectations. Short-term rate hikes are anti-inflationary. So it is no surprise that long rates have failed to mirror the Fed's six hikes since 2015. In addition, this flattens the yield curve, discouraging lending. Looking forward, competition for deposits seems likely to drive US banks to begin raising deposit rates, further weakening profits. Due to this trend, money supply is not currently elevated (Exhibit 4).

Exhibit 4: M4 in the Last 24 Months



Source: Centre for Financial Stability, as of 10/04/2018. February 2016 – February 2018.

iv Source: US Bureau of Labour Statistics, as of 08/02/2018.

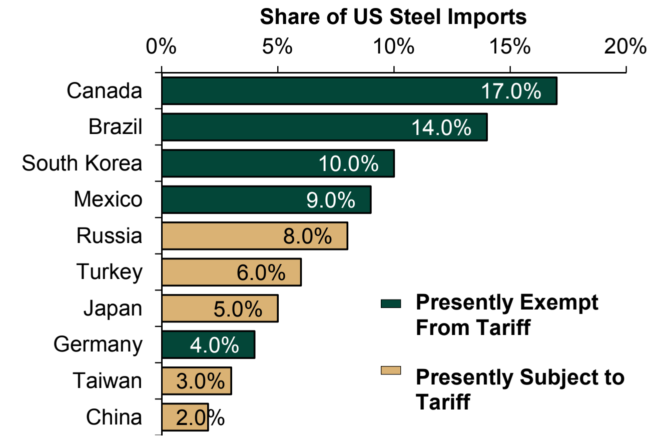
The US-China Tariff Tiff

Towards the end of the quarter, investor concerns shifted from inflation fears to tariffs as President Trump announced plans to enact tariffs on steel and aluminum, followed by escalating tariff rhetoric between the United States and China. Yet many trade spats—in almost every president's administration—don't become trade wars. They come and go without much market impact. We believe recent tariff announcements amount to a spat, not a war. Further, when tariffs are placed between only two countries, this creates the opportunity for each country to bypass the tariffs by utilising a third-party country, minimising the effects.

Q1 tariff talk began with steel and aluminum. After weeks of hinting, on 1 March the Trump administration announced tariffs of 25% on global steel imports and 10% on aluminum imports, citing national security. People broadly overreacted. Steel and aluminum account for less than 1.5% of US imports.[v] Moreover, every president since Harry Truman has used some sort of steel import restriction. This is not out of the ordinary.

Two days later on 3 March, President Trump said the tariffs would exclude Canada and Mexico while NAFTA talks remained ongoing. He later exempted Australia, Argentina, South Korea, the EU and Brazil, some of the biggest sources of imported US steel (Exhibit 5). Hence, roughly two-thirds of imported US steel and half of aluminum are presently tariff-free, with permanent exemptions pending negotiations.

Exhibit 5: Top 10 Sources of US Steel Imports

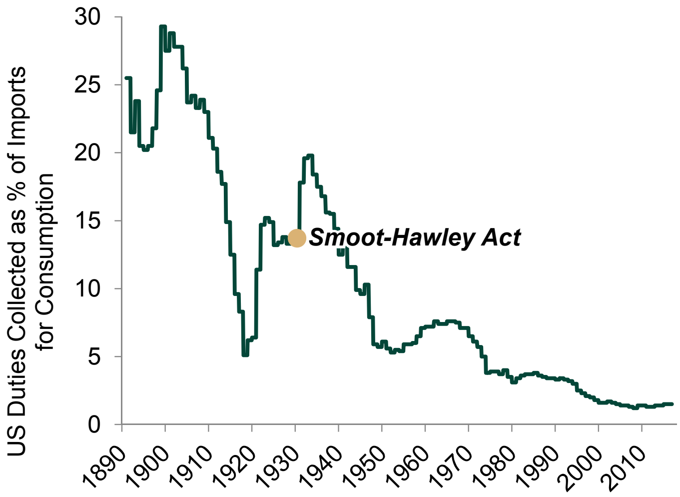


Source: US Department of Commerce, International Trade Administration, as of 02/04/2018.

China was noticeably absent from exemptions. It responded proportionately, unveiling tariffs on $3 billion worth of US goods. The Trump administration subsequently proposed a 25% tariff on $50 billion in Chinese imports, calling it a response to China's forcing foreign firms to surrender intellectual property and trade secrets to obtain market access. When the administration unveiled a list of nearly 1,300 products potentially subject to tariffs for public comment, China released a retaliatory list of $50 billion in US products it would tax, including soybeans, autos, smaller passenger aircraft and more. President Trump then ordered the US trade representative to consider $100 billion in additional tariffs.

When assessing any policy's potential market impact, it is important to put the changes in context. Scaling these tariffs and examining the history of the world's last big trade war demonstrates that the forthcoming tariffs, on their own, likely lack the size and scope to derail economic growth (Exhibit 6).

Exhibit 6: US Duties Collected Relative to Imports for Consumption



Source: US International Trade Commission, as of 02/03/2018.

Some pundits attempt to paint this as a trade war akin to Smoot-Hawley. But the scale and scope are vastly smaller. First of all, the new tariffs are mostly limited to the US and China. Firms can easily circumvent tariffs enacted at the country-to-country level by shipping through third parties. For one example, of the 260,000 US-built autos shipped to China last year (excluding Tesla), only 29,000 were US models.[vi] The rest are predominantly European. Those cars can easily be shipped elsewhere and/or re-exported to China, if necessary.

v Source: US International Trade Commission, as of 02/03/2018.

vi "How a Trade War Will Whack U.S. Car, Aircraft Exports to China," Nathan Bomey, USA Today, 04/04/2018. https://www.usatoday.com/story/money/2018/04/04/us-china-exports-tariffs-trade-war/485006002/

Moreover, the $50 billion in Chinese imports President Trump claims he will tax are likely to be replaced in some measure by imports from other places. While we cannot know yet whether the US will act on President Trump's request to tax another $100 billion in imports, it is worth noting how far removed from wallop potential the present scale is.

Media often suggests the tariffs compress $50 billion in economic activity by rephrasing "tariffs on $50 billion worth of imports" to "$50 billion in tariffs." This is not the case. As Exhibit 7 shows, the impact of all the actions announced and considered thus far is much smaller.

Exhibit 7: Scaling the US/China Trade Kerfuffle (All Figures in Billions of USD)

Item	Total Value of Goods	Tariff Rate	Impact	Percent of US/China Combined GDP
US Steel Tariffs	$7.30	25%	$1.83	0.006%
US Aluminum Tariffs	$8.60	10%	$0.86	0.003%
Chinese Retaliation	$3	15% - 25%	$0.45 - $0.75	0.002% - 0.003%
Tariffs on China #1	$50	15% - 25%	$7.50 - $12.50	0.025% - 0.042%
Chinese Retaliation	$50	15% - 25%	$7.50 - $12.50	0.025% - 0.042%
Tariffs on China #2	$100	15% - 25%	$15 - $25	0.050% - 0.084%
Total	**$218.90**		**$33.14 - $53.44**	**0.111% - 0.179%**

Source: US Trade Representative, China Ministry of Commerce, World Bank, as of 10/04/2018. Estimates of steel and aluminum tariff impact exclude imports from exempted countries. GDP figure used is nominal 2016 GDP, the latest available for both countries.

This is likely an overestimate, as only the top three are actually in effect today. The larger rounds may be watered down—or never come to fruition at all. President Trump is famous for beginning negotiations with rushed positions, a tactic described in The Art of the Deal. The large amounts announced could simply be a strategy to commence conversation with China—perhaps about North Korea. President Trump needed China to aid his effort to meet with North Korean dictator Kim Jong-un in person. Until recently, Kim had never left North Korea, and President Trump can't travel there safely. But the week after President Trump announced the tariffs, Kim visited Beijing. It is possible that the tariffs urged the process along—and perhaps tariff talk dies down after the summit.

Many acknowledge these moves are nowhere near enough to disrupt the nearly $80 trillion world economy. But rather than assuage fears, they project additional, larger moves down the line. This is dangerous speculation and could easily prove inaccurate.

In this bull market's corrections, many have mistakenly presumed small issues would surely snowball. In the 2010 – 2013 euro debt crisis, some feared Greece was a prelude to an Italian bailout or default that never materialised. Many feared China's August 2015 yuan exchange rate tinkering foreshadowed a giant devaluation. This also did not occur. In 2016, some feared Energy firms' weakness represented a larger issue that would infect bond markets, triggering a collapse. However, none of these extrapolations came to pass.

US Midterms Should Extend Gridlock

As always, our political analysis favours neither party nor any politician. Our political analysis is limited to assessing how developments are likely to impact the economy and markets.

US congressional midterm elections are nearly seven months away—an eternity in politics—but in our view, the likely victor is gridlock, the outcome equities will favour. While many voters dislike it, gridlock prevents passage of sweeping, contentious legislation potentially impacting property rights—and adversely impacting sentiment.

This year, it is unlikely politicians attempt any vast, contentious legislation, given the election makes them fear a voter backlash. But that lack of action should persist beyond November—no matter which party succeeds at the ballot box.

If the Republicans maintain control of the House and Senate, the intraparty gridlock existing since 2016's election likely persists. As we have detailed in past Reviews, the GOP has been largely stymied by intraparty disputes. These forced them to abandon multiple attempts at repealing the Affordable Care Act. Despite their majority in both chambers and broad support for tax reform, they were forced to minimise it in order to pass it. Pushing it through—on party lines—likely cost them significant political capital, limiting their ability to act.

If the Democrats take the House and/or the Senate, more traditional gridlock would reign, with the White House facing opposition on Capitol Hill. This would return the environment existing during much of this bull market—the White House controlled by one party, Congress the other. While the parties were reversed, this was the political backdrop from 2010 – 2016, to varying degrees. Quite obviously, the resulting legislative inactivity did not harm equities, as the S&P 500 rose 104% between 2010's election and 2016's.[vii]

vii Source: FactSet, as of 25/04/2018. S&P 500 total return, 02/11/2010 – 08/11/2016.

An Early Look Ahead

As for the vote itself, while media is anticipating an extreme shift to the Democrats (a "blue wave"), we think structure and history currently suggest something smaller and more nuanced: A rare split in which the House and Senate head opposing directions in the same midterm. Usually, the House follows the Senate's lead in midterms. This year, we think history favours the Democrats in the House, but structural factors suggest the Republicans should retain, if not slightly gain, Senate seats.

In the House, the combination of historical trends and incumbency suggest the Democrats should gain—and, possibly, take control. First, consider: The president's party usually loses seats in midterms. In the 26 midterm elections since the House became a 435-representative body in 1912, the sitting president's party lost seats 23 times (The exceptions being small gains in 1934, 1998 and 2002).[viii] The average decline: 30 seats. Furthermore, incumbency is key in House races, and the GOP currently has more open seats than the Democrats, 39 to 20. To win control of the House, the Democrats must gain 25—not huge by historical standards.

History shows similar (if less extreme) Senate midterm trends, but structural factors seem poised to offset this. Forecasts of the Democrats taking the Senate stem largely from the Republicans' current one-seat edge—the Democrats could take Senate control without winning many new seats. However, Democrats must also be more defensive: They have 26 senators up for re-election compared to the Republicans' 8. Ten of those Democratic senators hail from states President Trump won, so the Democrats will likely have to deploy significant resources to keep them. (Exhibit 8)

Meanwhile, the Republicans have only one Senate seat up in a state Hillary Clinton took—Dean Heller's Nevada seat. Yet Clinton's edge in Nevada was slim, suggesting Heller's path to re-election may be easier than some at-risk Democrats'. While we don't expect a big shift, this structural backdrop favours the GOP adding to its Senate majority.

Exhibit 8: 2018 Senate Races

Senator	Party	State	Percent of Vote for Trump in 2016	Percent of Vote for Clinton in 2016	
Barrasso, John	R	WY	70%	22%	States Trump Won in 2016
Manchin, Joe, III	D	WV	69%	26%	
Heitkamp, Heidi	D	ND	64%	28%	
Corker, Bob*	R	TN	61%	35%	
Fischer, Deb	R	NE	60%	34%	
Wicker, Roger F.	R	MS	58%	40%	
Tester, Jon	D	MT	57%	35%	
Donnelly, Joe	D	IN	57%	38%	
McCaskill, Claire	D	MO	57%	38%	
Cruz, Ted	R	TX	53%	43%	
Brown, Sherrod	D	OH	52%	44%	
Flake, Jeff*	R	AZ	50%	45%	
Nelson, Bill	D	FL	49%	48%	
Casey, Robert P., Jr.	D	PA	49%	48%	
Baldwin, Tammy	D	WI	48%	47%	
Stabenow, Debbie	D	MI	48%	47%	
Hatch, Orrin G.*	R	UT	46%	28%	
Heller, Dean	R	NV	46%	48%	States Clinton Won in 2016
Klobuchar, Amy	D	MN	45%	47%	
Kaine, Tim	D	VA	45%	50%	
King, Angus S., Jr.	I	ME	45%	48%	
Menendez, Robert	D	NJ	42%	55%	
Carper, Thomas R.	D	DE	42%	53%	
Murphy, Christopher	D	CT	42%	54%	
Whitehouse, Sheldon	D	RI	40%	55%	
Heinrich, Martin	D	NM	40%	48%	
Cantwell, Maria	D	WA	38%	56%	
Gillibrand, Kirsten E.	D	NY	37%	59%	
Cardin, Benjamin L.	D	MD	35%	61%	
Warren, Elizabeth	D	MA	34%	61%	
Feinstein, Dianne	D	CA	33%	61%	
Sanders, Bernard	I	VT	33%	61%	
Hirono, Mazie K.	D	HI	30%	62%	

*Source: US Senate, Fisher Investments Research. Senators up for re-election in 2018 as of 27/12/2017. Sanders and King caucus with the Democrats. *Senators not seeking re-election.*

viii Source: US House of Represenatives, Historical Party Divisions, accessed 25/04/2018. http://history.house.gov/Institution/Party-Divisions/Party-Divisions/

It is still early, and perhaps campaign developments eventually outweigh structural and historical factors. But to date, the evidence and factors arguing for a huge shift to the Democrats don't seem sufficiently strong. Most voters' views of President Trump and both parties are fairly fixed at this point—and likely to remain stable come November.

Media also point to special election successes in Alabama and Pennsylvania, but such one-off races usually don't speak to broad, national trends. Pennsylvania illustrates this: Conor Lamb, the Democrat who won, ran a race focused on local voters, regardless of how his rhetoric fit with the party's national platform. His success proves the truism that campaigns are generally won by good campaigners—those who target their audience well. Moreover, these special races aren't like a national election because the parties focus—funds and attention—on one race at a time. This focus can amplify the positive effects of a good campaign like Lamb's. There is also a tendency for GOP candidates in these special races to run much weaker than President Trump did in 2016—which is normal, not abnormal. The degree to which they run weaker is the question.

But in the actual election, resources are dispersed. Campaigning is more typical. The blue wave may or may not exist, but it is unlikely to be as big as media alleges. If the blue wave falls short of House control—the election won't matter much, besides possibly causing short-term sentiment swings. It won't be feasible to get a clearer view of how the overall House race is shaping up until roughly halfway through the primary season. As we get closer, we will have a better grasp of the one-on-one matchups based on how district-by-district ideology compares to individual candidate qualities.

What It May Mean for Impeachment Proceedings

In a bigger blue wave, we get traditional gridlock. If the Democrats win control of the House, they could pass articles of impeachment with a simple majority. That would cause a trial in the Senate, where a two-thirds majority is required to remove the president from office. The Senate sets the trial rules. In 1998's impeachment of Democratic President Bill Clinton, the GOP-controlled Senate set the rules. If the Republicans retain Senate control, they would set rules for the trial of a Republican president and a very high bar for conviction.

If the Democrats gain Senate control, they still need 66 votes, which will require significant Republican support. Suppose there were a Democratic 52 – 48 edge (for the sake of argument)—they would need a minimum 14 Republicans to vote to convict President Trump. For impeachment to succeed there would need to be a convictable crime. No hard evidence of this exists yet.

Based on what we know today, it is hard to see a convictable crime. Justice Department officials including Rod Rosenstein and Special Counsel Robert Mueller say President Trump isn't personally the target of an investigation at present. The many salacious stories have yet to implicate President Trump in a crime. Future investigation may reveal the president lied in an effort to conceal past events. But he hasn't been under oath. So this, too, would not constitute a crime. Senate Minority Leader Chuck Schumer surely remembers the 1998 Clinton impeachment on perjury grounds. Clinton was acquitted. It backfired on Republicans. Schumer won't want that without some big revelation we can't know now. As such, in our view, there is a much smaller chance of a successful impeachment than the media suggests. And even if President Trump is ousted, Vice President Mike Pence takes over and gridlock prevails. Neither would materially impact markets for long.

Global Developed ex-US Commentary

Eurozone

Stronger-Than-Appreciated Economic Growth

2018's elections continue generating buzz in the US and Europe, but the upshot remains gridlock. Pundits often complain about governments that don't enact true change or take action, but equities prefer them—especially in the developed world. In Europe, Germany finally agreed to renew the "Grand Coalition," while Italy's politicians are mired in contentious coalition talks. In both countries, ideologically divided governments should forestall sweeping legislation. In our view, this remains an underappreciated positive for equities.

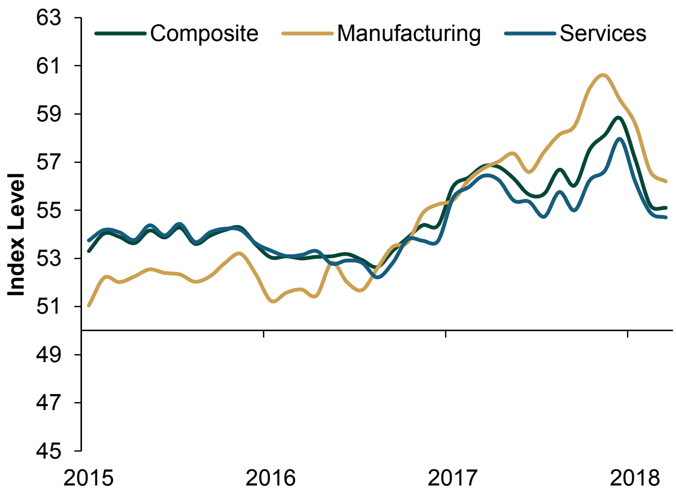
As eurozone growth strengthened in 2017, economic sentiment toward the currency union broadly improved, boosting investor sentiment. Yet this trend appeared to reverse in Q1, as an apparent slowdown fueled talk of "peaking" eurozone growth. With eurozone equity markets also volatile, many sentiment gauges tumbled. Yet upon closer analysis, we don't believe the data support fears of broad, lasting economic weakness. Rather, we suspect people are reading too much into the impact of extreme winter weather due to the "Beast From the East," a massive Siberian storm that sent ice and snow as far south as the Mediterranean in late February and early March, disrupting transit routes and commerce.

GDP's slowdown from 2.7% annualised in Q4 2017 to 1.7% annualised in Q1 is indeed sharp.[ix] But variability isn't unusual. In Q2 2014, for example, growth slowed from 1.7% annualised to just 0.5% before reaccelerating in Q3.[x] Similarly, Q2 2015 growth slowed from 3.1% annualised to 1.3%—here, too, reacceleration followed.[xi] That doesn't dictate faster growth in Q2 2018, but it speaks to the danger of presuming one quarter's slowdown is a new negative trend.

Survey data suggest eurozone economic activity continues chugging along. While IHS Markit's purchasing managers' indexes (PMIs) have slowed since January, eurozone composite PMI's 55.1 April read remains well above 50, indicating solid expansion.[xii] Forward-looking manufacturing new orders slowed but remained "robust," according to IHS Markit's commentary.[xiii] Meanwhile, services orders eased as well, but backlogs rose for the 23rd straight month, signaling solid pipeline demand amid capacity constraints.

Tempting as it may be to intuit a broad slowdown, PMIs indicate growth's breadth, not magnitude, and a lower figure doesn't mean the expansion will necessarily continue slowing (Exhibit 9). Additionally, survey respondents cited numerous one-off factors, including the nasty weather, an unusually virulent flu season and labour strikes. Raw materials shortages and long supplier delivery times—signs of strong demand—further hampered activity. March eurozone delivery times were near their longest in 18 years, and Germany's supply chain delays were their most widespread in its 22-year history. Under the hood, the eurozone economy looks more resilient than many presume.

Exhibit 9: PMIs Indicate Expansion



Source: FactSet, as of 5/4/2018. IHS Markit Composite, Manufacturing and Services purchasing managers' indexes, February 2015 – April 2018.

Forward-looking indicators suggest demand hasn't waned and further growth looks likely. The Conference Board's March eurozone Leading Economic Index (LEI) rose 0.6% m/m—its 18th straight monthly rise.[xiv] The yield spread, LEI's most telling component, steepened. This bodes well for loan profitability and loan growth. Private sector lending grew 3.0% y/y in March—near its fastest in 10 years.[xv] The widespread negative reaction to what mostly looks like

ix Source: FactSet, as of 03/05/2018.

x Ibid.

xi Ibid.

xii Source: IHS Markit, as of 04/05/2018.

xiii Ibid.

xiv Source: The Conference Board, as of 26/04/2018.

xv Source: European Central Bank, as of 30/04/2018.

weather-related weakness suggests a wide gap remains between reality and expectations, likely creating more positive surprise potential for the eurozone.

Britain

UK: Continued Solid Growth

The UK's Q1 slowdown was more pronounced, with GDP growing just 0.4% annualised—weaker than Q4 2017's 1.6% annualised.[xvi] Here, too, extreme winter weather appears to be the primary culprit. Construction output tumbled -12.5% annualised as weather thwarted builders.[xvii] Industrial output rose 2.7% annualised, but this stemmed largely from oil production—which reversed a deep Q4 contraction caused by a pipeline closure—and utilities.[xviii] Manufacturing grew more tepidly at 0.8% annualised.[xix] Yet services, the lion's share of the UK economy, advanced 1.2% annualised—in line with its trend over the last year. It seems difficult to argue trouble is mounting in the broad economy if the largest sector, representing about 80% of output, held firm.

Sentiment toward the UK economy remains quite dour, due largely to the Brexit overhang. Yet we believe economic fundamentals are stronger than most perceive. Lending and money supply continue growing at a decent clip. Private sector lending rose 3.6% y/y in March, while M4 money supply grew 3.8%.[xx] Some cite rising wages as an inflationary pressure, but wage growth follows inflation—Q1's rising wages were likely employers' response to last year's inflation rise. Meanwhile, Consumer Price Inflation has slowed this year, easing some of the pressure on UK households.

Brexit continued attracting Parliament's—and the public's—attention throughout Q1, as intermittent progress continued. Perhaps most notably, Prime Minister Theresa May and EU negotiators agreed on a post-Brexit transition period, which would effectively keep the UK in the single market as a non-voting member through December 2020. Both sides addressed it as a large achievement, and it gives investors more clarity on the rules governing UK – EU trade from Brexit's effective date in March 2019 through the end of the following year. However, it leaves many questions unresolved, including the "end state" agreement that will govern the UK and EU's economic relationship from 2021 onward. In our view, the primary benefit of agreeing on the transition period so quickly is that it allows more time for end-state talks, which should reduce the likelihood of rushing into an inadequate agreement.

Progress on that front remains slow. The Irish border issue remains the subject of much debate, as does financial regulation and London's ability to continue doing business in the EU. Yet, notably, London firms don't appear to be sweating the uncertainty. Green Street Advisors, which specialises in commercial real estate analysis, has nearly halved its forecast of financial-sector job departures from 40,000 to 20,000 – 25,000, with only 5,000 departures predicted before March 2019.[xxi] Individual firms, including Deutsche Bank and Goldman Sachs, slashed the number of jobs they anticipated moving from London to the EU. Goldman also signed the London's largest lease last year, nabbing 500,000 square feet. If financial firms anticipated losing significant business by remaining in London, we suspect they would be behaving much differently.

Meanwhile, May's government continues to struggle, with Brexit disputes heightening political gridlock. Her government has suffered defeats on Brexit-related legislation in the Commons and Lords, and her cabinet is presently divided over whether to remain in the EU's single market permanently. We believe the Windrush scandal, which escalated in April, compounds gridlock. It has already resulted in Home Secretary Amber Rudd's resignation, and the criticism against May persists. As long as the fallout continues, the government will likely be able to accomplish little—Brexit-related or otherwise. Should the scandal eventually result in May's departure, whether the result is fresh elections or a new Conservative minority government, we expect gridlock to persist. This should keep legislative risk low, a situation we believe markets generally prefer, although lingering uncertainty over Brexit and an unstable government could generate a sentiment overhang for UK shares, perhaps preventing them from outperforming for the foreseeable future.

xvi Source: Office for National Statistics, as of 27/04/2018.

xvii Ibid.

xviii Ibid.

xix Ibid.

xx Source: Bank of England, as of 04/05/2018. M4 lending excluding intermediate OFCs (Other Financial Corporations) and M4 excluding intermediate OFCs, seasonally adjusted, March 2018.

xxi "So Far, So Good: Financial Firms Commit to London Despite Brexit Concerns," Olga Cotaga, The Wall Street Journal, 3 April 2018. https://www.wsj.com/articles/so-far-so-good-financial-firms-commit-to-london-despite-brexit-concerns-1522753201 (accessed 24/4/2018)

Japan

Controversies Catching Up with Abe

Japanese Prime Minister Shinzo Abe's popularity has tumbled as various cronyism scandals emerge. In early 2017, Abe was scrutinised for his involvement in a land deal scandal. A nationalist educational foundation bought public land for an elementary school at below-market-value price—presumably due to governmental favour or influence. The school's principal alleged Abe's wife handed over cash as a gift from the prime minister. Abe denied any direct or indirect involvement, and while the controversy hit the Prime Minister's popularity for a couple of months, the story eventually faded away.

However, the scandal returned to the news in March after the Finance Ministry revealed that documents related to the deal were doctored to remove references to Abe's wife and other politicians. While there is still no evidence Abe performed any illicit act, the story's reemergence has again weakened the prime minister's support. The land deal isn't Abe's only problem. He recently had to answer to a parliamentary panel over suspicion that he used his influence to help a friend set up a veterinary school in a special government-designated deregulation zone.[xxii]

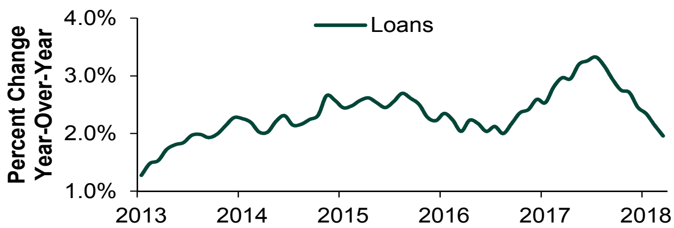
These controversies are taking their toll. Some polls show Abe's support at its lowest level since he took office in 2012—raising doubts about his chances of winning the Liberal Democratic Party (LDP) leadership election in September. One end-of-March poll showed Abe trailing LDP Chief Deputy Secretary-General Shinjiro Koizumi, son of former Prime Minister Junichiro Koizumi. However, this doesn't mean Abe is finished. The Prime Minister is a skilled political figure. The land scandal didn't end his premiership last year, and his LDP ended up winning October's general election in a landslide.

While Abe fights to preserve his support domestically, the market upshot is that little legislative change is likely. Abe likely doesn't have the backing to push through any kind of meaningful economic or structural reform. Though Japan would likely benefit from increased liberalisation, a government enacting little true change has been the status quo for years. Markets are well aware Japan isn't likely to implement major political changes for the foreseeable future. If anything, the scandal likely aligns expectations more closely with reality.

Lackluster Domestic Demand Ongoing

Japan, though growing, remains the developed world's weak spot. Its expansion remains export-driven, and private domestic demand still appears frail. Japanese export values rose 2.1% y/y in March, accelerating slightly from February's 1.8%.[xxiii] Machinery and semiconductor manufacturing equipment led the charge, suggesting global Tech demand is buoying Japan's economy. Yet import values fell -0.6% y/y in March despite soaring energy imports.[xxiv] On a volume basis, imports fell -4.5% y/y in March, implying domestic demand remains in the doldrums.[xxv] Falling household spending, down -0.9% y/y in February and negative for most of the last year, further underscores this.[xxvi]

Exhibit 10: Loan Growth Slows



Source: Bank of Japan, as of 24/04/2018. Total Loans of Major, Regional and Shinkin Banks, January 2013.

Core machinery orders provide an alternate look at weak demand. While order books reached a 25-month high in February, non-manufacturing orders fell -10.4% y/y, while manufacturing orders jumped 21.4% y/y.[xxvii] Since non-manufacturers tend to be more domestically focused, this suggests Japanese business investment remains tied to foreign demand. Meanwhile, loan growth continued decelerating, slowing to 2.0% y/y in March (Exhibit 10).[xxviii] Japan has the flattest yield curve among major developed markets, which likely continues stifling lending and impeding economic growth.

xxii Source: "Japan's Abe Sticks to Denials as Scandal Doubts Keep Swirling," by Linda Sieg and Kiyoshi Takenaka, Reuters, 10/04/2018. Date accessed: 17/04/2018.

xxiii Source: Japan Customs, as of 18/04/2018.

xxiv Ibid.

xxv Ibid.

xxvi Source: Japan Customs, as of 18/04/2018.

xxvii Ibid.

xxviii Source: Bank of Japan, as of 24/04/2018.

Emerging Markets Commentary

EMERGING MARKETS COMMENTARY

CONSUMPTION DRIVEN GROWTH CONTINUES IN CHINA

As most attention centred on tariffs and President Xi Jinping's consolidation of power, China's economy had a fine Q1. Consumption accounted for the majority of China's performance during the quarter—a result consistent with the government's ongoing economic shift from heavy industry and exports to services and consumption.

A main event in the headlines for China during the quarter was the presidential term limit removal. The two term limit on five-year presidential terms was removed on Sunday, 11 March 2018, allowing current President Xi the possibility to be re-elected at the end of his current term (2022). Of the 3,000 delegates, only 2 voted against it and 3 abstained. Term limits were also removed for the vice president. A new super anti-trust corruption department was created tied to the term limit amendment. The removal of term limits for the president was broadly anticipated when no obvious successor was added to the Politburo Standing Committee late last year. Considering most of the economic and regulatory policies are a continuation of ongoing government efforts, the removal of term limits likely has a minimum impact in the near term.

Q1 GDP grew 6.8% y/y for the third consecutive quarter, above the government's 6.5% target for 2018.[xxix] Consumption accounted for nearly 80% of the headline figure, and the service sector led with 7.5% year-over-year growth—a slowdown from 2017's 8% pace, but still quite swift.[xxx] Heavy industry, meanwhile, expanded 6.3% y/y, slightly faster than in 2017.[xxxi]

While growth has held steady, many fear the government's ongoing efforts to crack down on shadow banking risk reducing funding for firms, introducing economic headwinds—and potentially a credit calamity . Yet the People's Central Bank of China (PBOC) has continued taking steps to mitigate the effect and improve credit access. In March, the PBOC lowered reserve requirements and raised the ceiling on bank deposit rates—likely a response to decelerating total social financing and loan growth. Smaller banks have more exposure to wealth management products (WMPs)—the crackdown's primary target—than larger banks do, leaving them in need of ways to attract deposits as money leaves WMPs. Higher deposit rates should help with this and, coupled with the lower reserve requirement, enable banks to lend more.

LOOMING ELECTION DISTRACTS FROM MEXICO'S STRONG FUNDAMENTALS

Political uncertainty continued through Q1 as Mexico's 1 July general election loomed. Leftist candidate Andrés Manuel López Obrador (known as AMLO) maintains a lead in the polls and some fear his election would lead to the unwinding of pro-growth reforms enacted by his predecessor. However, much of AMLO's focus has been oriented toward Energy reforms, which have little impact on Mexican equities as major energy firms aren't publically listed. Even in the event of an AMLO presidential victory, however, Mexico's traditional parties' entrenchment in Congress likely leads to gridlock, preventing sweeping change.

Despite political rhetoric on NAFTA re-negotiations and upcoming elections, Mexico's fundamentals continue to strengthen. Mexico has experienced sustained double digit loan growth—a major tail wind for a country that has long been underbanked.[xxxii] All-the-while Mexican firms are posting strong earnings growth.[xxxiii]

INDIA'S POST DEMONETISATION RECOVERY

Throughout 2017, many investors wondered if India's economic momentum would be negatively impacted by the one-two punch of November 2016's disastrous demonetisation and the goods and services tax's (GST) chaotic mid-2017 rollout. Early on, there were some signs of strain as GDP growth slowed in Q1 and Q2. But by late summer, conditions were improving. GDP growth reaccelerated in Q3 and hit 7.2% y/y in Q4—the world's fastest-rate among major economies.[xxxiv] Both the manufacturing and services sectors grew, yet private consumption decelerated to its slowest growth since Q3 2015.[xxxv] Though a prolonged spending slowdown wouldn't be great news, this could be due to a high base effect: Private spending had a one-off spike in Q4 2016—a jump some analysts theorised

xxix Source: National Bureau of Statistics of China, as of 17/04/2018.

xxx Source: FactSet, as of 19/04/2018. Real GDP growth of Chinese tertiary industry, YTD Y/Y, Q1 2018.

xxxi Ibid.

xxxii Source: Bank of Mexico as of 31/03/2018.

xxxiii Source: FactSet as of 31/03/2018.

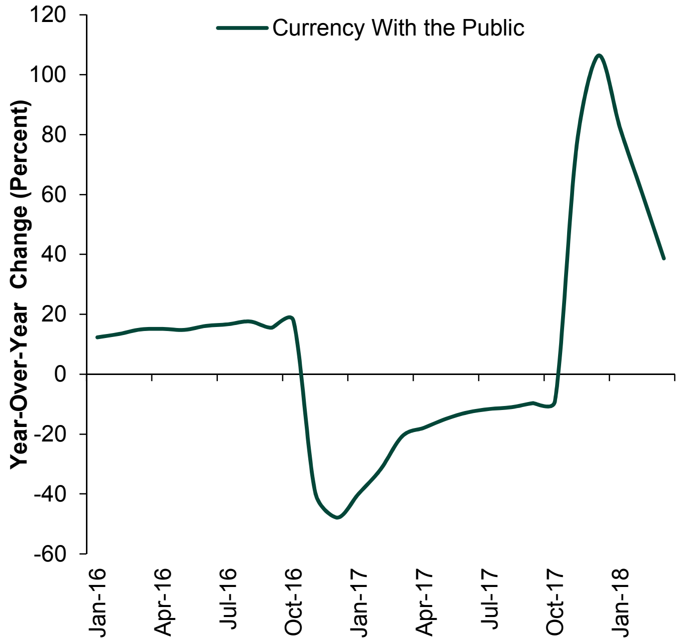
xxxiv Source: FactSet, as of 19/04/2018. Year-over-year percentage change in real Indian GDP at market prices, Q4 2017.

xxxv Source: Ministry of Statistics and Programme Implementation, as of 26/04/2018. Year-over-year percentage change in gross value added in Indian Manufacturing and Public Administration, Defence and Other Services, Q4 2017.

stemmed from statisticians' flawed attempts to estimate economic activity amid the demonetisation scramble.[xxxvi] Other signs of domestic demand, like imports showed strength in Q4 2017.[xxxvii]

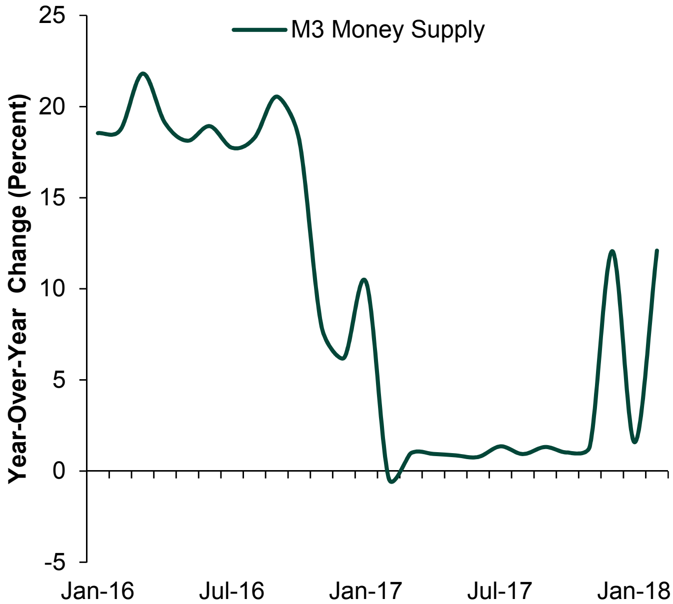
Money supply has also mostly recovered from the demonetisation programme—when 86% of banknotes in circulation ceased to be legal tender overnight and a shortage of new notes snarled commerce. Following the demonetisation announcement, currency supply remained negative on a year-over-year basis for a full year. It finally turned positive in November 2017 and has remained so ever since (Exhibit 11). Broad money supply (M3) is also approaching pre-demonetisation growth rates (Exhibit 12).

Exhibit 11: Indian Currency Supply Growth



Source: Reserve Bank of India, as of 19/04/2018. Year-over-year change in currency with the public, January 2016 – March 2018.

Exhibit 12: Indian Broad Money Supply Growth



Source: Reserve Bank of India, as of 19/04/2018. Year-over-year change in M3 money supply, January 2016 – February 2018.

Favourable Reversals in South Korea

South Korea was one of the few major economies to contract in Q4, with GDP falling -0.9% annualised as exports tumbled 19.9%.[xxxviii] That trend reversed in Q1. Korean GDP rose 4.4% annualised, with exports leaping 18.6%.[xxxix] March's 44.2% year-over-year rise in semiconductor shipments—Korea's largest export category suggests strong global growth and IT-related spending continues boosting Korean output.[xl] Yet domestic demand also remains healthy. Though private spending growth slowed to 2.3% annualised, imports—another measure of domestic demand, though they don't add to GDP—surged, growing 23.7%.[xli]

GDP growth was not the only positive reversal South Korea saw over the quarter. Relations between the two Koreas warmed markedly amid talks of a possible summit between the United States and North Korea. Though it is too early to say whether or not these developments will bear fruit, it does prove that much of the heated rhetoric from 2017 was the typical posturing we have seen before from North Korea ahead of negotiations.

xxxvi Ibid.

xxxvii Ibid.

xxxviii Source: Ministry of Trade, Industry and Energy, as of 16/04/2018. Korean real GDP and exports of goods, quarterly annualised percentage change, Q4 2017.

xxxix Source: FactSet, as of 04/05/2018.

xl Ibid.

xli Ibid.

Brazil's Fleeting Reprieve

Although Brazil's economy grew in 2017 for the first time in three years (1.0% y/y), recent data indicate the recovery is still somewhat shaky.[xlii] Brazilian GDP growth slowed in Q4 to 0.1% q/q from 0.2% in Q3.[xliii] Among the weak spots, consumption rose at its slowest pace since Q4 2016, while exports fell -0.9% q/q as agricultural shipments dropped on seasonal harvest quirks and due to an unfavourable comparison to Q3.[xliv] On the positive side, gross fixed capital formation rose 2.0% q/q—its third straight rise and a sign business investment might finally be turning the corner.[xlv]

Private demand still appears tepid, though. February retail sales fell -0.2% m/m (1.3% y/y), falling from January's 0.8% growth.[xlvi] Retail sales have now fallen in five of the past eight months, suggesting consumers continue struggling despite softer inflation and continued short-term interest rate cuts.[xlvii] Heavy industry, meanwhile, is seemingly holding up better. Industrial production rose 0.2% m/m in February (2.8% y/y), staunching a January contraction.[xlviii] Mining and quarrying output dragged the most, falling -5.2% m/m after a 3.4% January gain.[xlix] While Brazil's economy has improved over the last year, its fortunes likely still mostly fluctuate with commodity prices—a headwind, in our view.

Commodity Focus Remains a Headwind for South Africa

While political theatrics continued dominating South African headlines, economic activity picked up in Q4. Q4 GDP grew 3.1% annualised, accelerating from Q3's 2.3% and exceeding expectations for 1.8%.[l] The Agriculture, Forestry and Fishing sector grew 37.5% annualised, while Mining and Quarrying contracted -4.4% on lower gold and platinum production.[li] In 2017 overall, the economy grew 1.3% y/y, surpassing 2016's 0.6% pace.[lii] Agriculture again proved to be a leader, rising 17.7% y/y as it rebounded from a major drought in 2016.[liii]

Yet late-2017's economic improvement isn't necessarily largely bullish, in our view. Despite new President Cyril Ramaphosa's pledges to crack down on corruption and attract foreign investment, we believe the economy's commodity focus remains a headwind. Absent a pickup in prices, we don't believe South Africa is positioned to lead Emerging Markets.

xlii Source: Instituto Brasileiro de Geografia e Estatística, as of 09/04/2018. Year-over-year growth in real Brazilian GDP, 2017.

xliii Ibid

xliv Ibid.

xlv Ibid.

xlvi Source: Agencia Noticias at Instituto Brasileiro de Geografia e Estatística, as of 01/05/2018. Month-over-month and year-over-year change in Brazilian retail sales volume, January and February 2018.

xlvii Source: Instituto Brasileiro de Geografia e Estatística, as of 04/05/2018.

xlviii Ibid.

xlix Ibid.

l Source: Statistics South Africa, as of 18/04/2018. Annualised percentage change in South African GDP, Q3 and Q4 2017.

li Ibid.

lii Ibid.

liii Ibid.

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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 manadate 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 Europe is unable to meet its liabilities because of its financial circumstances is only available to eligible claimants. 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.

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 is 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:

by writing to: Head of Compliance
Fisher Investments Europe Limited
2nd Floor, 6-10 Whitfield Street
London W1T 2RE

or by calling: +44 0800 144 4731

or by emailing: FIEOperations@fisherinvestments.co.uk

Fisher Investments Europe will endeavour to resolve the matter, as soon as practicable and generally within 8 weeks. If you are dissatisfied with the outcome of any complaint made to Fisher Investments Europe, or you do not receive a response within such time, you may be eligible to complain directly to the UK Financial Ombudsman Service ("FOS"). Further details in respect of FOS can be found at www.financial-ombudsman.org.uk.

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