FISHER INVESTMENTS EUROPE™

THIRD QUARTER 2013

MARKET PERSPECTIVES

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THIRD QUARTER 2013 REVIEW AND OUTLOOK
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THIRD QUARTER 2013 REVIEW AND OUTLOOK: EXECUTIVE SUMMARY

Across the globe, stocks had a nicely positive Q3 as a strong economic reality surprised too-dour investors—in Fisher Investment's (FI) view, a strong contribution toward robust full-year returns.

Market Recap

Looking ahead, there is ample fuel for the bull to continue. A key catalyst for faster economic growth, in FI's view, will be the eventual end of the US Federal Reserve's (Fed) quantitative easing (QE) programme. Note, FI's view on QE is the opposite of what you will read most elsewhere—FI strongly believes QE is a negative. Many credit QE for supporting the US economy and global equity markets, but as FI has written in past Review & Outlooks, this is backward. By flattening the yield curve—the spread between short- and long-term interest rates—QE has created a disincentive for banks to lend, stifling growth. Once the Fed ceases its bond purchases, long rates should normalize, widening the yield curve spread and increasing banks' profits on new loans. The Fed itself has long viewed a wider yield curve spread as a positive leading economic indicator. In fact, the yield curve spread is a component of the Leading Economic Index (LEI)—a powerful yet underappreciated gauge of the economy's future direction. Today, the LEI is not only high and rising but beating expectations, largely because of the positive impact of the yield spread widening.

The end of US QE should help jumpstart growth, much as the UK economy received a jumpstart after its QE programme ended last year. Since UK QE ended, GDP growth has turned positive, manufacturing and services Purchasing Managers Indexes have moved decidedly into expansion, and a number of other economic measures have shown substantial improvement. The economic boost the UK received from QE's end should be mirrored in the US when QE finally ends here. Moreover, spreads should widen globally, creating fuel for faster growth worldwide. Yet investors largely do not realize this—or connect the dots between the UK's reacceleration and the end of QE—and instead fret Fed policy changes. Even as the US yield spread started widening in anticipation of QE's end, investors largely ignored the positives associated with steep yield curves and instead fretted rising rates. This is largely bullish and a key reason FI believes the gap between sentiment and reality has grown lately.

Q2 GDP data showed eurozone emerged from its 18-month recession, with Germany and France leading the charge. The long-suffering periphery showed further improvement, too, as Ireland and Portugal returned to growth while Spain continued stabilising. Many economic releases suggested the recovery continued in Q3, with composite Purchasing Managers Index surveys rising modestly. Looking ahead, FI expects a slow economic recovery throughout the region, with stronger areas continuing to pull weaker nations along.

Eurozone political theatrics continued in Q3, but markets were largely mixed. Junior coalition partners in Portugal's and Italy's cabinets threatened to destabilise their respective governments, but in both cases, the government remained intact with broad Parliamentary support. Sovereign yields ticked up a bit as politicking grew heated, but the volatility was nowhere near levels seen throughout 2011 and 2012, suggesting investors are increasingly moving on from familiar eurozone worries. As sentiment continues improving and leaders continue progressing on items like the forthcoming banking union, investors should gain further confidence in the region's longer-term prospects, providing a tailwind for markets.

China's economy showed further signs of stabilisation during Q3, suggesting the long-feared hard landing is increasingly unlikely. Manufacturing and non-manufacturing Purchasing Managers Index surveys accelerated throughout the quarter, led by the forward-looking new orders components. Growth picked up in industrial production, fixed investment, retail sales, exports and M2 money supply in August, and Total Social Financing rebounded sharply from its July low. Overall, China's economy appears fundamentally sound—and poised to surprise too-dour investors moving forward. Growth may not match the double-digit pace of recent years as the shift from investment- to consumption-led growth continues, but since the country is growing off a much larger base, the dollar amount of GDP growth should remain significant—for China and the global economy.

Earlier optimistic sentiment has faded back to scepticism. This, too, is bullish. While forecasting much beyond the next 12-18 months is folly, today's sceptical sentiment implies this bull market is far from done. As sentiment gradually improves through the bull's second half and investors increasingly move past familiar worries, they gain confidence in stocks' future earnings and become willing to pay a bigger premium for a share in these profits, lifting markets higher.

Today's investors fret mostly rehashed fears, like the fears of QE ending and geopolitical tensions. The government shutdown and Congress's deadlock over the debt ceiling have also fuelled investors' grinding scepticism. Yet history shows neither is terrible for the economy or markets, and FI sees no reason this time should prove different. Other, less-frequently discussed, risks exist, but none appear probable or powerful enough to outweigh the many fundamental positives driving this bull forward. While a correction during this bull market is possible at any time for any reason—or even no apparent reason—stocks have ample room to run before the bull market reaches its typical euphoric heights.

THEMATIC UPDATE & MARKET OUTLOOK

A Look Back and a Look Ahead

The third quarter was overall positive for global stocks—though not without volatility. However, sentiment-driven volatility is normal during bull markets. Longer term, economic fundamentals outweigh short-term sentiment swings—FI's forecast for a strongly positive year for global equities remains intact.

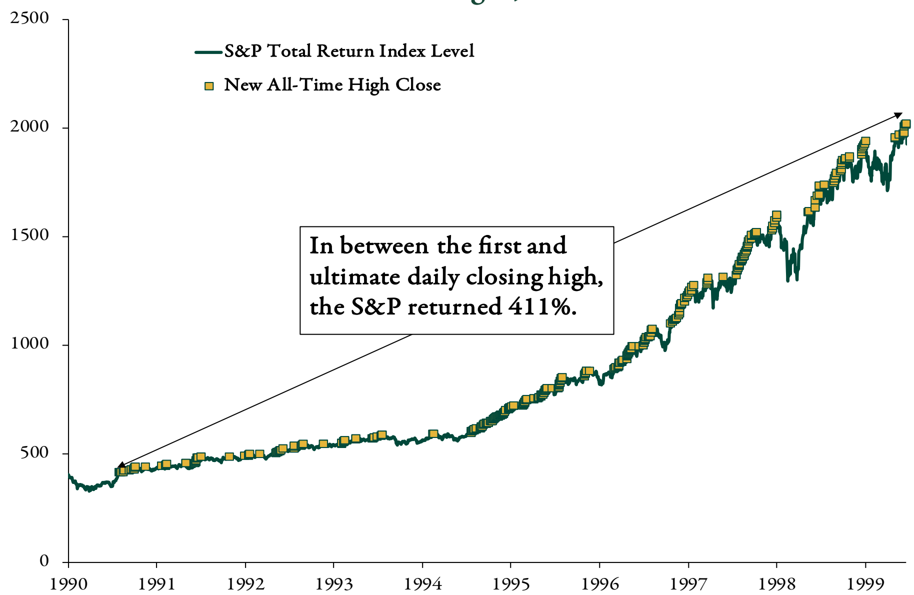
Sentiment turned significantly more sceptical in Q3—suggesting there is more bull market ahead than FI previously believed. Recall Sir John Templeton's famous saying: "Bull markets are born on pessimism, grow on scepticism, mature on optimism and die on euphoria." Earlier this year, FI saw signs investors were starting to appreciate underlying fundamentals and economic strength, leading them to believe sentiment was improving. However, those tentative steps toward optimism seemingly turned back during the third quarter amid renewed jitters over the US Federal Reserve's (Fed) policy, US budget debate, geopolitical tensions and more. The pervasive fears, though, are widely known—diminishing their ability to drive a bear market—and in many cases simply do not have the economic or market impact investors think they do.

Such false fears are bullish. The gap between expectations and reality can be a powerful force pushing stocks in one direction or another. Reality need not be an unmitigated positive to be hugely positive for stocks. Even the realization things just are not as bad as presumed can be a positive stock market driver. For instance, this bull market did not begin in March 2009 because the economy was suddenly in great shape. It began because investors had become far too pessimistic about the state of the world. Just the realization by investors that we were not headed for another Great Depression was enough to push stock prices considerably higher. Today, sentiment has improved from the very pessimistic level that pervaded when this bull market began, but it remains quite sceptical. From here, the realization economic fundamentals are strong and the US and global economies are growing, albeit unevenly and at less-than-extraordinary rates, should be powerful.

We are also a long way away from rampant optimism, which likely will not begin until the media's sentiment shifts. Some fear the media's outlook is a "self-fulfilling prophecy"—its negativity begets (downward) volatility, taking markets down with it. Yet the opposite seems more in line with how markets typically behave. In continually selling fear, the media helps perpetuate the proverbial wall of worry bull markets climb—the more worries, the more climbing. Negative media helps keep sentiment from becoming euphorically detached from fundamentals—giving this bull market plenty of room to rise.

Today, too-dour media obscures a fundamentally healthy global economy. The US is growing due to a strong private sector, the UK continues rebounding and even the eurozone returned to growth. The media also misinterprets stock markets' new highs. Exhibit 1 shows the 1990s bull market—during which the S&P 500 Total Return index achieved 347 new all-time highs. Bull markets die from many things, but neither age nor magnitude alone is among them.

Exhibit 1: S&P 500 Total Return Index New All-Time Highs, 1990-2000



Source: FactSet Data Systems, Inc., as of 11/10/2013. S&P 500 Total Return Index from 17/7/1990-31/12/1999.

While risks remain, FI believes the bull market should continue, and FI's forecast for strong equity market returns remains firm. A correction is possible at any time for any reason, but as markets weigh fundamentals over the foreseeable future, stocks should rise irregularly higher.

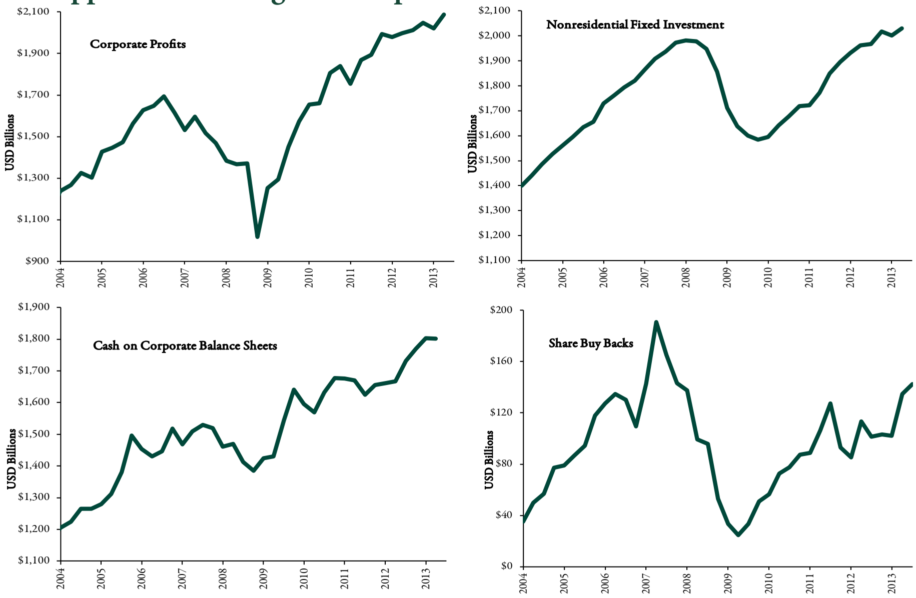
Fundamentally Speaking

Stock bubble fears persisted in Q3, as sceptical investors feared equities had grown too detached from their low expectations. Yet this is the near reverse of a bubble. True bubbles occur when scepticism is scarce—euphoric investors do not notice deteriorating fundamentals, as in late 1999 and early 2000 when investors bid unprofitable dot-coms higher despite growing negatives. Today, sceptical investors simply do not notice the world's fundamental strength, and as a result, they are not yet paying a premium for stocks.

Private Sector in the Driver's Seat

As in recent quarters, many investors overlook the US private sector's underlying strength and potential for continued growth. The US economy appears poised to accelerate once QE ends and the yield spread widens. Even with QE in force, however, firms are finding ways to invest and grow. (Exhibit 2) Corporate profits rebounded in Q2, hitting a new all-time high $1.8 trillion annual rate, allowing firms to invest more without spending down cash balances—business invested cash at a $2 trillion annual pace in Q2, closing in on all-time highs[i]. Yet non-financial corporate balance sheets still held $1.8 trillion in cash as of Q2's end—aiding future investment, share buybacks, cash-based M&A and other growth-oriented spending[ii].

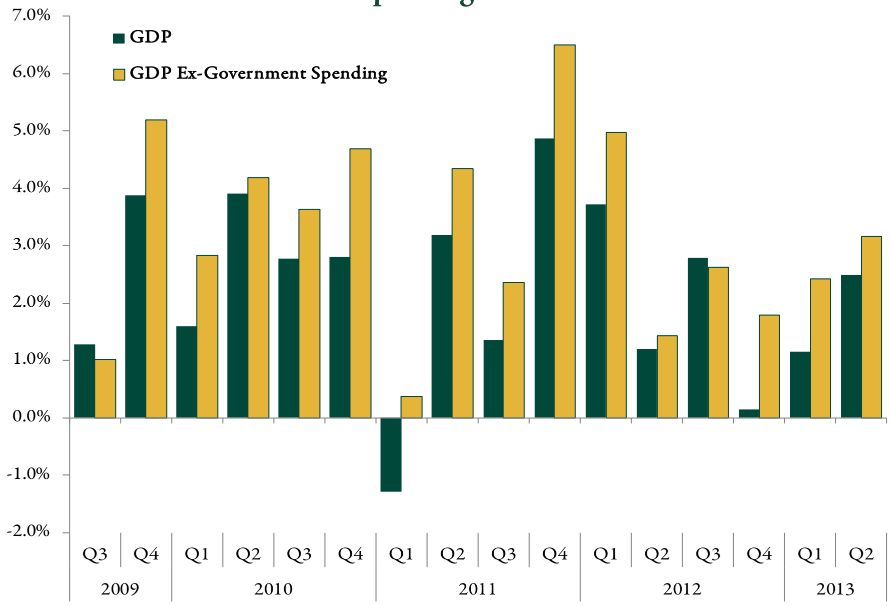
Exhibit 2: The Underappreciated Strength of Corporate America



Source: FactSet Data Systems, Inc., Thomson Reuters, US Bureau of Economic Analysis and US Federal Reserve, as of 15/10/2013. Private Nonresidential Fixed Investment, Total Liquid Assets of Nonfarm Nonfinancial Corporate Businesses and After-Tax Corporate Profits with IVA and CCAdj., 1/1/2004-30/6/2013. Quarterly S&P 500 share repurchases, 31/3/2004-30/9/2013.

Q2 GDP growth was revised up to 2.5% annualised—not robust, but faster than in recent quarters[iii]. In 11 of this expansion's previous 15 quarters, falling government spending reduced headline growth. Excluding the government's contributions, GDP has grown at a much faster rate. (Exhibit 3)

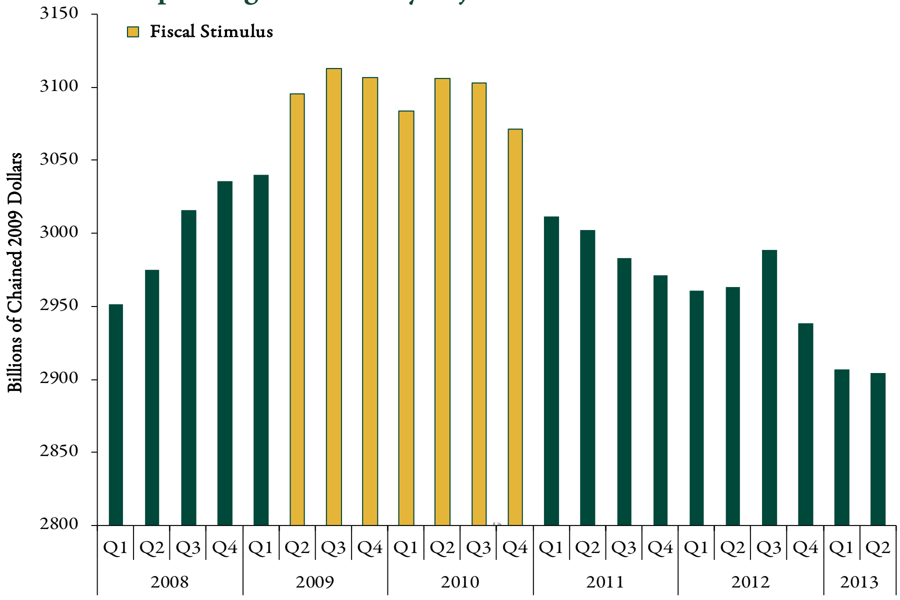
Exhibit 3: US GDP vs. US GDP Ex-Government Spending



*Source: FactSet Data Systems, as of 15/10/2013. US GDP and Government Consumption Expenditures and Gross Investment, seasonally adjusted annual rates, in chained 2009 US dollars,
Q3 2009-Q2 2013.*

Some fear the loss of government demand, but cast differently, it shows officials reversed the increased spending from 2009-2010's fiscal stimulus, but the economy is still growing—a sign the US's economy is stronger than most assume. (Exhibit 4)

Exhibit 4: Real Government Spending—Seasonally Adjusted Annual Rate



Source: FactSet Data Systems, Inc., as of 11/10/2013. Government Consumption Expenditures & Gross Investment, seasonally adjusted annual rate, Q1 2008-Q2 2013.

The US private sector is the key to this better-than-expected growth. Consumer spending, business investment, housing, exports and imports—a key domestic demand indicator—grew in Q2. Excluding petroleum imports, which have fallen as development of domestic shale resources has increased, import growth is even more pronounced. Since the recession ended, rising business investment has more than offset government cutbacks—resources appear to have shifted to the private sector.

US growth seems poised to continue in Q3 and beyond. Inventories remain lean, and with sales high and rising, firms will have to raise output to keep up—restocking should provide a boost up and down the supply chain. We are already seeing evidence of this, with the Institute for Supply Management (ISM) Manufacturing Purchasing Managers Index (PMI) rising through the quarter—led by the forward-looking new orders component.

Earnings and Revenue Growth Continue

Aggregate S&P 500 earnings per share rose 2.1% y/y in Q2[iv]. Though slower than recent quarters, this was still the 15th straight quarter of growth[v]. Slower earnings growth is a normal, expected phenomenon as bull markets progress and year-over-year comparisons become more difficult to beat. Early in a bull market, earnings grow quickly thanks to recessionary cost cutting—when expenses are low, even modest revenue growth translates to big earnings growth. As the expansion progresses, firms typically must raise production to keep up with rising demand, bumping up costs. Then, revenues become a more significant driver of earnings growth. Top-line revenues accelerated in Q2. Headline revenue growth notched a modest 2.2%, but headline growth does not tell the full story[vi]. As in Q1, revenues in the commodity-related Energy and Materials sectors fell, skewing the average. (Exhibit 5)

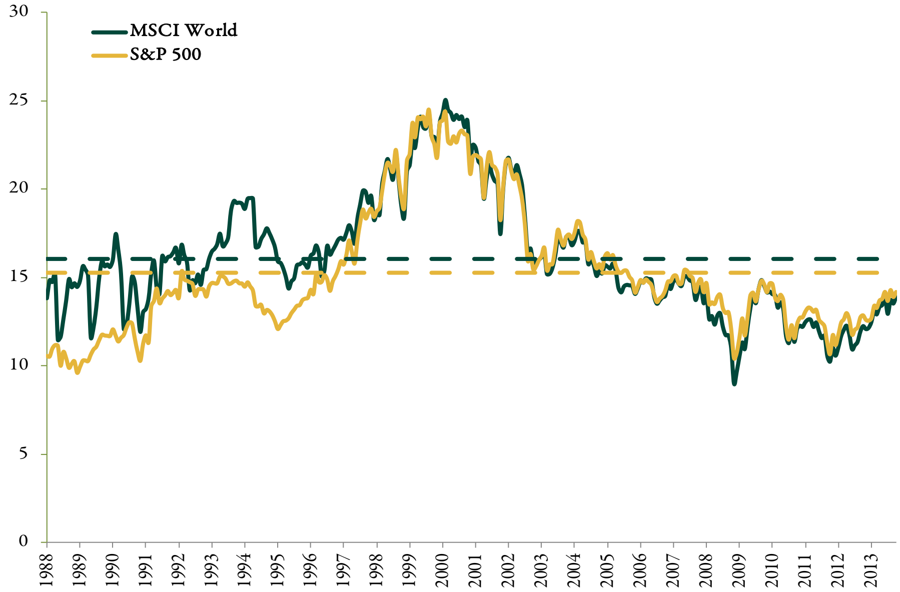
Exhibit 5: S&P 500 Revenue Growth by Sector

Sector	Revenue in Billions of USD		Growth in Billions of USD	Growth %
	Q2 13	Q2 12	Q2 13	Q2 13
Utilities	80.2	73.5	6.6	**9.0%**
Discretionary	384.4	360.1	24.3	**6.7%**
Financials	277.4	261.2	16.3	**6.2%**
Health Care	300.5	288.4	12.1	**4.2%**
Telecom	69.8	68.1	1.7	**2.5%**
Technology	273	268.2	4.8	**1.8%**
Staples	388.1	382.3	5.8	**1.5%**
Industrials	297.6	294	3.6	**1.2%**
Materials	108.1	108	0.1	**0.1%**
Energy	386.1	406.9	-20.8	**-5.1%**
S&P	**2565.4**	**2510.8**	**54.5**	**2.2%**

Source: Thomson Reuters, as of 16/10/2013.

S&P 500 earnings have been at all-time highs and growing since Q3 2011[vii]. Earnings are growing outside the US, too. Firms globally are profitable, but sceptical investors have yet to catch on. Forward P/E ratios for the S&P 500 and MSCI World remain below their long-term averages (Exhibit 6), implying investors today ascribe a rather low premium to future earnings. That investors largely believe recent earnings growth will not continue is just one more sign sentiment remains largely sceptical.

Exhibit 6: S&P 500 and MSCI World 12-Month Forward P/Es



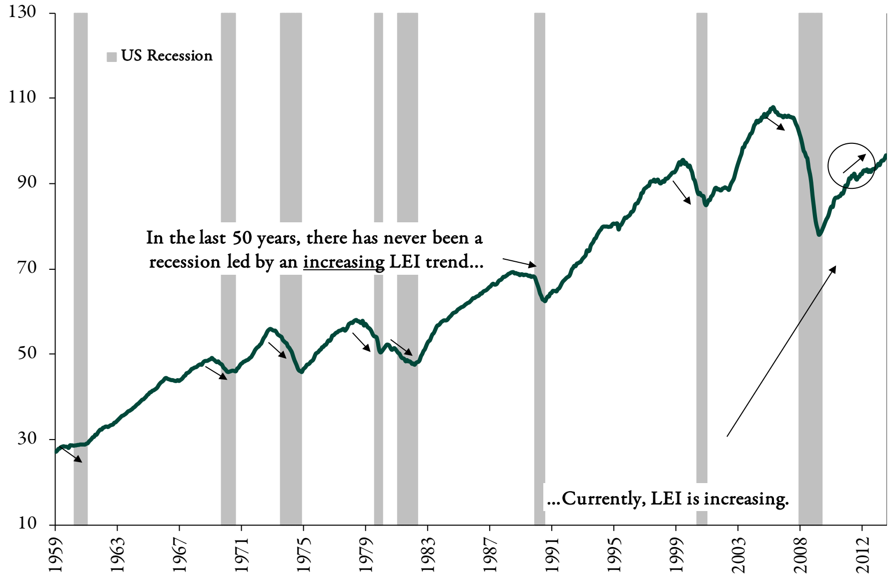
Source: Thomson Reuters, as of 11/10//2013. 12-Month forward P/E ratios for the MSCI World and S&P 500, 31/12/1987-1/10/2013.

Inside the Leading Economic Index

One powerful yet underappreciated gauge of future economic direction is the US Leading Economic Index (LEI). Created in 1937 by Arthur Burns and Wesley Mitchell at the National Bureau of Economic Research and refined by Geoffrey H. Moore over the next several years. LEI aims to predict the US's economic trajectory by aggregating the most forward-looking economic data series. The current composite includes 10 variables, among them new manufacturing orders, building permits, average weekly manufacturing work hours, weekly jobless claims (which gauge whether businesses are cutting costs) and the difference between long and short-term interest rates—the yield spread. The Department of Commerce began publishing this series in the 1960s, and since 1995 it has been administered by The Conference Board.

Today, LEI is high, rising and accelerating—recessions typically do not start until after LEI has fallen for some time (Exhibit 7).

Exhibit 7: US Leading Economic Index



Source: Thomson Reuters and The Conference Board, as of 15/10/2013. US Leading Economic Index, January 1959-August 2013.

Furthermore, driving recent LEI growth is the yield spread—the single biggest contributor to the composite's growth since May—yet more evidence QE's end will be positive.

The Conference Board compiles LEIs for 11 other major countries and the eurozone. All are high and rising except Japan (flat in August) and India, where the LEI contracted due to a negative yield spread. Components vary from country to country—China, for example, does not include the rate spread since the government predetermines loan growth. Most of Europe does, however, and widening spreads contributed heavily to rising LEIs in many parts of the region in Q3. Spreads widening globally amid QE taper talk suggest ending QE will be stimulus globally, not just in the US.

Global Growth Accelerating

Growth has started reaccelerating globally (even before US QE ends), which should help boost revenue streams for firms. UK manufacturing, construction and services PMIs expanded during Q3, with the latter reaching new all-time highs[viii]. The eurozone emerged from its 18-month-long recession in Q2, with even the long-suffering periphery stabilising (Spain) or returning to growth (Portugal and Ireland). There, too, PMI surveys indicate continued growth in Q3, with the new orders indexes also showing expansion[ix]. Trade also rebounded in August, with exports rising 1.4% m/m and imports stabilising[x]. Retail sales rose 0.5% m/m in July and 0.7% m/m in August, suggesting Q2's consumer spending rebound continued in Q3[xi].

Japan, too, is gathering steam—the country still has long-running structural issues, but for now, the nascent recovery continues. Q2 GDP growth was revised up to 3.7% annualised, with business investment growing 5.1%[xii]. Cap-ex has been a stubbornly negative drag on GDP in recent quarters as firms remained sceptical of a recovery. As corporate profits grew 8% in Q2, businesses finally had latitude to spend[xiii]. Business investment might not maintain this swift pace—especially with the weak yen continuing to raise import costs—but for now, it is an added tailwind.

China —the world's second-largest economy—reaccelerated during Q3 as GDP grew 7.8% y/y, suggesting the long-feared hard landing is increasingly unlikely[xiv]. Manufacturing and non-manufacturing PMIs accelerated throughout the quarter, again led by new orders[xv]. Growth picked up in industrial production, fixed investment, retail sales, exports and M2 money supply in August, and Total Social Financing rebounded sharply from its July low[xvi]. Overall, China's economy appears poised to surprise too-dour investors moving forward. Growth may not recapture its old double-digit pace as the shift from investment to consumption-led growth continues. However, the country is growing off a much bigger base, and in dollar terms, GDP increases remain significant—even a slower-growing China contributes heavily to global growth.

South Korea appears to have emerged from recent weakness, with GDP growing 1.1% q/q in Q2—the fastest rate in two years[xvii]. While the recent stimulus package drove much of the increase, consumer spending rose 0.7%, rebounding from Q1's -0.4% [xviii]. Malaysian GDP rose 4.3% in Q2, and July's accelerating industrial production (7.5% y/y vs. June's 3.7% and May's 3.3%) and manufacturing sales (3.9% y/y vs. -2% in June and -2.5% in May) suggest growth picked up in Q3[xix].. Moreover, the Philippines grew a robust 7.5% annualised in Q2, beating consensus estimates of 7.3%—its fourth consecutive quarter above 7% [xx].

Politics Still Largely Positive Globally

As always, FI's commentary on politics is intended to be nonpartisan and approach the issue solely to assess potential market impact (or lack thereof).

The US Congress remained feckless in Q3, which ended with the House and Senate deadlocked over the budget. Many fretted the most tangible outcome of these stalled negotiations—the recent government shutdown—but the broader implication, continued gridlock, is bullish. As FI has written in previous Review & Outlooks, gridlock radically reduces political risk by lowering the chances of controversial legislation passing.

With 2014 midterms on the horizon, gridlock likely persists. The contest structurally favours Republicans, who have fewer seats up for re-election in battleground states. With partisan quarrelling high, it is difficult to envision Congress passing anything substantial—at least until January 2015, if not longer, depending on the 2014 results.

In Germany, Angela Merkel won a third term as German Chancellor in September but fell short of an outright majority. While power-sharing negotiations will likely take time, the most likely outcome is a coalition between Merkel's centre-right Christian Democratic Union and the centre-left Social Democratic Party—a repeat of the 2005-2009 government. Under this arrangement, major eurozone policy provisions seem poised to keep the status quo—both parties supported all previous bailouts. Domestic policy likely stays quiet, yielding only incremental change—there, too, gridlock is bullish.

Political theatrics resurged in Italy and Portugal, but markets largely yawned. In both nations, junior coalition partners threatened to destabilise the governments, but both remained intact with broad Parliamentary support. Sovereign yields ticked up as political debate grew heated, but the volatility was nowhere near levels seen throughout 2011 and 2012, suggesting investors are increasingly moving past familiar eurozone worries. As sentiment continues improving and leaders continue progressing on items like the forthcoming banking union, investors should gain further confidence in the region's longer-term prospects, providing a tailwind for markets.

On the other side of the world, Australia got a new Prime Minister—Tony Abbott of the Liberal & National Coalition, who unseated Kevin Rudd's Labour government. Abbott has pledged to repeal the controversial mining and carbon taxes, which could ease some recent headwinds for Australian businesses.

In Depth on Mexico

Mexico's push to open markets continued in Q3 as leaders shifted focus to one of the country's oldest state-dominated sectors, Energy. Energy reform is a key pillar of the Pact for Mexico—the agreement among the three major parties to cooperate on economic reform—but one of the most politically contentious.

The state-run Energy firm, Pemex, has had a constitutionally enshrined monopoly since 1938. Currently, Pemex generates as much as 40% of federal revenue. And there are ample resources for oil production to grow further: Mexican oil reserves are the third largest in the western hemisphere behind Venezuela and Canada's oil sands. But without further development, the country is unable to benefit from its own resource wealth and Pemex does not have the financial or technical means to advance development on its own. For this reason, oil production has been falling for a decade. However, Pemex is also a long-running source of national pride, and reform a long-running third rail in Mexican politics. The two main parties—President Enrique Peña Nieto's Institutional Revolutionary Party (PRI) and the opposition National Action Party (PAN)—both want to advance reform, and they introduced competing proposals in Q3.

Of the two, PAN's proposal goes further. It would end the constitutional restriction on oil and gas concessions and—potentially—at least partially privatize Pemex. PRI's plan, by contrast, would allow private and foreign firms to partner with Pemex on oil and gas projects and share in the profits, but the actual resources would remain state property, and Pemex would stay state-owned.

Overall, while PRI's proposal does not go as far as PAN's, it appears to be a workable compromise, which should improve the necessary constitutional amendment's chances of passing the state ratification process. However, in September, PAN proposed an electoral reform bill aimed at curbing PRI's long-running dominance of Mexican politics, and they have suggested they will not support PRI's Energy reforms until new electoral laws are passed. At present, PRI and PAN do share some common ground on the electoral front, and Peña Nieto has agreed in principal to help pass reforms, but it could take time to reach agreement on the specifics, including easing term limits for federal lawmakers and lowering the minimum vote threshold for a party to enter Congress. Prolonged debate could delay the Energy bill and the 2014 budget, which includes key tax reforms.

Ultimately, given PAN and PRI's combined majority and drive for reform, some form of PRI's proposal does seem likely to pass. However, amending the constitution is only the first step toward opening the sector. Once the constitutional restriction on private investment is lifted, Congress will need to pass secondary legislation to cement the reform specifics, including guidelines and requirements for structuring joint ventures and the taxes and royalties on new production. This process could trail well into 2014, so a year could pass before we know how much firms could potentially profit.

Even if the opportunity is huge, firms will not be able to capitalise for some time. The lengthy legislative process makes it unlikely new investment inflows begin before late 2014, which means production likely would not increase significantly until 2015 or 2016—potential profit gains for foreign and private firms are very far downstream. As, likely, are the benefits for Mexican consumers and businesses through cheaper energy costs. However, in the near term, passage should increase investors' confidence in the government's ability to pass necessary, politically difficult measures, providing a tailwind to Mexican stocks.

Headline Grabbing Risks

As always, negatives exist. FI believes, however, those likeliest to occur in the next 12 months—or existing now—lack sufficient power to derail the bull market. Many commonly discussed risks are positives masquerading as negatives (such as the US Fed tapering QE). Others are longstanding issues investors fear near-permanently. FI addresses such issues regularly—in addition to many other factors positive, negative and neutral for markets. Overall, ubiquitous 24/7 media is seemingly dampening investor sentiment, preventing a dangerous level of euphoria.

Syria and the Middle East

One example is Middle East conflict—a depressing regularity, with violence, tension and bloodshed a near constant. In Q3, the nexus of Middle Eastern conflict was Syria—and as the US became more involved, fears of conflict weighing on stocks grew.

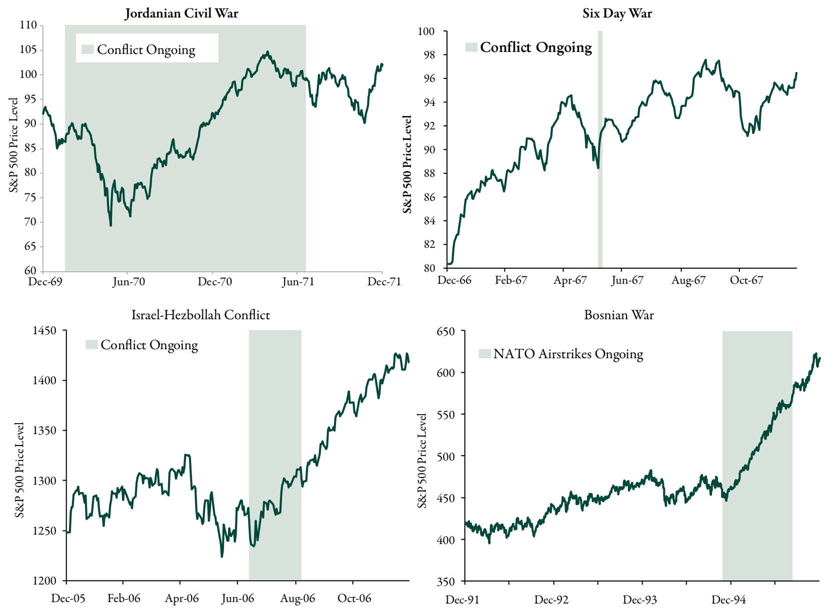
Syria's civil war, ongoing since March 2011, is estimated to have claimed 100,000 lives in total. Syrian "President" Bashar al-Assad attempted to quell the initial protests in typical autocratic style—with guns and tanks. His efforts backfired, leading to full-fledged civil war against various opposition groups, including alleged Al Qaeda-affiliated extremists. Fighting has continued since, occasionally spilling into neighboring Turkey and Israel.

Syria is known to possess chemical weapons, banned under the Geneva Conventions. As fighting intensified in August 2012, President Obama said the US would intervene if Assad perpetrated chemical attacks on the rebels. Assad reportedly did so in late August. Tensions predictably rose between the US and Syria, with many anticipating a "limited" air campaign since Syria crossed Obama's "red line." Slight market volatility ensued as stocks weighed uncertainty.

As matters intensified, Russian President Vladimir Putin—one of Assad's few sponsors internationally—brokered a deal to secure the chemical weapons. Obama agreed, alleviating tensions. As of this writing, international chemical weapons experts are destroying the first batch.

When Putin's peace plan was sealed, uncertainty abated and stocks rose—rather typical of conflict. Whether or not resolution involves shooting, uncertainty abating is typically bullish. Consider, when the early 1990s' Gulf War began, stocks rose. Alleviated uncertainty matters most for stocks. Exhibit 8 shows four more (of many possible) examples—all too small for stocks to swing much, all feared to spread.

Exhibit 8: Conflict and Stocks



Source: Federal Reserve Bank of St. Louis and Standard & Poor's, as of 5/9/2013. S&P 500 Price Returns from 31/12/1969-31/12/1971, 31/12/1966-31/12/1967, 31/12/2005-31/12/2006 and 31/12/1991-31/12/1995.

Syria never approached a level of global involvement significant enough to create a bear market—nor is Syria big enough for localized strife to much impact global growth. Syrian GDP is roughly equivalent to US states' Nebraska or New Mexico[xxi]. Investors fret a potential impact on oil prices, but Syria's 157,000 barrel-per-day (bpd) oil output is about one-fifth North Dakota's 821,000 (bpd)[xxii]. Syria has not exported oil since mid-2011—global oil supply has already felt the Syrian pinch, with little visible impact.

The Affordable Care Act

As always, please note FI's sole intent in political discussions is to discuss the potential economic and stock market impact of potential policies, elections and debates.

The US Affordable Care Act's (ACA or, commonly, "Obamacare") health-insurance exchanges debuted 1 October, bringing another round of ACA-related fears. FI has written at length on this subject in past Review & Outlooks and elsewhere. At this point, whether you believe the ACA is an economic windfall, catastrophe or non-event, stocks long ago dealt with it.

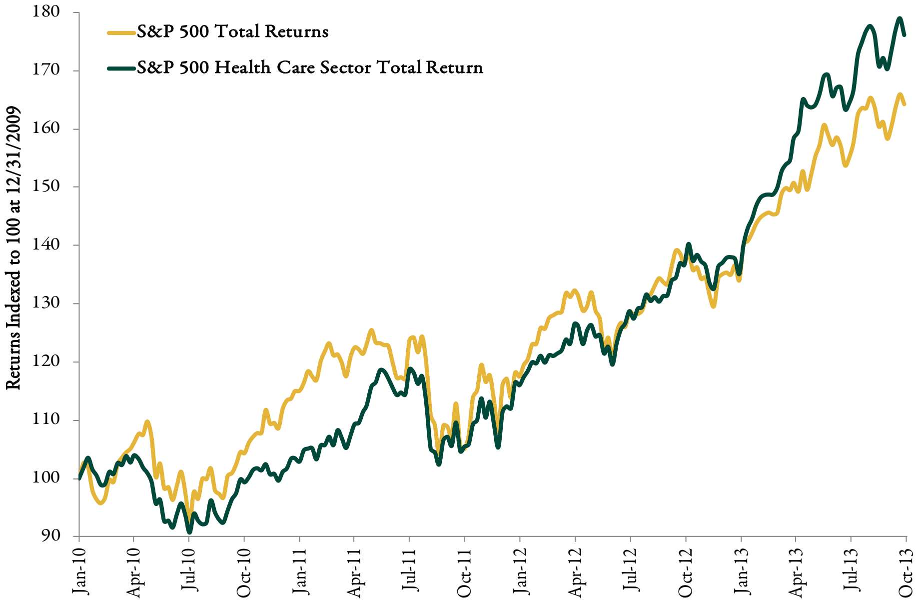
Health Care Reform was a key campaign issue in 2008's US presidential race. Both candidates—President Obama and Sen. John McCain—had reform proposals (though neither much resembled the actual ACA). Congress debated reform extensively for much of 2009. Finally, on Sunday, 21 March 2010, the House of Representatives passed the Senate's version of ACA. Many feared market fallout the following day, yet the S&P 500 rose. Not that the ACA's passage was bullish; it merely alleviated some uncertainty. Immediately after the law passed, the S&P 500 Health Care sector underperformed the broader index—stocks were digesting the ACA.

For the remainder of 2010 and 2011, lawsuits swirled at the state and Federal district court levels before the Supreme Court agreed to hear the case. However, Health Care stopped lagging the S&P 500 in mid-2011. Over the year before the Supreme Court ruled most of the ACA constitutional on 28 June 2012, stocks—including Health Care—rose irregularly higher.

Some suggested 2012's election was partly a national poll on the ACA, and Obama's victory affirmed it. In the two weeks following the election, the S&P 500 fell just over -5%—a mini-correction. Stocks quickly rebounded, with Health Care outperforming nicely[xxiii]. On 2 July 2013, the Obama Administration announced the employer mandate—the requirement all businesses with more than 50 employees provide coverage—would go into effect a year later than planned. Stocks were largely unmoved.

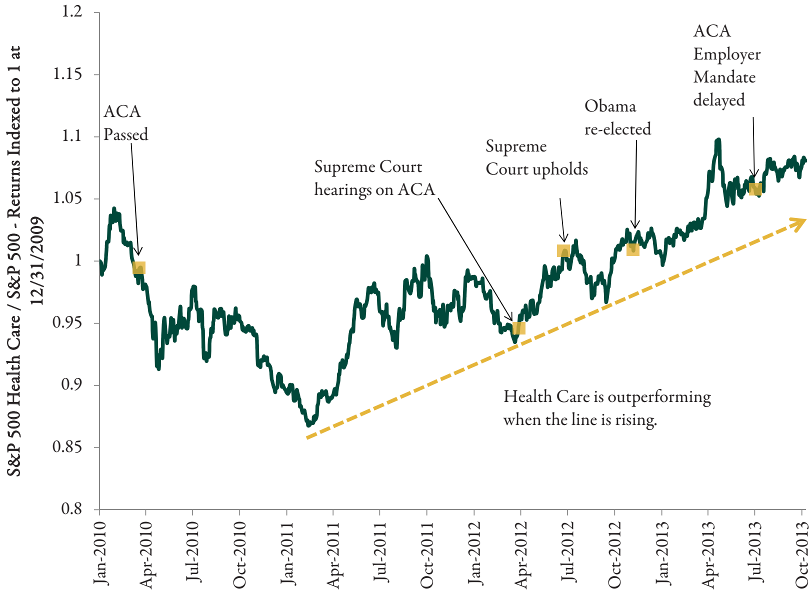
Three more months later, the likelihood a powerfully negative market reaction occurs is minimal; the market dealt with this issue long ago. Exhibit 9 shows S&P 500 and the S&P 500 Health Care sector absolute total returns since January 2010. Exhibit 10 shows Health Care sector returns relative to the S&P 500 over the same period.

Exhibit 9: The S&P 500 and S&P 500 Health Care Absolute Returns Since ACA Passed



Source: FactSet Data Systems, Inc., as of 11/10/2013. S&P 500 and S&P 500 Healthcare Total Return Indexes from 31/12/2009-30/9/2013.

Exhibit 10: S&P 500 Health Care vs. S&P 500 Relative Returns Since ACA Passed



Source: FactSet Data Systems, Inc., as of 11/10/2013. S&P 500 and S&P 500 Healthcare Total Return Indexes from 31/12/2009-30/9/2013.

All Things Political

As Q3 closed, so did the US Federal Government—and it stayed shut for 16 days as internal strife, primarily over the ACA, prevented agreement on a Continuing Resolution to fund the new fiscal year, which began 1 October. Compounding matters, the "extraordinary measures" taken to continue paying the bills after the Treasury hit the debt ceiling in May were set to exhaust on or around 17 October, forcing Congress to raise the ceiling or start prioritizing payments. Some fretted a US default would ensue, substantially effecting financial markets.

In typical fashion, Congress kicked the can at the last minute, passing a deal to fund the government through January 15 and suspend the debt ceiling until 7 February. Headlines are already fretting the economic consequences should Congress fail to act in time. However, history shows shutdowns have little (if any) history of market impact in the short or long term, and this most recent proved no different. Moreover, as FI has written in past Review & Outlooks, the debt ceiling is a near-totally arbitrary, toothless political marker. Since the debt ceiling's inception in 1917, Congress has raised it 108 times.

A true US Treasury bond default would be quite negative globally, but the chance it happens the next time Congress hits the debt ceiling is a low probability. Default can mean a number of different things. Clearly, bondholders not being repaid in full is a meaningful default (e.g., Greece, Argentina, etc.). However, a simple delayed bond interest payment is also considered a default. Obviously, there is a big difference between investors not ever being paid principal or interest and a slight interest payment delay. Yet the financial press does not make that distinction. There was never risk US Treasury holders would not be repaid—at worst and still very unlikely, interest payment could have been delayed for a short time. (Nor is delayed spending and salaries for workers a default; otherwise, the government would have defaulted in the prior 17 government shutdowns—and on 1 October.) The debt ceiling does not prevent bond issuance for refinancing maturing debt, leaving interest payments the source of default risk. Yet tax revenue vastly exceeds US federal debt interest. In fiscal 2013, interest payments totaled \$224.7 billion. Tax revenue totaled \$2.419 trillion[xxiv]. In addition, US government receipts were sufficient to cover Social Security, Medicare, Medicaid and Federal Unemployment Insurance—with \$600 billion left over. Clearly bondholders were not concerned about their investment—long-term bond yields were basically flat as the debt ceiling approached.

The shutdown and debt ceiling spectacles are a rather annoying byproduct of the increased polarization of America's body politic. Even as Obama won re-election by a relatively wide popular vote margin, Republicans took more state houses than in decades—an odd dichotomy. For investors, there are two potential positive impacts. First, while gridlock spawns annoyance, frustrating rhetoric and more, it makes big, market-dislocating legislation virtually impossible. Second, should the government go a while without new funding, the macroeconomic impact of the cuts to government services might not be as severe as feared. Those anticipating disaster also expected the sequester to cause a recession—yet the economy grew at virtually the same rate before and after the cuts took effect[xxv]. This time, in the shutdown's aftermath, many have tried to estimate the impact on Q4 GDP growth, yet most of these estimates ignore that most of the delayed spending will be deployed retroactively. Additionally, all furloughed workers (save contract workers) will receive back pay. Any other potential impact is simply impossible to quantify—there is no counterfactual. However, what matters more is the private sector is responsible for far more economic activity than the government, and this seemingly continued growing apace throughout the shutdown.

A Global Precedent for Post-US-Quantitative Easing Reacceleration

Despite speculation the US Fed would begin tapering its QE programme as early as September, Fed Chairman Ben Bernanke surprised markets towards quarter-end by announcing the programme would continue until the Federal Open Market Committee (FOMC) sees further evidence growth is sustainable. FI is disappointed. As FI has written in previous Review & Outlooks, FI believes QE cannot end fast enough. QE reduces the spread between short- and long-term rates, shrinking banks' net margins and creating a disincentive to lend—an economic negative. Though FI embraces QE's eventual end, the fact it is continuing does not mean the economy must be terrible or stocks cannot continue higher. Indeed, the economic expansion and bull market have overcome the QE headwind for over four years. More QE does not mean a recession is around the corner, but FI believes strongly the economy and bull market will strengthen after QE ends.

Quantitative Easing Is Not Stimulus

If QE were true stimulus, money supply would have soared. It is true the monetary base—currency in circulation and bank reserves held at the Fed—has risen 275% since QE began in October 2008, but money supply (M2) growth has lagged[xxvi]. When the Fed buys bonds through QE, bank reserves increase. However, banks are not lending much of the newly created excess reserves, so that money sits idly without making its way into the broader economy. As a result, the money supply is growing slowly relative to previous expansions.

QE itself disincentivizes lending by making it less profitable. As the Fed buys bonds through QE, bond prices rise and yields are held lower than they would be otherwise. Banks make profits by borrowing money at short-term rates and lending at longer-term rates, making a spread on the difference. With short-term interest rates pegged at zero, lower long-term rates flatten the yield curve and thus reduce the profit banks make on new loans, so they are less inclined to lend aggressively. Ending QE should allow the yield spread to widen, boosting banks' potential operating profits and the motivation to lend. This should allow M2 growth to accelerate, providing a significant economic tailwind. Furthermore, with banks lending more enthusiastically, businesses should have access to more capital for growth-oriented spending.

Interest Rates and Other Backward Looking Views

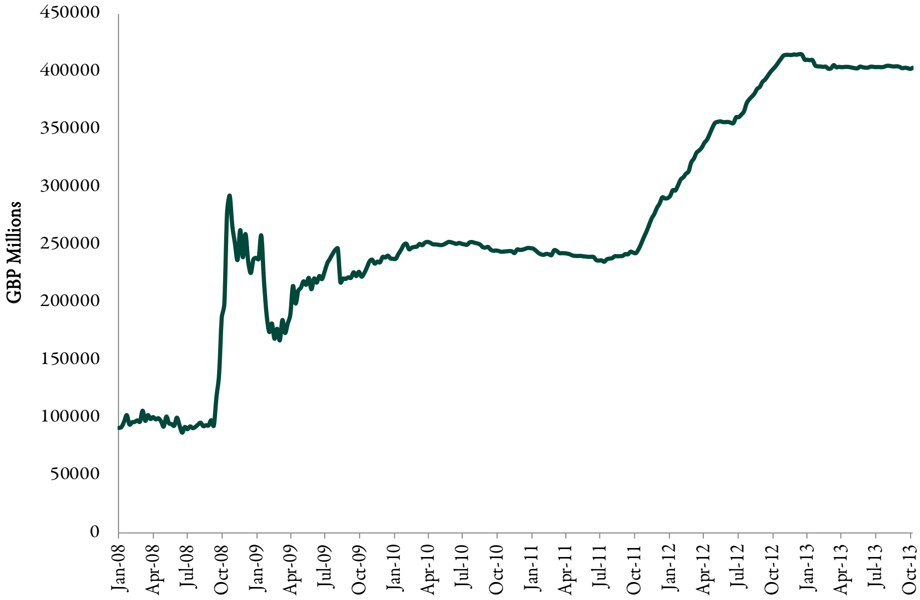
Many incorrectly perceive QE as stimulus because they believe lower yields create an incentive to borrow. This ignores the time-honored evidence wider yield spreads boost growth. They incorrectly believe rising interest rates could stymie business loan growth by making borrowing more expensive. Yet evidence suggest the reverse—small rates moves boost credit supply far more than they hit demand, and small rate moves appear likeliest post QE. What CEO would hold back large long-term business plans simply because rates were half a point higher? If a multi-year or decade project cannot sustain this modest funding cost increase and still be profitable, it probably was not worth doing in the first place. Conversely, what bank would lend if short and long rates were zero? No yield spread means zero profit potential. Investors would be hard pressed to find a bank willing to risk capital for no profit.

Interest rates are just one area where people see QE backward. Taper terror also causes investors to interpret good economic news as bad, assuming it means the Fed will pull funding for banks—they do not realize good economic news means the US is growing despite QE suppressing overall bank lending. This backward sentiment augurs well for stocks. False fears are typically bullish—the bigger the misperception, the bigger the potential upside—and most investors largely misperceive QE. An economy that accelerates, rather than craters, is the opposite of what most expect.

In Depth Look at UK Quantitative Easing

There is a strong precedent for an accelerating economy post-QE: The UK. There, too, QE was no stimulus. Net lending fell while the Bank of England (BoE) was engaging in QE[xxvii]. M4 money supply actually fell most of the time UK QE was in place[xxviii]. GDP contracted 4 of 15 quarters while QE was in force but has expanded since QE ended[xxix]. The BoE purchased its last new asset in November 2012. Furthermore, similar to the Fed's hinted plan, it has not started outright selling assets purchased through the programme. The BoE's balance sheet has shrunk a little as some assets have matured—again, similar to what the Fed has intimated. (Exhibit 11)

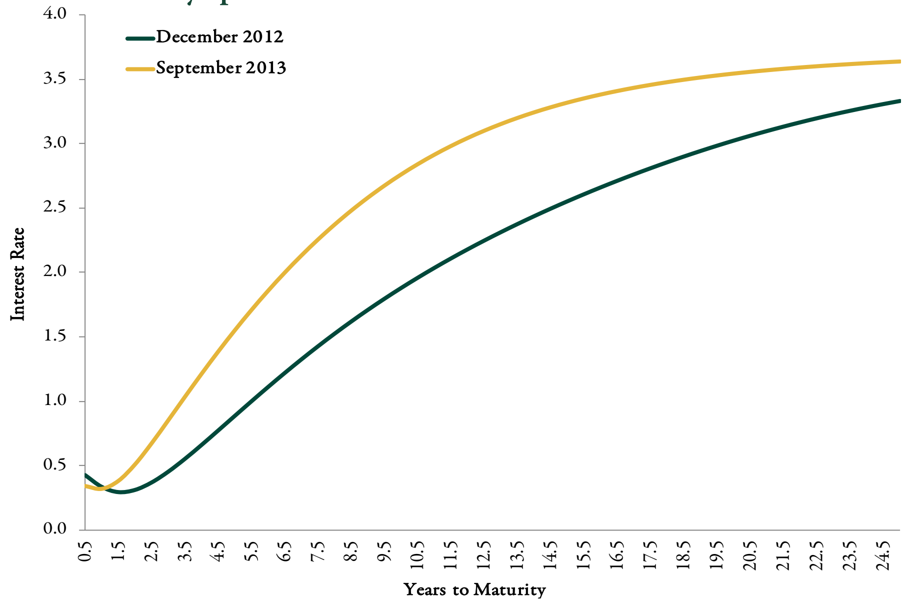
Exhibit 11: Total BoE Assets



Source: FactSet Data Systems, Inc. and Bank of England, as of 15/10/2013. UK Weekly Amount of Central Bank Assets Outstanding, 4/1/2008-11/10/2013.

Yet a modest gradual balance sheet decrease has not caused the economy to crater. On the contrary, the UK has shown several signs of fundamental economic improvement since QE ended. Most notably, the yield curve is beginning to steepen—an economic tailwind—now that the BoE is no longer pulling down long rates through asset purchases. (Exhibit 12)

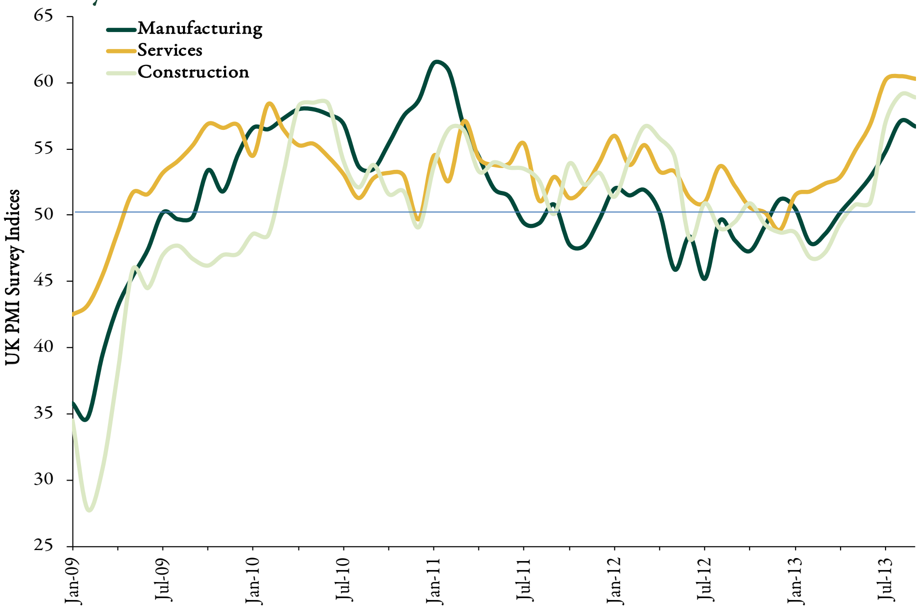
Exhibit 12: Government Liability Spot Curve



Source: Bank of England, as of 15/10/2013. Nominal government liability rates as of 31/12/2012 and 30/9/2013.

Economic data have improved markedly, too. Service, Manufacturing and Construction PMI surveys, choppy at best while QE was in force, have dramatically increased since February and are now well into expansion. (Exhibit 13)

Exhibit 13: UK PMI Surveys



Source: Bloomberg Finance, L.P. and Markit Economics, as of 14/10/2013. UK PMI Indexes from January 2009-September 2013. 50 is the dividing line between contraction and growth.

Additionally, retail sales have been positive on a y/y basis since April 2013 and hit a five-year high in September[xxx]. These positive trends may not be because of QE's end, but they are strong evidence the economy can accelerate without a steadily increasing central bank balance sheet.

Yet almost no one sees the connection between QE's end and Britain's swifter growth. Few even realized British QE was over until July, when BoE hold-outs stopped pushing for a restart. People wondered then what would become of the UK, not knowing they had the answer. Many Britons still do not see it and most Americans do not think to look across the pond.

This underscores the powerful positive surprise potential for markets once QE ends. As surprisingly good reality proves investors' too-dour expectations wrong, it creates future equity demand. It is rather like investors having to cover short positions when whichever bad thing they bet on does not happen. Better-than-expected reality gives investors more confidence in stocks' future earnings, and they become willing to pay even more for a share of it.

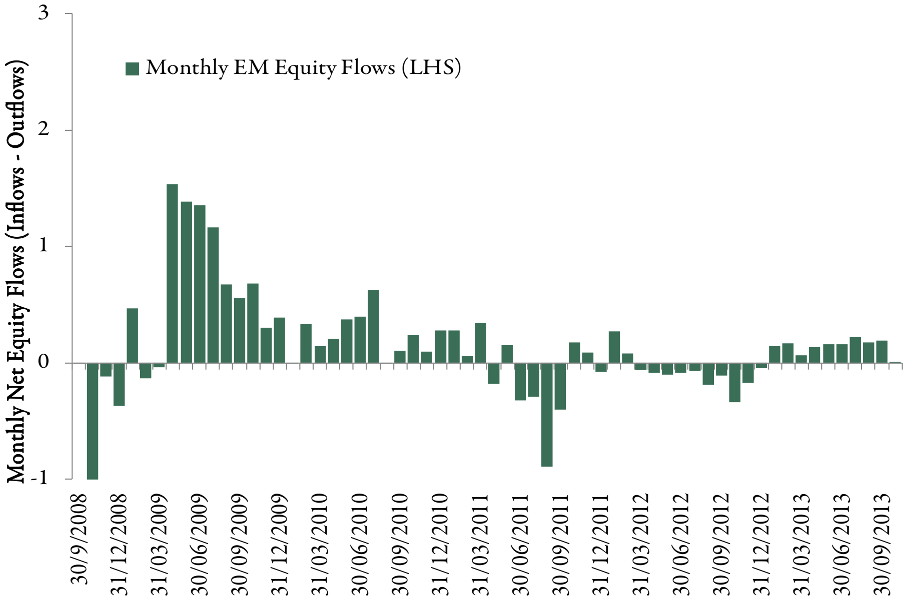
Quantitative Easing's Effect on Emerging Markets

International officials cheered when the Fed announced a continuation of QE in the US, as many believed QE tapering would cause foreign capital to retreat. Additionally, since then, the International Monetary Fund (IMF) and others have implored the Fed to taper slowly in order to prevent an Emerging Markets collapse. As FI has written in previous Review & Outlooks, however, this is backward. Not only will the end of QE not be disastrous for Emerging Markets, but it should provide fuel for faster growth.

No Quantitative Easing Bubble in Emerging Markets

The claim QE is propping up asset prices implies there is some sort of overinflated disconnect between Emerging Markets' assets and fundamentals—a mini-bubble. Yet this is far removed from reality—not what you would expect if QE were a significant positive driver. Additionally, the thesis assumes money from rounds two, three and infinity of QE has flooded into the developing world—and flows more with each round of monthly Fed bond purchases. As Exhibit 14 shows, however, foreign Emerging Markets equity inflows were strongest in 2009 as investors reversed their 2008 panic-driven retreat. Flows eased off during 2010 and have been rather weak—and often negative—since 2011.

Exhibit 14: Emerging Markets Foreign Equity Inflows

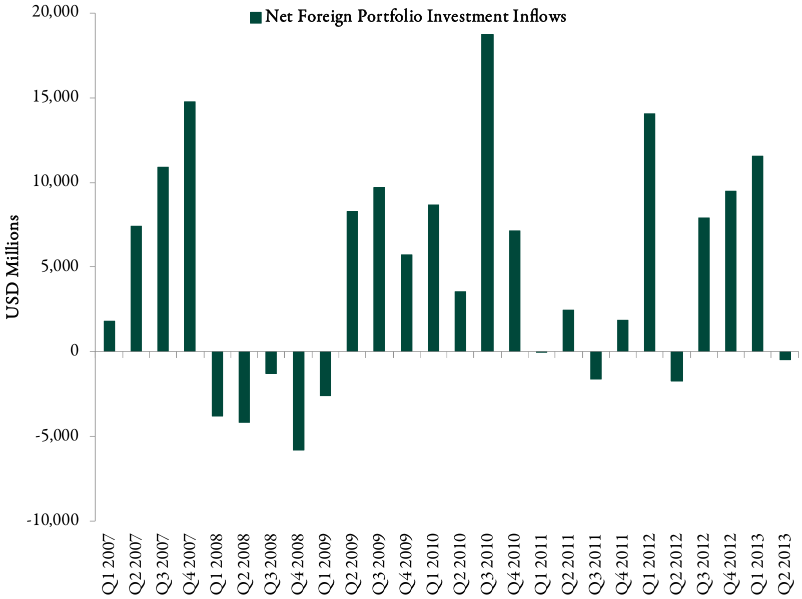


Source: State Street Global Markets Research as of 18/10/2013. Emerging Market Equity Floq Indicator (EFI XB Regions) from 1/9/2008 to 11/10/2013.

Indian Taper Terrors?

This also holds for India, the source of many of Q3's QE taper fears when the rupee plummeted over 20% in August. Much like broader Emerging Markets, Indian equity markets show no signs of euphoric disconnect from reality—there is no evidence of a bubble. Foreign portfolio investment inflows, too, show no signs of abnormality. As shown in Exhibit 15, inbound investment since QE began is not out of line with pre-2008 flows.

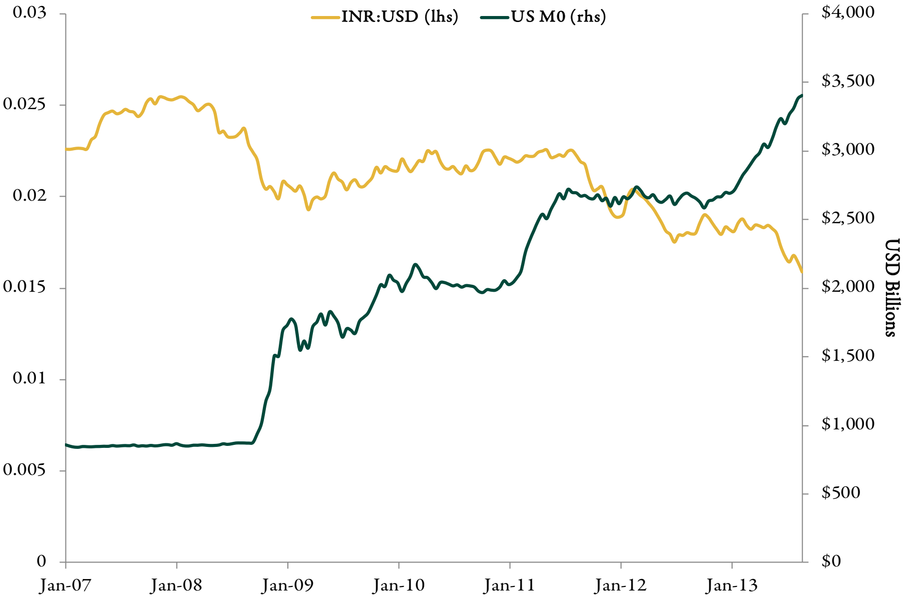
Exhibit 15: Indian Net Foreign Portfolio Investment Inflows



Source: Reserve Bank of India, as of 17/10/2013.

Similarly, there does not appear to be a discernible relationship between the rupee and QE. Exhibit 16 plots the INR:USD (one Indian Rupee in terms of US dollars) exchange rate and the difference between the US M2 money supply—a proxy for the QE money that is actually circulating (not on deposit on the Fed). While the rupee did strengthen early on, it began weakening in summer 2011—long before taper talk began.

Exhibit 16: INR: USD and US M0

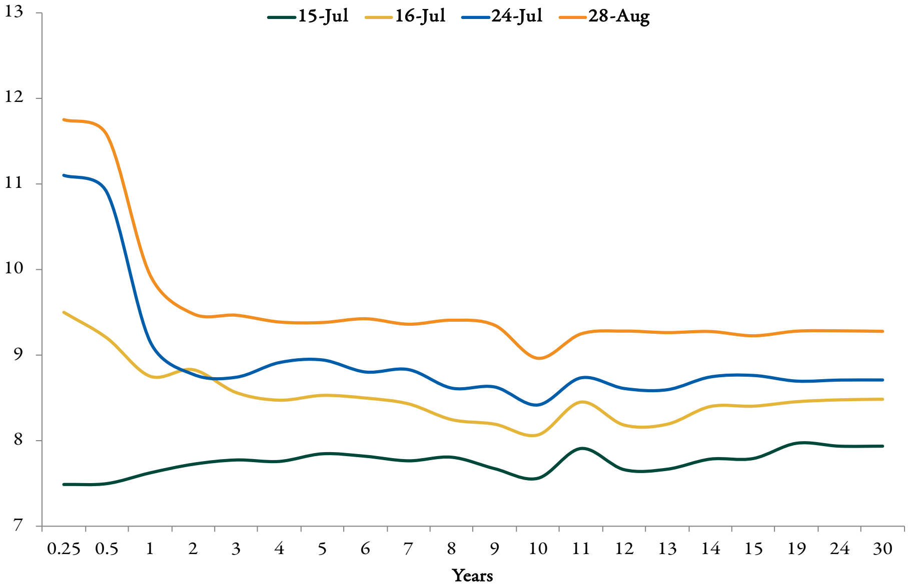


Source: FactSet Data Systems, Inc. and Federal Reserve Bank of St. Louis, as of 21/8/2013.

In FI's view, QE taper talk is miscast as the fundamental cause of the rupee's summer fall. While taper-related sentiment may have a role—currency markets, like equity markets, can swing on sentiment and are vulnerable to false fears—monetary policy errors appear to be a more significant driver.

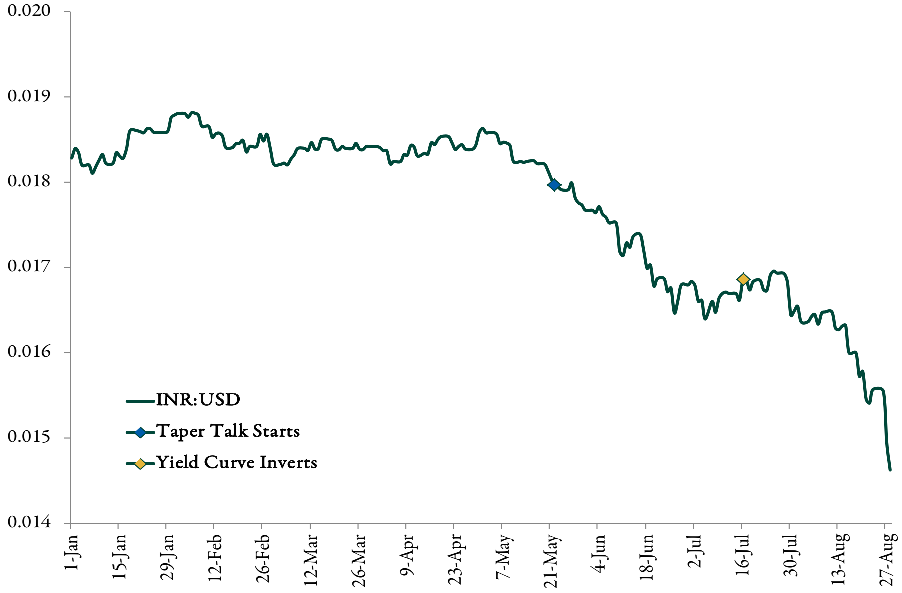
Whether coincidentally or not, the rupee's decline began 2 May—the day after the main opposition party announced it would cease cooperating with the government on planned legislation, casting doubt on further economic reforms (a keey driver of investor confidence in India). This was fully 20 days before taper talk began with Fed Chair Ben Bernanke's 22 May Congressional testimony. The rupee weakened through mid-June, then appeared to stabilise—until 16 July, when the Reserve Bank of India (under the stewardship of former Governor Duvvuri Subbarao, who was succeeded by Raghuram Rajan on 5 September) intervened. In an effort to shore up the currency, policymakers hiked the bank rate by two percentage points, inverting the yield curve. At that time, the spread between short and long rates was -1.015 percentage points. Eight days later, it had widened to -2.39 (Exhibit 17). The rupee's freefall began shortly thereafter (Exhibit 18).

Exhibit 17: Indian Yield Curve



Source: Investing.com, as of 28/8/2013.

Exhibit 18: INR: USD Exchange Rate (2013)



Source: FACTSET Data Systems, Investing.com, as of 28/8/2013.

Measures taken over the ensuing weeks compounded the problem. New tariffs on flat-screen TV imports, higher levies on gold imports and "emergency" capital controls were largely perceived as ineffective stopgaps. As was the RBI's 23 August decision to embark on its own small QE programme. To inject liquidity into capital-starved banks, on 23 August the RBI launched a small open-ended QE programme, further inverting the curve.

This series of events also appears tied to Indian equity markets' Q3 correction. Inverted yield curves discourage economic activity. Central banks globally agree with this, so that a bank would deliberately invert the yield curve—then compound matters with measures that widen the negative spread—is perplexing and likely to create uncertainty for investors.

Since then, the pressure on the rupee has eased, and monetary policy appears to have stabilised. Though the yield curve is modestly inverted, the spread is only -36 basis points—a fraction of what it was in July and August. Indian stocks, too, have rebounded, and looking ahead, markets should continue moving past their summer doldrums.

Quantitative Easing's End Will Be Bullish for Emerging Markets

One reason Emerging Markets appear set to reaccelerate is the end of QE. QE has had an impact on the developing world that few appreciate. Long-term rates in the advanced and Emerging Markets are highly correlated. Yield curves have flattened in the developing world in sympathy with the US yield curve during successive rounds of QE. When the Fed stops purchasing long-term bonds and the yield curve steepens in the US, rate spreads likely widen globally too—including in Emerging Markets. For instance, this could also help India's rate spread turn positive again.

Some Emerging Market nations already have nicely steep yield curves, but wider spreads should still be an added tailwind. Nations with flatter spreads, too, should benefit as steeper yield curves there stoke lending. Overall and on average, with economic growth already showing signs of reacceleration throughout Emerging Markets, wider spreads should provide fuel for faster growth once QE ends.

A Look at the New US Federal Reserve Chair

After months of speculation, President Obama nominated Fed Vice-Chair Janet Yellen to succeed outgoing Chairman Ben Bernanke. We believe speculating on likely Fed policy under Yellen is a fruitless endeavor—as it would be of any new Chairman this early in the game. While much has been made of Yellen's credentials and many have parsed her recent statements for clues, Fed heads frequently behave differently than expected once in office.

Former Fed Chair William McChesney Martin perhaps said it best. When asked why he and fellow former chiefs made mistakes in office, Martin explained when you become Fed chair, you take a pill making you forget everything you ever knew, and the effect lasts as long as you are head of the Fed. Years later, when successor Arthur Burns came under fire for his own policy mistakes, he claimed he took "Martin's little pill."

Yellen could very well do the same—much as Bernanke did before her. For Bernanke, this was a negative. He came in wearing the mantle of being a depression expert, yet when 2008 struck he seemingly forgot many of the tools the Fed has historically used to act as lender of last resort. Often called a disciple of monetarist economist Milton Friedman, he apparently forgot or mistook the quantity theory of money—a core Friedman teaching—and launched QE, a deflationary policy. For Yellen, there is not any way to know whether taking Martin's pill will be good or bad; rather, it simply means Yellen-era Fed policy is not fully known now, and we might not see her true feathers for some time.

Should you have any questions about any of the information in the Third Quarter 2013 Review and Outlook, please contact FIE by mail at 2nd Floor 6-10 Whitfield Street, London W1T 2RE or by telephone at +44 (0)800 144-4731.

i. FactSet Data Systems, Inc. and US Bureau of Economic Analysis, as of 15/10/2013. Corporate Profits After Tax with IVA & CCAdj. and Private Nonresidential Fixed Investment, seasonally adjusted annual rates, as of 28/6/2013.
ii. FactSet Data Systems, Inc. and US Federal Reserve, as of 15/10/2013. Total Liquid Assets of Nonfarm Nonfinancial Corporate Business, as of 28/6/2013.
iii. FactSet Data Systems, Inc., as of 15/10/2013.
iv. FactSet Data Systems, Inc., as of 11/10/2013.
v. Thomson Reuters, as of 11/10/2013.
vi. Thomson Reuters, as of 16/10/2013.
vii. Thomson Reuters, as of 16/10/2013.
viii. Bloomberg Finance, L.P. and Markit Economics, as of 14/10/2013.
ix. Bloomberg Finance, L.P. and Markit Economics, as of 22/10/2013.
x. FactSet Data Systems, Inc. and Eurostat, as of 22/10/2013.
xi. FactSet Data Systems, Inc. and Eurostat, as of 22/10/2013.
xii. FactSet Data Systems, Inc. as of 16/10/2013.
xiii. Ibid.
xiv. National Bureau of Statistics of China, as of 21/10/2013.
xv. FactSet Data Systems, National Bureau of Statistics of China, as of 14/10/2013.
xvi. FactSet Data Systems, National Bureau of Statistics of China, People's Bank of China and Barclay's, as of 14/10/2013.
xvii. FactSet Data Systems, Inc. and Organisation for Economic Cooperation and Development, as of 15/10/2013.
xviii. Ibid.
xix. FactSet Data Systems, Malaysian Department of Statistics, as of 15/10/2013. Malaysian GDP in constant 2005 prices, y/y growth; Industrial Production and Manufacturing sales.
xx. FactSet Data Systems, Inc. and National Statistical Coordination Board, as of 15/10/2013. Philippines GDP in constant 2000 prices, y/y growth.
xxi. US Bureau of Economic Analysis, 2011 State and Metropolitan Area GDP (latest release).
xxii. US Energy Information Agency as of June 2013.
xxiii. FactSet Data Systems, Inc. From 6/11/2012 – 8/10/2013, the S&P 500 Health Care sector total returns were 28.4% vs. S&P 500 total returns of 19.8%.
xxiv. US Treasury Department. Tax revenue and interest payments for the period 1/10/2012 – 30/9/2013.
xxv. FactSet Data Systems, Inc. and US Bureau of Economic Analysis, as of 15/10/2013.
xxvi. FactSet Data Systems, Inc. and US Federal Reserve, as of 15/10/2013. US Monetary Base and M2 Money Supply, 30/9/2008-4/10/2013.
xxvii. Bank of England, as of 16/10/2013. Monthly Amounts of M4 Lending Excluding Securitisations, 31/3/2009-30/11/2012.
xxviii. FactSet Data Systems, Inc., and Bank of England, as of 15/10/2013.
xxix. FactSet Data Systems, Inc. and UK Office for National Statistics, as of 22/10/2013.
xxx. FactSet Data Systems, Inc. and UK Office for National Statistics, as of 16/10/2013.

Terms of Business:

1. Fisher Investments Europe

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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 investment management function, as well as certain ancillary services, to its parent company, Fisher Asset Management, LLC, trading as Fisher Investments, which is based in the USA and 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.

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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.