

Westside Viewpoints

Summer 2014

ACCUMULATE

PRESERVE

TRANSFER



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WATER, WATER EVERYWHERE

As we slip into full-on summer, it's always interesting to hear about clients' vacation plans, which usually include fun on a lake, ocean or river. In B.C. and Canada, we are fortunate to have an abundance of water – water for drinking, cooling off, providing hydro electricity, watering our gardens, etc. There are many parts of the world that are not so fortunate as us.

In honour of Blue Water Day on June 14, we wanted to highlight RBC's Blue Water Project, a \$50 million global charitable commitment to help provide access to drinkable, swimmable, fishable water. To date, RBC has pledged over \$38 million to more than 650 charitable organizations worldwide that protect watersheds and promote access to clean drinking water.

It's hard to fathom the immensity of global water. It's actually an economist's dream: water's value is infinite and inelastic for basic human needs. The worth of a litre of water in the middle of an ocean is a drop in the bucket. It is estimated that global water is 1.4 trillion cubic meters; but only 2.5% of this is derived from freshwater sources, including glaciers. Freshwater lakes and rivers represent a measly 0.3% of this tiny freshwater total. Think of that this summer when you are out fishing on a river or waterskiing on a lake.

THE TRUE COST OF WATER?

Throughout the day, many of us grab a glass of water from the faucet or a bottle of water from the fridge. If the lawn is crunchy, we turn on the sprinkler. Vacations mean swimming in the lake, throwing a few steaks on the grill and waking up with a cup of coffee to watch the sunrise.

Measuring the True Water Footprint (litres)

Processing Cost Alone		Vertical Creation Cost	
Glass of water	1	Bottle of water	4
Cup of coffee	1,120	Kilo of roasted coffee	21,000
Cup of tea	1,200	Kilo of tea	9,200
Glass of milk	7	Litre of milk	1,000



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Litres of Water Used Along Entire Production Chain

Protein and Crops	
Beef	15,000 – 17,000
Chicken	3,500 – 7,000
Eggs	3,300
Potato	500 – 1000
Wheat	900 – 2000
Corn	1000 – 1800
Rice	1900 – 5000

Source: www.waterfootprint.org Water Content of Things, The World’s Water (2008-09); RBC Wealth Management

As the tables indicate, it is sobering to consider the amount of water that goes into producing a bottle of water, a fresh cup of coffee or a tender steak. And as emerging countries become wealthier, and protein sources shift from vegetable to animal, so too does the vertical cost of providing that kilogram of steak. These are unintended consequences of economic development and the tradeoffs we all must consider as we explore the true cost of water.

When examined through a global lens, the task at hand seems almost insurmountable. However, a failure to conserve water now carries with it the risk of intensifying the effects of the crises. A few sobering facts:

- In 2008, one-third of the world lived in countries with moderate-high water stress
- By 2020, water use will likely increase by 40% with 17% more water used for food production

- By 2025, the UN estimates that 1.8 billion people will be living in areas with “absolute water scarcity,” while two-thirds could be living in areas with moderate-high water stress
- By 2050, 45% of projected global GDP (\$63 trillion) could be at risk

Source: International Food Policy Research Institute, Veolia, United Nations Environment Program

Projects such as the UN “Water for Life,” the RBC Blue Water Project, and individual and corporate efforts in each of our communities allow us to participate in the solution. We can do our own part by ensuring our homes and communities are water-compliant.

WAYS TO “BLUE” YOUR HOUSE AND YARD:

- Disconnect your waterspout
- Use a rain barrel to collect water for gardens
- Install permeable paving on your driveway
- Plant trees or a garden – select native, non-invasive plants; their deep roots will help reduce rainwater run-off
- Start a community garden
- Construct a green roof, where possible
- Use low-flow toilets, shower heads and taps

For more information on RBC’s Blue Water Project or to apply for funding, please refer to www.rbc.com/community-sustainability/environment/rbc-blue-water/index.html



DUE DILIGENCE ASIA TRIP MAY 2014

In May, Paul and Kate participated in a due diligence trip to Hong Kong and Tokyo, where we had the opportunity to meet with several portfolio managers and learn about the current investment challenges and opportunities in that region. We met with Manulife, RBC Global Asset Management and Capital International in Hong Kong and Russell Investments in Tokyo.

THOUGHTS ON CHINA

There are several structural headwinds facing China. Aside from the well documented economic slowdown, key measures of earnings quality in China show continued deterioration. While profits have increased, cash flow has decreased, meaning Chinese companies simply owe each other more and are taking longer to pay each other back. Furthermore, China has yet to move towards its stated goal of becoming a consumption-driven economy. Household disposable income has actually decreased as a proportion of GDP for most of the last decade.

But despite the challenges facing Asian markets, such as Fed tapering and China's investment slowdown, valuations still appear attractively low with several growth themes anticipated. Take China's urbanization rate for instance. Compared to other developing economies around the world, China currently has a relatively low urbanization rate of 52%, and this is expected to grow to over 60% by 2020. Increased urbanization translates into increased per capita GDP.

Manulife in particular sees big growth potential in China's pharmaceutical market. China is currently the third largest pharmaceutical manufacturer after the U.S. and Japan. At its current growth trajectory, it is expected that China will become number two by 2015.

E-commerce is another growth market in China, especially due to huge growth in mobile internet shopping, which has increased almost 300% since 2010.

Other structural growth drivers identified over the next five to ten years are health care and gaming due to the rising middle class in China.

WHAT MATTERS MOST TO THE MIDDLE-CLASS IN CHINA? A FEW INTERESTING FACTS:

- It is estimated that on average 15% of middle-class Chinese families intend to emigrate (this increases to 45% among the highest income earners)
- Access to better education (62%) and a cleaner environment (42%) are the top two reasons to emigrate (access to a cleaner environment is cited almost twice as much as higher income)

NOTES ON JAPAN

Since emerging from the Great Recession in 2009, the recovery in global growth has been tentative and uneven. Japan has continued to labour under major headwinds, the most serious being deflation.

When Shinzo Abe returned to the scene as prime minister in December 2012 he rode in as a white knight with an aggressive plan to get Japan back on track. While Japan's core inflation rate has risen above 0% and is at its highest level since the 1990s, it has come with a price: a weaker Yen and increased taxes on the Japanese consumer.

The jury is still out as to whether Abe's plan will work. While equity investors like the weakened Yen, they are still wary



INTERESTING NOTE ABOUT JAPAN

The average age of the Japanese farmer is 71. Who will take over for the next generation in such a closed economy? These demographics have major implications for the future of the agricultural sector.

of Japanese equities. From a valuation standpoint, Japanese equities trade at a discount to global equities, reflecting the "wait and see" attitude of investors.

MAIN TAKEAWAYS

Investment returns in Asia can be lucrative, but are highly volatile and at times unpredictable. For a globally diversified portfolio, one simply cannot ignore the huge growth potential in the region and the most effective way to gain exposure is through ETFs such as the iShares Emerging Markets ETF or mutual funds, such as the Capital International Emerging Total Opportunities Fund.

If you would like to discuss investment opportunities in Asia, please give Paul or Mike a call.

A FEW OF OUR FAVORITE THINGS



Favorite ice cream	Ben & Jerry's Cherry Garcia	Salted Caramel	Ben & Jerry's Cherry Garcia	Chocolate	Dolce de Leche	Mint chocolate chip
Last movie you saw	<i>Book Thief</i>	<i>X-Men Days of Future Past</i>	<i>Her</i>	<i>Chef</i>	<i>Captain Phillips</i>	<i>X-Men Days of Future Past</i>
Book you're reading	<i>Lost City of Z</i> , by David Grann	<i>Quiet: The Power of Introverts</i> , by Susan Cane	<i>The Goldfinch</i> , by Donna Tartt	<i>A Life of Jung</i> , by Ronald Hayman	Childrens' books	<i>Spontaneous Fulfillment of Desire</i> , by Deepak Chopra
Worst job ever	Glass insulation plant	Construction gofer	Baron of Beef concession at PNE	Jericho Beach concession stand	Waitressing	McDonald's
Next vacation destination	Back yard	Osoyoos	Turkey and Croatia	Bali	Nuevo Vallarta	Iceland
Least favorite food	Beans	Liver	Caraway	Maraschino cherries	Oysters	Peas and cauliflower

RENOWNED AUTHOR, DR. MAYA ANGELOU, HAS DIED AT THE AGE OF 86

Dr. Angelou had a diverse career, spanning from civil rights activist to poet. Whether in speeches, interviews, or in her own writing, Dr. Angelou offered some beautiful advice on living life to the fullest.

HERE ARE SOME OF OUR FAVORITE QUOTES:

"Courage is the most important of all virtues, because without courage, you cannot practice any of the other virtues consistently."

"There is no greater agony than bearing an untold story inside you."

"You can only become truly accomplished at something you love. Don't make money your goal. Instead pursue the things you love doing and then do them so well that people can't take their eyes off of you."

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