

THE DANGER OF CHASING HEAT

KEY TAKEAWAYS

- Investor flows tend to follow realised performance, not anticipate it.
- Strong inflows often limit upside return potential because they create high expectations that are difficult to meet.
- Recent outperformance can be informative, but should be evaluated alongside prospective economic, political and sentiment factors rather than extrapolated in isolation.
- A forward-looking, macro-driven approach is better positioned to identify underappreciated categories and generate alpha by focusing on drivers of future returns.

HISTORICAL LEADERSHIP

Factor and georegional leadership are inherently transitory. Yesterday's top-performing alpha generators often quickly become tomorrow's laggards. As Figure 1 illustrates, the annual performance distribution of major asset classes, geographic regions and investment styles highlights persistent stylistic leadership rotations. For institutional investors, this serves as a compelling case for a disciplined, forward-looking process that can adapt to changing market leadership.

Figure 1: Rotating Style, Sector and Country Leadership

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Value 12.6%	EM 37.3%	North America -5.7%	Growth 32.7%	Growth 33.6%	North America 26.4%	UK -4.8%	Growth 33.2%	Growth 24.2%	Europe ex UK 35.5%
Small 11.6%	Dev. Asia 31.7%	Growth -8.1%	North America 30.7%	North America 19.9%	Value 19.6%	Value -7.5%	North America 26.0%	North America 24.0%	UK 35.1%
North America 11.6%	Growth 30.0%	Value -10.8%	Europe ex UK 24.8%	Dev. Asia 19.7%	UK 18.5%	Dev. Asia -17.2%	Europe ex UK 21.7%	Value 10.8%	EM 33.6%
EM 11.2%	Europe ex UK 26.8%	Dev. Asia -13.5%	Small 24.7%	EM 18.3%	Growth 17.1%	Europe ex UK -18.0%	Small 16.8%	Dev. Asia 9.6%	Dev. Asia 28.0%
Dev. Asia 4.9%	Small 23.8%	UK -14.2%	UK 21.0%	Small 16.3%	Small 16.1%	Small -18.7%	UK 14.1%	Small 7.7%	Growth 22.4%
Growth 3.3%	UK 22.3%	Small -14.4%	Value 20.6%	Europe ex UK 10.9%	Europe ex UK 15.7%	North America -19.5%	Value 11.8%	UK 7.5%	Value 22.0%
UK -0.1%	North America 20.9%	EM -14.6%	Dev. Asia 19.4%	Value -0.3%	Dev. Asia -1.5%	EM -20.1%	Dev. Asia 11.4%	EM 7.5%	Small 19.7%
Europe ex UK -0.6%	Value 18.3%	Europe ex UK -15.1%	EM 18.4%	UK -10.5%	EM -2.5%	Growth -28.6%	EM 9.8%	Europe ex UK 0.1%	North America 18.1%

Source: FactSet, as of 31/12/2025. Based on calendar year total returns in USD for the following indices: MSCI Emerging Markets, MSCI North America, MSCI ACWI Small Cap, MSCI ACWI Growth, MSCI ACWI Value, MSCI United Kingdom, MSCI Europe ex UK, MSCI All Country Asia Pacific.

FISHER'S INVESTMENT PHILOSOPHY

As our firm's philosophy is rooted in the notion that equity markets are fairly efficient discounters of widely known information, Fisher seeks to develop proprietary research to gain a "macro information advantage" to help identify underappreciated themes with the potential to generate top-down alpha. Importantly, focusing on where future returns are most likely to emerge. This unique investment philosophy, in our view, represents a more complete investment process as it recognises that no equity category is permanently better.

Market leadership is cyclical, with different regions, sectors, styles and factors outperforming as the market cycle evolves. Early-cycle recoveries have historically favoured economically sensitive sectors, value stocks, and smaller-cap companies. As the expansion matures, leadership typically rotates toward high-quality and growth-oriented businesses. During bear markets, leadership generally shifts toward more defensive sectors and companies with strong balance sheets.

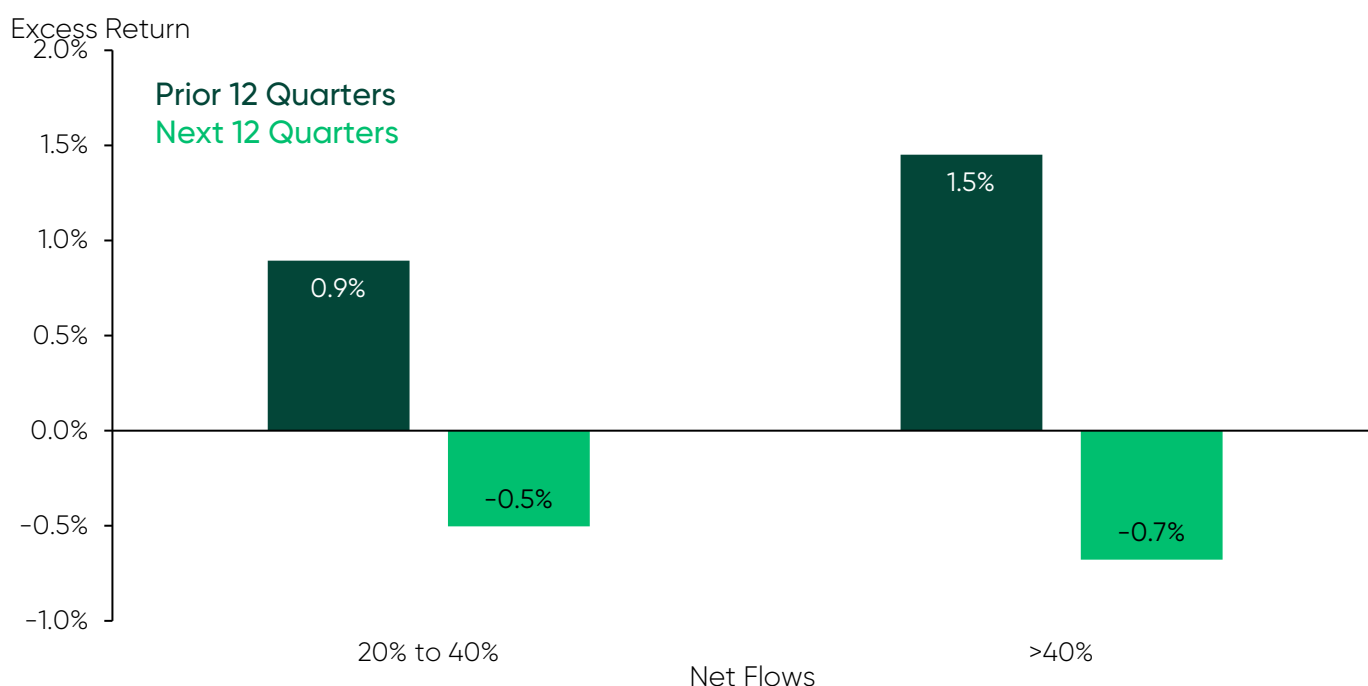
Fisher's core belief is that the potential for superior returns stems from correctly identifying how future economic and political developments will differ from prevailing market sentiment expectations, and positioning portfolios accordingly through country, sector and style allocation decisions. Security selection remains critical but primarily serves to support the broader macro driven convictions. Hereto, it is important to underscore how Fisher's top-down macro analysis differentiates from other market participants.

Leadership rotation is not limited to stocks or sectors—it also occurs among active investment strategies. To illustrate this, we will examine three case studies: US Large & Mega Cap Active Equity, Global Quality Growth Active Equity and Chinese Active Equity. These investment universes have experienced periods of notable outperformance and attracted significant investor attention over time.

US LARGE & MEGA CAP ACTIVE EQUITY UNIVERSE

Amongst the US Large & Mega Cap Equity strategies, in the 12 quarters preceding elevated inflows these strategies tend to outperform, however this outperformance fades in the 12 quarters that follow (Figure 2). Hence, instead of allocating capital after periods of strong returns, investors benefit from identifying opportunities before they occur. This underscores the importance of selecting a disciplined and forward-looking active equity manager capable of consistently doing so.

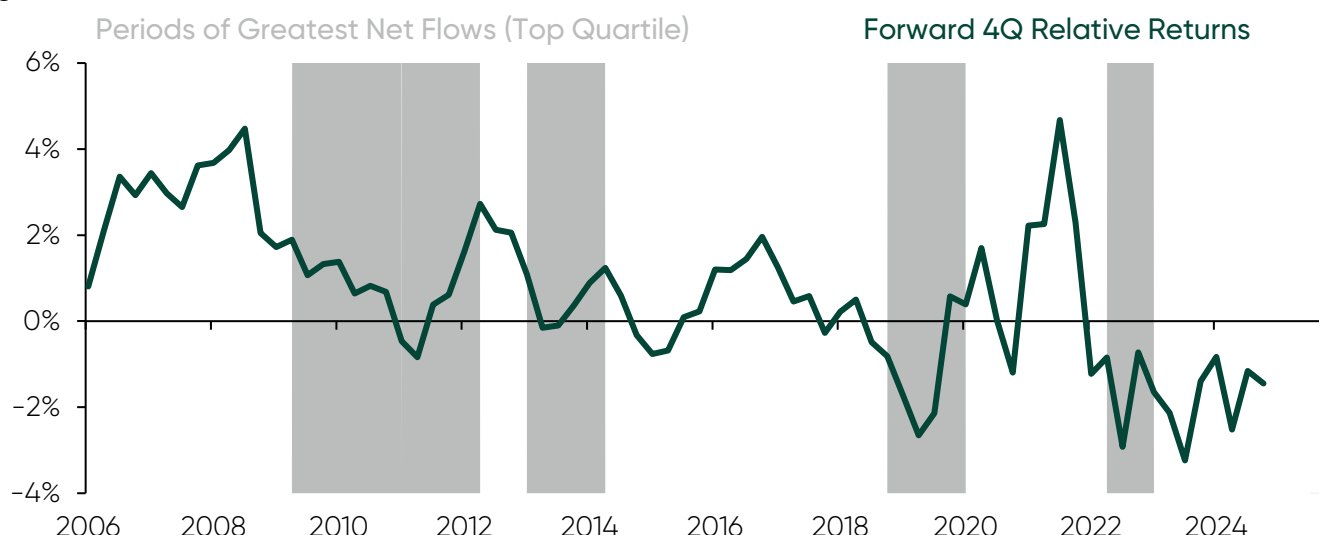
Figure 2: Recency Bias Among US Large Cap Investors



Source: eVestment, from Q2 2005 to Q1 2026. The 'US Large & Mega Cap Active Equity Universe' is based on the strategies in the eVestment 'All US Equity' universe with: an 'Active' portfolio management strategy and 'Mega Cap' or 'Large Cap' primary equity capitalisation. The 'Net Flows' data is based on the rolling 4-quarter net flows for each of these strategies (as a % of the beginning strategy AUM of the each 4-quarter period). The 'Excess Return' figures are based on the average 12-quarter excess returns (vs. the S&P 500 index), of each strategy in the applicable universe, before and after given periods of net flows. Returns are Gross and in USD.

In this market segment, returns have typically been more subdued following periods of upper quartile inflow intensity (Figure 3). In our view, this reflects fading momentum and more crowded positioning following the initial run-up. During periods of regular inflow intensity, on average, US Large & Mega Cap strategies generate a forward four-quarter excess return of 0.9%, relative to the MSCI USA index. However, following periods of heightened net inflows, on average, this figure declines to 0.0% (Figure 3).

Figure 3: Net Flows and Forward Relative Returns

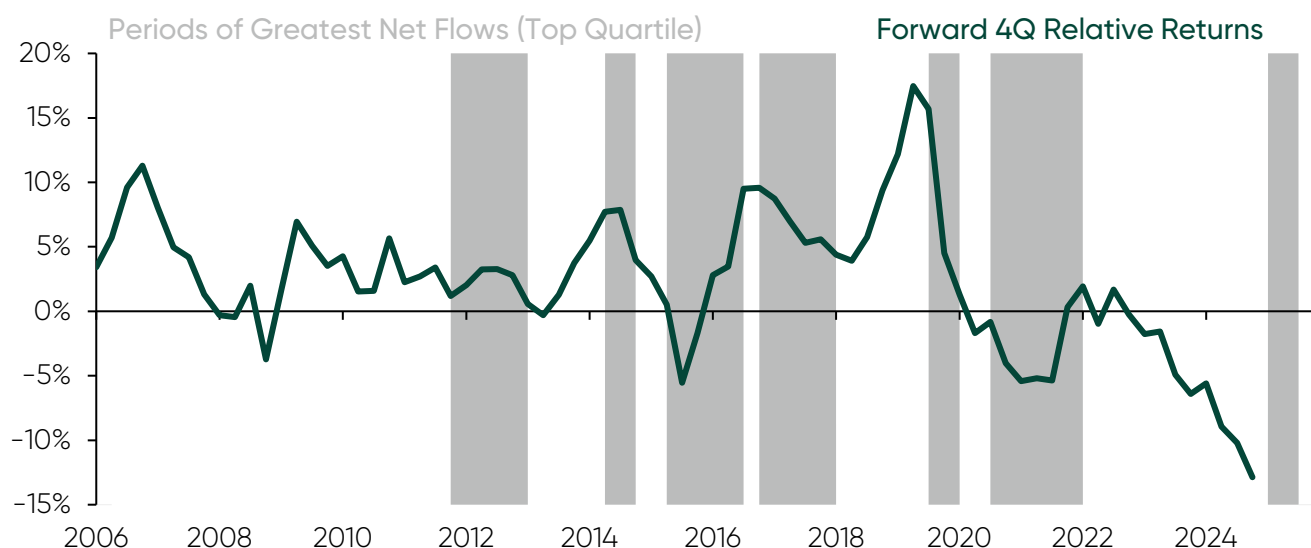


Source: eVestment, from Q2 2005 to Q1 2026. The 'US Large & Mega Cap Active Equity Universe' is based on the strategies in the eVestment 'All US Equity' universe with: an 'Active' portfolio management strategy, and 'Mega Cap' or 'Large Cap' primary equity capitalisation. The 'Net Flows' data is based on the rolling 4-quarter net flows for each of these strategies (as a % of the beginning strategy AUM of the each 4-quarter period). The 'Forward Return' figures are relative to the forward 4-quarter returns of the MSCI USA. Returns are Gross and in USD.

GLOBAL QUALITY GROWTH ACTIVE EQUITY UNIVERSE

Global Quality Growth Active Equity is another style universe that has experienced a prolonged period of robust performance and rising investor demand. During periods of regular inflows into the universe (i.e., outside of upper quartile inflow intensity), forward returns relative to the MSCI ACWI are strong—averaging 2.6% (Figure 4). However, much like US Large & Mega Cap trend above, in the four quarters following periods of heightened inflows, average forward returns have been markedly lower at 1.6%.

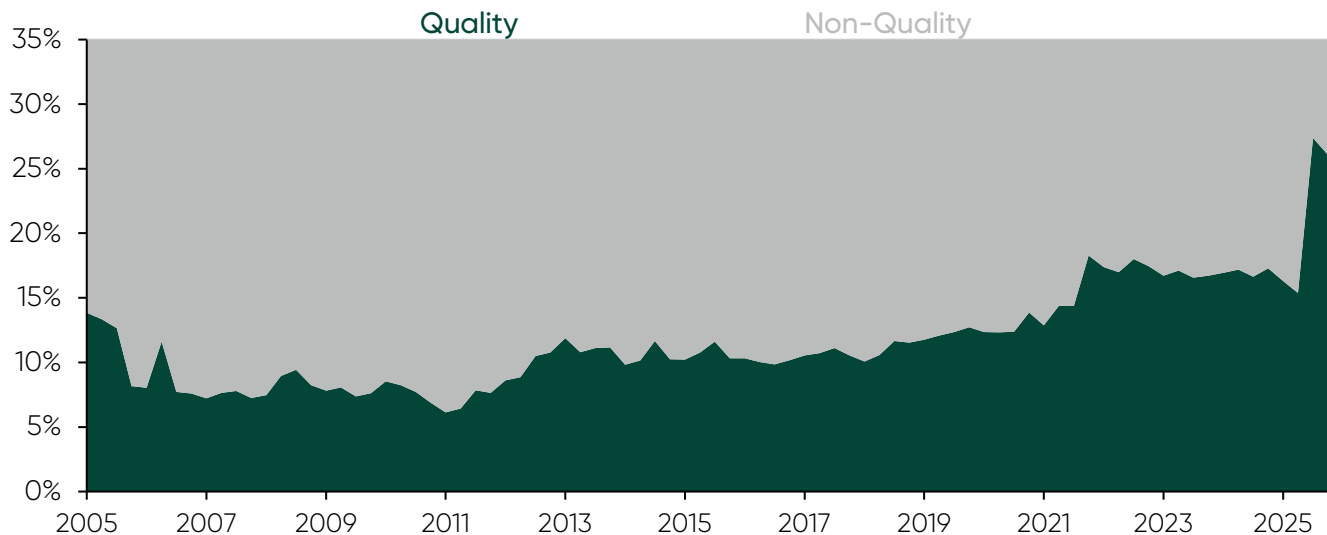
Figure 4: Net Flows and Forward Relative Returns



Source: eVestment, from Q2 2005 to Q1 2026. The 'Global Quality Active Equity Universe' is based on the strategies in the eVestment 'All Global Equity' universe with: an 'Active' portfolio management strategy, a 'Growth' primary equity style emphasis and a 'Quality' secondary equity style emphasis. The 'Net Flows' data is based on the rolling 4-quarter net flows for each of these strategies (as a % of the beginning strategy AUM of the each 4-quarter period). The 'Forward Return' figures are relative to the forward 4-quarter returns of the MSCI ACWI. Returns are Gross and in USD.

Recently, net inflows have been elevated ranking in the top quartile historically. The combination of strong inflows, elevated positioning and widespread investor conviction resembles previous periods in which subsequent returns were more muted. The risk herein lies not that returns turn negative, but rather overinflated investor optimism portends underperformance versus the broader benchmark.

Figure 5: AUM Split of Global Growth Active Equity Universe



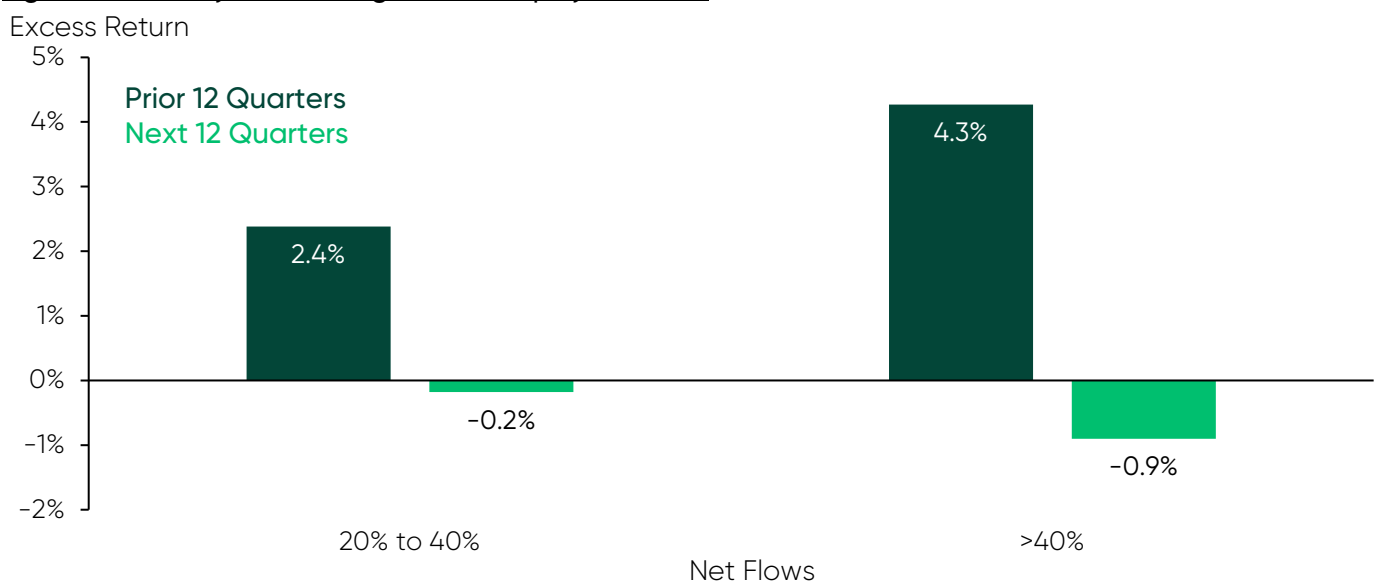
Source: eVestment, from Q2 2005 to Q1 2026. The 'Global Quality Active Equity Universe' is based on the strategies in the eVestment 'All Global Equity' universe with: an 'Active' portfolio management strategy, a 'Growth' primary equity style emphasis and a 'Quality' secondary equity style emphasis. The 'AUM Split' is based on the proportion of AUM in the 'Global Quality Active Equity Universe', as a proportion of the 'Global Active Equity Universe'. Data is in USD.

Additionally, as assets concentrate in the leading segment of the market, valuations often expand rendering it more difficult for companies to generate perceived high return on equity. While this in of itself does not imply an imminent performance reversal, crowding into the asset class likely reduces the probability of upside surprise while increasing sensitivity for investor disappointment. Assets under management in the Global Quality Growth active equity universe are at a historic high (Figure 5), raising the risk of crowding and style saturation.

CHINA ACTIVE EQUITY UNIVERSE

Elevated net inflows into China Active Equities have also historically coincided with periods of strong prior returns relative to the broader MSCI Emerging Markets index, consistent with performance-chasing behaviour (Figure 6).

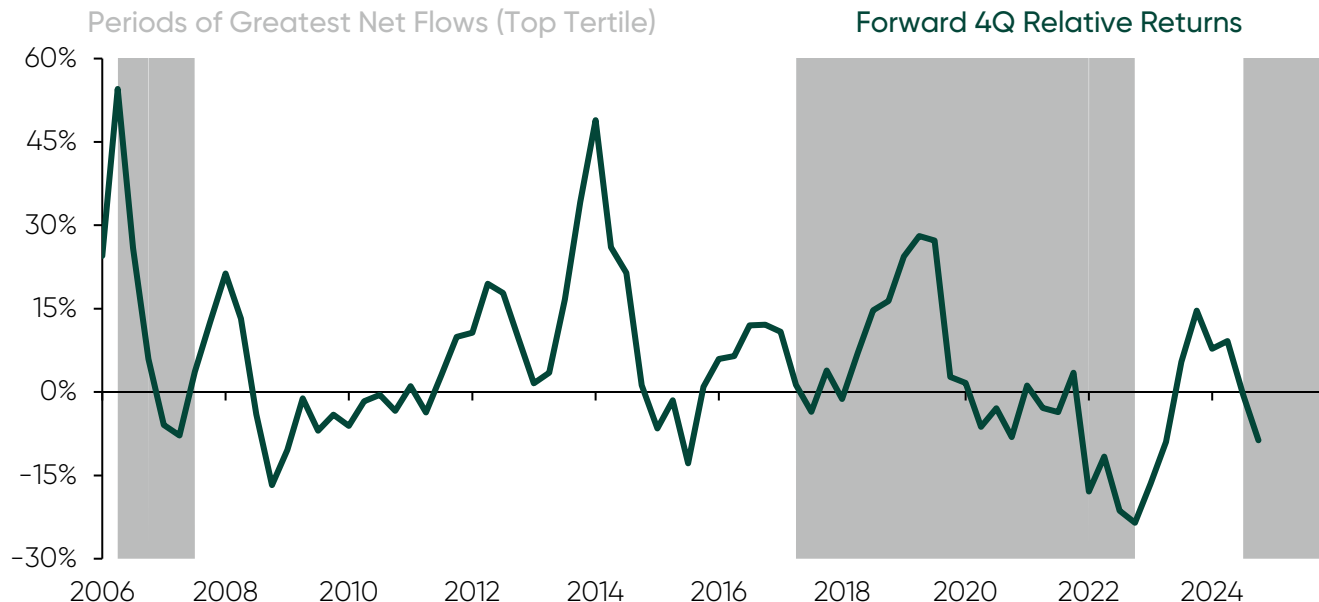
Figure 6: Recency Bias Among Chinese Equity Investors



Source: eVestment, from Q2 2005 to Q1 2026. The 'China Active Equity Universe' is based on the strategies in the eVestment 'All China Equity' universe with an 'Active' portfolio management strategy and a 'Core' primary equity style emphasis. The 'Net Flows' data is based on the rolling 4-quarter net flows for each of these strategies (as a % of the beginning strategy AUM of the each 4-quarter period). The 'Excess Return' figures are based on the average 12-quarter excess returns (vs. the MSCI EM index), of each strategy in the applicable universe, before and after given periods of net flows. Returns are Gross and in USD.

In this market segment, returns have typically been more subdued following periods of upper tertile inflow intensity (Figure 7). In our view, this reflects fading momentum and more crowded positioning following the initial run-up. During periods of regular inflow intensity, on average, the China Active Equity Universe has generated a forward four-quarter relative return of 5.8% (Figure 7). However, much like the US Large & Mega Cap Active Equity and Global Quality Active Equity universes, following periods of heightened net inflows, the average relative returns for the subsequent four quarters are notably lower at 3.0%.

Figure 7: Net Flows and Forward Relative Returns



Source: eVestment, from Q2 2005 to Q1 2026. The 'China Active Equity Universe' is based on the strategies in the eVestment 'All China Equity' universe with an 'Active' portfolio management strategy. The 'Net Flows' data is based on the rolling 4-quarter net flows for each of these strategies (as a % of the beginning strategy AUM of the each 4-quarter period). The 'Forward Return' figures are relative to the forward 4-quarter returns of the MSCI EM index. Returns are Gross and in USD.

THE BENEFIT OF FISHER

This evidence reinforces the risk of investing in categories with elevated inflows, which typically follow strong realised returns but with experience subsequent underperformance. This pattern highlights the importance of monitoring sentiment indicators when allocating assets, as part of a forward-looking process that can adapt to changing market leadership. As a result, Fisher's active sector and regional exposures have evolved significantly over time (Figures 8 and 9), reflecting changes in the forward-looking opportunity set. These dynamic allocation decisions have accumulated into meaningful excess returns over time.

Figure 7: Fisher Global Equity [Super Sector] (Incepted September 1994)

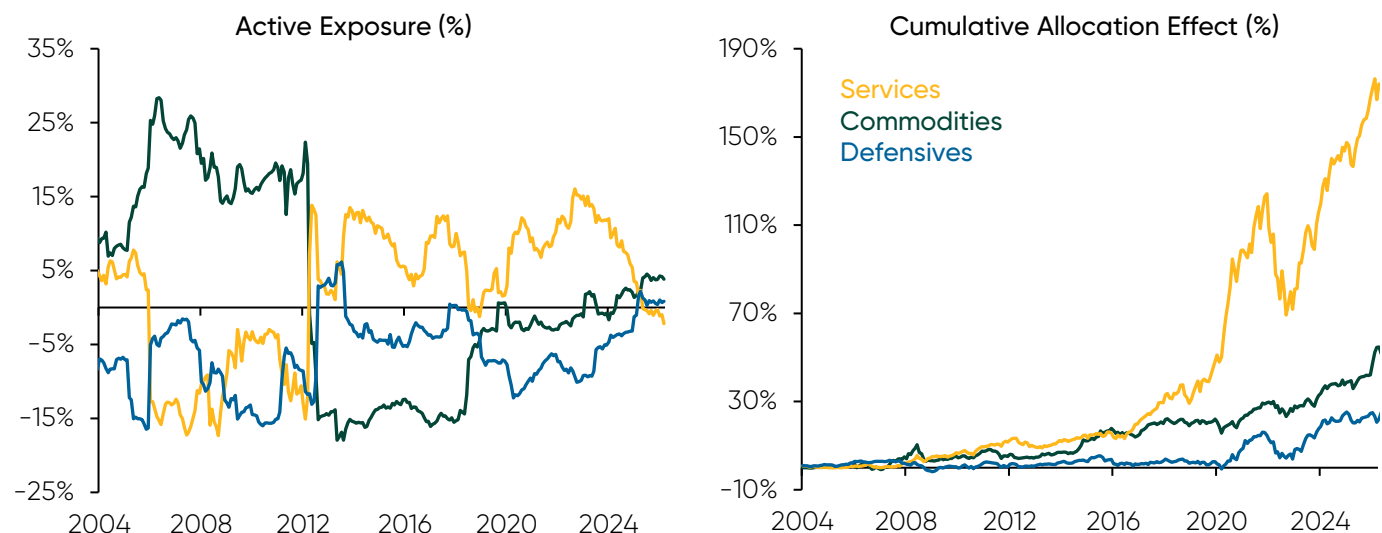
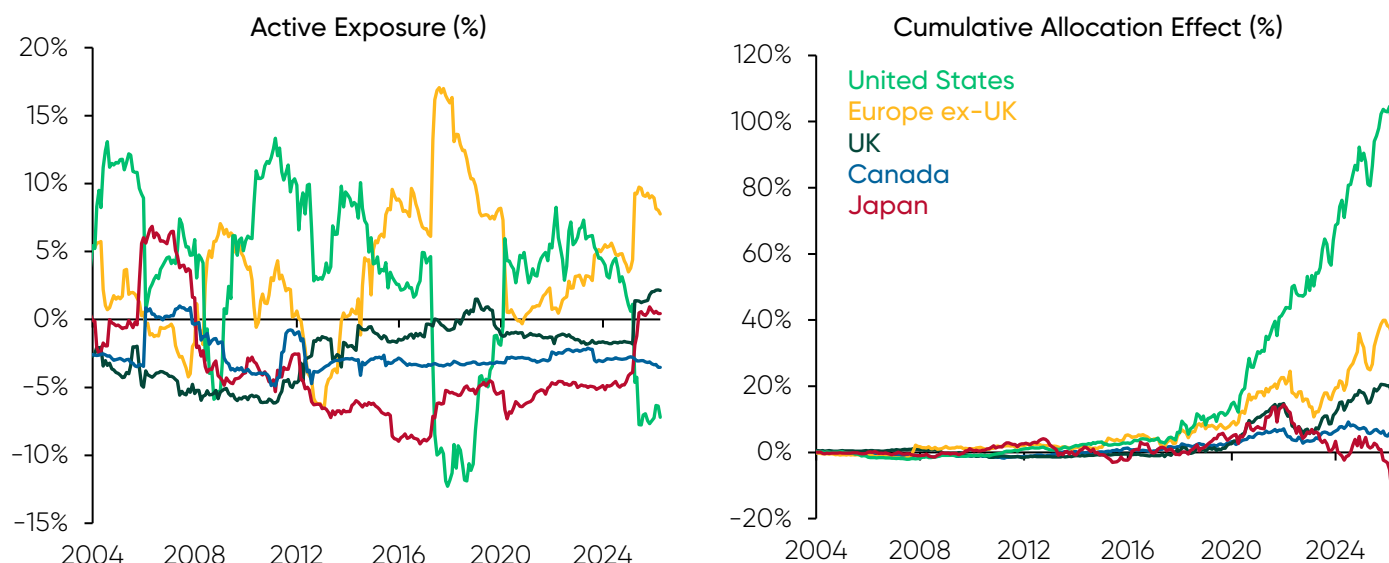


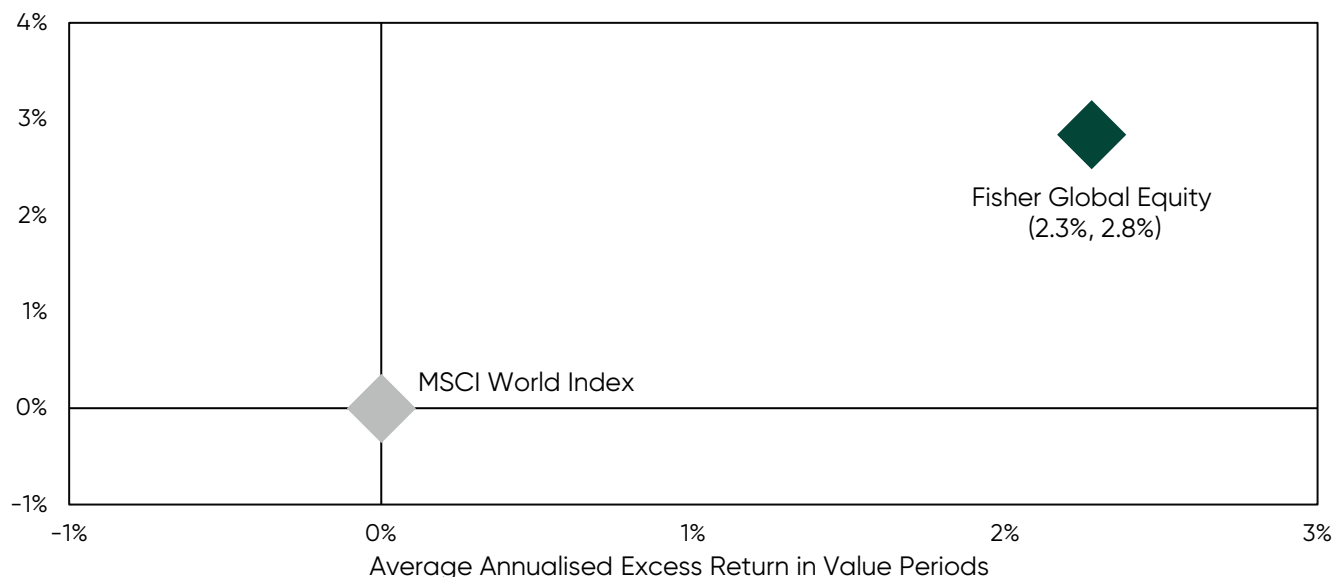
Figure 8: Fisher Global Equity [Regional] (Incepted September 1994)



Source: MSCI Barra Portfolio Manager (GEMLT Model), from 01/01/2004 to 31/03/2026. The foregoing information is based on the representative account for the Fisher Investments Global Total Return strategy (incepted on 01/09/1994), benchmarked against the MSCI World index. The foregoing information is based on a representative portfolio (rather than a composite or an average of a group of portfolios). This representative portfolio information is derived from an actual client portfolio. Clients' portfolio characteristics may differ given the various investment restrictions, cash requirements, and other circumstances applicable to a particular client. Portfolio information is as of the dates given, and no assurances can be given it has not changed, or it will not change in the future. "Commodities" includes Energy, Industrials, and Materials; "Defensives" includes Consumer Staples, Health Care and Utilities; "Services" includes Consumer Discretionary, Financials, Information Technology, Real Estate, and Communication Services. Barra LLC's analytics and data (www.msci.com) were used in the preparation of this report. Copyright 2026 BARRA, LLC. All Rights Reserved. Data in USD.

Figure 9: Fisher Global Equity in Growth & Value Periods (Incepted September 1994)

Average Annualised Excess Return in Growth Periods



Based on composite data, gross of fees, data in USD. Please see the full composite performance history in the Appendix. Source: eVestment Alliance, as of 31/03/2026. Periods of Growth and Value leadership are defined as all monthly periods where the respective strategy growth index outperforms the respective strategy value index, on a trailing 3 years annualised basis and vice versa. Fisher performance shown as the mean of all trailing 3 years annualised excess return, for the corresponding Growth or Value led periods. Performance from 31/08/1994 to 31/03/2026. Returns may increase or decrease as a result of currency fluctuation.

Against this backdrop, we believe the value of an active, unconstrained manager becomes more evident. Fisher Investments focuses on identifying where future returns are likely to emerge while actively monitoring sentiment to understand which ideas are already priced in by markets. This allows portfolios to avoid crowded exposures and instead position across regions, sectors and styles where we expect conditions to improve—supporting a more proactive versus reactive approach to portfolio management.

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This document has been approved and is being communicated by Fisher Investments Europe Limited.

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