



INVESTMENT NOTES - April 23rd, 2019

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It was an incredible Easter weekend in the UK- unfortunately our hearts are broken by the needless act of terrorism in Sri Lanka. Our thoughts and prayers are with the victims and their families.

We like to periodically review parts of our 10 year strategic viewpoint. One area that doesn't seem to get a lot of analysis but it drives the world is demographics. Perhaps because the trend is subtle it doesn't seem to have investment impact, however it does effect politics, government actions, growth prospects and buying/saving trends.

The United Nations has just published a new population study. Between 1976 and 2023 the world's population will double from 4 billion to 8 billion. However, the UN's study predicts that population will not quadruple in the 21st century. In the beginning of the 20th century, average global fertility was about six births per woman, it has now fallen to about 2.5 births per woman. If birth rates remain unchanged, the world's population would reach 26.3 billion by the end of the century.

This is highly unlikely however. If fertility rates continue their decline and move to a replacement level of about 2 births per woman, the world population would be 11.2 billion by the end of the century.

While the world population is not likely to quadruple in the 21st century, the populations of about three dozen countries, largely in sub-Saharan Africa, are projected to more than quadruple during this century. For example, Africa's largest country- Nigeria- is projected to have its population sextuple over the 21st century from 122 million to 794 million. The country with the most rapid rate of projected population growth is Niger as its population is expected to increase from 11 million to 192 million in this century.

The populations of some 50 countries are projected to decline during the 21st century. Of these, 30 countries are expected to have population declines of more than 30%. For example, Japan's population is expected to decline by 34% and China's population will decline from 1.3B to 1.0B (20%) during the century. The most rapid population declines will be about 50% and are expected in Bulgaria, Latvia and Moldova.

Ten countries will account for 62% of the population growth (3.5B people)- with the top 5 contributors in sub-Saharan Africa- Nigeria, Democratic Republic of Congo, Tanzania, Niger, Uganda, India , Pakistan, Angola, Ethiopia and the United States make up the top 10.

This will place considerable strain on the flora and fauna of the world. Considering today is Earth Day- we combined the two and started looking for shorts. Plastics are an obvious choice. Growth in plastics is projected at 2-3% versus historical 4-6%, however they are still growing. Some governments are taking strong action against plastic usage however interestingly, there are still some governments that own majority stakes in plastic producers- especially in Asia. We are beginning research in order to find the right plastic producers to short.

Another research project was started this week- Toyota. The company is trading at .9x its book value, it is gaining market share in China and it is a beneficiary of the ride-hailing as most cars are leased and Toyota has a strong auto finance subsidiary. Also, specific requirements for self-driving fleets may revive interest in fuel-cell technology (because of the high power requirements of autonomous vehicles) which benefits Toyota. Toyota has a current P/E of 7.9x and a 11.5% ROE with a 3.6% dividend yield.