

Q3 Review: Ukraine flare-up coinciding with weak German figures was enough to swing the markets in August with the ensuing risk aversion affecting long term rates around the world. Germany, representing around 28% of Eurozone GDP, grew only 0.1% in Q3, France, the second largest component of Eurozone growth fared a little better at 0.3%. US QE draws to a close and the dollar strengthens but the threat of deflation in Europe becomes ever more likely. Emphasis among investors has been on large cap quality, value and yield. Oil continued to slide. Real returns of US investors from Europe took a knock in Q3 as the Euro fell 8% against the dollar, making stock-picking for US investors even more important. Inflows into European mutual funds in Q3 start strongly but suffer 'massive slowdown' according to analysts from data firm Lipper. July €41 billion, August €18.5 billion, and September €3.2 billion, with equity, alternative and commodity funds all seeing net outflows.

Q4 and Beyond: ECB showing willingness to expand its balance sheets with QE (including sovereign debt if required). The good news is that there is plenty of room on its balance sheet to buy assets (ECB has only 2% of Eurozone GDP on its books while the BoE & FED have around 25% and the BoJ with an enormous 45%). In the US, rate hikes are expected in 2015. Appetite for equities and risky assets remains (largely given the risk/return alternatives from other asset classes) but lower growth forecasts should manifest themselves in weaker financial returns.

"European stocks were recently boosted by the best earnings season in three years. However concerns over longevity of growth and deflation continue. Three wise themes of yield, quality, and large cap are the best places to hide in European stocks," said Manish Kabra, European equity and quantitative strategist BofA Merrill Lynch Research – November 2014.

In Eurozone expect large scale QE, low interest rates and a weak Euro, with potentially greater fragmentation of Eurozone performance and (hoped for) recovery. Wait to see whether oil weakness is driven by weaker demand or over supply.

In the US, growth projections of around 3% are superior to both Europe and Japan. However, the BoAML survey in November shows that Japan is becoming the preferred destination of more investors in search of value – leading it to a nine-year high in global sentiment towards Japanese equities.

Regional Inflows: In general most regions were either slightly positive or negative on WEU in Q3. North America returned to net positive flows after retreating from the region in Q2. Far more striking were the flows witnessed within Western Europe itself, with investors shrinking away from WEU equities after being strongly positive in Q2 (and strongly negative in Q1). It seems that Western European firms are, in general, more skittish than they Anglo Saxon counterparts, with a higher sensitivity to the ebbs and flows of the markets.

Inflows by Style: Sentiment from most styles in Q3 was overwhelmingly negative with both Growth and Value investors back-peddling with conviction. The 'Net Change chart by Style' below clearly shows that the trend line over the last 12 months has been 45 degrees in the wrong direction. The same trend can also be applied to Active managers in general, who have seemingly lost conviction in the falling tide of the market and banked their gains. Index investors, on the other hand, have been strong buyers over the last several quarters and remained net buyers in Q3 – albeit in a more muted manner.

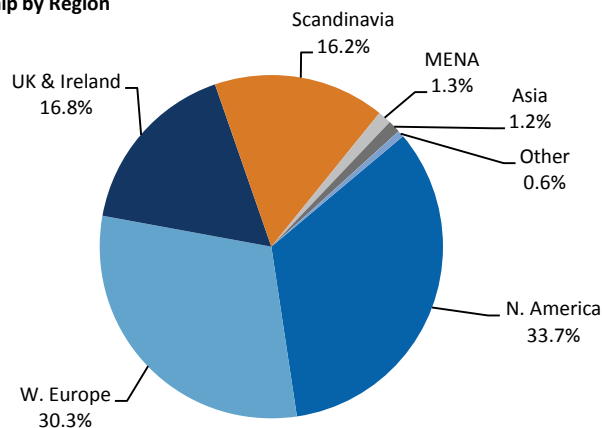
Sold on an industrial scale: Industrials saw the lion's share of the outflows in Q3 with the micro sector Heavy Construction being the most vociferously spurned (Royal Imtech in particular was sold very heavily). Industrial equipment was also heavily sold, with Schneider Electric's easily the hardest hit – although GEA Group and Atlas Copco also saw sizeable outflows.

Technology too witnessed considerable outflows, with Semiconductors (Infineon Technologies \$0.7 billion and NXP Semiconductors \$0.94 billion) and Telecommunications Services (Numericable \$1.6 billion and Telefonica \$1.5 billion) being the hardest hit. The largest inflows were also to Telecommunications however, with Altiice AG, Vivendi, Swisscom, and Orange the primary beneficiaries of inflows.

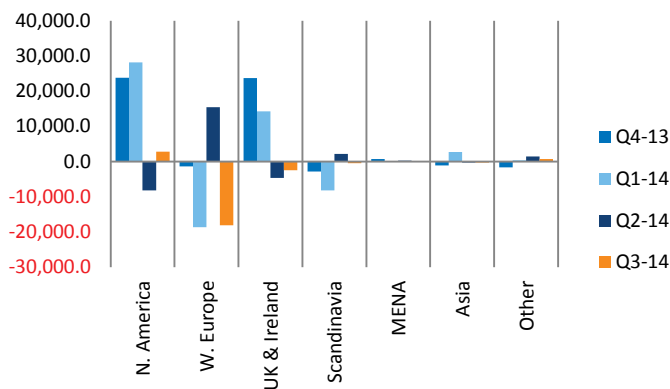
A warning sign to the conviction in the global economy? Many of the cyclical sectors that provide the hardware and plant to the economic machine (Diversified Industrial Machinery and Tools, Electrical Equipment and components, and Heavy Construction) were all notably hit by outflows.

Institutional Investment Flow

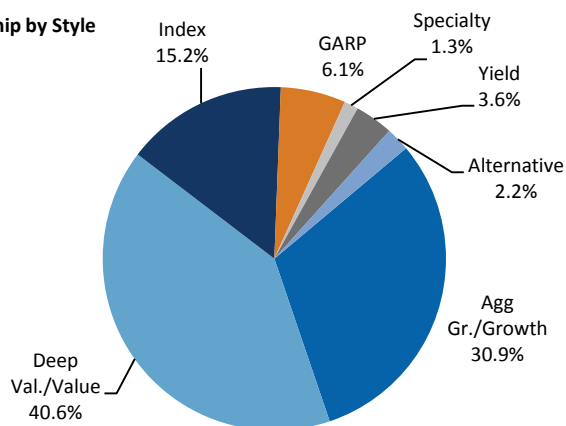
Ownership by Region



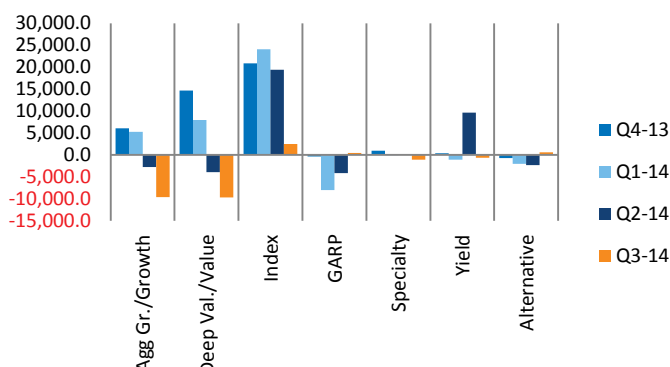
Net Change (\$M Value) by Region



Ownership by Style



Net Change (\$M Value) by Style



Top Holders, Buyers & Sellers

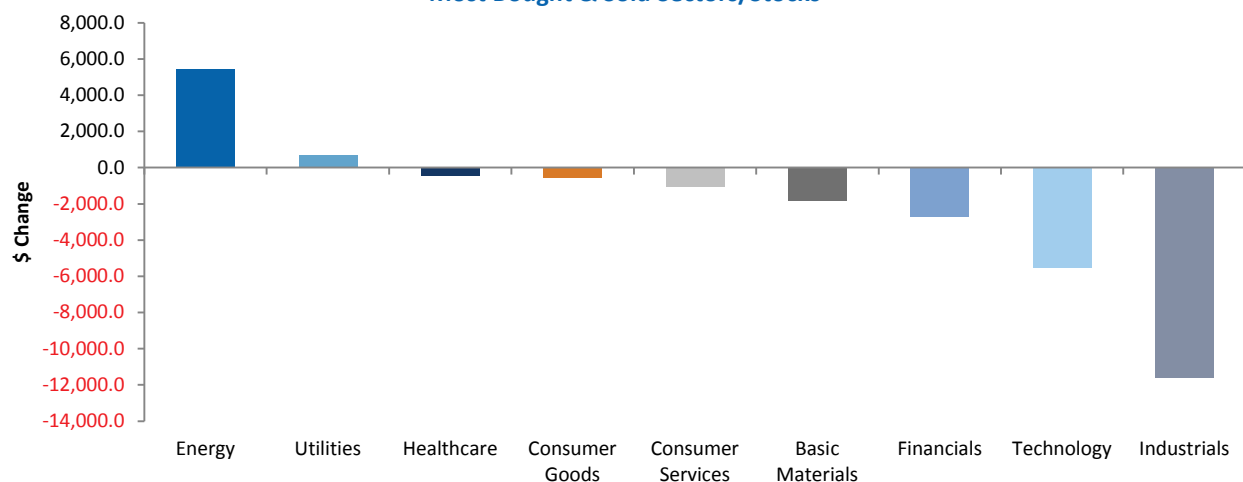
TOP HOLDERS	Country	Style	Turnover	Equity Assets (\$M)	Value (\$M)	Change (\$M)	% Portfolio	% Portfolio Chg
Norges Bank Investment Management (Norway)	Norway	Value	Low	507,568.3	159,940.0	475.6	31.5	0.3
Capital World Investors (U.S.)	United States	Value	Low	549,978.7	89,577.4	-3,385.3	16.3	-3.6
BlackRock Investment Management (U.K.), LTD	United Kingdom	Growth	Low	311,884.5	45,946.0	-2,019.1	14.7	-4.2
Natixis Asset Management	France	Value	Medium	56,657.5	44,871.6	-950.8	79.2	-2.1
Fidelity Management & Research Company	United States	Growth	Medium	796,001.1	44,078.7	-2,130.6	5.5	-4.6
Capital Research Global Investors (U.S.)	United States	GARP	Low	397,907.9	43,976.4	675.7	11.1	1.6
Amundi Asset Management	France	Value	Medium	64,699.0	43,935.5	1,330.6	67.9	3.1
Dodge & Cox	United States	Deep Value	Low	163,454.9	40,473.4	1,378.5	24.8	3.5
APG Asset Management N.V.	Netherlands	Yield	Low	157,228.3	39,495.9	-151.3	25.1	-0.4
MFS Investment Management	United States	Value	Low	243,560.1	37,500.2	-86.0	15.4	-0.2
					589,795.0	-4,862.8		

TOP BUYERS	Country	Style	Turnover	Equity Assets (\$M)	Value (\$M)	Change (\$M)	% Portfolio	% Portfolio Chg
Primecap Management Company	United States	Growth	Low	96,552.4	11,428.7	3,250.6	11.8	39.7
Harris Associates, L.P.	United States	Value	Medium	101,204.6	24,346.2	2,304.9	24.1	10.5
Standard Life Investments, LTD (U.K.)	United Kingdom	Growth	Low	80,180.9	18,151.8	1,488.1	22.6	8.9
Dodge & Cox	United States	Deep Value	Low	163,454.9	40,473.4	1,378.5	24.8	3.5
Amundi Asset Management	France	Value	Medium	64,699.0	43,935.5	1,330.6	67.9	3.1
Handelsbanken Asset Management (Sweden)	Sweden	Value	Medium	29,350.3	18,205.3	1,109.7	62.0	6.5
OppenheimerFunds, Inc.	United States	Growth	Medium	143,823.0	27,410.1	972.8	19.1	3.7
Allianz Global Investors Europe GmbH	Germany	Growth	Medium	53,926.1	22,649.9	904.6	42.0	4.2
First Manhattan Company	United States	Value	Low	17,589.4	1,337.2	888.6	7.6	198.1
Grantham Mayo Van Otterloo & Co., LLC	United States	Value	Medium	78,848.4	17,583.9	833.6	22.3	5.0
					225,521.9	14,461.8		

TOP SELLERS	Country	Style	Turnover	Equity Assets (\$M)	Value (\$M)	Change (\$M)	% Portfolio	% Portfolio Chg
Credit Suisse AG (Asset Management)	Switzerland	Value	Low	68,653.5	25,575.0	-7,687.0	37.3	-23.1
Capital World Investors (U.S.)	United States	Value	Low	549,978.7	89,577.4	-3,385.3	16.3	-3.6
Deka Investment GmbH	Germany	Value	Low	35,362.1	21,972.6	-2,660.3	62.1	-10.8
Templeton Global Advisors, LTD	Bahamas	Value	Low	52,663.9	17,612.8	-2,209.6	33.4	-11.1
Fidelity Management & Research Company	United States	Growth	Medium	796,001.1	44,078.7	-2,130.6	5.5	-4.6
BlackRock Investment Management (U.K.), LTD	United Kingdom	Growth	Low	311,884.5	45,946.0	-2,019.1	14.7	-4.2
BlackRock Advisors, LLC	United States	Value	Low	260,517.8	18,398.6	-1,767.4	7.1	-8.8
Fidelity International Limited - FIL Investment Services (U.K.), LTD	United Kingdom	Growth	Medium	85,558.5	22,802.8	-1,644.4	26.7	-6.7
Carlyle Investment Management, LLC	United States	Alternative	Medium	10,194.9	629.9	-1,573.9	6.2	-71.4
Thornburg Investment Management, Inc.	United States	GARP	Medium	50,018.3	15,449.5	-1,424.8	30.9	-8.4
					302,043.3	-26,502.3		

Includes Investors with EUM greater than \$100M; Excludes Passive/Index Investors

Most Bought & Sold Sectors/Stocks



BOUGHT Securities	Industry	Change \$M	SOLD Securities	Industry	Change \$M
Roche Holding AG	Healthcare	4,184.3	Bayer AG	Healthcare	-3,795.7
Weatherford International plc	Energy	2,567.2	Royal Imtech N.V.	Industrials	-3,663.7
Gecina S.A.	Financials	1,804.6	Schneider Electric S.E.	Industrials	-3,423.1
Outokumpu Oyj	Basic Materials	1,306.4	Allianz SE	Financials	-3,007.4
Sanofi S.A.	Healthcare	1,304.2	Siemens AG	Industrials	-2,728.9
		11,166.7			-16,618.8