What In The World Is Going On?

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Core Investment Philosophy

**OUR INVESTMENT PHILOSOPHY**

- Portfolio construction process that seeks the highest level of return for any given level of risk.
- Focus on minimizing performance drag caused by taxes and fund expenses.
- Open platform with no bias toward fund families or active vs. passive management.
- Ability to take short term tactical positions that capitalize on market opportunities.
- Global investment approach to improve diversification benefits.
A Transforming World

- It’s getting complicated & confusing out there

- The only constant in the global economy is change

- America is no longer the lone global alpha dog

- For investors the risks & rewards are tremendous
Agenda

- Religion
  - Sunni vs. Shia
  - Top Muslim Countries

- Emergence of the Third World
  - Population Implosion/Population Explosion
  - Emergence of Africa
  - It Tastes Like Chicken
  - An Urban Planet

- Aging of the Western World
  - Aging Gracefully
  - Sorry We are Closed!!! - Taming Immigration
  - Wait – We Need You!!!
  - It’s a Girl’s Life

- Odds & Ends

- How best to manage money in a global world
Religion

- 1.6 billion Muslims or 23% of the world population
  - Majority of the population in 49 countries
  - Fastest growing religion

- Largest Muslim Populations

<table>
<thead>
<tr>
<th>Country</th>
<th>% Muslim</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>88%</td>
</tr>
<tr>
<td>Pakistan</td>
<td>96%</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>90%</td>
</tr>
<tr>
<td>Egypt</td>
<td>95%</td>
</tr>
<tr>
<td>Iran</td>
<td>99%</td>
</tr>
<tr>
<td>Algeria</td>
<td>98%</td>
</tr>
<tr>
<td>Nigeria</td>
<td>50%</td>
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</tbody>
</table>

Religion

- Sunni-Shia divide after the death of Muhammad in 632 A.D.
  - Sunni wanted a new leader to be elected from the best member of the community
    - Saudi Arabia
  - Shia wanted someone within Muhammad’s family
    - Iran, Azerbaijan, Iraq & Bahrain
  - Sunni prevailed and the Shia candidate (Ali Ibn Abi Talib) was killed in subsequent wars

- Separation of Church and State
  - Rule of law, idea of economic liberty and individual rights are the hallmarks of modern western civilization
  - That separation has not happened with Islam

- Battle of Vienna

180+ Countries in the World

Developed Countries (32)
- High average income per capita
- Advanced economic development & infrastructure
- Example
  - US, Japan, Germany, UK and other G7 countries

Growth & Emerging Markets
- Growth Countries (8)
  - GDP >1%
  - Favorable Demographics
  - Example: BRIC & MIST
- Emerging Countries (140+)
  - GDP <1%
  - Generally low income per capita
  - Lack of basic infrastructure
  - Examples: Nigeria, Vietnam, Philippines, Iran, Egypt

Source: Global Economics Paper No:204, GS Global ECS Research 09/08/2010
Top 10 Countries by Population

**2015**

1. China – 1.4 billion  
2. India – 1.3 billion  
3. US – 321 million  
4. Indonesia – 256 million  
5. Brazil – 205 million  
6. Pakistan – 199 million  
7. Nigeria – 182 million  
8. Bangladesh – 160 million  
9. Russia – 144 million  
10. Mexico – 127 million  

**2050**

1. India – 1.7 billion  
2. China – 1.3 billion  
3. US – 398 million  
4. Nigeria – 387 million  
5. Indonesia – 366 million  
6. Pakistan – 344 million  
7. Brazil – 226 million  
8. Bangladesh – 202 million  
9. The Congo – 194 million  
10. Ethiopia – 165 million  

Mexico (168m) Russia (128m)

By 2050 2.5 billion people will live in Africa
- 25% of the world’s total
- If projections hold by the end of century 4 out of 10 people will be African.
- 43 African cities will cross the 1 million mark in the next 15 years
- Lagos Nigeria is home to 21 million people. Just 762,000 lived there in 1960 when it got its independence

That makes Africa the next emerging giant or a giant emergency

By 2050 1/4\textsuperscript{th} of the people on earth will be older than 60 (just 1/8\textsuperscript{th} today)
- The average African will be 28
- The baby boom will lift the poorest continent on earth into the center of global affair

Urban Planet

- By 2050
  - 7 out of 10 people will live in urban areas
  - There will be 40 megacities (>10 million)
  - 30% of the world’s economy will be concentrated in just 100 cities

- The “Good”
  - More interaction among ourselves
  - More ideas generated
  - Increase wealth

- The “Bad”
  - Hotter countryside's, altering rainfall, more greenhouse gases
  - Concentrates risks of natural hazards & diseases

Source: As World Crowds In, Cities Become Digital Laboratories – WSJ 07/07/2016
It Tastes like Chicken

- By 2050 there will be 2.4 billion more people who have joined the global population
- How are the masses to be fed??????
- As middle class grows diets change from grains to protein
- Agriculture in US is bright
  - We know how to raise protein
- Chicken is widely expected to be the main meat
  - Mild flavor & broad cultural & religious acceptance
  - Rapid reproduction & quick maturation cycle
  - Genome was sequenced in 2004

Source: How to Satisfy the World’s Surging Appetite for Meat – WSJ 07/07/2016
2016 World GDP
- Total GDP $75 Trillion
  - Developed Markets (ex US) – 39%
  - US – 24%
  - Emerging Markets – 37%

2030 World GDP
- Total GDP est. – 111 Trillion
  - Developed Markets (ex US) – 24%
  - US – 17%
  - Emerging Markets – 59%

Sources:
World Development Indicators database, World Bank 04/17/2017
Global Economics Paper No:204, GS Global ECS Research 09/08/2010

Sources:
2016 Organization for Economic Co-operation & Development
Global Economics Paper No:204, GS Global ECS Research 09/08/2010
Aging Gracefully

- The Problem: a chronic labor shortage resulting from a rapidly aging population
  - By 2050 the UN projects that 32 countries will have at least 25% of the population 65 or older
- Why
  - Expanding life expectancy
  - Advances in health care
  - Good diets and fit lifestyles
- Solutions:
  - Redefine “aging” – keep older workers in the workforce
  - Scrap one-child policies
  - Create incentives for having more children
  - Boosting immigration

Source: Graying Japan Tries to Embrace the Golden Years – WSJ 07/07/2016
Stop we’re not Open!!!
Wait – We Need You!!!

- Western World is Aging
  - By 2050 1/4\textsuperscript{th} of the people on earth will be older than 60 (just 1/8\textsuperscript{th} today)

- Fertility Rate is dropping
  - Europe fertility rate is 1.55
  - Canada – 1.61
  - US – 2.1 (white 1.6 vs Hispanic 2.7)
  - France – 1.3
  - Spain – 1.2

- Working age population is shrinking
  - By 2050 working age population will shrink by 28% in Japan, 23% Germany, 21% in Italy, Russia & China
  - US working age will grow by 10% but shrink as a percentage of the total from 66% to 60%
  - US labor force participation has dropped to 62% lowest in 40 years

- DOUBLE FEAR: Too many people (9.5 billion) too few workers!!!!

Shrinking Work Force

- 1950 - 2.5 Billion people
  - Lots of working age to support children & elderly
  - Typical woman had 5 children

- 2015 - >7 billion people
  - Typical woman has 2.5 children

- 2050 – 9.7 billion people
  - Only 13% will be in high-income countries
  - % of elderly will grow
  - Richest economies will be dependent on a dwindling supply of workers

Source: World Population Prospects: The 2017 Revision - UN Department of Economic & Social Affairs
Mongolians have a saying: you have a girl, you’re happy. You have a boy: your lucky

Count up all the girls who were never born because of selective abortion, victims of infanticide and females who died from neglect and there upwards of 100 million women missing on the Asian continent today, 150 million missing by 2035 and 142 million by 2050. John Bongaarts and Dr. Guilmoto Population Council

Not just a human-rights catastrophe, it is also a demographic disaster
   - In China by 2050 there could be as many as 186 men for every 100 single women
   - India could peak at 191 men for each 100 women

Source: Asia Struggles for a Solution to its “Missing Women” Problem – WSJ 07/07/2016
Total Job Openings  5,871,000

There will be two million manufacturing jobs vacant over the next decade, due to a shortage of skilled workers.

National Association of Manufacturers
WSJ  9/27/16

Leisure & Hospitality  763,000
Government  513,000

Source: Bureau of Labor Statistics
BLS release on Sept. 7, 2016
Stop we’re not Open!!!

- World is on the Move
  - 244 million live outside their country of birth
  - An increase of 71 million since 2000
  - Estimated 590 million will live outside their country of birth by 2050

- Today
  - 12% of the population in France, UK and Germany is now foreign born
  - US – 14%
  - Canada – 21%
  - >25% in Australia & New Zealand

Source: Some Countries See Migrants as an Economic Boon, Not a Burden – WSJ 07/07/2016
Other Odds & Ends

• Water – The New Blue Gold
  – The Good News – The earth is 70+% Water
  – The Bad News – 97% of the earth’s water supply is saltwater
  – Presently 1/4 of the human population lives in an area of physical water scarcity

<table>
<thead>
<tr>
<th>Good</th>
<th>Gallons of Water</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Pound of Beef</td>
<td>1,799</td>
</tr>
<tr>
<td>1 pound of chicken</td>
<td>468</td>
</tr>
<tr>
<td>1 pound of Rice</td>
<td>449</td>
</tr>
<tr>
<td>1 gallon of milk</td>
<td>880</td>
</tr>
<tr>
<td>1 egg</td>
<td>53</td>
</tr>
<tr>
<td>1 pound of chocolate</td>
<td>3,170</td>
</tr>
</tbody>
</table>

Other Odds & Ends

• Global Climate Change
  – One key holdout on global climate change – United States

• Critical aspects of a warmer planet
  1. More heat melts ice, worsens weather and expands oceans
  2. Climate change is a major threat to agriculture
  3. Natural habitats become hostile to plants and animals

• Carbon Dioxide Emissions by Country

Source: Climate change’s effects plunder the planet – EDF www.edf.org/climate/climate-change-effects-plunder-planet?
Other Odds & Ends

• What is double the size of India’s economy, more populated than Indonesia (256 million), and a lot like China whose growth has been virtually unstoppable over the past few decades?

• Answer: The US healthcare system

• US spending on Healthcare – The World’s 5th largest economy

<table>
<thead>
<tr>
<th>Country</th>
<th>Bill of $, 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>15,685</td>
</tr>
<tr>
<td>China</td>
<td>8,227</td>
</tr>
<tr>
<td>Japan</td>
<td>5,964</td>
</tr>
<tr>
<td>Germany</td>
<td>3,401</td>
</tr>
<tr>
<td>US Health Care Expenditures</td>
<td>2,807</td>
</tr>
<tr>
<td>France</td>
<td>2,609</td>
</tr>
</tbody>
</table>

• What is the World’s most Important Economic Ingredient?
• Answer: Sleep
• Researchers have determined that sleep is just as important to economic growth as capital, labor and natural resources

**Key Facts**

- 50-70 million Americans chronically suffer from a sleep disorder
- Sleep deprivation costs US industry roughly $66 billion a year
- 1 hour more sleep each night drops risk of artery calcification by 1/3
- Sleep deprivation is correlated with increased risks of heart disease, diabetes, obesity and cancer
- Drowsy driving may be a factor in 20% of all serious accidents
- 60 million prescriptions for sleep pills were prescribed in 2011

Managing Money in this Complex World
Starting with a $1 million portfolio, moving from a 2.3% annualized return to a 6.9% annualized return would increase the final portfolio value from $1.6 million to $3.8 million.
Current Issues – Economic Data

- ISM Manufacturing came in at 58.8 vs 56.6 expected
  - Any number >50 indicates expansion (<50 means contraction)
- ISM Non-Manufacturing came in at 55.3 vs. 56.9 expected
  - More important because it includes services sector
- We are now 98 months into this expansion (3rd largest in history)
  - If it continues to July of 2019 it will be the longest
Current Issues - Equities

- Political uncertainty could compromise the ability to pass tax reform
  - Something the markets have been counting on

- The US economy is doing Ok
  - Q2 earnings 498 of S&P 500 have reported
    - 77% beat estimates
    - 69% beat revenue estimates
    - Strong quarter with revenue 5.2% higher and earning 9.4% higher (led by a rebound in energy)

- Despite Harvey, Oil inventories remain high which will likely keep prices lower for longer

- Emerging market valuations remain more attractive than the US equity market
Current Issues – Fixed Income

- Next Fed Meeting is on September 20th
  - At this time 0% probability of a rate hike
  - .8% probability for the November meeting
  - 29% probability in the December meeting (down from 60%)

- August employment report
  - 156k new jobs vs. 180K expected
  - Unemployment 4.4%
  - Wage growth 2.5% year over year (key indicator of inflation)

- 10 year treasury is down to 2.07% vs. 2.17 a week ago vs. 2.38% in July
## Forward Looking Expectations

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>Underweight</td>
</tr>
<tr>
<td>Investment Grade Fixed Income</td>
<td>Underweight</td>
</tr>
<tr>
<td>High Yield Fixed Income</td>
<td>Underweight</td>
</tr>
<tr>
<td>Emerging Market Debt</td>
<td>Neutral</td>
</tr>
<tr>
<td>Private Equity</td>
<td>Overweight</td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>Underweight</td>
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<table>
<thead>
<tr>
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<tbody>
<tr>
<td>United States Equity</td>
<td>Neutral</td>
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<tr>
<td>Developed ex-US Equity</td>
<td>Overweight</td>
</tr>
<tr>
<td>Emerging Market Equity</td>
<td>Overweight</td>
</tr>
<tr>
<td>Real Estate</td>
<td>Overweight</td>
</tr>
<tr>
<td>Listed Infrastructure</td>
<td>Overweight</td>
</tr>
<tr>
<td>Natural Resources (commodities)</td>
<td>Underweight</td>
</tr>
</tbody>
</table>
Thank you!!!!