Fisher Investments Europe™

THIRD QUARTER 2017

MARKET PERSPECTIVES

THIRD QUARTER 2017 REVIEW AND OUTLOOK
MARKET PERSPECTIVES

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THIRD QUARTER 2017 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 Defensive Categories:** Defensive categories should underperform given our forecast for an ongoing bull market.

Market Outlook

- **Falling Uncertainty:** Investor sentiment should continue rising as gridlocked governments reduce the likelihood of sweeping legislation.
- **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 for the remainder of 2017.

Global equities continued rising in Q3, with the MSCI All Country World Index returning 5.18% and bringing year-to-date gains to 17.25%.[i] As we expected, Q1 2017 has proven to be a blueprint for the second half of the year, with Information Technology continuing to outperform. Further, non-US equities continued beating US, with eurozone leading the charge.

We remain bullish and expect great things from equities over the foreseeable future - yet we aren't blind to risk. Accordingly, as equities climb further up the Wall of Worry, we remain alert for bear market catalysts. This and future Review & Outlooks will have regular updates on the likelihood we have reached a peak. As we will detail in the full Review, we don't believe the peak is here yet. Today's common fears—North Korea, Fed policy, all-time highs, length of the bull, valuations—have lingered for years. We believe none have the surprise power or scale to start a bear market. Rather, their continued presence shows investors are more optimistic, but not euphoric.

Globally, equities' main drivers look strong. Politics remain positive, with uncertainty down in most of the developed world as gridlock reigns and European populism fades. Headlines pointed to a far-right party's supposed success in Germany's election, but the real winners were Chancellor Angela Merkel and gridlock—further reducing uncertainty. The political scene should clear further in Q4 as Austrian and Japan elections are held.

In Emerging Markets (EM), Brazilian President Michel Temer retained enough Congressional support in the Lower House to block indictment on corruption charges. While Temer's support is suffering, it doesn't necessarily mean the fate of the upcoming social security reform is doomed. Congress proved to be more pro-reform than anticipated when passing an earlier labour reform bill, so even if Temer is politically isolated, reform—albeit watered-down—may still pass.

Further in EM, China's Communist Party completed its most important political event: the 19th Party Congress. Emerging Markets have responded positively reflecting China's commitment to gradual market-oriented reform over time. Overall, we expect the passing of the 19th Party Congress to be another example of falling political uncertainty—a bullish political driver.

i Source: FactSet as of 05/10/2017. MSCI All Country World Index return with net dividends, 30/06/2017 – 30/09/2017 and 30/12/2016 – 30/09/2017.

As gridlock prevails, investors can better appreciate a robust global economy. Growth abounds, and forward-looking indicators suggest it should continue. The Fed has begun unwinding quantitative easing - a positive - although its slow pace limits the impact. The Conference Board's Leading Economic Indexes (LEI) for the US and elsewhere are high and rising. No US recession in nearly 60 years has started amid an LEI uptrend.

As a result, sentiment is warming, prompting investors to bid equities higher. Recalling Sir John Templeton's famous quote, "Bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria," markets are firmly in optimism. Positive sentiment is normal and healthy in maturing bull markets, driving the big returns typical of a bull's final third.

This is hard for many to fathom. Mark-to-market accounting and the United States government's haphazard crisis response walloped the last bull before skepticism passed, so investors haven't seen euphoria or much optimism since the late 1990s. They see above-average price-to-earnings ratios and fear a bubble, forgetting valuations usually rise in maturing bulls. Yet when euphoria truly arrives, investors won't fear it, instead rationalizing unreasonably high hopes for the market. We will detail sentiment's evolution in the full Review & Outlook.

We believe portfolios are positioned well for the strong returns typical of later-stage bulls, with high-quality equities usually doing best in the final third. Investors buying in now are naturally more cautious, often motivated by fear of missing out on the upside rather than pure greed. They are typically looking for names they know with global footprints and familiar brands.

Optimistic as our outlook is, equities don't move in straight lines. Corrections—short, sharp, sentiment-driven drops of -10% or worse—come and go frequently. The last one ended over 18 months ago, but recency doesn't indicate predictability. However, while corrections are random and could come at any time for any or no reason, overall we see lots of potential for the second half to mimic and amplify the first quarter of the year, bringing strong returns for equities.

THEMATIC UPDATE AND MARKET OUTLOOK

Q3 RECAP

With global equities up in each of its first nine months, 2017 is shaping up to be a very good bull market year. While optimism grows, lingering doubts remain commonplace. Although some cite the year's strong market returns and lack of volatility as a sign that investors are overly exuberant, returns rise more often than most investors realise.

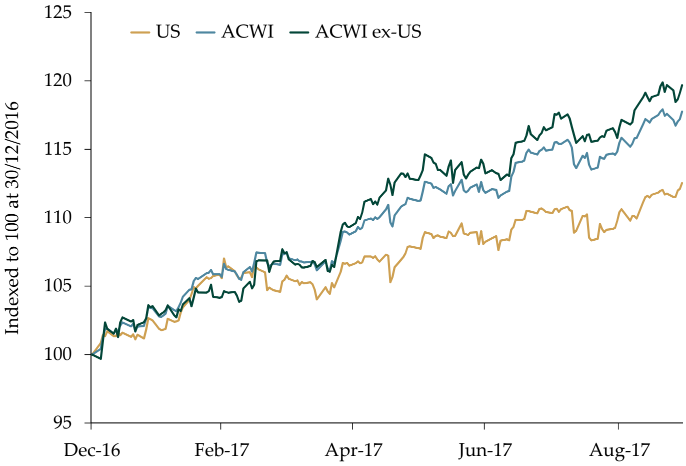
Global equities rose 20% or more in roughly one-third of all calendar years since 1926.[i] The average annualised return during bull markets is over 20% per year—a mark reached only twice (2009 & 2013) during this bull market so far, an indication that this bull market is not overly exuberant. We believe we are in this bull market's final third, which typically feature high returns.

> The average annualised return during bull markets is over 20% per year—a mark reached only twice (2009 & 2013) during this bull market so far...

Non-US equities seem poised to continue leading for the foreseeable future. While US equities trail globally, they are up a strong 14.2%.[ii] On a sector basis, Energy equities continue trailing with an oversupplied market. Big Technology equities—including the FANG (Facebook, Amazon, Netflix and Google) or FAAMG (swap Netflix for Apple and Microsoft) equities—resumed leading after a brief dip.

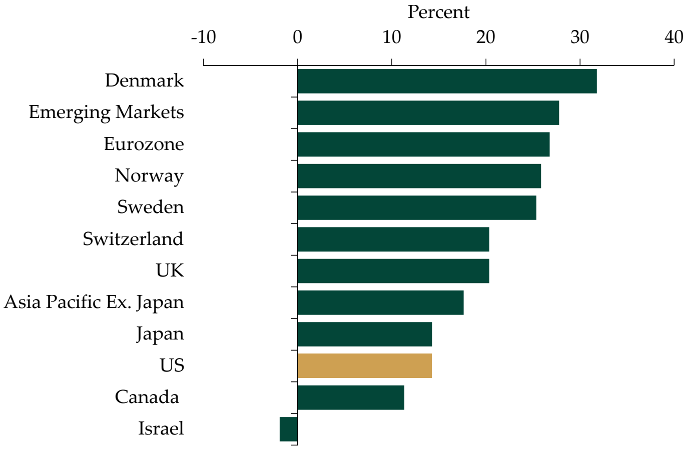
Q2's Tech uncertainty was part of a mid-year countertrend. It came and went quickly, with Tech leadership reasserting itself alongside other Q1 trends, including non-US outperformance, as Exhibits 1 and 2 illustrate.

Exhibit 1: Non-US Leadership Accelerates



FactSet, as of 06/10/2017. MSCI ACWI and MSCI ACWI ex U.S. Returns with net dividends and S&P 500 total return, 30/12/2016 – 29/09/2017.

Exhibit 2: Growth—and Non-US Leadership—Is Broad-Based



Source: FactSet, as of 06/10/2017. MSCI World constituent country/region and MSCI Emerging Markets Index returns with net dividends. USA is represented by the S&P 500 total return. 30/12/2016 – 29/09/2017.

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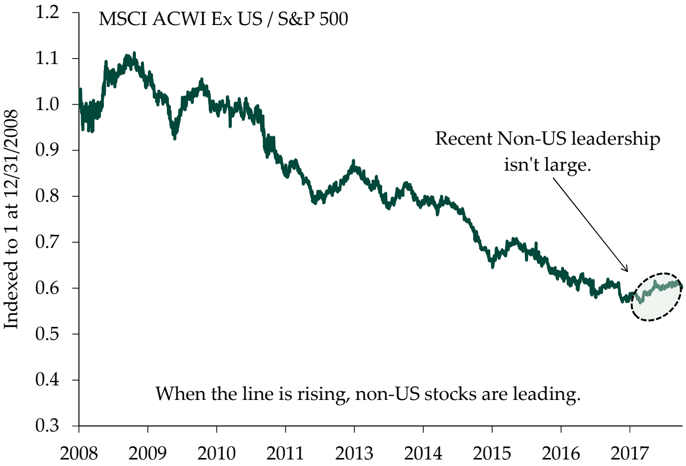
i Source: Global Financial Data, Inc., as of 24/10/2017. GFD World Index annual total return, 1926 – 2016.

ii Ibid. S&P 500 total return, 30/12/2016 – 29/09/2017.

Leadership Shifts

History suggests that recent outperformance may only be the beginning as leadership shifts tend to have staying power. As Exhibit 3 shows, recent non-US leadership—while noteworthy—is not large. Non-US leadership trends can actually last for years (Exhibit 4).

Exhibit 3: Recent Non-US Leadership Isn't Large



Source: FactSet, as of 10/10/2017. S&P 500 total return divided by MSCI ACWI Ex. USA return with net dividends, indexed to 1 at 31/12/2008.

Exhibit 4: Historical Non-US Leadership Cycles Exceeding One Year

Start	End	Duration Years	Non-US Minus US (Percentage Points) Total Return	Annualized Return
31/08/1929	31/01/1935	5.4	56	17
31/12/1936	31/03/1938	1.3	41	35
30/09/1939	30/04/1942	2.6	109	41
31/01/1946	30/04/1947	1.3	96	74
31/03/1952	31/10/1954	2.6	46	14
31/03/1956	30/09/1957	1.5	32	21
31/12/1958	30/09/1960	1.8	75	38
30/04/1967	30/06/1973	6.2	102	11
31/10/1976	31/10/1978	2	84	37
31/10/1982	30/11/1988	6.1	379	21
31/01/1993	30/06/1994	1.4	40	27
31/01/2002	29/02/2008	6.1	72	8
Average		**3.2**	**94**	**29**
Median		**2.3**	**73**	**24**

Source: Global Financial Data, Inc., as of 02/06/2017. GFD World Ex. USA cumulative price returns minus S&P 500 price returns for periods shown.

Falling Political Uncertainty and Eurozone Strength

While many remain fixated on the Trump Administration, we believe falling political uncertainty in Europe is the more significant market event this year. While focusing on US equities' solid profit growth in early 2017, the media overlooked the reality of faster eurozone earnings growth. Additionally, the European Central Bank's (ECB) misguided quantitative easing program is receiving undue credit for the economic turnaround, and instigating misguided fear over when it winds down.

Despite warming up slightly, European sentiment remains quite sceptical. Ongoing political developments—such as Catalonia's recent independence movement—continue to fuel euroscepticism.

Eurosceptic parties mostly fell short in elections earlier this year in the Netherlands, France and Germany, quelling fears and enabling investors to better appreciate the bright reality around them. Elsewhere, other eurosceptic politicians saw these failures and moved away from anti-euro rhetoric. Marine Le Pen, leader of France's National Front (FN), demoted the architect of FN's anti-euro stance—who subsequently left the party. Austria's Freedom Party and Italy's Five-Star Movement claim earlier calls for referendums on eurozone membership were little more than negotiating ploys.

The conclusion of the French election eased some euroscepticism fears and uncertainty. However, analysts theorise that newly elected President Emmanuel Macron must achieve sweeping structural reforms—like creating shared eurozone sovereign debt—to support the market rally. In Germany, many called Chancellor Angela Merkel's victory bittersweet after the right-wing Alternative party took seats in the Bundestag in September's Federal election.

With the Austrian vote settled, most of this year's European elections have concluded. Many focus on the far-right Freedom Party's substantial showing and are concerned over them joining a coalition government. These fears are mostly misguided as the far-right Freedom Party's campaign was focused on sociological matters far removed from markets. The conclusion of the Italian election prior to May 2018 should reduce uncertainty further.

Busy October for Asian Politics

The outlook for China looks much of the same after the 19th communist party congress convened in October. President Xi Jinping managed to maintain his power. Additionally, he may even continue ruling longer than the constitutions two consecutive term limit. While Xi's increasing influence and China's Communist Party policy announcements are significant, the Congress mostly reaffirmed China's goals on gradual, incremental market-oriented reform. While we think that there is no hard landing on the horizon, heavy state influence—fueled by the party's desire for economic and social stability weighs on market reform.

Japanese political uncertainty decreased after the results of their October snap election. As the Liberal Democratic Party (LDP) and coalition partner Komeito kept their 2/3 majority in the Lower House, the results of the election mostly preserved the status quo. Voter turnout was just 54%, as a typhoon hit Japan on the prior weekend to the elections. Despite the small turnout, the largest opposition party—the Constitutional Democratic Party (CDP)—won more seats than expected, while the upstart center-right Party of Hope underperformed expectations.

Global Economy in Fine Shape

With political uncertainty fading, more investors see strength in the strong global economy. Eurozone GDP has grown in 18 straight quarters. Purchasing managers' indexes (PMIs) throughout the currency union are near cyclical highs, with new orders rising. The Conference Board's Leading Economic Index (LEI) for the eurozone is in a lengthy and steep uptrend. Additionally, Emerging Markets (EM) are also experiencing a strong year, rising 27.8% through Q3.[iii] In the United States, Q3 GDP grew 3.0% annualised, LEI's are rising and PMIs suggest growth persisted into Q4.[iv] Since 1959, no US recession has begun while LEI was high and rising. The global yield curve remains positively sloped, suggesting healthy credit markets should continue giving firms access to capital, fueling growth. The Fed's decision to begin unwinding quantitative easing by slowly allowing previously purchased bonds to mature is a positive. However, if the plan is followed to the letter, the Fed's balance sheet would take about 7.5 years to approach pre-2008 levels. That pace is too slow—and the action too widely known—to impact markets much in the here and now.

The Bull's Optimistic Final Third

We believe this bull market is now in its final third. Typically, these later stages are characterised by optimistic sentiment, rising valuations and strong returns. They are also a time when big-cap growth equities tend to lead markets higher. As Ken wrote in his 24 September *USA Today* column:

> *Here's why. Think about who the last buyers are during any bull's home stretch: folks who weren't buying before. The last vicious bear scared and scarred them from equities for years. But after scaredy cats feel years of high returns--the fear of missing out ("FOMO," to a younger generation) starts nudging away fears of loss. After long being too frightened to buy anything--what will they buy first? Not speculative needles in some haystack. They buy what they're comfy with: huge well-known quality firms with global footprints, super brands, diverse products and growing revenues. Newbies' and return-a-bees' collective bidding power pushes these equities to outperformance.*

Rising optimism is a key force driving returns late in a bull market. Today, many mistake this optimism for euphoria—understandable, considering we haven't seen a maturing bull market in about 20 years. The 2002 – 2007 bull market was hit by the combination of mark-to-market accounting and the US government's haphazard crisis response before it reached optimism. The last time optimism reigned was from roughly 1996 through 1998.

North Korea Threat

Geopolitical risks always exist, and the events in North Korea are not new. Pyongyang's provocations dominated headlines throughout the summer as nuclear tests and rocket launches continued. History shows that bull markets have been derailed only by major global conflicts—such as world wars. Although possible, a major global conflict is not probable. North Korean fears are overblown. While wars of all size are often tragic, the impact of regional conflict is usually too small to affect the world economy.

iii Ibid. MSCI Emerging Markets Index return with net dividends, 30/12/2016 – 29/09/2017.

iv Source: US Bureau of Economic Analysis, as of 27/10/2017.

US Commentary

US COMMENTARY

Though drivers remain positive and we expect a positive year, the US market is likely to underperform as typical US inaugural year headwinds and falling uncertainty surrounding European elections favour European peers. Intraparty gridlock persists in America, so far preventing major legislation. However, media fixation remains high, with headlines speculating daily about debates over the North American Free Trade Agreement (NAFTA), immigration reform, the debt ceiling and more. It is unclear how final legislation or trade talks will turn out despite the media's continued headlines.

TAX REFORM?

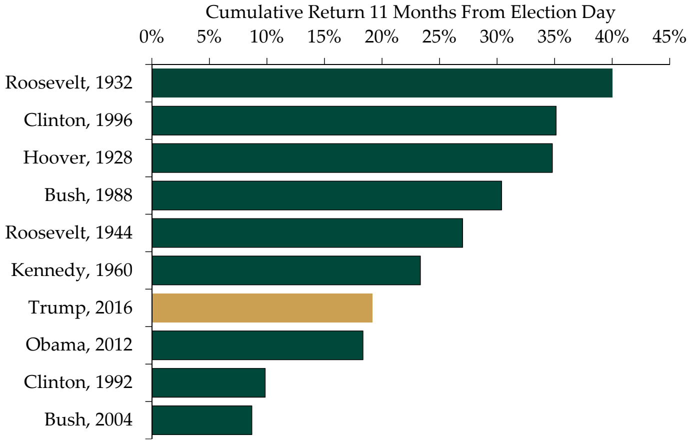
Tax reform is a perfect example of headline drama without any concrete policy results. A streamlining of the tax code could improve US efficiency and competitiveness. However, we believe investor expectations are still too lofty as competing interests in Washington likely limit the scale of policy changes.

In early November, the House released a much anticipated tax bill. The bill calls for lower corporate taxes and a number of personal income tax changes, including fewer brackets and potentially removing some popular itemised deductions. With the tax reform draft in hand, commentators immediately began speculating on its downstream effects—winners, losers, impacted industries and the like. However, this is simply the beginning of what could prove to be a long process. Investors should refrain from speculating as the end result could be vastly different from this initial draft.

Republicans seem desperate to pass something they can sell on the midterm campaign trail next year, but with so many competing factions and special interests, major reform seems unlikely to pass. Congress's latest plans do not align with the Trump administration's proposal. Even within the administration, officials say conflicting things about potential loopholes they aim to close—like state and local tax deductibility. Special interests and lobbyists, including charities and real estate, are mobilising to block seemingly benign plans. While Trump's plan preserves mortgage interest and charitable donations' deductibility, his proposed doubling of the standard deduction would incentivise fewer people to itemise.

Some still suspect Trump's inability to pass major legislation risks the market rally, which they presume relies on the hope for deregulation and tax reform. But as detailed in past Review & Outlooks, we believe this is false. Non-US is outperforming, sector leadership did not materially change with the vote, and the S&P 500's post-election rise is not large by historical standards. Returns over the 11 months since Trump won are the seventh-biggest 11-month period after an election. These high returns are not unprecedented (Exhibit 5).

Exhibit 5: Returns 11 Months From Historical Elections



Source: Global Financial Data, Inc., as of 12/10/2017. S&P 500 price return 11 months from election day.

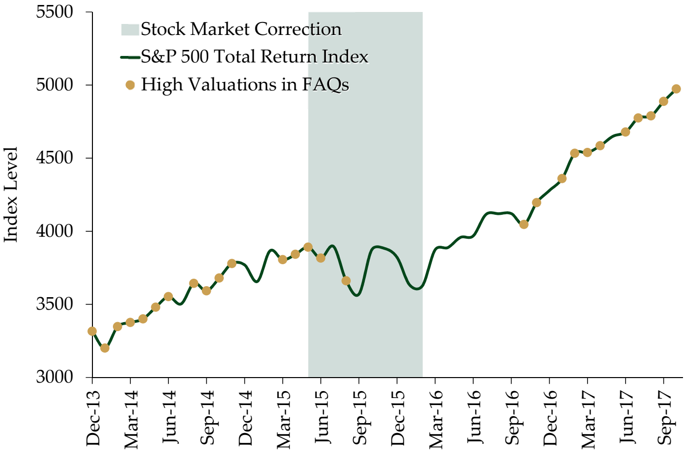
As Q4 progresses and 2018 begins, midterm election media coverage will increase. In our view, it is premature to analyse the races now.

DON'T FEAR HIGH VALUATIONS

One of the most common and persistent fears of today's bull market is that valuations are too high, particularly in the United States. The theory goes that when equities look expensive, this can limit future gains and/or portend struggles to come. This idea has made the rounds since 2013, which is about how long we have heard questions about it from clients. One of the ways in which we evaluate sentiment is by tracking and comparing questions from our clients. Exhibit 6 shows how our institutional clients' sentiment toward valuations has evolved in recent years. Valuations have been among their most frequently asked questions near-constantly since 2013, aside from a hiatus during 2015 – 2016's correction—and shortly thereafter when Brexit and America's election dominated.

Despite all the inquiry, valuations do not indicate where the market is headed. At best, metrics like the forward price-to-earnings (P/E) ratio give a rough sketch of current sentiment.

Exhibit 6: High Valuations Are a Longstanding Concern



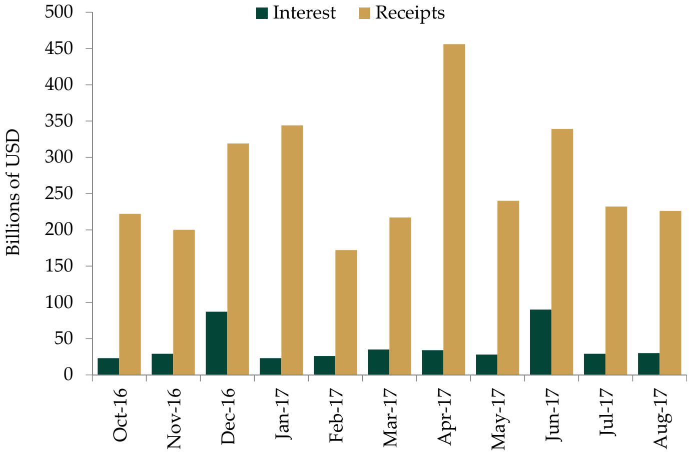
Source: FactSet and Fisher Investments Institutional Group, as of 19/10/2017. Mentions of "valuations" in monthly summary of common client questions and S&P 500 Total Return Index (monthly). October index level is as of 18/10/2017, all others are as of month end.

U.S. Politics

Congress temporarily suspended the debt ceiling for three months in September. As the December deadline approaches, expect media attention surrounding a potential government shutdown and debt ceiling-induced "default."

The debt ceiling—which has surfaced various times throughout this bull market—is more political noise than potentially harmful to returns. Default is very specific: missing principal or interest payments on government debt. This is unlikely in the US, as the Treasury has both the financial means and administrative ability to meet its obligations. Even if the US is up against the debt ceiling, it can replace maturing debt with new bonds, which does not increase the amount of debt outstanding. In other words, avoiding a US default can be achieved by meeting interest payments. As Exhibit 7 shows, US monthly tax revenues are much larger than interest payments (Exhibit 7).

Exhibit 7: Monthly Tax Revenues vs. Interest Payments



Source: US Treasury, as of 16/10/2017.

Some believe that the Treasury is unable to prioritise debt payments. However, the Supreme Court interprets the 14th Amendment as requiring the Treasury to pay debts above all other "obligations." Federal transcripts from 2011 detail the Treasury's plan to manage debt payments. Though delaying other accounts payable—like payments to vendors, contractors and government pension plans—will inconvenience certain parties, it is not indicative of a government default.

> ...even if a government shutdown does occur, we do not expect it to materially impact the economy or market returns.

A government shut down is also unlikely. When a continuing resolution which funded government operations expired in 2013, the government did shutdown for two weeks. However, when this happened, the economy and markets did not crash. Today, even if a government shutdown does occur, we do not expect it to materially impact the economy or market returns.

History shows that market returns during and after government shutdowns are uniformly positive (Exhibit 8 on the next page). This is because the US economy is private sector-led and shutdowns only affect a small portion of government operations.

Exhibit 8: US Federal Government Shutdowns and the S&P 500

Shutdown at Midnight	Govt. Reopened	Days	S&P 500 Price Return: Week Before Shutdown	During Shutdown *(periods vary)*	After Shutdown: 1 Month	3 Months	6 Months	12 Months
30/09/1976	11/10/1976	10	-1.6%	*-2.5%*	-3.2%	2.4%	-4.1%	-6.6%
30/09/1977	13/10/1977	12	1.6%	*-2.6%*	2.1%	-4.6%	-4.2%	11.5%
31/10/1977	09/11/1977	8	0.8%	*0.1%*	0.5%	-2.3%	3.7%	2.2%
30/11/1977	09/12/1977	8	-1.7%	*-2.0%*	-1.4%	-5.5%	7.8%	3.9%
30/09/1978	18/10/1978	17	0.7%	*-1.2%*	-7.5%	-1.8%	0.0%	2.1%
30/09/1979	12/10/1979	11	-1.0%	*-3.9%*	-3.4%	4.6%	-0.9%	24.0%
20/11/1981	23/11/1981	2	0.0%	*0.0%*	1.0%	-7.0%	-5.6%	10.3%
30/09/1982	02/10/1982	1	-2.7%	*1.3%*	9.6%	15.3%	25.4%	36.2%
17/12/1982	21/12/1982	3	-1.5%	*-0.9%*	6.6%	11.0%	24.0%	18.9%
10/11/1983	14/11/1983	3	0.6%	*1.1%*	-0.8%	-6.0%	-4.7%	0.6%
30/09/1984	03/10/1984	2	0.3%	*-1.5%*	2.4%	2.2%	10.4%	12.5%
03/10/1984	05/10/1984	1	-2.3%	*0.3%*	2.8%	1.0%	9.9%	12.5%
16/10/1986	18/10/1986	1	1.6%	*-0.3%*	2.4%	11.5%	20.1%	18.4%
18/12/1987	20/12/1987	1	5.9%	*0.0%*	1.1%	8.8%	8.6%	10.9%
05/10/1990	09/10/1990	3	1.8%	*0.6%*	-2.4%	0.6%	20.8%	21.4%
13/11/1995	19/11/1995	5	0.7%	*1.3%*	1.1%	8.0%	11.5%	22.9%
15/12/1995	06/01/1996	21	-0.2%	*0.1%*	3.1%	6.3%	6.6%	21.3%
30/09/2013	17/10/2013	16	-1.2%	*2.4%*	4.5%	7.4%	8.2%	8.2%
Mean		**7**	**0.1%**	***-0.4%***	**1.0%**	**2.9%**	**7.6%**	**12.8%**
Mean since 1980		**4**	**0.2%**	***0.4%***	**2.6%**	**4.9%**	**11.3%**	**16.2%**

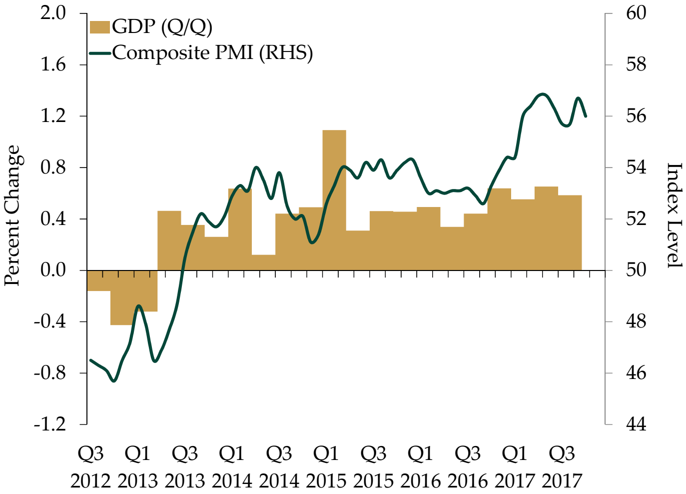
Source: FactSet, as of 16/10/2017. Congressional Research Service, Fisher Investments Research. S&P 500 daily price returns during the periods shown.

Non-US Developed Commentary

Eurozone: Enjoying Broad-Based Expansion

Eurozone economic expansion is ongoing and broad based. Eurozone GDP rose 0.7% q/q in Q2, its 17th straight positive quarter, with all member-states reporting growth.[v] This quarter's GDP growth marks the Eurozone's 18th straight positive quarter and beats expectations. While the preliminary estimate includes few details, other data suggests that expansion remained broad-based. IHS Markit's Purchasing Managers' Indexes (PMIs) throughout the bloc spent Q3 near cyclical highs, with the eurozone composite PMI still high at 56.0 in October (readings over 50 indicate expansion)[vi] (Exhibit 9). Forward-looking new orders remain robust across services and manufacturing in all major countries.

Exhibit 9: PMIs Suggest Sustained Growth

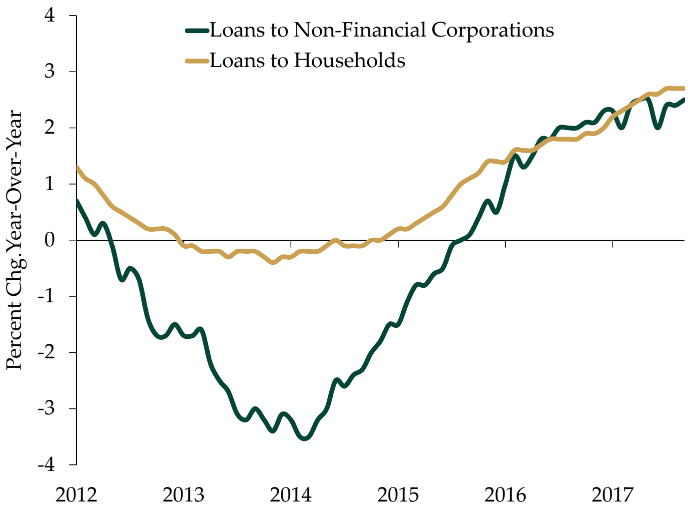


Source: Markit and Federal Reserve Bank of St. Louis, as of 07/11/2017.

Continued economic growth is a windfall for eurozone corporate earnings, which grew 15.7% y/y in Q2, once again outpacing earnings from the US and the broader developed world.[vii] Earnings rose in all sectors except Health Care and Utilities, with Financials profits rising for the second straight quarter. Yet sentiment towards European banks remains dour despite improved lending, higher profits and strong balance sheets. We think this mismatch provides more room for upside surprise as Financials—MSCI EMU's largest sector—perform better than expected.

The Conference Board's Eurozone Leading Economic Index also continued rising in Q3, extending its streak to 11 consecutive positive months with August's 0.5% m/m rise.[viii] While the yield spread's contribution slowed modestly, most eurozone yield curves have steepened over the past year, helping support loan and money supply growth. Loans to non-financial corporations rose 2.5% y/y in September, accelerating from last year and 2012 – 2015's negative growth[ix] (Exhibit 10). Household lending rose 2.7% y/y and has accelerated over the last two years.[x] Broad money supply growth reflects these increased capital flows as M3 has risen around 5% y/y for the past three years and remained robust even after the European Central Bank (ECB) first reduced and extended its quantitative easing (QE) program last December—a fact few investors notice and appreciate.[xi]

Exhibit 10: Lending and Money Supply Growth Are Accelerating



Source: European Central Bank, as of 26/10/2017.

v Source: FactSet, as of 31/10/2017.

vi Source: IHS Markit, as of 18/10/2017.

vii Source: FactSet, as of 25/10/2017. MSCI EMU Index earnings growth.

viii Source: The Conference Board, as of 18/10/2017.

ix Source: European Central Bank, as of 25/10/2017.

x Ibid.

xi Ibid.

EUROPEAN CENTRAL BANK QUANTITATIVE EASING (QE)

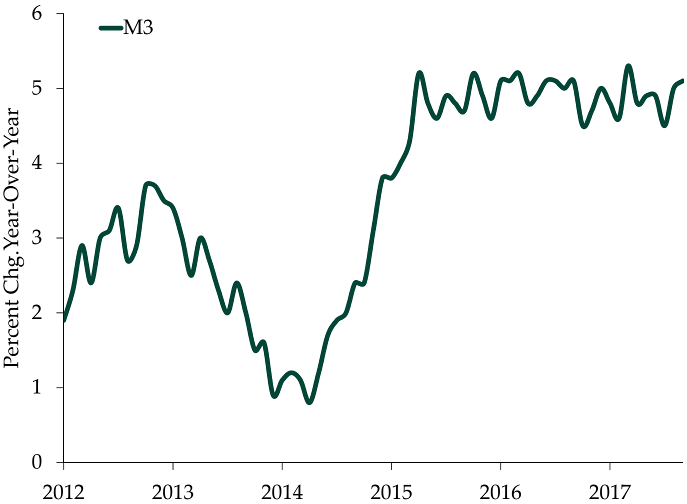
We expect money and credit to stay robust as the ECB embarks on its second QE "taper" next year, defying the sceptics who argue only loose monetary policy supports the eurozone expansion.

Beginning in January 2018, the ECB will slow bond purchases from a €60 billion monthly pace to €30 billion, now expected to run through September 2018. The slower pace of bond purchases not only has global precedent showing that it is not problematic, but it actually mirrors actions the ECB took last December, when it reduced bond buying from €80 billion monthly to €60 billion.

All quarter, fears of the ECB slowing bond purchases—"tapering" its quantitative easing program—have remained. Shifting QE policy instigates fear from investors who incorrectly attribute the economic growth and rising equity prices to the ECB's monetary policy. We believe that these QE tapering fears are exactly backwards. Banks borrow money at short-term interest rates and lend at long-term rates. By reducing the margin between short- and long-term interest rates, QE made bank lending less profitable and stymied loan growth.

This explains why tapering in the US and the end of QE in the UK preceded accelerating loan growth (Exhibit 11). Both loan growth and eurozone equity market performance improved following tapering and QE. Given these precedents, there is little reason to think that the ECB reduction of bond purchases will prove problematic.

Exhibit 11: Lending and Money Supply Growth Are Accelerating



Source: European Central Bank, as of 26/10/2017.

BRITAIN

BREXIT IMPACTS LINGER

Brexit talks move forward in fits and starts. The media continues dissecting every speech and leak from Theresa May's cabinet and Brussels for clues about the ultimate arrangement, while groups on both sides keep lobbying for their specific interests. UK financial services firms are keen for a long transitional agreement, while EU member-states are focused on preserving citizens' rights in Britain. Both sides want unfettered access to each other's markets. Given the strong ties cross-channel and desire on both sides to keep commerce as seamless as possible, it wouldn't be surprising if the eventual Brexit agreement were an EU exit in name only, with the relationship little changed in terms of trade. However this plays out, though, we believe the pace of Brexit will be too glacial—and the talks too public—to wallop markets with an unexpected negative shock.

...the pace of Brexit will be too glacial—and the talks too public—to wallop markets with an unexpected negative shock.

Ultimately, we view Brexit similarly to the eurozone's efforts to reform following the debt crisis: long-term structural issues that simply fade into the background, while shorter-term cyclical forces continue driving markets and the economy. Just as the eurozone's stalled march toward becoming a fiscal and banking union hasn't prevented more than four years of economic growth, nor should the UK's slow, fitful journey away from the EU. In the meantime, as the Brexit talks descend into meaninglessness and boredom, UK equity prices should move on.

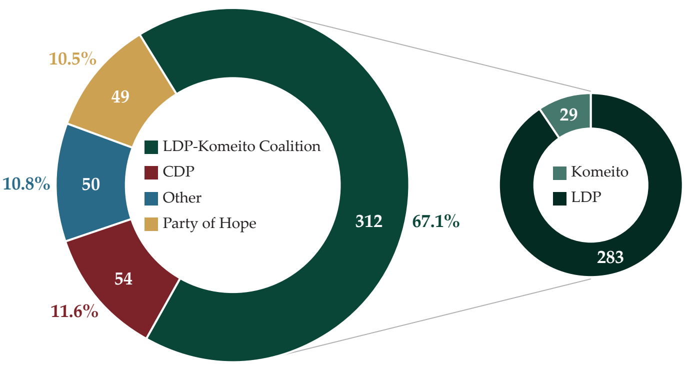
JAPAN

STATUS QUO SNAP ELECTIONS

As we mentioned in the Q3 recap section, In October, Japan held snap elections which largely maintained the status quo. Under Japanese law, a Lower House election must occur at least every four years. However, in September, a little more than a year before December 2018's regularly scheduled election, Shinzo Abe called for an early election, resetting the clock.

The Liberal Democratic Party (LDP) and coalition partner Komeito retained their 2/3 majority in the Lower House, winning a combined 312 seats. The Constitutional Democratic Party (CDP), the successor to the old Democratic Party of Japan, won 54 seats, making it the largest opposition party. Tokyo Governor Yuriko Koike's upstart center-right Party of Hope underperformed expectations and only won 49 seats (Exhibit 12).

Exhibit 12: LDP-Komeito coalition retains its 2/3 Supermajority



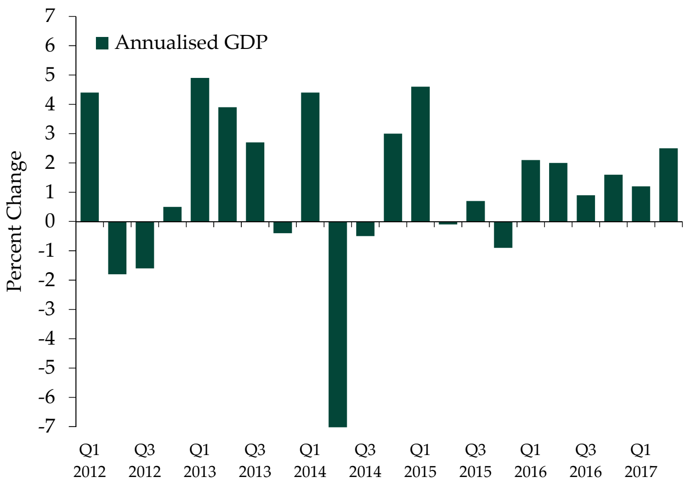
Source: NHK Workbook

The election results reduce political uncertainty and push off the next election (barring another snap vote). The Japanese economy has improved somewhat from its long downturn but still faces socio-economic challenges tied to aging demographics, low wage growth despite a tight labor market, high debt, large deficits and misguided monetary policy.

IMPROVING ECONOMIC OUTLOOK

Global economic expansion and reacceleration in global goods trade are lifting Japan's economic fortunes. Q2 GDP rose 2.5% annualised, accelerating from Q1's 1.2% (Exhibit 13). This was its sixth straight quarter of growth and the longest streak since Q2 2006, with foreign demand the primary driver.[xii] Consumer spending climbed 3.4% q/q from Q1's 1.5%, and business investment accelerated to 7.1% from 2.2%.[xiii] Solid business investment likely continued into Q3.[xiv]

Exhibit 13: Japanese GDP



Source: Cabinet Office of Japan, as of 07/11/2017.

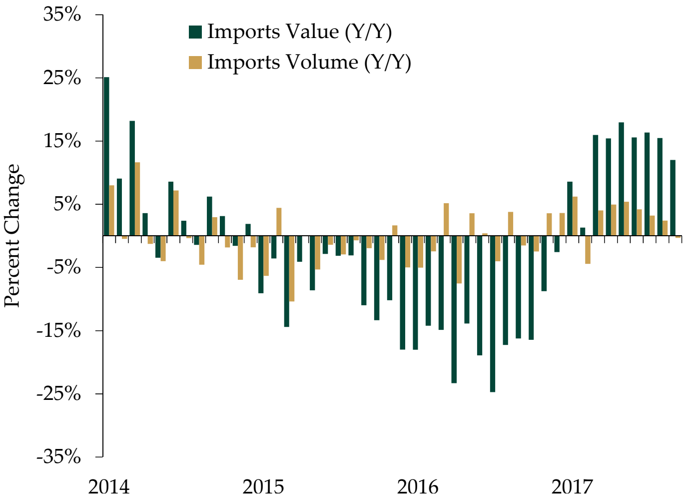
FADING DOMESTIC DEMAND

It is uncertain how much staying power the economic rebound has for Japan. Japanese industrial production (IP) has alternated between negative and positive growth every month this year, with the September read down 1.1% m/m.[xv] Although still up 2.5% y/y, IP's annual growth has decelerated from summer's 5%+ y/y rates. A few years ago, when Abenomics hopes still ran high, such a slowdown would have disappointed those following the Japanese economy. However, today, this news is not mentioned by the press and seems largely a foregone conclusion.

xii Source: Cabinet Office of Japan, as of 20/10/2017.
xiii Ibid.
xiv Ibid.
xv Source: Ministry of Economy, Trade and Industry, as of 31/10/2017.

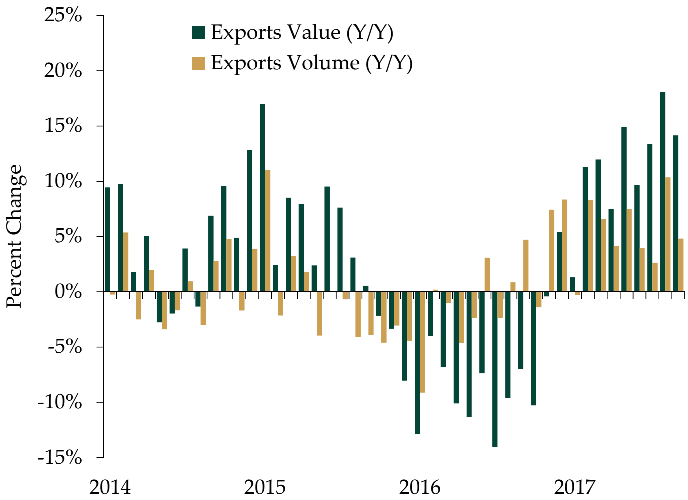
Aside from a couple of positive months during the summer, consumption expenditures have consistently declined for two years, underscoring Japan's lackluster domestic economy. Japan's September import values rose 12.0% y/y, but volumes fell -0.3%, which also suggests domestic demand is fading[xvi] (Exhibit 14). Meanwhile, September export values rose 14.1% y/y, led by outbound machinery and electronics to Asia and, in particular, China.[xvii] Exports to the EU and US, while not as strong, were still up over 11% (Exhibit 15). Demand from abroad more than other economic metrics still drives Japanese growth.

Exhibit 14: Japanese Imports Value and Volume



Source: Japan Customs, as of 19/10/2017.

Exhibit 15: Japanese Exports Value and Volume



Source: Japan Customs, as of 19/10/2017.

UNCERTAIN GROWTH MOVING FORWARD

Purchasing managers' indexes (PMIs) and financial conditions imply further, but likely tepid, growth ahead. Japan's September manufacturing PMI rose 0.7 to 52.9, but its services PMI fell -0.6 to 51.0. Combining the two, the composite PMI fell -0.2 to 51.7, its third month below 52 and a downshift from the summer.[xviii]

Japan's fundamental economic outlook remains uninspiring—particularly on the domestic front—but sentiment largely reflects reality at this point with room for some upside surprise. People seem to have largely accepted that monetary "stimulus" alone is unable to fix all the issues in Japan. In our view, Japanese expectations now risk being too low. Should these expectations deteriorate further, it would raise the risk of upside surprise. Although we have recently reduced our underweight to Japan, we believe their stocks are unlikely to outperform in these circumstances, and we therefore maintain limited exposure to the country across our portfolios.

xvi *Source: Japan Customs, as of 19/10/2017.*
xvii *Ibid.*

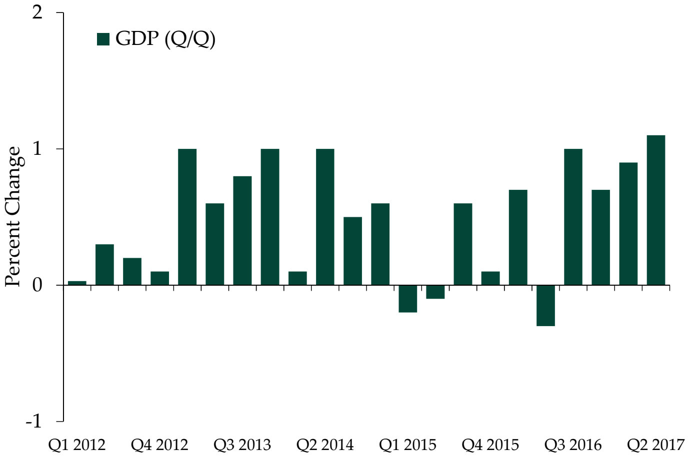
xviii *Source: IHS Markit, as of 27/10/2017.*

Canada

Economic Growth Fails to Boost Equities

Canada's economy grew swiftly in 2017's first half after a rough prior two years coinciding with oil's severe downturn. Q2 GDP rose 1.1% q/q improving on Q1's 0.9%, despite weakening residential investment, which fell -1.2%[xix] (Exhibit 16). Household spending rose 1.9%. Business investment rose 0.5%, led by 17.9% growth in resource extraction and 13.2% in transportation equipment.[xx] Exports rose 2.3%, boosted by a 9.2% surge in energy exports.[xxi]

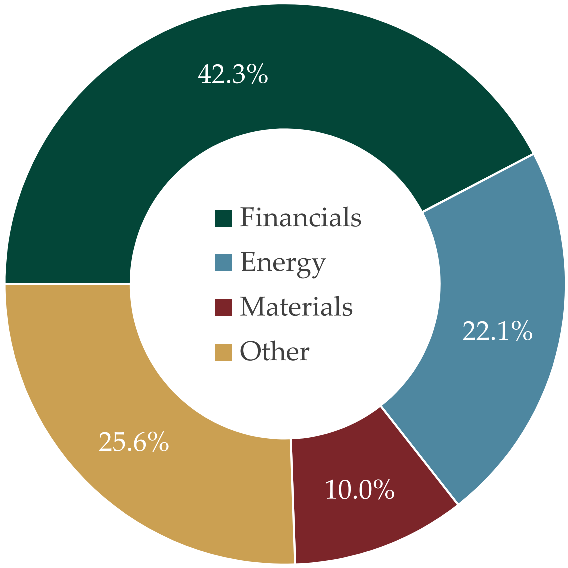
Exhibit 16: Canadian GDP



Source: Statistics Canada, as of 27/10/2017.

In general, GDP growth does not equate automatically with stock market outperformance—especially in Canada. The main driver for Canada's stock market is oil prices, so its movements are tightly correlated to the global Energy sector. Despite the growth pickup, Canadian equities have lagged with year-to-date returns less than half the MSCI ACWI's, largely due to their outsized Energy weight as the sector continues struggling with an oversupplied market. While Financials dominate MSCI Canada at close to 40%, the sector lends a lot to oil and oil infrastructure companies. Energy makes up about 20% of the index and Materials another 10% (Exhibit 17). Canada's economy may be booming, but its equities are weighed down by their global commodity orientation and current lack of pricing power.

Exhibit 17: MSCI Canada Sector Composition



Source: Factset As of 08/11/2017

Based partly on this strength, the Bank of Canada (BoC) has hiked interest rates by a quarter point in two of its last three meetings, putting overnight rates at 1.0%.[xxii] The BoC's rate hikes have flattened the yield curve some, but it remains positively sloped nevertheless, as rising 10-year yields have mitigated the impact. In response, private sector lending and broad money supply growth have moderated somewhat from their Q2 rates though their overall trends remain positive.

xix Source: Statistics Canada, as of 20/10/2017.

xx Ibid.

xxi Ibid.

xxii Source: Bank of Canada, as of 25/10/2017.

Emerging Markets Commentary

China

The People's Congress Convenes in China

Again as we mentioned in the Q3 recap, shortly after quarter end, China held its 19th Communist Party Congress—the country's most important political event, held every five years. This time, most focused on President Xi Jinping's increasing his grip on power and potentially positioning himself to continue ruling beyond the constitution's term limit. Overall, the news from the meeting was symbolic, amounting to very little actual change—including a directive that will give China's government an equity stake in many major Chinese publicly traded firms. While Xi's moves and Party policy announcements are noteworthy, the Congress mostly reaffirms China's focus on gradual, incremental market-oriented reform—a process tempered by the Party's desire for economic and social stability.

While there was little by way of actual policy change at the Congress, its tenor and direction can signal policy priorities over the next half-decade and solidifies the balance of power within the Communist Party.

Extension of Status Quo in Chinese Politics

The selection of a new Party head (who also typically serves as president) is one of the most-watched orders of business. In the post-Deng Xiaoping era, leaders have been capped at two-terms. In their second term, sitting presidents typically add younger officials to the Politburo's central standing committee, an attempt to designate a clear successor. Since President Xi took office in 2012, he was eligible for a reprise—and as most analysts expected, he remained atop the Party. However, Xi has been solidifying his grip on power for some time. At October's meeting, he had his political theory enshrined in the Party's charter—alongside Mao and Deng. This effectively gives him the decisive vote in policy debates. Simultaneously, he did not name an obvious successor. Taken in concert, the moves seemingly set the stage for Xi's continuing as head of state beyond typical term limit.

While many in the media see this as the end of collective rule in China, we think it simply extends the status quo. Xi was already widely considered China's most powerful head of state since Deng, and he has been actively shrinking Premier Li Keqiang's role and powers throughout much of his first term. The Congress recognised this but didn't cause it.

Economic Intervention Continues

Headlines also highlighted the government's announcing it would take minority ownership stakes in major Chinese publicly traded firms and demand a greater Party presence in company ranks. Some fear this presages an anti-market shift—but in reality, little has changed. Adding to Communist Party influence over companies may sound ominous, but we see it as simply another form of state intervention in the economy—a frequent occurrence in China.

That status quo in China has been fine for the global economy and equities for several years, and there is little reason to think now is fundamentally different.

Ultimately, China looks much the same as it did before the Congress: Xi Jinping in control and heavy state influence on the economy, which the government aims to gradually reduce (although not at the risk of economic stability).

That status quo in China has been fine for the global economy and equities for several years, and there is little reason to think now is fundamentally different. More importantly, there is no hard landing in sight—just high growth rates, albeit lower than in this bull market's early years.

Continued Shift to Services and Consumption

China's economic growth slowed slightly in Q3, but the main economic trend remains its ongoing shift to services and consumption and away from manufacturing and exports. Q3 GDP rose 6.8% y/y, falling slightly from Q2's 6.9%, but still above the government's 6.5% 2017 target and 2016's 6.7%.[xxiii] The service sector—about 50% of GDP—grew 8.0% y/y, accelerating from Q2's 7.6%, while the industrial and construction sector (~40% of GDP) decelerated to 6.0% in Q3 from 6.4%. This is yet more evidence of service-oriented industries' increasing economic importance.[xxiv]

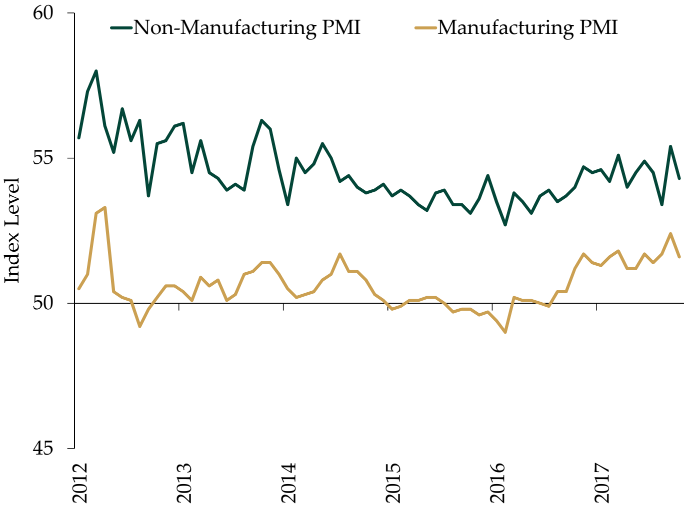
Monthly economic data also showed further transition to consumption from heavy industry. While September industrial production rose 6.6% y/y, up from August's 6.0%, retail sales' 10.3% increased from August's 10.1%.[xxv] Retail sales have consistently grown at 10%-plus rates for over three years, while industrial production has grown at less than 7%. Trade data echo this, with imports—reflecting domestic demand—growing much faster than exports. September imports rose 19.5% y/y, up from August's

xxiii Source: National Bureau of Statistics, as of 23/10/2017.
xxiv Ibid.
xxv Ibid.

16.5%, while exports decelerated to 9.0% y/y from 10.9%.[xxvi] Nor is this a recent phenomenon. Chinese import growth has outpaced export growth for more than a year.

China's purchasing managers' indexes (PMIs) also reflect services' faster relative growth. The latest official PMIs, which represent large and state-owned businesses, showed the October manufacturing PMI dipping -0.8 to 51.6 and the non-manufacturing PMI falling -1.1 to 54.3[xxvii] (Exhibit 18). While both showed growth—levels above 50 indicate expansion—the manufacturing PMI has oscillated in the low 50s for years, well below the non-manufacturing PMI's mid - 50s levels.

Exhibit 18: Non-Manufacturing PMI Tops Manufacturing



Source: National Bureau of Statistics of China, as of 30/10/2017.

IMPROVING GROWTH QUALITY

We wouldn't be surprised if growth toned-down following China's 19th Communist Party Congress, where officials emphasised higher-quality economic growth over faster growth. Data shows credit and money supply growth stabilised ahead of the Congress, but property speculation curbs and planned manufacturing plant closures suggest economic data will soften in the coming months. September new loans hit 1.27 tillion yuan, up from August's 1.09 trillion, and new Total Social Financing (TSF) hit 1.82 trillion yuan versus August's 1.48 trillion—year-over-year growth rates are running about 13% and 15%, respectively.[xxviii] M2 money stock rose 9.2% y/y, accelerating from August's 8.9%.[xxix]

However, loan and TSF growth have weakened from last year, while M2 growth remains near decade lows, evidence of financial authorities' crackdowns on speculative activities. While this likely weighs on growth, markets are already well aware of the economic side effects. We don't see any surprise power for markets here. Moreover, improving the quality of growth should be a long-term positive, helping mitigate investors' concerns about simmering debt problems.

Many suggest China's credit growth is unsustainable and drives unproductive investment, but the government's emphasis on economic stability suggests chronic debt issues and hard landing risks remain remote. In July, China announced the formation of the State Council Financial Stability and Development Committee, which will oversee and coordinate efforts among all existing financial regulatory bodies, including the People's Bank of China (PBoC).[xxx] Meanwhile, financial authorities are restricting unregulated shadow banking and excessive credit growth. For example, the National Development & Reform Commission and China Banking Regulatory Commission are encouraging deleveraging and bad debt disposals by facilitating debt-for-equity swaps—about $150 billion in August—to reduce non-performing loan ratios and raise banks' profitability.[xxxi] Although too early to tell whether clampdowns will have lasting effect, some areas like real estate show price appreciation and purchase volumes slowing to their weakest rates in recent history. Beyond property markets, other bloated sectors—such as in steel and coal—are also being addressed. To the extent there is corrupt investment, regulators and state-lenders should have the incentive, wherewithal and time to deal with it.

xxvi Ibid.

xxvii Ibid.

xxviii Ibid.

xxix Ibid.

xxx "China Central Bank Official Says New Committee Set up to Coordinate 'Chaotic' Financial Market," Staff, Reuters, 17/07/2017.

xxxi "China's Banks Swap 1 Trillion Yuan of Debt Into Equities, Extending Financial Life Line to State Debtors," Xie Yu, South China Morning Post, 09/08/2017.

SOUTH KOREA

BROAD-BASED EXPANSION

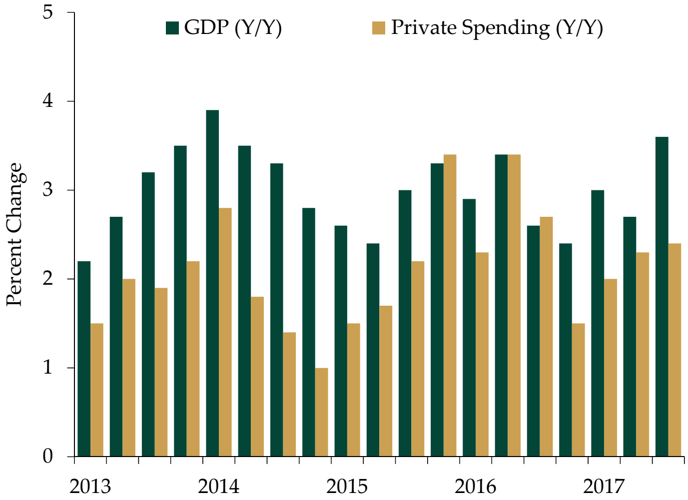
Continued recovery in developed-market demand should support export-oriented countries like South Korea, and the country's market structure is favourably weighted towards higher margin sectors expected to outperform. Political stability following a string of scandals should also provide a boost to sentiment.

South Korea's economy is powering ahead despite a year of heightened political intrigue and North Korean missile tests. Q3 South Korean GDP growth sped to 3.6% y/y from Q2's 2.7%—the fastest rate since Q1 2014.[xxxii] Growth was broad based. Private spending rose 2.4% y/y, up from Q2's 2.3%, while government spending accelerated from 3.2% to 4.6% in Q3.[xxxiii] Business investment growth was slower in Q3 but still rose 10.3% y/y, while intellectual property products expenditures rose 3.2%, up from Q2's 2.6%.

Q3 exports grew 5.1% y/y, while the final monthly read for September rose 35.0% y/y to its highest level since records began in 1956.[xxxiv] Q3 imports rose 8.4% y/y and September imports rose 22.6% y/y, reflecting solid domestic demand and global Tech sector strength.[xxxv] However, September's high numbers were skewed by the timing of the autumn festival holiday, which—like the Lunar New Year holiday—can distort year-over-year comparisons. Last year's festival occurred in September, while this year's fell in early October. This caused one-off spikes in trade throughout Asia. That said, Korean exports have grown at double-digit rates for nine straight months—the trend is strong.

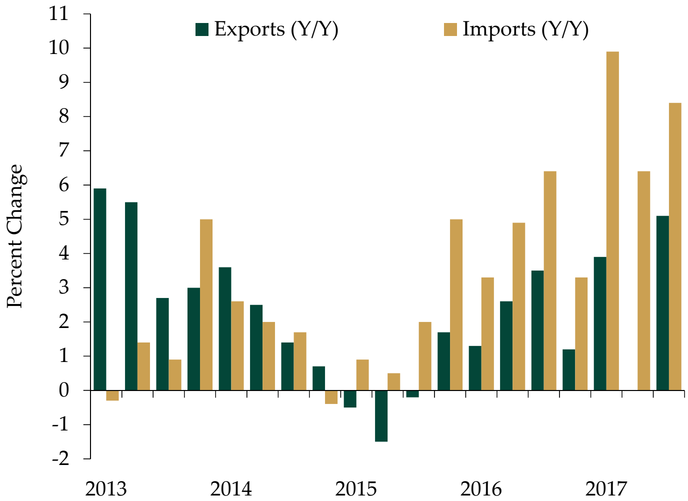
Domestic politics (presidential impeachment, elections, corporate corruption crackdowns) and geopolitical events (North Korean nuclear threats, trade friction with China) are having little effect on South Korea's economy or equities when compared to resurgent global trade and upswing in the Tech supply chain (Exhibits 19 and 20).

Exhibit 19: Domestic Demand Lifts Economic Growth



Source: Bank of Korea, as of 30/10/2017.

Exhibit 20: Trade Lifts Economic Growth



Source: Bank of Korea, as of 30/10/2017.

xxxii Source: Bank of Korea, as of 26/10/2017.

xxxiii Ibid.

xxxiv Source: Ministry of Trade, Industry and Energy, as of 23/10/2017.

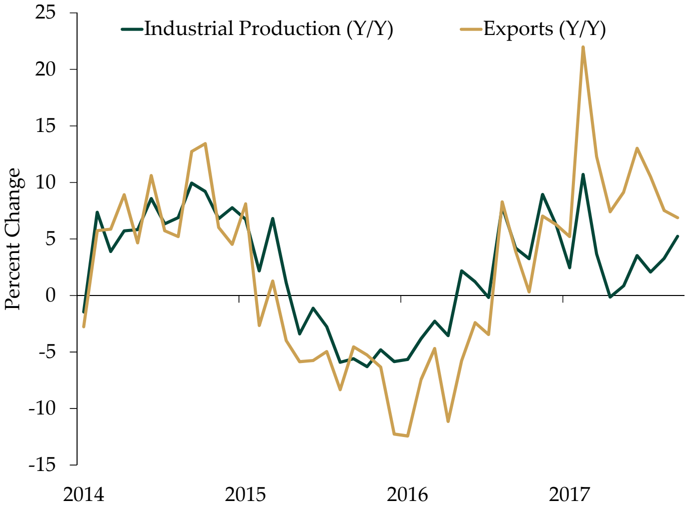
xxxv Ibid.

TAIWAN

BENEFITTING FROM GLOBAL TECH SUPPLY CHAIN

Taiwan's economy is benefiting from global trade's upturn and Tech demand. Q2 GDP rose 2.1% y/y, slowing from Q1's 2.3%.[xxxvi] Private consumption grew 2.0% y/y, accelerating from Q1's 1.8%.[xxxvii] While domestic demand and investment contributed to growth, foreign demand is driving it. Exports grew 4.8% y/y in Q2, decelerating from Q1's 7.5%, but kept rising in Q3 on buoyant electronics and smartphone demand ahead of the holidays and major new product releases.[xxxviii] September exports rose 6.9% y/y to their highest level since records began in 1984[xxxix] (Exhibit 21). Exports to Japan and China in particular rose strongly, up 26.6% and 14.6%, respectively.[xl] Here, too, the lunar festival played a role.

Exhibit 21: Export Growth Stays Strong as Industrial Production Rebounds



Source: Ministry of Economic Affairs, Republic of China (Taiwan), as of 30/10/2017.

Industrial production (IP) data also reflects strong global Tech demand for Taiwanese goods. September IP rose 5.2% y/y, while its manufacturing sub-index (90% of IP) rose 5.4%, its 17th straight year-over-year increase[xli] (Exhibit X). The gain was led by a 23.6% y/y rise in machinery production for the semiconductor, auto and aviation industries.[xlii] IP growth has accelerated in Q3 and since spring. Production will likely keep expanding amid global growth, trade and technology product-cycle upgrades, which should continue boosting Taiwan's manufacturing sector in Q4 and into next year.

INDIA

TAILWINDS CARRY THROUGH STRUCTURAL REFORM

Indian economic growth is rebounding in Q3 after slowing from India's two major, back-to-back structural reforms—demonetisation and goods and services tax (GST) implementation. India's GDP growth slowed to 5.7% y/y in Q2, its lowest rate since Q1 2014 and a marked deceleration from Q1 2016's 9.2%.[xliii] Demonetisation in November 2016 temporarily removed 86% of currency from circulation—ostensibly to fight corruption—and likely constrained economic activity earlier this year. With most currency declared above board, the exercise doesn't appear to have netted much criminal activity.

> ...short-term disruptions from reforms are abating as India's positive underlying drivers—like a growing consumer base and ongoing economic modernisation—reassert themselves.

However, demonetisation has encouraged increased use of digital payment and banking services, suggesting some ancillary benefit from the project.[xliv] As of the week ending 27 October, currency in circulation was ₹16.3 trillion, down -8.0% from a year ago—a notable reversal from pre-demonitisation growth rates.[xlv] Meanwhile, since last November's demonetisation, the value of electronic payment system transactions is up 33% to ₹124.7 trillion. Regardless, the liquidity crunch has passed.[xlvi]

xxxvi National Statistics Republic of China (Taiwan), as of 23/10/2017.

xxxvii Ibid.

xxxviii Ibid.

xxxix Source: Ministry of Economic Affairs, Republic of China (Taiwan), as of 24/10/2017.

xl Ibid.

xli Ibid.

xlii Ibid.

xliii Source: Ministry of Statistics and Programme Implementation, as of 24/10/2017.

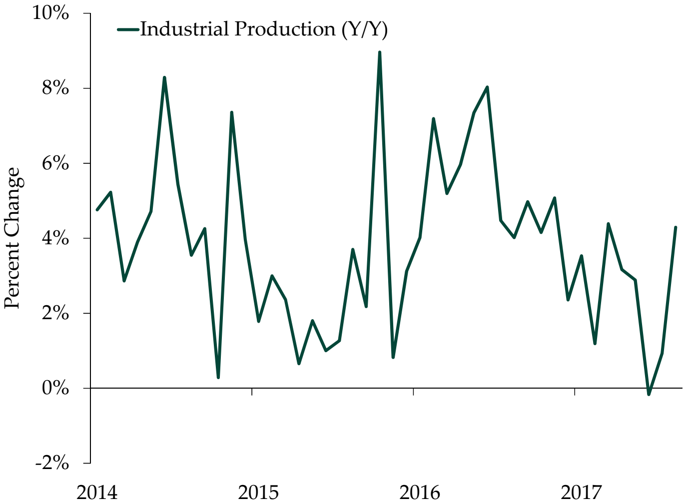
xliv "Scrapping of high-value notes led to multiple benefits: Finance ministry," Staff, The Times of India, 06/11/2017.

xlv Source: Reserve Bank of India, as of 06/11/2017.

xlvi "Post-demonetisation, the role of cash has been diminished," JP Koning, Moneyness, 20/09/2017.

July's goods and services tax (GST) start also likely limited economic activity ahead of its implementation, but monthly data since then indicate a rebound. August industrial production rose 4.3% y/y, after July's 0.9% and June's -0.1%, amid restocking and ongoing infrastructure growth[xlvii] (Exhibit 22). Strong growth within manufacturing from electronics and pharmaceutical industries also suggests higher value-added output efforts are bearing some fruit. PMIs have also recovered and are back above 50, indicating expansion.

Exhibit 22: Industrial Production Rebounds



Source: Ministry of Statistics and Programme Implementation, as of 30/10/2017.

All this suggests one-off, short-term disruptions from reforms are abating as India's positive underlying drivers—like a growing consumer base and ongoing economic modernisation—reassert themselves.

BRAZIL

WEIGHED DOWN BY COMMODITIES

We expect Brazil to underperform as weak commodity prices, ongoing political uncertainty and poor domestic policies constrain growth. Economic and stock market compositions skew towards low margin sectors, which we expect to lag in later-stage global bull markets, while political uncertainty adds risk.

...absent a sustained commodities rebound, it is difficult to envision Brazil enjoying a robust economic expansion.

After suffering the longest recession in over a century, Brazilian GDP grew in both Q1 and Q2 2017—0.2% q/q and 1.0%, respectively.[xlviii] However, we think it is premature to think Brazil is on a full-fledged rebound. Sustained growth remains uncertain with Brazil's economy still commodity dependent. Global supply overhangs in oil and iron ore suggest headwinds linger. As long as commodity prices remain low, Brazil's economy will probably struggle since the country is tied so heavily to natural resources.

Inflation fell from over 10% last year to 2.5% y/y in September, its lowest rate since 1999.[xlix] In response, Brazil's central bank has slashed its short-term target rate from 14.25% last year to 7.5% in October.[l] The central bank expects rates to hit 7% next year with a few analysts projecting it to fall further. The steeper yield curve and easier financial conditions probably aids banks and lending, but absent a sustained commodities rebound, it is difficult to envision Brazil enjoying a robust expansion.

xlvii Source: Ministry of Statistics and Programme Implementation, as of 24/10/2017.

xlviii Source: Banco Central do Brasil, as of 30/10/2017.

xlix Ibid.

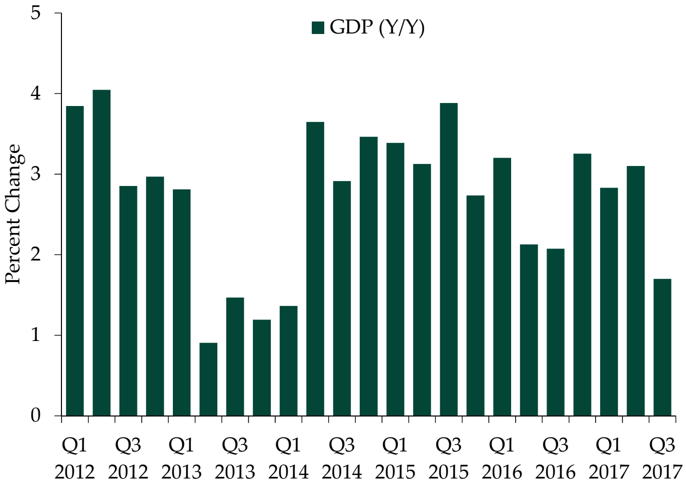
l Ibid.

Mexico

Temporary Natural Disaster Setbacks

Mexico's economy struggled in Q3, partly due to September earthquakes, which killed 471 people and damaged buildings in 10 Mexican states including Mexico City, but the slowdown is likely temporary (Exhibit 23). Quarter-over-quarter and seasonally adjusted, Mexican Q3 GDP dipped -0.2%. However, growth should rebound in coming quarters as rebuilding offsets disrupted economic activity. Some 180,000 homes (50,000 slated for demolition), 16,000 schools and 1,800 churches were damaged by the earthquakes.[li] Oil production also declined to about 1.73 million barrels per day in September, but returned to 1.94 million bpd in October.

Exhibit 23: Earthquake-Related GDP Growth Dip in Q3



Source: Instituto Nacional de Estadística y Geografía, as of 07/11/2017.

Meanwhile, Mexico's manufacturing PMI fell 3.6 points in October to 49.2 from September's 16-month high.[lii] This was its first foray below 50—indicating contraction—in four years. That said, we wouldn't read too much into an earthquake-related, one-month dip. Modest deterioration in the face of natural disasters underscores Mexico's economic resilience, in our view.

Mexican equities led Emerging Markets most of the year through August, but they have underperformed the last couple months. Some attribute this to NAFTA negotiations and their potential impact on growth. While trade uncertainties can weigh on markets in the present, we also think concerns are overrated and sentiment too dour—a replay of when Trump was president-elect. The likelihood NAFTA falls apart is slim and if trade barriers do not increase very much, if at all—or even fall—that outcome should be a positive surprise and boost equities. Similar to the period from Trump's election to inauguration, Mexico underperformed as trade dislocation fears mounted, but post-inauguration—when reality didn't match Trump's campaign rhetoric—markets rallied.

li "Mexico's GDP Contracted in Third Quarter as Disasters Took Toll," Anthony Harrup, The Wall Street Journal, 31/10/2017.

lii Source: IHS Markit, as of 01/11/2017.

Should you have any questions about any of the information provided above, please contact FIE by mail at 2nd Floor 6-10 Whitfield Street, London W1T 2RE or by telephone at +44 (0)207 299 6848.

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

Terms of Business:

1. **Fisher Investments Europe:** Fisher Investments Europe Limited is registered in England and authorised and regulated by the Financial Conduct Authority (FCA). Fisher Investments Europe's FCA reference number is 191609. Fisher Investments Europe's permitted business is advising on investments, advising on pension transfers and pension opt outs, agreeing to carry on a regulated activity, arranging deals in investments, dealing in investments as agent, making arrangements with a view to transactions in investments, and managing investments. Fisher Investments Europe Limited is registered in England and authsed and regulated by the Financial Conduct Authority (FCA). Fisher Investments Europe's FCA reference number is 191609. Fisher Investments Europe's permitted business is agreeing to carry on a regulated activity, managing investments, advising on investments, making arrangements with a view to transactions in investments, arranging deals in investments, dealing in investments as agent, advising on pension transfers and pension opt-outs, and insurance mediation. You can check this on the FCA's register by visiting the FCA's website www.fca.gov.uk/register or by contacting the FCA on 0845 606 1234.
2. **Communications:** Fisher Investments Europe can be contacted by mail at 6-10 Whitfield Street, London W1T 2RE, or by telephone on +44 (0)207 299 6848. All communications with Fisher Investments Europe will be in English only.
3. **Services:** These Terms of Business explain the services offered to professional clients and will apply from when Fisher Investments Europe begins to advise you. As part of its services, Fisher Investments Europe seeks to:
    a. Reasonably determine your client categorisation;
    b. Understand your financial circumstances and investment aims to determine whether a full discretionary service and the proposed investment mandate and accompanying benchmark(s) are suitable for you;
    c. Explain features of the investment approach;
    d. Describe investment performance as it relates to your investment mandate;
    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.
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. Where appropriate, Fisher Investments Europe may recommend that you establish a discretionary investment management relationship directly with Fisher Investments. In such case, Fisher Investments Europe acts as an introducing firm. A separate investment management agreement will govern any discretionary investment management relationship whether with Fisher Investments Europe or with Fisher Investments. Subject to applicable regulations, for qualified investors Fisher Investments Europe may recommend an investment in an Undertaking for Collective Investment in Transferable Securities (UCITS) regulated by the Central Bank of Ireland and managed by Fisher Investments.
5. **Client Categorisation:** Fisher Investments Europe deals with both retail clients and professional clients. As a user of Fisher Investments Europe's institutional services, you have been categorised as a professional client. You have the right to request re-categorisation as a retail client which offers a higher degree of regulatory protection, but Fisher Investments Europe does not normally agree to requests of this kind.
6. **Financial Services Compensation Scheme (FSCS):** The activities of Fisher Investments Europe are covered by the FSCS and therefore if (i) you are eligible to claim under the FSCS, (ii) you have a valid claim against us and (iii) we are unable to meet our liability towards you because of our financial circumstances, the FSCS will be able to compensate you for the full amount of your claim up to £50,000. However, since you have been categorised as a professional client, you are unlikely to be eligible. You can contact us or the FSCS in order to obtain more information regarding the conditions governing compensation and the formalities which must be completed to obtain compensation. Please note that the protections of the FSCS do not apply in relation to any services provided by Fisher Investments.

7. **Custody and Execution:** Neither Fisher Investments Europe nor Fisher Investments is authorised to hold client money. This means neither Fisher Investments Europe nor Fisher Investments can accept cheques made out to Fisher in respect of investments, nor can they handle cash. All client assets are held at external custodians where each client has a direct account in their own name. If you appoint Fisher Investments Europe or Fisher Investments as your discretionary asset manager, execution of transactions will be arranged through such custodians and brokers and at such prices and commissions that Fisher Investments determines in good faith to be in your best interests. Further information regarding selection of brokers is set out in Fisher Investments' Form ADV Part 2.
8. **Risks:** Investments in securities present numerous risks, including various market, currency, economic, political, business and other risks, and can be very volatile. Investing in securities can result in a loss, including a loss of principal. Using leverage to purchase and maintain larger security positions will increase exposure to market volatility and is not recommended.
9. **Data Protection:** To advise you on financial matters, Fisher Investments Europe may collect personal and sensitive information subject to the Data Protection Act 1998. By engaging in business with Fisher Investments Europe, you consent to Fisher Investments Europe processing your data, both manually and electronically, including transferring data outside the European Economic Area, including to its parent, Fisher Investments, in the United States, for the purposes of providing services and enabling Fisher Investments to provide services, maintaining records, analysing your financial situation, providing information to regulatory bodies and service providers assisting Fisher Investments Europe and/or Fisher Investments in providing services.
10. **Conflicts of Interest:** Fisher Investments Europe has a conflicts of interest policy to identify, manage and disclose conflicts of interest Fisher Investments Europe, Fisher Investments or any of their employees or representatives may have with a client of Fisher Investments Europe, or that may exist between two clients of Fisher Investments Europe. Fisher Investments Europe's conflicts of interest policy covers gifts and favours, outside employment, client privacy, inadvertent custody, marketing and sales activities, recommendations and advice, and portfolio management. In addition, Fisher Investments Europe provides a copy of Fisher Investments' Form ADV Parts 2A and 2B to all clients.
11. **Fees:** If you appoint Fisher Investments Europe as your discretionary investment manager, you will pay management fees to Fisher Investments Europe as detailed in the investment management agreement. Fisher Investments Europe will pay a portion of such management fees to Fisher Investments as the sub-manager. If you appoint Fisher Investments directly as your discretionary investment manager, you will pay management fees directly to Fisher Investments as detailed in the investment management agreement. If you invest in a UCITS fund managed by Fisher Investments, Fisher Investments will receive its management fee indirectly through the UCITS. Fisher Investments Europe does not charge a separate fee for its introducing or distribution services. You will also incur transaction and custody fees charged by brokers and custodians. However, any such additional fees will be payable directly to brokers/custodians, and neither Fisher Investments Europe nor Fisher Investments will share in any commission or other remuneration.
12. **Termination:** If you wish to cease using the services of Fisher Investments Europe or Fisher Investments at any time, then send notification and the arrangement will cease in accordance with the investment management agreement. However, if a transaction is in the middle of being arranged on your behalf at that time and it is too late to unwind it, then the transaction may need to be completed first.
13. **Governing Law:** These Terms of Business are governed by English law.