

FISHER INVESTMENTS EUROPE™

FIRST QUARTER 2016

FISHER MARKET PERSPECTIVES

## FIRST QUARTER 2016 REVIEW AND OUTLOOK

*The below table of contents contains hyperlinks allowing the reader to quickly navigate to the desired section.*

<b>EXECUTIVE SUMMARY .....</b>	<b>1</b>
<b>THEMATIC UPDATE AND MARKET OUTLOOK .....</b>	<b>3</b>
<b>Q1 RECAP .....</b>	<b>3</b>
<b>US COMMENTARY .....</b>	<b>5</b>
<b>NON-US DEVELOPED MARKET COMMENTARY .....</b>	<b>10</b>
<b>EMERGING MARKETS COMMENTARY .....</b>	<b>16</b>

## FIRST QUARTER 2016 REVIEW AND OUTLOOK: EXECUTIVE SUMMARY

Global markets rallied in Q1's second half, erasing an early-year slide with the MSCI All Country World Index (ACWI) finishing Q1 up 0.24%.<sup>1</sup> While sharp downswings like January's are uncomfortable, strong returns in late February and March show how quickly corrections can reverse, rewarding disciplined investors. We believe equities will keep rewarding discipline as the bull market continues this year.

Countertrends in Energy, Financials and Health Care impacted relative returns. However, short-term countertrends are normal, especially during corrections. As we will detail in the full Review & Outlook, we don't believe these sectors' fundamental outlooks have changed.

### Portfolio Themes

- **Underweight to Commodity-Oriented Companies:** Companies with significant commodity exposure (metals, oil and agricultural) should underperform.
- **Quality Tilt:** As the bull market progresses, we favour equities with strong balance sheets and consistent profit margins.
- **Overweight to Health Care:** Health Care companies typically offer reliable sources of revenue and often have power to pass higher costs to consumers, giving them stable longer-term growth prospects.

### Market Outlook

- **Global Markets Rally:** We expect the bull market to continue in 2016, with the magnitude of returns contingent on the evolution of sentiment throughout the year.
- **Uncertainty Dissipating:** US election, low oil prices, Chinese hard landing, and other investor concerns should dissipate over the year, reducing market uncertainty and boosting equity returns.
- **Overly Dour Sentiment:** Widely discussed negatives and overlooked economic positives create a disconnect between sentiment and reality—a bullish opportunity.

The year 2016 seems set to become the Year of Falling Uncertainty. The year began with uncertainty surrounding US elections, low oil prices, China, negative interest rates and the UK's looming "Brexit" vote on staying in the EU. None are disastrous, but combined they fueled fear. As these fears subside and uncertainty falls, relief should boost equities. Some, like the Brexit vote and US elections, have fixed expiration dates, which should bring investors more clarity, while others fade with time. While there are still factors that could negatively affect sentiment later this year, they likely lack the power to end the bull market. But they could stoke volatility and influence (positively or negatively) full-year returns.

America's election is seven months away and still impossible to predict, but markets will steadily gain clarity. The field has narrowed. Hillary Clinton is the likely Democratic nominee, and the GOP is Donald Trump's to lose. Yet events could derail either campaign, so uncertainty persists. Most of this fog should dissipate by convention season, giving markets fewer scenarios to fret and helping investors narrow their focus and price in the outcome. On November 8, uncertainty evaporates—a powerful positive.

Politics are emotional, and bias blinds—hence our political agnosticism. Markets prefer no candidate or political party. Headlines speculate on whether Trump, Clinton, Bernie Sanders, Ted Cruz and the rest will be good or bad for markets—all speculation, not substance. Campaign rhetoric rarely becomes law, as presidents moderate or hit a Congressional brick wall. Moreover, equities price all opinions, good and bad. Fear will be priced in soon enough, allowing markets to warm to the eventual winner. The closer the election, the more markets will embrace the victor.

Other lingering questions should similarly fade. "Brexit" will be clear after the June 23 referendum. If the UK stays in the EU, markets will likely welcome the status quo. If it leaves, at least investors will know, and after some uncertainty, markets will see it is not the disaster most presume. Fears of China, negative rates and low oil prices lack fixed end dates but are either misinterpreted or small, and investors should discount them soon enough. China is still growing, not collapsing. The eurozone has had negative rates since June 2014, yet it has grown, with lending and broad money growth improving. Energy earnings and investment have already fallen, but the detraction from earnings will soon cease, making growth elsewhere more apparent. As earnings and economic growth beat dour expectations, uncertainty should fall.

Soon investors will see plenty to cheer. The world continues growing, powering profits in most sectors. Broad money supply growth has accelerated throughout the world. Central banking is flawed but not stifling growth. All good signs for capital markets and the global economy. Politically, gridlock has escalated in much of the developed world, reducing legislative risk. Equities love political gridlock, as it reduces the risk of sweeping change creating winners and losers.

The world is full of unseen positives, with extant negatives too small or too widely known to wallop equities. Investors are neither euphoric nor complacent. Rather, expectations are too dour. This is not a time to be fearful—this is a time to appreciate what the uncertain masses miss and enjoy a continued bull market.

---

## THEMATIC UPDATE AND MARKET OUTLOOK

### Q1 RECAP

Global markets rebounded from a volatile start in 2016's first six weeks and finished the quarter up 0.2%.<sup>ii</sup> Although Q1's volatility inspired bearish 2016 forecasts, this did not alter our view. As 2016 progresses, we expect the markets to yield positive returns amid continued volatility.

Sentiment will play a big role in how high equities rise in 2016. The US election and the UK vote on EU membership, along with falling oil prices, negative interest rates and eurozone bank fears increased investor uncertainty in Q1. The US and UK votes happen this year, bringing clarity. While oil fears lack an expiration date, oil's adverse effect on earnings and economic data should wane. Negative interest rate fears already appear to be fading. We believe that as the backdrop of solid economic fundamentals becomes apparent, investor uncertainty will fall, boosting sentiment.

### GLOBAL FUNDAMENTALS SUGGEST MORE BULL MARKET AHEAD

Recession and weak economic growth fears resurged in Q1, as they frequently have during this bull market. Yet again, fears seem misplaced. Despite a few weak pockets, the global economy is stronger than appreciated. While some investors focus on recently weakening industrial or trade data, these are skewed by oil and commodity prices. Consumption and services drive growth in the US, UK and eurozone, and Leading Economic Indexes suggest this will continue. Led by the US and the UK, most developed world economies are growing apace—as are Emerging Markets (EM) like China and India. While commodity-reliant countries like Brazil and Russia are struggling, they are not big enough to derail the world. Korea, Indonesia, Malaysia and Peru are growing swiftly, and Thailand, Mexico, and Chile are not far behind. Overall, Emerging Markets are not uniformly underperforming. With many leading indicators pointing positively, the global economy likely continues expanding for the foreseeable future.

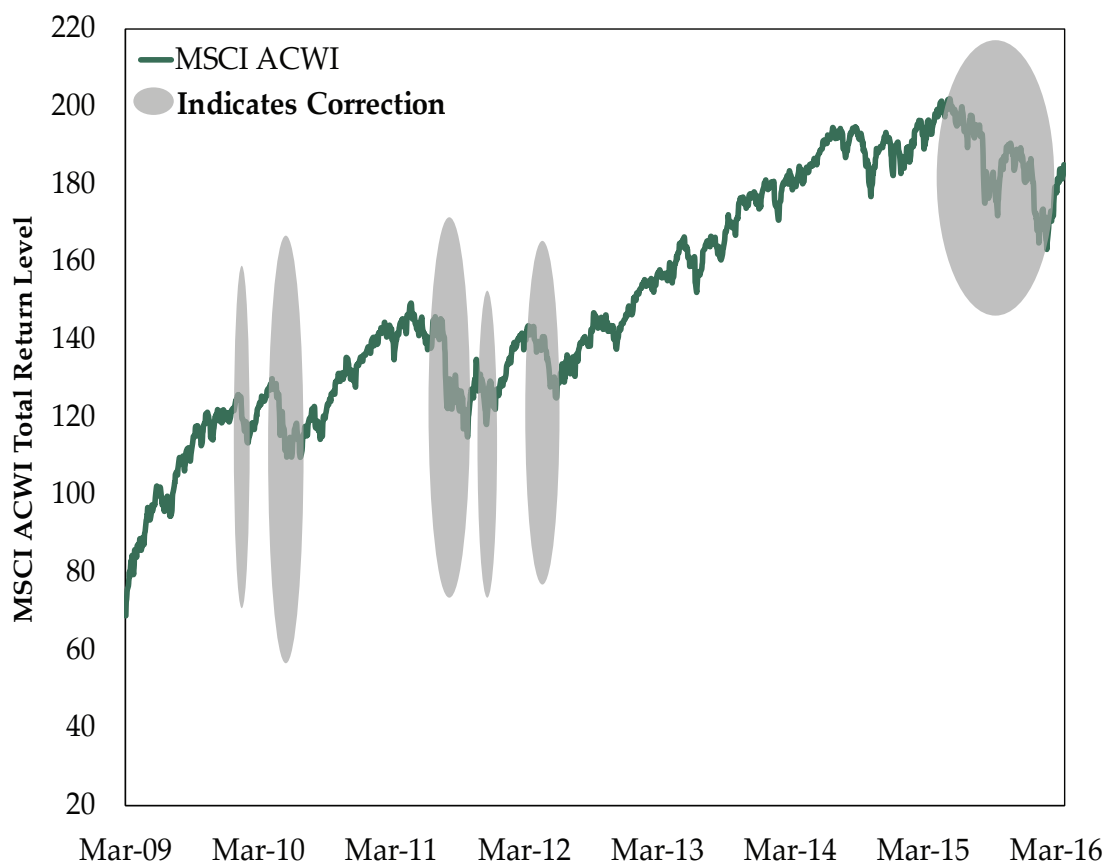
### EXTREME LEGISLATION IS UNLIKELY

Politically, most major developed countries remain bullishly gridlocked, mitigating extreme legislation risk (which historically has negative implications for equities). US election years typically feature minimal major legislation, as politicians do not want to risk upsetting voters with unpopular bills. In the UK, Prime Minister David Cameron's Conservatives have a slight majority, but deep intraparty divisions over issues like Brexit and budget cuts suggest fractious new laws are not likely. After controversial elections, Portugal has a fragile government with little ability to pass material legislation, while Spain and Ireland do not even have governments yet—diminishing their ability to undo prior economic reforms. These reforms have greatly aided their recoveries and partly explain Spain's relatively quick, recent GDP growth. France and Italy are struggling to pass labour market reforms to enhance competitiveness. On the other hand, France and Italy are not enacting measures which could hurt growth, and both economies are growing (albeit modestly). Japan would actually benefit from enacting structural economic reforms; however, Prime Minister Shinzo Abe's unwillingness to advance contentious reforms is to blame rather than gridlock.

## CORRECTION, NOT A BEAR

We believe the negativity at the year's outset was a correction—a short, sharp, sentiment-driven drop exceeding -10%—not a bear market. Corrections are normal in bull markets—the latest is this bull market's sixth since its beginning in 9 March 2009 (Exhibit 1).

**Exhibit 1: Global Bull Market Corrections since 9 March 2009**



Source: FactSet, as of 06/04/2016. MSCI World Index with net dividends.

The latest correction was long by historical standards, and included not one, but two sharp decreases (one in August/September 2015, the other in January/February 2016). Nevertheless, this correction was fairly typical. As with all corrections, volatility drove negative sentiment. In this case, investors became concerned over China, EM currencies, negative rates, oil and European banks. While it is too early to declare the correction over, the rally off 11th February (the lowest point to date) looks like a typically sharp correction rebound. Sharp volatility usually reverses suddenly, with no discernible catalyst or “all-clear” signal.

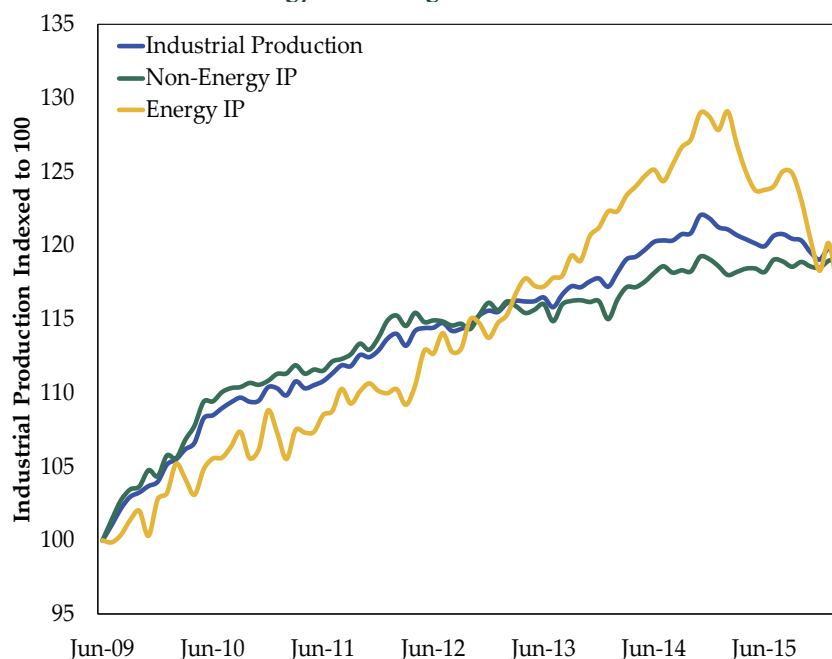
Additionally, early-year volatility does not preclude another correction later. While it would be atypical for another to strike soon, it is not impossible. Sentiment can swing at any time, but we do not think it will trigger a bear market.

## US COMMENTARY

### MORE THAN AN ENERGY STORY

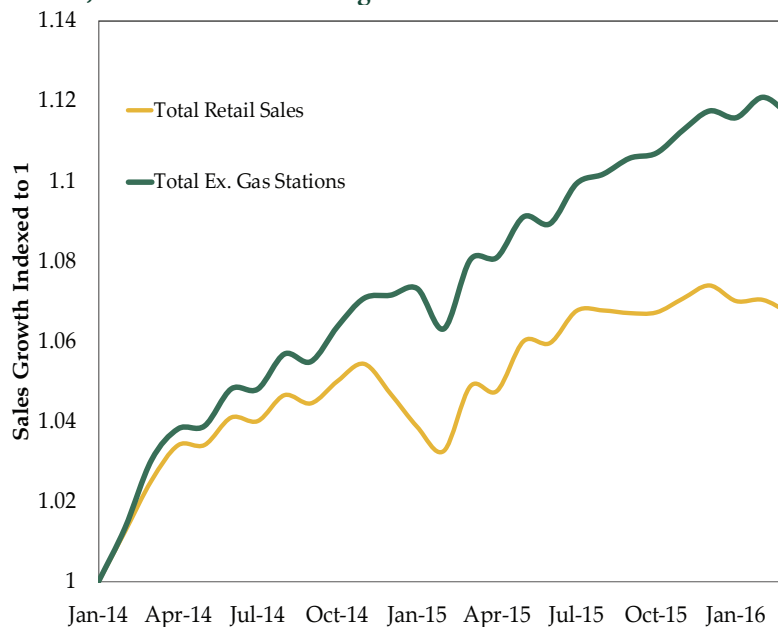
While several economic indicators have slowed, the Energy sector is primarily responsible for the deceleration. Oil-related items have a large presence in several US economic data series, skewing the numbers downward, as Exhibits 2-4 show. However, Energy is a small slice of America's economy. The service sector—which makes up a large share of the overall economy—is growing at a healthy rate.

#### Exhibit 2: Industrial Production Outside Energy Is Growing



Source: Federal Reserve Bank of St. Louis, as of 31/04/2016. June 2009 – February 2016.

#### Exhibit 3: Excluding Gas Stations, Retail Sales Are Growing Fine

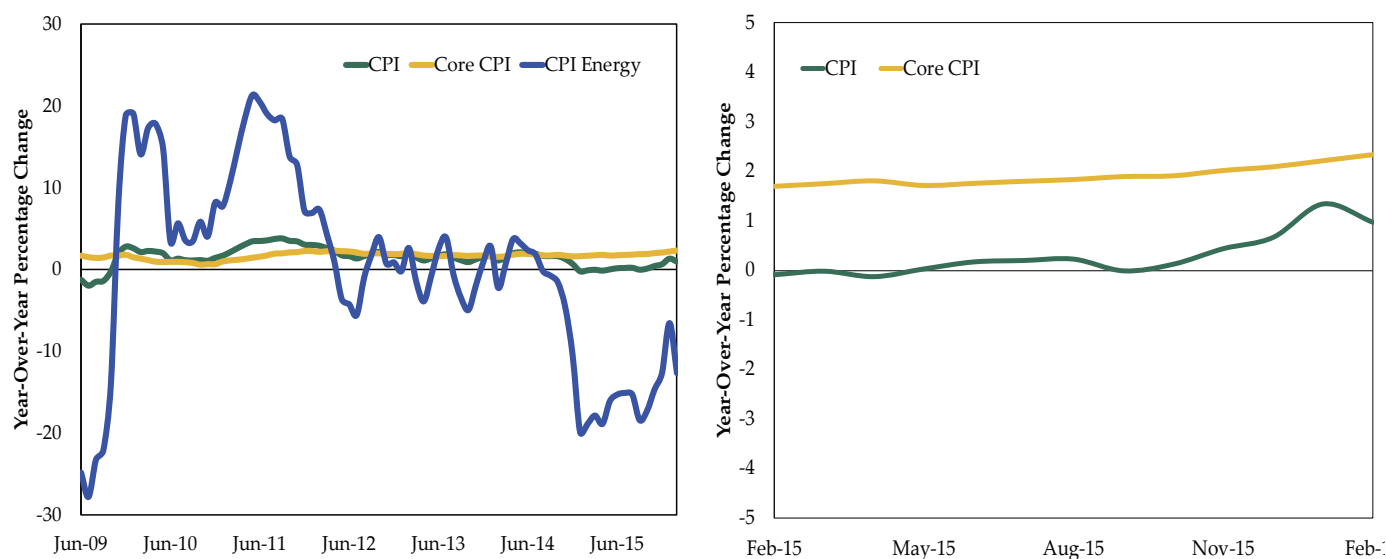


Source: US Census Bureau, as of 13/04/2016. Jan 2014 – March 2016.

## Exhibit 4: Energy Is Responsible for Deflation Fears

Since 2007-2009 Recession End

Last 12 Months

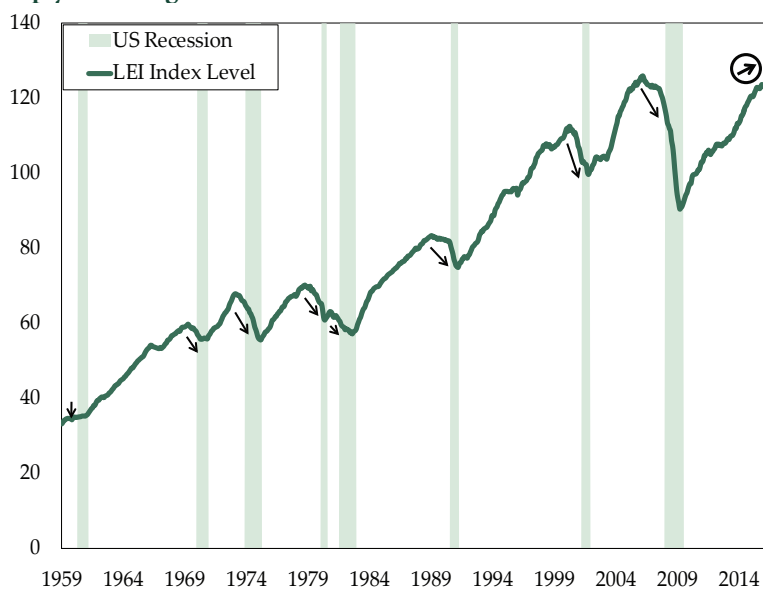


Source: Federal Reserve Bank of St. Louis, as of 13/04/2016. June 2009 – February 2016.

The Institute for Supply Management's Purchasing Managers' Indexes (PMI) show broad economic strength. The Non-Manufacturing PMI (which includes mining) has consistently topped 50—indicating expansion—since July 2009.<sup>iii</sup> Though the Manufacturing PMI posted several slightly contractionary readings in late 2015 and early 2016, the most recent read in March showed growth, and the forward-looking New Orders subindex posted its third straight expansionary reading—a robust 58.3.<sup>iv</sup>

Looking ahead, continued growth appears likely. Removing energy's outsized impact shows US economic growth has not diverged much from this expansion's slow-but-steady trend. Based on two regional Federal Reserve (Fed) estimates, many expect Q1 2016 GDP to slow to somewhere between 0.3% and 1.0%. However, most expect growth to rise higher later this year. If such a proposition holds, 2016 would look very similar to 2014 and 2015. Most importantly, equities look forward—Q1's GDP report is an imperfect attempt to tally economic activity which has already happened. Despite the occasional blip, The Conference Board's Leading Economic Index (LEI) remains high and rising, and in its 58-year history, no recession began amid a similar trend (Exhibit 5).

## Exhibit 5: US LEIs Do Not Imply a Coming Recession



Source: FactSet, as of 13/04/2016. January 1959 – February 2016.



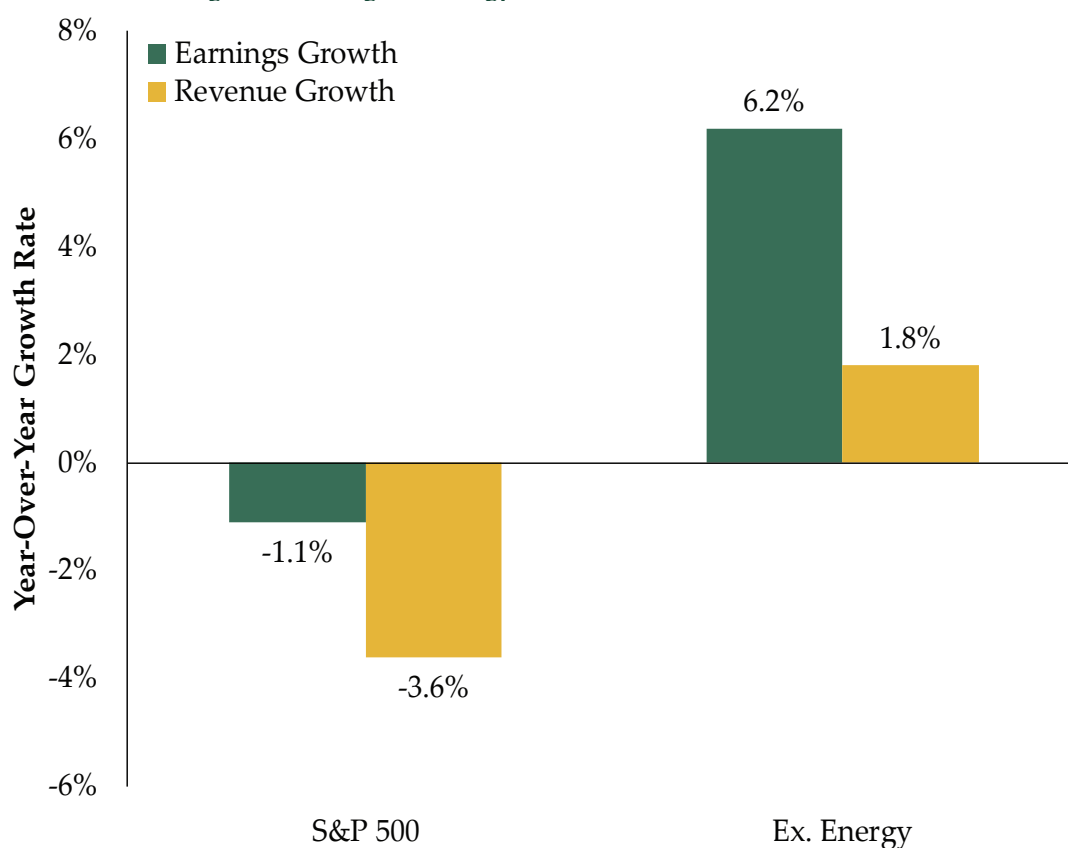
## OIL'S SENTIMENT SWING

Oil prices and equities were highly correlated early this year, leading investors to believe oil prices drive markets. This perception was reinforced when oil and equities both rebounded from February lows. While oil and equities are occasionally highly correlated over very short periods, this is largely a factor of sentiment and not due to a fundamental link. Long-term, there is no discernible relationship between oil and equities, and oil prices—at any level—have no set economic impact.

Oil has indirectly hurt investor sentiment, but this should fade. As falling oil prices diminished Energy firms' earnings last year, it skewed S&P 500 earnings growth downward, driving fears of fading profitability and unsubstantiated valuations. As oil stabilises, the drag on Energy's earnings should abate, helping investors see that Corporate America is in far better health than most presume.

As Exhibit 6 shows, Energy is responsible for most of the S&P 500 earnings per share falling in 2015. Overall, earnings fell -1.1%, yet excluding Energy's -60.6% drop, they rose 6.2%.<sup>v</sup> Overall and on average, profits in the remaining nine sectors are growing decently.

**Exhibit 6: 2015 S&P 500 Earnings and Earnings Ex. Energy**



Source: FactSet Earnings Insight, as of 21/04/2016.

Soon, this should be readily apparent. After several negative quarters, the year-over-year base for Energy earnings is quite low. In the coming quarters, unless oil prices fall again, that base should drop low enough for Energy earnings growth rates to stabilise. Profits will not be substantial, but they do not need to be. Even if Energy earnings bounce around low levels for a while, without those double-digit slides, their negative impact on aggregate S&P 500 earnings will be limited. Without Energy detracting, strength elsewhere becomes much more visible.

## THE UNUSUAL US PRESIDENTIAL ELECTION

*As a reminder, we favour neither party nor any candidate and assess political factors solely as they pertain to markets.*

As 2016 progresses, election uncertainty will fall and markets will gradually price in clarity ahead of election results. Markets discount and price in the future, not the present. The year began with several candidates—15 in total amongst many others who considered running, but later decided against it—but during Q1, the active candidate field shrank to five, clearing up the political landscape.

As of this writing, Hillary Clinton and Donald Trump lead their parties' delegate counts, but wild cards could still derail either campaign. Still, election uncertainty is beginning to lift. In July, the conventions will clear up lingering uncertainty, leaving the political field with two candidates. Markets will focus on these two and weigh the likelihood that each wins. While we cannot know today who will win, after the polls close on November 8, the US will have a president-elect. However, the market will likely have priced in the results of the presidential election over the prior August to September period.

The bullish force of fading election uncertainty and the government's typical unwillingness to pass extreme legislation in election years, partly explains why 82% of election years since 1928 have been positive—exceeding non-election years' 71% frequency of positive returns.<sup>vi</sup>

Given US Constitution limits on executive power, presidents have less influence over the economy than is popularly thought. The bull market did not begin or run seven years and counting because of President Barack Obama. It might have been stronger or weaker with another president, but would have happened regardless. Most of the candidates' initial campaign pledges require legislation, and Congress often ignores or waters down sweeping proposals. Investors typically overestimate the impact of presidential influence outside of legislation. What appears large is often small relative to global GDP and markets. The private sector accounts for 87% of all economic activity and nearly 85% of existing jobs.<sup>vii</sup> New presidents are typically moderate and ignore most of their radical campaign pledges so that they do not alienate mid-term or re-election voters. The executive branch and its various agencies can slightly alter rules by reinterpreting existing legislation; however, reach is usually limited, and court challenges are common.

Congress has not switched majority parties in a presidential election year since 1952 and it seems likely it will remain controlled by Republicans. In the House, gerrymandering and incumbency make potential seat changes unlikely. In the Senate, Democrats technically have a strong structural edge in this year's race: the Republicans must defend more seats in typically blue territory. Some suggest a flawed GOP presidential candidate could cause presidential and congressional Democratic victories. This theory is overstated. Few Senate seats have changed hands in past landslide presidential elections. Large Congressional shifts in postwar history have occurred in the midterms, like 1994's Republican Revolution, the Democrats taking Congressional control in 2006 or the 2010 and 2014 shifts to the Republicans in the House and Senate, respectively.

Hence, if a Democrat (most likely Clinton) wins the White House, she or he will likely face gridlock—which is bullish. If a Republican wins, the gridlock markets have enjoyed since 2010 could vanish, with a possible exception for Trump. If Trump wins there could be a new form of gridlock—one where the president fights with his own party. In some respect this is similar to the new multi-party gridlock phenomena occurring throughout Western Europe. Regardless, for equities, gridlock is beneficial. With a Trump victory, the biggest 2017 and 2018 US political market risk is if he reconciles with the GOP. If this happens, political gridlock will go away. In terms of intermediate-term markets, a lack of gridlock increases risk due to potentially substantial legislative changes. Markets perform worse through change relative to stability.

Recall the traditional market reaction—where US equities typically post above-average returns in a year the GOP wins the White House as the majority-Republican investment public holds bullish sentiment towards pro-business campaign rhetoric. In the inaugural year, when the new president falls short of enacting much pro-business legislation, disappointment contributes to below average returns. For the Democrats, this trend is reversed—markets underperform historical averages in the election year when a Democrat wins, but go on to outperform in the inaugural year (Exhibit 7).

#### Exhibit 7: Democrat vs. Republican Market Returns

	ELECTION YEAR	FIRST YEAR
REPUBLICAN ELECTED	15.5%	0.7%
DEMOCRAT ELECTED	7.4%	16.2%

Source: Global Financial Data, as of 20/04/2016. S&P 500 total returns, 1928 – 2013.

#### APPOINTING A NEW SUPREME COURT JUSTICE

Markets will not be negatively affected if a Supreme Court justice is not appointed until next year. A split Supreme Court enhances gridlock, reducing the risk of sweeping change. A split court may choose not to take on major cases. A 4-4 ruling means the lower court's ruling stands in the jurisdiction where it applies. By definition, that ruling is already a known quantity, with little to no power to negatively affect equities. Also, most contentious cases are sociological and not very market-related. And even then, most rulings are not divided along ideological lines, so the eight-member court probably will not come into play often.

## NON-US DEVELOPED MARKET COMMENTARY

### EUROZONE: GROWTH STILL UNDERAPPRECIATED

Despite persistent doubts, the eurozone shows little sign of a recession relapse. The 19-member bloc has grown in 11 straight quarters, expanding 0.3% q/q (1.1% annualised) in Q4.<sup>viii</sup> Growth remains fairly broad based, with formerly troubled Ireland (7.8% in 2015) and Spain (3.2% in 2015) among the best performers.<sup>ix</sup> Manufacturing and Services PMI readings largely exceed 50, particularly in the four biggest economies (Germany, France, Spain and Italy), with France's manufacturing PMI of 48 as the lone exception in these countries. Industrial production has mostly risen on a year-over-year basis since late 2013, as have retail sales.<sup>x</sup> Eurozone LEI rose in 9 of the past 12 months, suggesting that continued growth is likely.<sup>xi</sup>

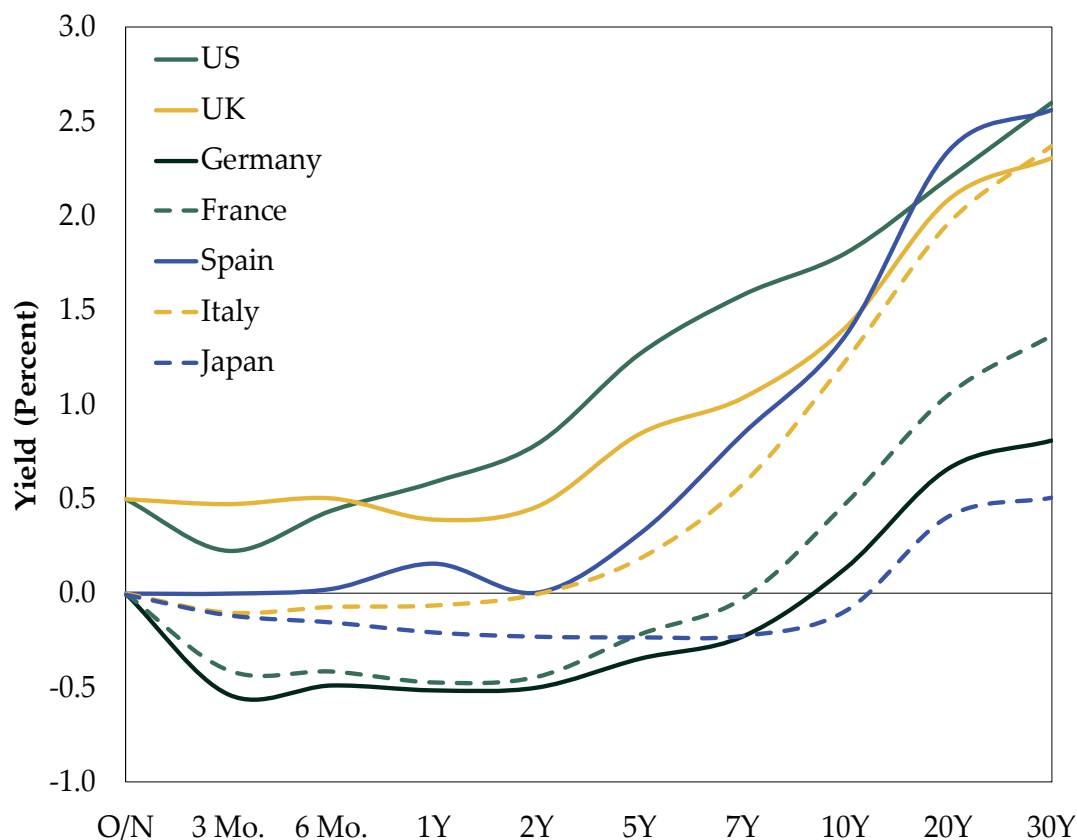
Against this positive economic backdrop, Europe experienced its second terrorist attack in four months in Brussels, Belgium. Like last November's Paris attack, innocent lives were lost and the human impact is terrible. Yet, the economic impact is limited. Though strikes can briefly interrupt local activity—France's services PMIs fell slightly after November's attacks—the broader impact is marginal. Terrorism has never ended a bull market or caused a recession. The sad reality is that more frequent attacks also reduce their shock value.

There is a risk that border controls will return, upending Europe's Schengen zone, the visa-free travel area. Although this is unfavourable, it should not reduce economic activity. America's Patriot Act of 2001 caused worry abroad by adding many restrictions and reporting requirements, but neither retaliatory measures nor a decrease in economic activity followed.

### INTEREST RATES ARE BENIGN

Interest rates remain benign, with yield curves positively sloped in most of the developed world (Exhibit 8).

**Exhibit 8: Major Developed World Yield Curves**



Source: FactSet, as of 06/04/2016. Rates on 31/03/2016.

US 10-year Treasury rates, which started 2016 at 2.27%, fell alongside equities in January and early February, reaching 1.66% on February 11th.<sup>xii</sup> By quarter end, rates had reversed much of their initial decrease. We expect long-term interest rates will finish 2016 near where they started, with volatility along the way. Improving US labour markets and rising wages should put upward pressure on rates, but low global inflation and unconventional monetary policy in Japan and the eurozone exerts a downward pull. The European Central Bank's (ECB) and the Bank of Japan's (BoJ) quantitative easing programmes and negative interest rates drive institutions to seek sovereign bonds with higher yields—Treasury's. While negative interest rates are not great, in our view, we do not think their increased usage is overly poor.

This year, the UK's "Brexit" referendum on EU membership adds complication. The Fed has referenced affairs abroad often in recent meetings, suggesting they may not want to hike rates before a major event—doing so could cost it credibility. If rates do not increase at April's meeting, there is no Fed meeting in May, and June's session lands one week before June 23's Brexit vote. Brexit considerations could preclude a June move, making half the year pass with no hike—and US political party conventions about to start.

### DO NOT FEAR NEGATIVE INTEREST RATES

Negative interest rates have existed since 2012, and the eurozone has had them since 2014. The eurozone has also grown throughout its entire experience with negative rates, pre-emptively disproving investor concerns.

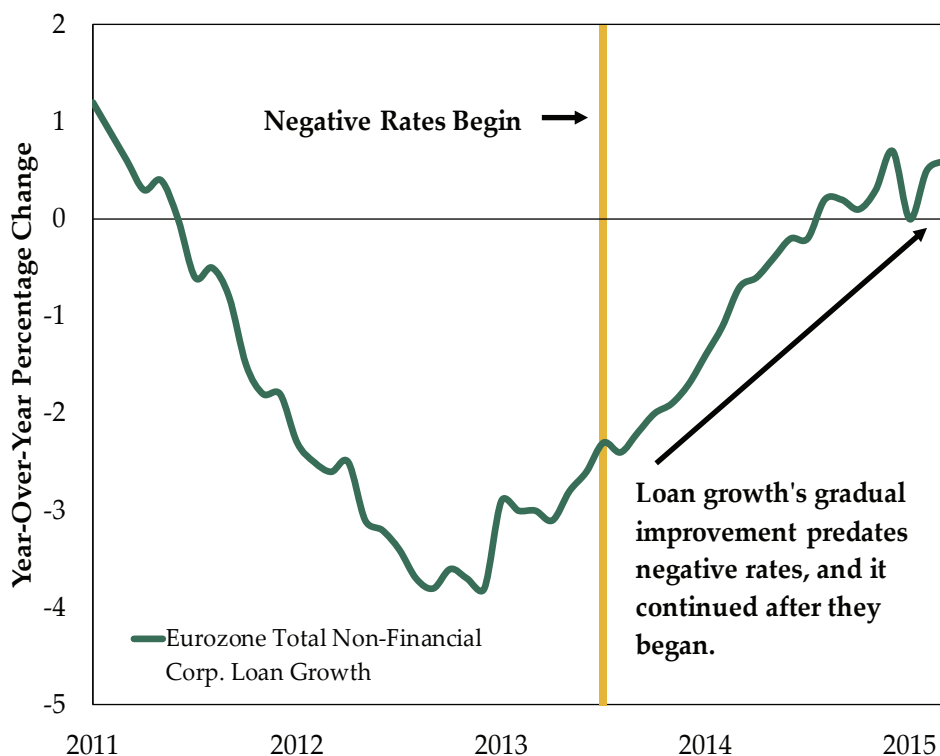
Negative interest rates are the Japanese and European central banks' attempts to discourage cash-hoarding and encourage lending. Most central banks pay interest on excess reserves held at the central bank in order to better control liquidity and interbank lending rates. When a central bank adopts negative rates, instead of paying interest on excess reserves, they charge a small fee. In theory, this should motivate banks to lend more, reducing idle reserves and raising the broad quantity of money (M3 or M4). In practice, however, negative rates are a bank tax. Eurozone banks are not arbitrarily holding excess reserves. The reserves exist due in part to low loan demand, reduced loan profitability (thanks to flattish yield curves) and the massive amount of new reserves created by quantitative easing. Hence, to preserve profit margins, banks must either move excess cash into a higher-yielding instrument like sovereign debt, or pass the costs on to consumers. But competition and, in some countries, the law, prevents eurozone banks from charging retail customers for deposits, and a large amount of eurozone sovereign debt also carries negative interest rates. As a result, banks' costs are rising.

However, the impact of rising bank costs is not huge. Only 5% of major global central bank reserves carry a negative interest rate.

<sup>xiii</sup> Moreover, the ECB recently announced it would pay banks with loan growth exceeding certain thresholds, mitigating fears as they pertain to the eurozone. Meanwhile, loan growth continues improving, albeit slowly, and eurozone money supply is growing swiftly. There is also a small silver lining: negative rates pull down the yield curve's short end, steepening it slightly. However, there is a downstream effect globally, as negative yields in the eurozone increase demand for higher-yielding sovereigns abroad, driving down medium and longer-term yields in the US and UK. Yet, money supply is growing in the US and Britain.

Negative interest rates are counterproductive, but not big enough to derail growth and credit expansion. In the two years since the ECB unveiled negative interest rates, loan growth has improved (Exhibit 9).

#### Exhibit 9: Eurozone Loan Growth Is Up Despite Negative Interest Rates



Source: FactSet, as of 21/04/2016. December 2011 – February 2016.

#### UK GROWTH IS SUSTAINABLE

Though critics still call the UK's services-heavy economy "unbalanced," growth has proven quite sustainable. Q4 UK GDP grew 0.6% q/q (2.4% annualised), led by the services sector, which grew by 0.8% q/q (3.3% annualised).<sup>xiv</sup> Fearful investors viewed stagnant manufacturing, weak trade, record-high current account deficit and the record-low saving ratio as signs the expansion was faltering. However, none of these signal looming trouble. Manufacturing and trade have been variable, but they have not prevented growth. The current account deficit reflects the UK's robust, service-driven economy and the Energy sector's struggles are not anything worrisome. Similarly, the low household saving ratio is a flawed measurement with odd inputs that mask rising household wealth. Beyond GDP, Services and Manufacturing PMIs indicate businesses are growing, and LEI remains in its long-running uptrend, suggesting growth likely continues.

#### BREXIT—TEMPEST IN A TEAPOT

In 2013, UK Prime Minister David Cameron pledged to renegotiate Britain's membership in the European Union (EU), repatriate some powers from Brussels, and hold a referendum on continued membership under the revised terms by 2017's end. Cameron and EU leaders reached a deal in February, securing some opt-outs on political integration and benefits payments for migrants. The referendum is scheduled for June 23, 2016.

With polls tight, uncertainty will likely linger until the vote. But that uncertainty vanishes on June 23, once the results are in. If Britain stays, markets continue on as normal—the status quo is a known quantity. If Britain leaves, things will change, but the aftermath will not be nearly as bad as many presume. Equities move most on the gap between reality and expectations, and many see a Brexit as the worst-case scenario. Several economists, market forecasters and even the Bank of England have warned leaving the EU will make the current account deficit difficult to finance, weaken the pound, gilts and the UK economy. This fear makes any outcome other than disaster a positive surprise—which is bullish.

For global markets, it matters little whether the UK is in or out of the EU. Britain is an enviable investment destination, with top-notch human capital, rule of law, stable property rights and free markets. Britain's geography and tax advantages make it an attractive destination for multinationals. Gilt markets are liquid and among the world's lowest default risks, yet with relatively higher yields. Note, too, yields have not increased amid the Brexit debate; implying markets do not view the vote as strong indicator for Britain's creditworthiness. As for the pound, currency swings are always impossible to forecast. Yet whether it falls, rises or holds steady, in competitive developed economies like the UK, currency strength/weakness is not a material economic driver.

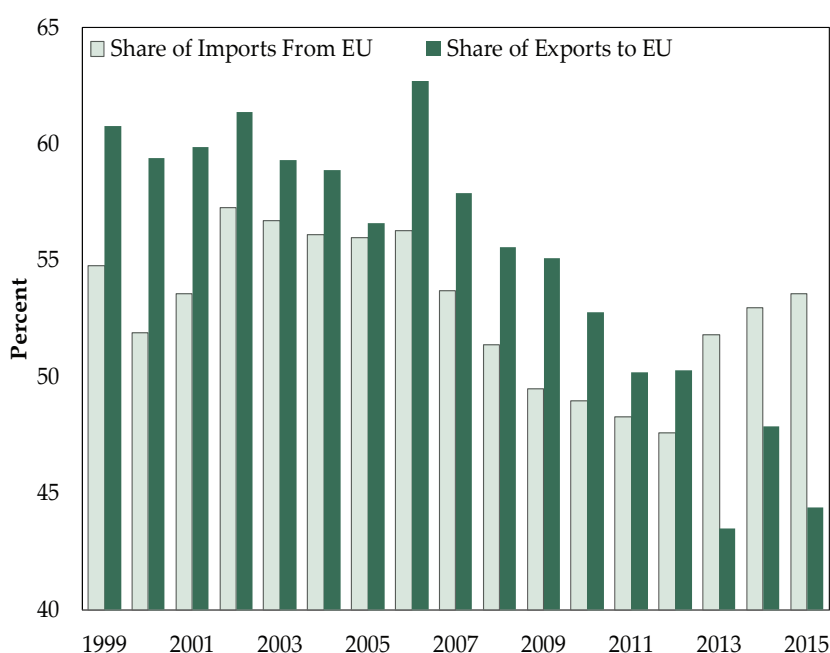
Even if a Brexit triggered a UK or continental European recession, regional recessions amid a global expansion and bull market are not uncommon. In this cycle, Japan—an economy slightly bigger than Britain's—has gone into recession three times since the global downturn ended in 2009. The eurozone, vastly larger than Britain, was in recession from late 2011 through early 2013. Both Asia and the EU experienced regional recessions during the 1990s. In all these cases, stronger nations pulled the weaker along.

## A BREXIT'S EFFECT ON TRADE

A Brexit should not cause a large increase in protectionism. If Brits vote to leave, there will be a two-year exit process, during which the UK and EU will negotiate a new relationship, including trade terms. Both sides benefit from free trade, incentivising its preservation. The UK can also use that window to draw free-trade agreements with the EU's existing free-trade partners, and it will be free to pursue new bilateral trade agreements for the first time in decades. Even if negotiations take longer than two years, the UK has "most favoured nation" status at the World Trade Organization, so it faces relatively low tariffs globally.

Though the UK certainly benefits from intra-EU trade, it also trades a fair amount externally—it is a global marketplace. The EU's share of UK exports has declined markedly in recent years (Exhibit 10).

**Exhibit 10: The EU's Share of UK Trade**



Source: Eurostat, as of 14/04/2016.

Further, as corporate tax cuts are implemented they will gradually improve competitiveness. The economy should soon benefit from increased thresholds for the business tax rate, reducing many small businesses' tax bills.

## POLITICS IN GERMANY, SPAIN AND IRELAND

In Germany, the anti-establishment Alternative für Deutschland (AfD) party and Green party made strong inroads in March's regional elections. Both parties gained a significantly higher share of votes across the board, decreasing support for the governing Christian Democratic Union (CDU) and Socialist (PSD) coalition. While this does not change the national Parliament's makeup, it illustrates Chancellor Merkel's decreasing political capital and the increasing influence of non-mainstream parties in German politics. AfD's ascendance also mirrors the rise of nationalist, anti-EU parties across the union.

In Spain, which still does not have a government following last December's vote, fringe parties are also influential. Prime Minister Mariano Rajoy's Popular Party won the most seats, but lost its majority in that contest, and was unable to reach an agreement with the centre-right upstart Ciudadanos or mainstream centre-left Socialist Party for a united government. The Socialists tried their hand, making overtures to Ciudadanos and the leftist protest party Podemos, but have failed to seal a deal. New elections look likely and could happen in June, but polls show a new vote would have difficulty resolving the stalemate.

Ireland could also be heading for new elections, as February's election has yet to yield a government. Fine Gael, which headed the prior government, won just 50 of Parliament's 218 seats, while the resurgent Fianna Fáil took 44, nationalist Sinn Féin took 23 and the Labour Party won 7. Fine Gael and Fianna Fáil have been in talks to form a minority government, but they are deadlocked over several issues, most prominently the national water utility's future (Fine Gael wants it to remain state-run, while Fianna Fáil favours removing it). There is still a chance they could reach a deal, but the policy divide between the two parties is fairly large. Any coalition would likely be unstable and incapable of accomplishing much.

## POLITICAL GRIDLOCK IS BENEFICIAL

The common thread in Germany, Spain and Ireland is political gridlock—which is bullish. Equities perform well with more political gridlock. Markets dislike when politicians make wholesale changes to property rights, resource distribution, capital availability and regulations. When the rules change, it discourages risk-taking and investment—and often creates winners and losers. When politicians cannot pass sweeping new laws, equities have less to worry about.

While the rise of multiple parties in traditionally two-party states like Spain and Germany is a new twist on gridlock, it does not radically change anything. Smaller parties have made inroads in German politics before and served in past coalition governments. Spain has less of a history with smaller parties, but most eurozone nations have a long history of fractured governments. Belgium went 589 days with no government from June 2010 to December 2011, but Belgian equities were positive for the first year of that stalemate before the euro crisis caused a deep correction in late 2011. Whether an election yields no government or a shaky coalition, the result is the same: a legislature that can not pass much, if anything.

For most of Europe, this is a positive development. Germany and Ireland are already two of the continent's most competitive economies, so extensive change probably does more harm than good. In Spain (and to a lesser extent Portugal), gridlock prevents the unwinding of recent reforms—a positive. Pre-existing gridlock in Italy and France is forestalling some potentially positive reforms, but it also is not allowing the countries to backslide on competitiveness.

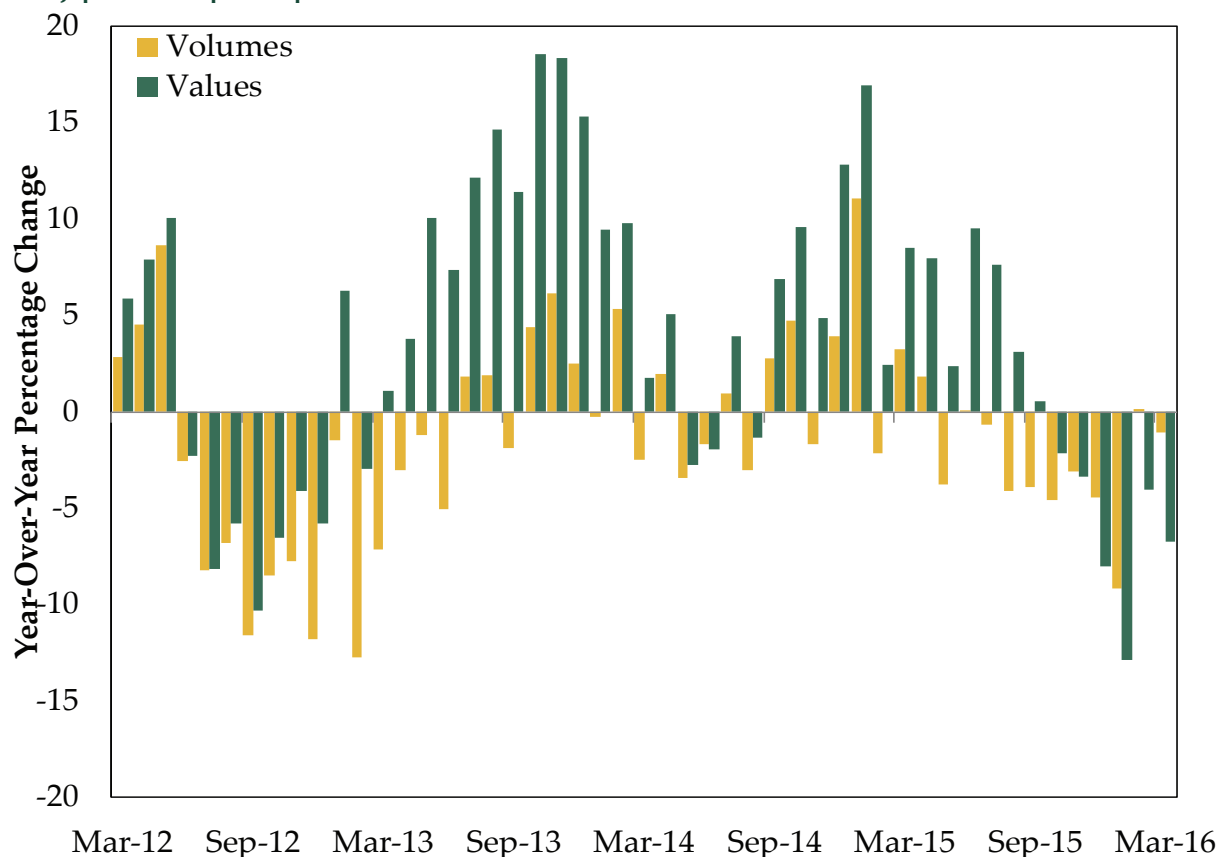
Unlike a potential Brexit and the US election, eurozone political uncertainty lacks a fixed end date. But the benign implications should gradually become apparent as markets realise the benefits of reduced political risk. The less politicians do, the happier eurozone equities should be.



## JAPAN: A WEAK SPOT

Japan's long-running struggles continued, as GDP grew just 0.5% in 2015 (and contracted -1.1% annualised in Q4).<sup>xv</sup> The Bank of Japan's (BoJ) attempts to increase growth through monetary policy—resorting to negative interest rates in February—have largely failed. A weaker yen boosted export values in the short-term, but volumes—the quantity of goods—remain contractionary (Exhibit 11).

**Exhibit 11: Japan's Attempted Export Boost**



Source: FactSet, as of 21/04/2016. Japan Export Quantum (Volume) Index and Value Index, March 2012 – March 2016.

Overall, we believe Japan's economic prospects appear mixed at best, and political drivers remain a negative as the government remains preoccupied with constitutional revisions, not economic reforms.

## EMERGING MARKETS COMMENTARY

### OUTSIDE COMMODITY-RELIANT COUNTRIES, EMERGING MARKETS ARE GROWING

Once again, Emerging Markets (EM) economic data reflect divergence between commodity exporters and importers. Resource reliant nations—most notably Brazil and Russia—remain in recession, their fates largely linked to oil and other commodity prices. But these countries are the exception in EM, not the rule. More diverse commodity exporters like Mexico and Indonesia are still holding firm, driven by their underappreciated service sectors. Commodity importers—led by India and China—are growing apace.

#### CHINA

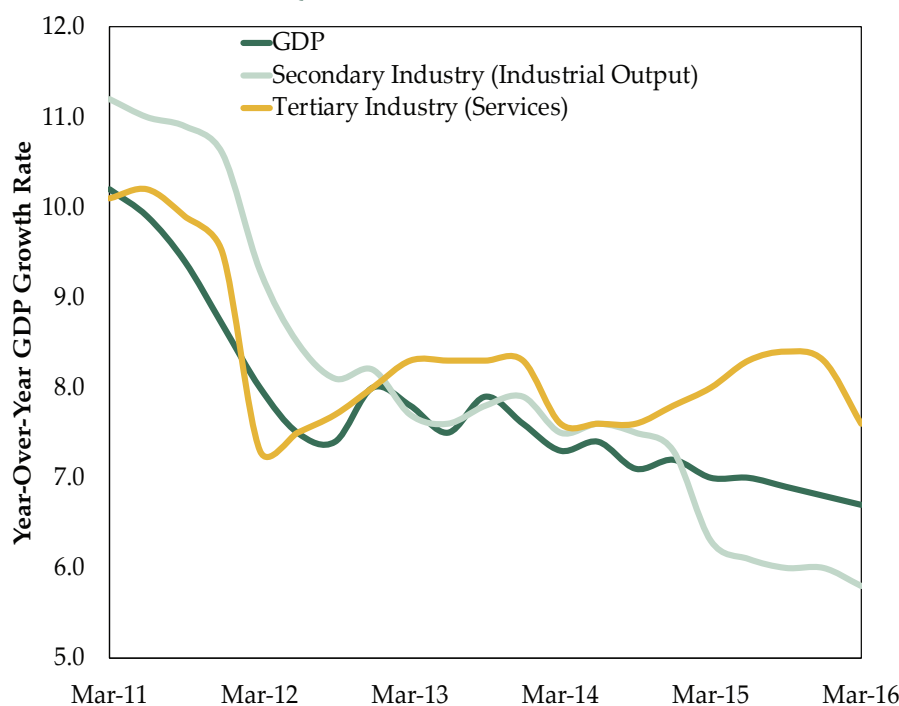
Despite stabilising in Q4 2015, Chinese domestic markets joined in the global selloff at 2016's outset. The negativity was only further exacerbated by the government's clumsy circuit breaker rule, which was designed to halt trading for 15 minutes if the index fell -5% and close the markets for the day if the index continued falling and hit -7%. Through January 28, Chinese A-shares (those limited mostly to domestic investors) had fallen -26.4% since 2015's end. H-shares, which most foreigners hold, suffered to a lesser extent, falling -16.1%.<sup>xvi</sup> After a brief rebound, the Lunar New Year holiday arrived in early February, closing markets while equities elsewhere began to rebound. When markets reopened, Chinese equities joined in the global rally, with A- and H-shares finishing the quarter down -16.4% and -6.6%, respectively.<sup>xvii</sup>

After the surge of initial fears at the year's beginning, sentiment largely shifted from fretting a Chinese economic meltdown to fearing eurozone banks, a US slowdown and the global fallout from weak Energy. Chinese hard landing fears still linger, but they have mostly taken a backseat to fears elsewhere (which we believe are equally false).

Economic data from China helped fears subside. Early-year Chinese data are subject to a great deal of noise, given the Lunar New Year's shifting dates, but the data showed a continuation of the long-running trends: Slower-but-still-strong absolute growth rates, with the government's emphasis remaining on a shift from heavy industry-led growth to services and consumption.

Q1 2016 GDP growth hit 6.7% y/y, right in line with the government's 6.5% - 7.0% target range. Moreover, it's a slowdown of only one-tenth of one percent from Q4's 6.8% and in keeping with the long-existing trend (Exhibit 12).

#### Exhibit 12: China's GDP Growth Trend Held in Q1

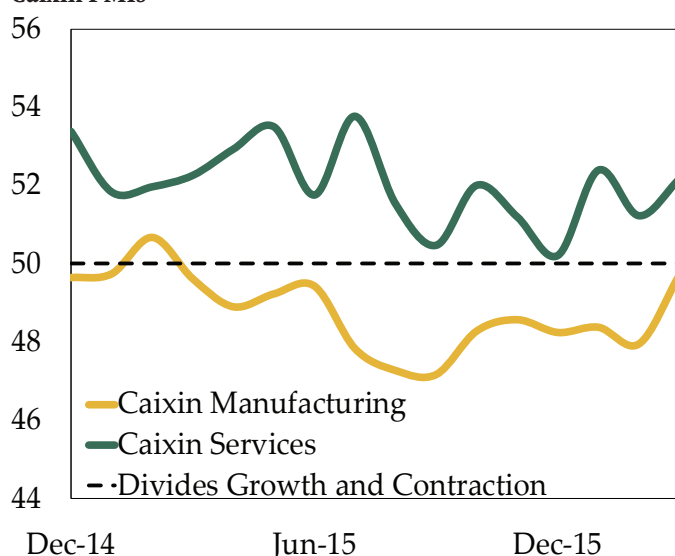


Source: FactSet, as of 20/04/2016. Q1 2011 – Q1 2016.

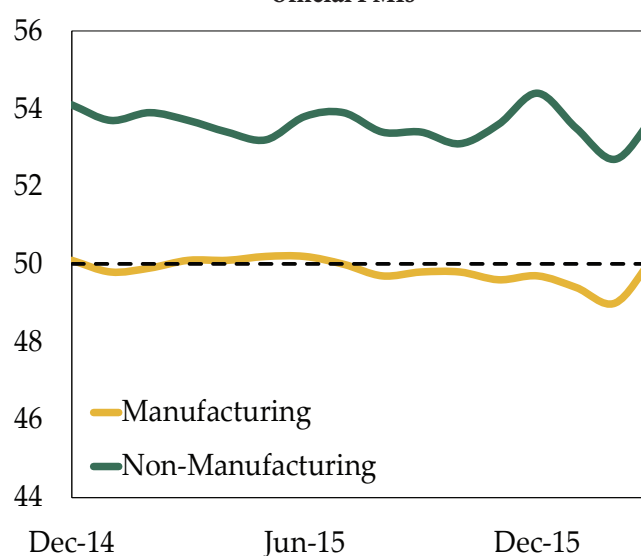
These data follow earlier releases that seemingly show improvement in China's economy. Both the Official and Caixin/Markit Purchasing Managers' Indexes (PMIs) have improved (Exhibit 13). Further, the services PMIs remain in expansionary territory.

### Exhibit 13: China Purchasing Manager's Indexes

Caixin PMIs



Official PMIs



Source: FactSet, as of 20/04/2016. December 2014 – March 2016.

After steep declines in the January/February period (China combines the two months due to the Lunar New Year), March trade data positively surprised, with exports increasing 11.5% y/y and imports falling a less-than-expected -7.6%.<sup>xviii</sup> The latter figure also seems to be dragged down by weak commodity prices, which points to domestic demand remaining firmer than headline data suggest. After slowing from December's 5.9% y/y to January/February's 5.4%, March Industrial Production rebounded to 6.8%.<sup>xix</sup> Fixed asset investment is up 10.7% y/y in 2016 through March, with an increase in property investment powering the slight acceleration.<sup>xx</sup>

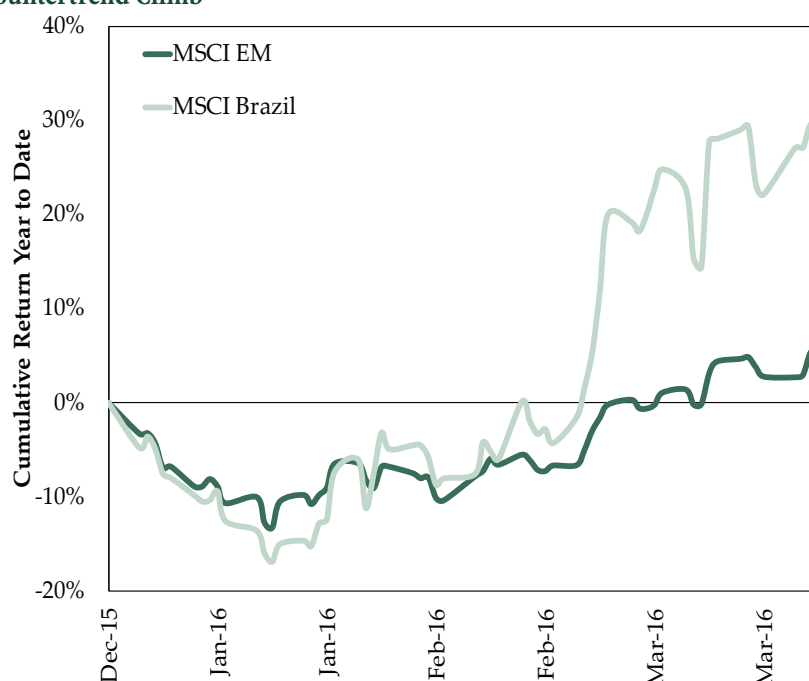
Rise in property investment is emblematic of strength in Chinese real estate. Property sales rose 28.2% in January/February and 37.7% in March. Housing prices continue their uptrend, with sales prices continuing to rise in each of 2016's first three months.<sup>xxi</sup> Much of this seems to stem from the government's mini-stimulus efforts, which are channeled away from industry and funneled toward projects with more consumer impact, like constructing affordable housing. This was further reflected by data showing an increase in new household loans, which hit a record in March.<sup>xxii</sup> As mid-2015's and early 2016's fears fade further into the background, we expect China's brighter-than-appreciated economic reality to positively surprise.

### BRAZIL

Brazil's economy continues to struggle through its deepest recession in more than 80 years. President Dilma Rousseff is on the verge of impeachment amid a wide-ranging corruption investigation and equities are surging. Brazil, an economy and market dominated by big mining and oil companies has been hampered by weak commodity prices. In 2015, the MSCI Brazil fell -41.4%, underperforming the MSCI Emerging Markets Index by 26.5%.<sup>xxiii</sup> However, in 2016, the Energy and Materials countertrend combined with what we believe is excessive optimism over the potential for—and effect of—political change sent equities upward.

2016 did not start out so positively for Brazilian markets, with equities falling -16.9% through January 21.<sup>xxiv</sup> Brazilian equities then rallied. By quarter end, the MSCI Brazil was up 28.5% (Exhibit 14).<sup>xxv</sup> In our view, this outperformance is built on an unstable foundation. Investors seem to hope for a sustained Brazilian rebound on political change, leading to economic reform and stimulus. In our view, this is overly optimistic (Exhibit 15).

**Exhibit 14: Brazil's Countertrend Climb**



Source: FactSet, as of 18/04/2016. MSCI EM and MSCI Brazil cumulative return with net dividends, 31/12/2015 – 31/03/2016.

**Exhibit 15: Brazil Countertrends Since 2010**



Source: FactSet, as of 18/04/2016. MSCI EM and MSCI Brazil cumulative return with net dividends, 31/12/2010 – 31/03/2016.

---

## CAR WASH'S LATEST CYCLE

In December of 2015 there was a failed attempt to impeach Rousseff. However, after an eventful Q1, it looks like new leadership may emerge.

The corruption scandal involving Brazil's state-owned energy company Petrobras—named “Operation Car Wash”—has gradually ensnared some of Brazil's biggest public figures over the past two years and continued to ramp up in Q1. In March, investigators targeted the biggest figure in Brazilian politics: Luiz Inácio Lula da Silva (more commonly known as Lula), Brazil's former—and very popular—president, and the most prominent supporter of Rousseff in Brazil.

In response, Rousseff offered Lula a cabinet position as her chief of staff. Given his still-substantial popularity, she may have hoped Lula could convince Congress to stave off impeachment proceedings. However, many interpreted the appointment as an attempt to protect Lula from the Justice Department's reach, as only the Supreme Court can charge cabinet members with crimes. That interpretation was seemingly confirmed after secretly recorded conversations were publicly leaked, prompting a judge to suspend Lula's nomination. After the leak, Congress renewed impeachment proceedings, alleging Rousseff was involved in Petrobras' underhanded dealings; used illicit funds to finance her 2014 reelection campaign; and mismanaged federal accounts.

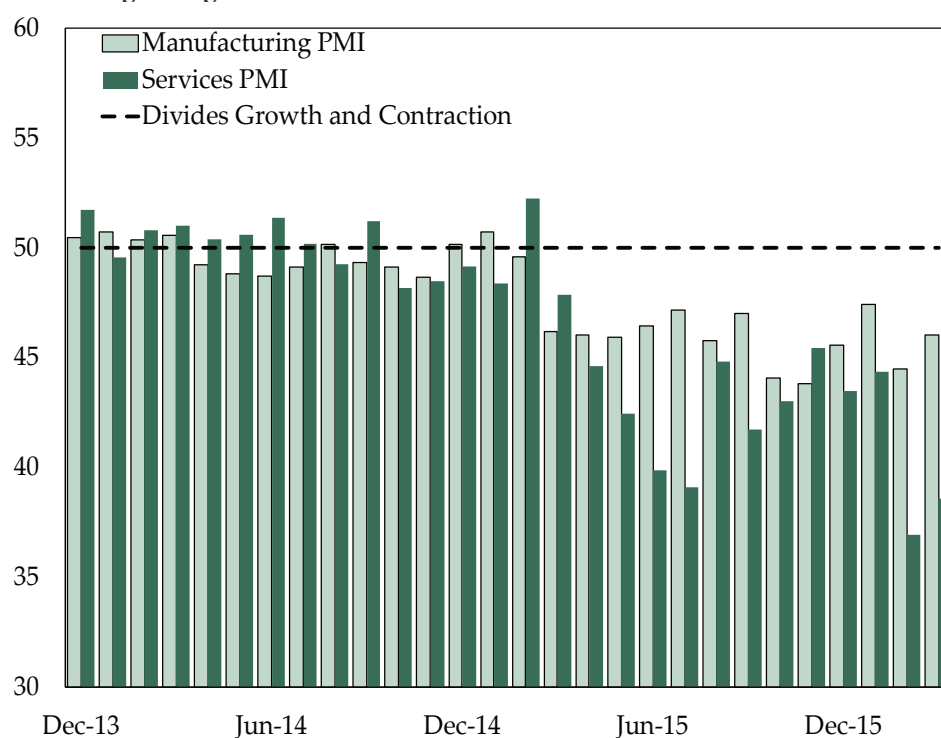
Shortly after quarter-end, the lower house of Congress voted 367 – 137 (with seven abstentions) to advance impeachment proceedings against Rousseff. The next step—a Senate vote on whether to open a trial—is pending. If a simple majority of 81 Senators vote in favour of impeaching Rousseff, she would be suspended from office for 180 days while a trial is held. Should that happen, which seems likely, two-thirds of the Senators would have to vote in favour of impeachment for her to be removed from office.

In the event of Rousseff's suspension or removal from office, Vice President Michel Temer (who is not from Rousseff's party and whom Rousseff has accused of plotting her removal) is first in line for succession. Some suggest Temer is an ideal choice, given what many perceive to be a pro-business stance. However, he is widely unpopular—he has not won an election on his own in over a decade, and he too faces possible impeachment as Brazil's Supreme Court has already recommended Congress open proceedings. Third in line for succession is House Speaker Eduardo Cunha, who also faces a corruption trial, illustrating the reach of the Car Wash investigation. Investors hoping for political change are speculating that anyone other than Rousseff will have the influence and popularity to push through reforms and stimulus plans. This seems overly optimistic and even if this person can push through proposed reforms and stimulus plans, those seem unlikely to work, in our view.

## ECONOMIC BACKDROP

Brazil's economy is in a deep recession. GDP contracted -3.9% in 2015 (-1.4% q/q in Q4 2015), its worst annual contraction since 1990.<sup>xxvi</sup> Industrial production fell 11 of the last 12 months, with output falling -2.5% m/m (-13.2% y/y) in February.<sup>xxvii</sup> The mining industry, which comprises a large portion of Brazilian economic activity, is in a downtrend. Other gauges reflect the country's deep struggles. PMIs suggest widespread weakness, with both manufacturing and services gauges in contractionary territory for some time—services substantially so (Exhibit 16).

**Exhibit 16: Brazil Purchasing Managers' Index Levels**



Source: FactSet, as of 19/04/2016.

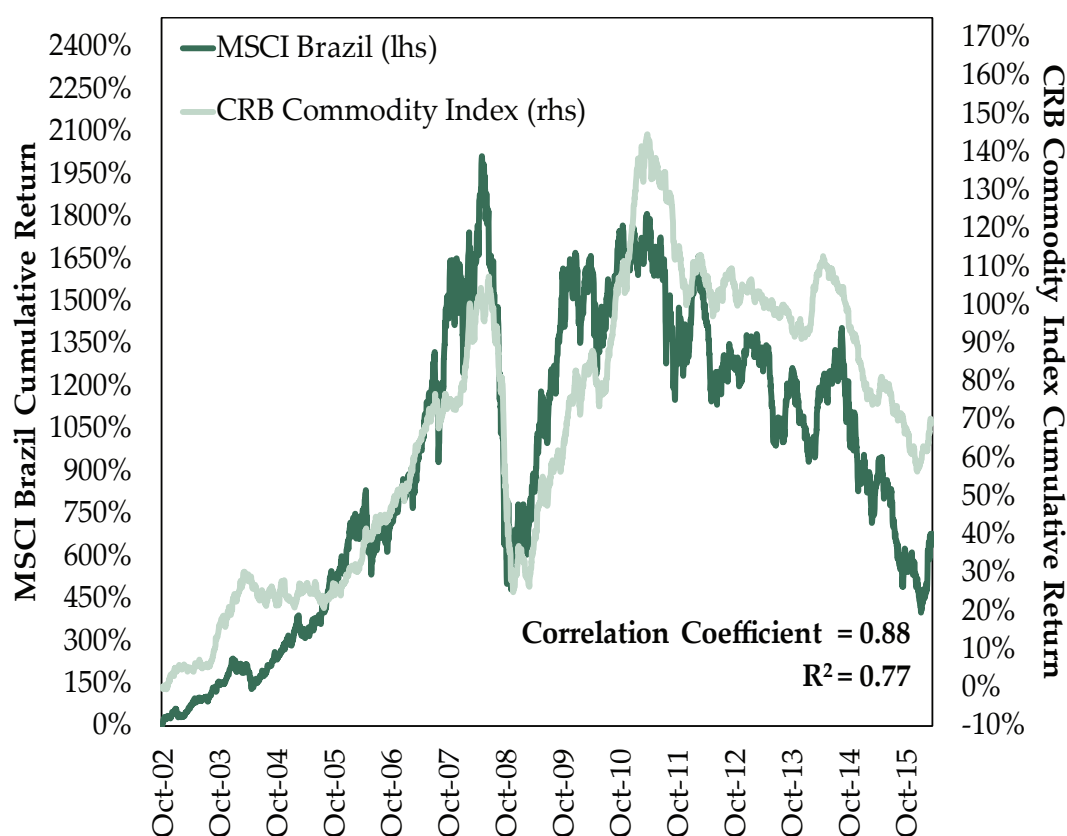
On an output basis, the services sector fell -4.0% y/y in February, the latest in a long string of declines.<sup>xxviii</sup> While retail sales volumes unexpectedly rose 1.2% m/m in February, this is a relative rarity in Brazil of late.<sup>xxix</sup> Even with the rise, sales fell -4.2% on a year-over-year basis. One of the major headwinds consumers face: inflation nearly in the double-digits—the highest in over a decade—and corresponding high interest rates.

## COMMODITY CONNECTION

Commodities are driving Brazil's economic weakness. This, too, is the reason a new administration likely cannot reverse the impact. Brazil's economy is commodity-reliant, and with prices from soybeans to iron ore to oil weak, investment, exports and production are badly hurt.

Brazil's economy and markets closely track commodity prices. The correlation coefficient between the MSCI Brazil and the CRB Commodity Spot Index is 0.88.<sup>xxx</sup> Another measure of correlation, the R-Squared, is 0.77.<sup>xxxi</sup> This is why Brazil returned an astounding 1454% in the commodity-led 2002 – 2007 bull market (by comparison, the S&P 500 rose 101% over the same period ).<sup>xxxii</sup> Similarly, Brazil mirrored commodities' bounce-back following the 2008 bear market. However, the country's equities also peaked right around commodities' most recent peak in early 2011—they have been in a downturn since then (Exhibit 17).

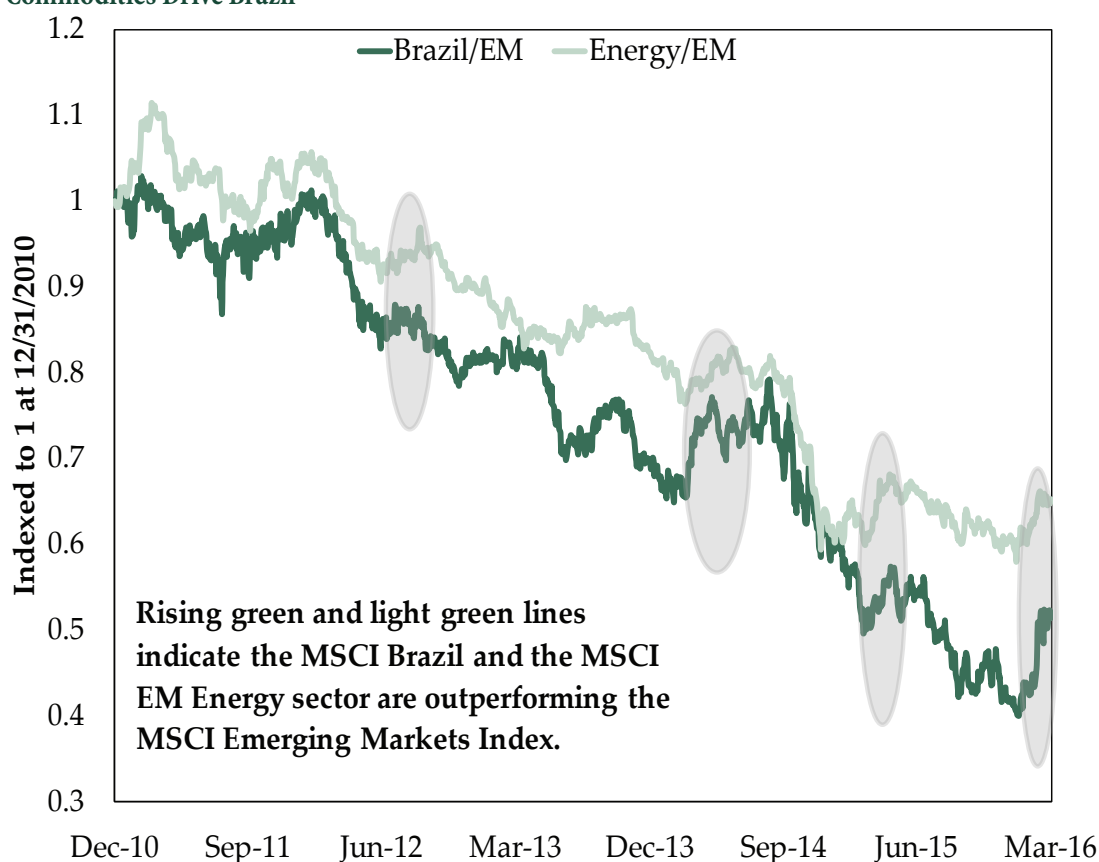
**Exhibit 17: Brazil and Commodities Are Tied at the Hip**



Source: FactSet, as of 17/03/2016. MSCI Brazil and CRB Commodity Spot Index, from 16/10/2002 – 31/03/2016. (16/10/2002 was the MSCI Brazil's low point preceding the 2002 – 2007 bull market.)

This is also evidenced by revisiting Brazilian countertrends and overlaying a graph the MSCI Emerging Markets Energy sector's relative performance (Exhibit 18). Note the similar timing of countertrend rallies.

#### Exhibit 18: Commodities Drive Brazil



Source: FactSet, as of 25/04/2016. MSCI EM and MSCI Brazil cumulative return with net dividends, 31/12/2010 – 31/03/2016. MSCI EM and MSCI EM Energy Sector with net dividends, 31/12/2010 – 31/03/2016.

#### A FALSE DAWN

Still, some might note that equities often bottom out before the economy does, and with all the well-known turmoil in Brazil, it could be equities are anticipating a rebound. We think it is likely a false dawn. Optimism and hope are running high that removing Rousseff will change Brazil's fortunes. It is reminiscent of regime changes elsewhere in EM, where a new government generates excitement, driving temporary outperformance.

In Brazil's case, simply changing the president vastly oversimplifies the country's issues. Brazil's Congress is fractured and gridlocked, so consensus-building would be difficult.

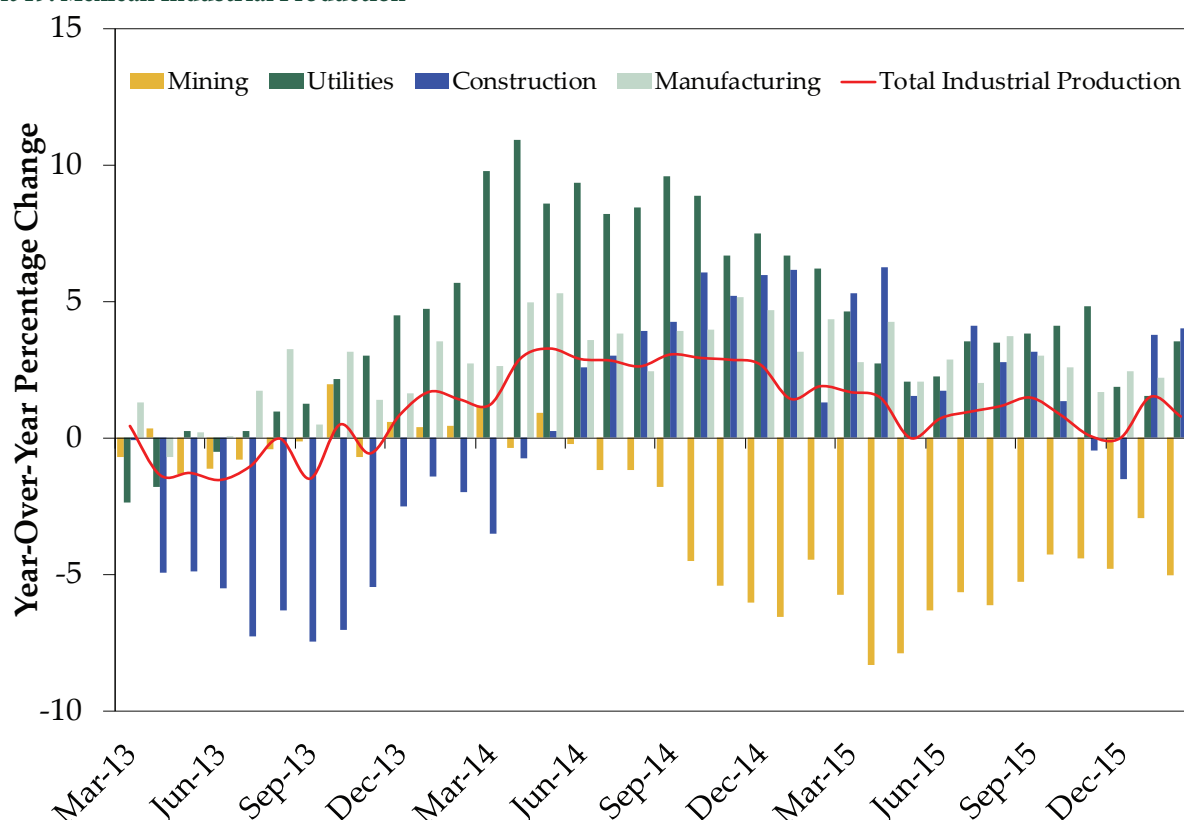
In countries needing liberalisation, economic reforms influence relative returns. However, cyclical drivers are also powerful. We have argued for years that Japanese outperformance had unstable economic basis, given high expectations for Abenomics and the likelihood it would under-deliver in actual reforms. Absent that, Japan needs strong cyclical tailwinds to drive growth, which it lacks. Brazil is in a similar situation, with investors' impeachment hopes up, and no clear alternative to Rousseff in place with a mandate for big reform. Meanwhile, the cyclical backdrop for commodity-heavy nations is the major driver and an oversupply remains.



## MEXICO

Many fear EM's weaker countries will drag the rest down, yet overall and on average, the opposite is happening. Mexico is a good example. Mexican oil rents, as a percentage of GDP, are over twice as high as Brazil's—oil plays a large economic role. Yet unlike Brazil, Mexico is growing, powered by non-Energy heavy industry, services and consumption. Private consumption growth accelerated in 2015, even as oil prices fell. Imports grew rapidly—further evidence of strong domestic demand. Mining production has decreased since oil prices began falling in June 2014, yet strong growth in manufacturing and utilities output has kept overall industrial production strong (Exhibit 19). Mexico's Manufacturing PMI topped 50 throughout Q1, implying expansion, and sped to 53.2 in March—led by rising new business, the most forward-looking component.<sup>xxxiii</sup> Mexico's underappreciated economic diversity should remain a tailwind for the foreseeable future.

**Exhibit 19: Mexican Industrial Production**



Source: FactSet, as of 22/04/2016. Year-over-year growth in Mexican Industrial Production and all major components, March 2013 – February 2016.

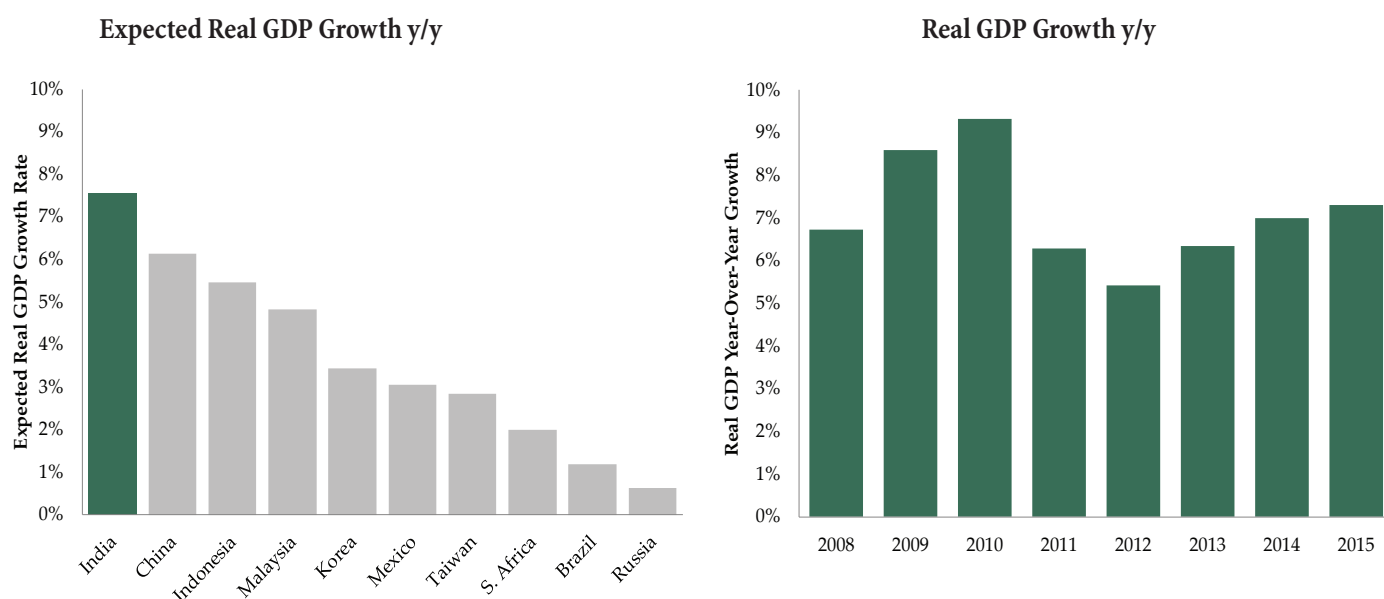
## INDONESIA

Indonesia, which recently rejoined OPEC, is another prime example. GDP growth accelerated to 5.0% y/y in Q4 2015, powered by consumer spending and fixed investment.<sup>xxxiv</sup> On the sector level, mining and quarrying output fell sharply, but all other sectors rose—led by financial and information services (12.5% y/y and 9.7% y/y, respectively).<sup>xxxv</sup> Manufacturing, the largest single contributor to GDP growth, grew 4.3% y/y.<sup>xxxvi</sup> Industrial production grew 3.7% y/y and 2.9% y/y in January and February, respectively, while retail sales grew 12.9%, 9.9% and 9.6%, sequentially, in 2016's first three months.<sup>xxxvii</sup>

## INDIA

Indian growth remains at the forefront of Emerging Markets. In Q4 2015, India saw its third straight quarter of GDP growth above 7%, as private consumption growth sped to 6.4% y/y.<sup>xxxviii</sup> GDP growth continues to accelerate off its slow down five years ago and is expected to be the fastest growing economy among developing peers over the next several years (Exhibit 20). Meanwhile, M3 money supply continues growing at a double-digit annual rate, yet inflation remains contained by historical standards. CPI slowed to 4.8% y/y in March, giving the Reserve Bank of India (RBI) latitude to cut rates in early April. The RBI has now cut rates by 150 bps since early 2015, bringing the repo rate to 6.5% and significantly steepening India's yield curve (Exhibit 21). With the inflationary outlook benign, the government's recent budgetary commitment to fiscal discipline and modest improvement in economic activity, the RBI has plenty of room to maintain its accommodative bias.

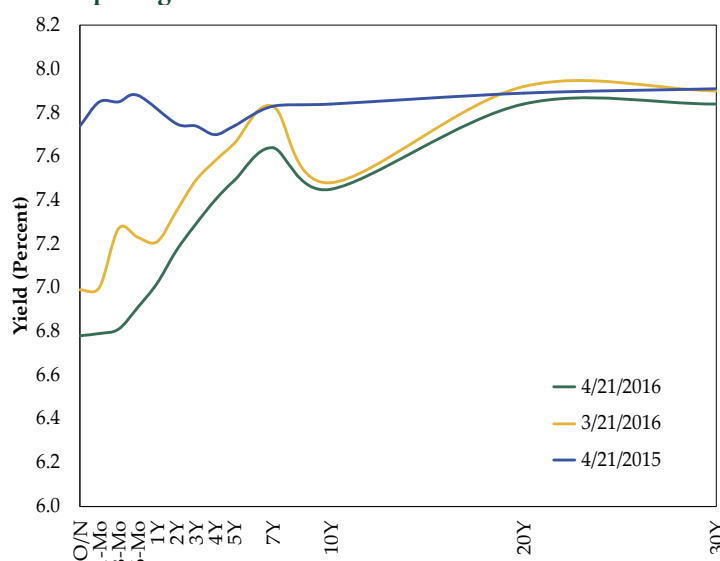
## Exhibit 20: India Expected and Real GDP Growth y/y



Left Chart Source: IMF World Economic Outlook, October 2015. Only top ten EM countries by weight listed.

Right Chart Source: FactSet as of 02/05/2016

## Exhibit 21: India's Yield Curve Is Steepening



Source: FactSet, as of 22/04/2016. Indian yield curve on 21/04/2016, 21/03/2016 and 21/04/2015.

---

## OTHER EMERGING MARKETS

Rounding out major EMs, South Korean GDP growth accelerated to 3.0% y/y in Q4 2015, as private consumption (3.3% y/y) and fixed investment (5.4% y/y) sped.<sup>xxxix</sup> Despite continued fears of the relatively strong won negatively affecting trade, exports grew 2.5% y/y, their fastest rise since Q2 2014.<sup>xl</sup> Imports increased to 6.1% y/y, implying strong domestic demand.<sup>xli</sup> Retail sales growth stayed firm in January and February at 4.6% y/y and 3.1% y/y, respectively, while industrial production returned to growth at 2.4% y/y in January.<sup>xlii</sup> Growth also continued in Malaysia (4.5% y/y), Peru (4.7% y/y) and Thailand (2.8% y/y).<sup>xliii</sup> Turkey's 5.7% y/y Q4 GDP growth was the fastest rise since Q3 2011 and counters fears the massive influx of Syrian refugees will hurt the local economy.<sup>xliv</sup> GDP has increased throughout the refugee crisis, on the back of strong private consumption and public investment.



## 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 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 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](http://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 0800 144 4731. All communications with Fisher Investments Europe will be in English only.
3. **Services:** These Terms of Business explain the services offered to professional clients and will apply from when Fisher Investments Europe begins to advise you. As part of its services, Fisher Investments Europe seeks to:
  - 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.