



Investment Strategy Group

April 15, 2010

Investment Strategy Bulletin

Population growth & investment returns

As investors we are constantly confronted by arguments that rapid population growth should feature as a double edged sword in our investment outlook. On the one hand, population growth is placing unreasonable demands on finite resources and could drive agricultural and energy commodity prices higher. On the other hand, rapid population growth is expected to seed higher demand for goods and services, boosting investment returns in emerging equity markets (i.e. China, India, etc).

But what does the historical data say: is rapid population growth good for equity market returns?

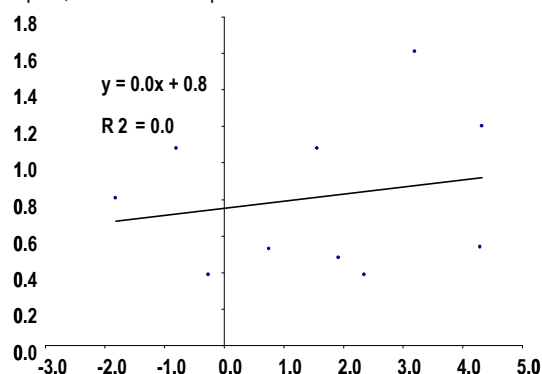
We have looked at the data provided by the economic historian Angus Maddison, in his book *The World Economy: A Millennial Perspective*. The data cover 31 countries from 1920 to 1996, with each country having a minimum 36 years of data with the 10 majors in the upper chart having 76 years of data. The data show that **there is no positive relationship between population growth rates and equity price returns** over much of the span of the 20th century (the conclusion is not impacted by the war).

The lower chart takes all 31 countries, breaks them into 5 groups (or quintiles) according to population growth (the fifth quintile is the group of countries with the fastest population growth) and shows the median annualized equity market return within each population growth bucket. Interestingly, the fastest growing countries delivered the worst return whilst the slower population growth countries delivered the best returns! What we can be certain of is that there has been no significant and positive relationship between equity returns and population growth.

Why might population growth have no positive impact on returns and if anything has a negative impact? One reason may be that in the competition for the spoils from economic progress, rapid population growth tips the balance in favor of labor versus capital as governments implement policies to maintain social cohesion and stability. Indeed, rapid population growth creates significant social pressures leading government to develop policies aimed at reallocating returns from capital to labor, thereby capping equity returns. Also, rapid population growth tends to deliver poor productivity / per capita GDP growth due to excess labor supply, therefore lower earnings per share growth and poorer equity returns.

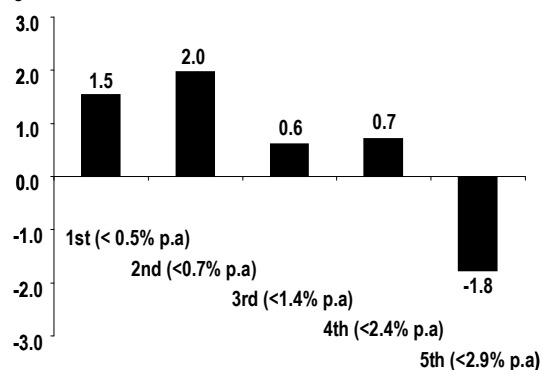
The key to strong equity returns in the long run, besides valuation, is not the rate of growth of GDP or the rate of growth of population but a combination of the two: i.e. per capita GDP growth or productivity. In the current environment, this is reflected in our bias towards developed versus emerging markets.

Annualized equity market price return (horizontal axis) vs. Annualized population growth for 10 developed countries (represented by the dots), 1920-1996
USA, UK, Canada, Belgium, France, Germany, Holland, Spain, Sweden and Japan



Median annualized equity price return for 31 developed and emerging countries ranked by population growth quintile

1st quintile = one fifth of countries with slowest population growth



Source: Angus Maddison, *The World Economy: A Millennial Perspective*

Publication of Lombard Odier Darier Hentsch

IMPORTANT INFORMATION

Please see important information at the end of this document

IMPORTANT INFORMATION

This document reflects the opinion of Lombard Odier Darier Hentsch & Cie or an entity of the Group (hereinafter "Lombard Odier") as of the date of issue. It is not intended for distribution, publication, or use in any jurisdiction where such distribution, publication, or use would be unlawful, nor is it directed to any person or entity to which it would be unlawful to direct such a document.

This document is furnished for information purposes only and does not constitute an offer or a recommendation to purchase or sell any security. The opinions herein do not take into account individual clients' circumstances, objectives, or needs. Each client must make his own independent decisions regarding any securities or financial instruments mentioned herein. Before entering into any transaction, each client is urged to consider the suitability of the transaction to his particular circumstances and to independently review, with professional advisors as necessary, the specific risks incurred, in particular at the financial, regulatory, and tax levels.

The information and analysis contained herein have been based on sources believed to be reliable. However, Lombard Odier does not guarantee their timeliness, accuracy, or completeness, nor does it accept any liability for any loss or damage resulting from their use. All information and opinions as well as the prices indicated are subject to change without notice. Past performance is no guarantee of current or future returns and the client may consequently get back less than he invested. Performance data of mutual funds do not take into account the commissions and fees charged on the issue and redemption of the units or shares.

The investments mentioned herein may be subject to risks that are difficult to quantify and to integrate into the valuation of investments. Generally speaking, products with a high degree of risk, such as derivatives, structured products, or alternative/non-traditional investments (Hedge Funds, private equity, real estate funds, etc.) are suitable only for sophisticated investors who are capable of understanding and assuming the risks involved. Upon request, Lombard Odier is available to provide more information to clients on risks associated with specific investments.

If opinions from financial analysts are contained herein, such analysts attest that all of the opinions expressed accurately reflect their personal views about any and all of the subject securities or issuers. In order to ensure their independence, financial analysts are expressly prohibited from owning any securities that belong to the research universe they cover. The description of the rating system used by Lombard Odier for its financial research is available on www.lombardodier.com.

United Kingdom: UK regulation for the protection of retail clients in the UK and the compensation available under the UK Financial Services Compensation scheme do not apply in respect of any investment or services provided by an overseas person. This document has been issued in the UK by Lombard Odier Darier Hentsch (UK) Limited (LODH (UK)), Queensberry House, 3 Old Burlington Street, London. W1S 3AB. LODH (UK) is authorised and regulated by the Financial Services Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS. LODH (UK) does not provide tax advice.

This document may not be reproduced (in whole or in part), transmitted, modified, or used for any public or commercial purpose without the prior written permission of Lombard Odier.

© 2010 Lombard Odier Darier Hentsch & Cie - all rights reserved.

SWITZERLAND

Geneva

Lombard Odier Darier Hentsch & Cie
Private Bankers regulated by the FINMA.
Rue de la Corrairie 11 · 1204 Genève · Suisse

Fribourg

Lombard Odier Darier Hentsch & Cie, Bureau de Fribourg
Rue de la Banque 3 · 1700 Fribourg · Suisse

Lausanne

Lombard Odier Darier Hentsch & Cie
Place St-François 11 · 1003 Lausanne · Suisse

Lugano

Lombard Odier Darier Hentsch & Cie, Agenzia di Lugano
Via Vegezzi 6B · 6900 Lugano · Svizzera

Vevey

Lombard Odier Darier Hentsch & Cie, Agence de Vevey
Rue Jean-Jacques Rousseau 5 · 1800 Vevey · Suisse

Zurich

Lombard Odier Darier Hentsch & Cie
Utoquai 31 · Postfach 1457 · 8032 Zürich · Schweiz

EUROPE

Amsterdam

Lombard Odier Darier Hentsch & Cie (Nederland) N.V.
"Weteringspoort" Weteringschans 109 · Postbus 58007 ·
1040 HA Amsterdam · Nederland
Holds a bank license from De Nederlandsche Bank and is registered with the Autoriteit Financiële Markten.
E-mail: amsterdam@lombardodier.com

Brussels

Lombard Odier Darier Hentsch & Cie (Belgium) S.A.
Avenue Louise 81 · Box 12 · 1050 Brussels · Belgium
Bank supervised by the Banking, Finance and Insurance Commission.
E-mail: brussels@lombardodier.com

Düsseldorf

Lombard Odier Darier Hentsch Deutschland, Niederlassung von Lombard Odier Darier Hentsch & Cie (Nederland) N.V.
Düsseldorf-Stadttr · Stadttr 1 · 40219 Düsseldorf · Deutschland
Branch of Lombard Odier Darier Hentsch & Cie (Nederland) N.V. regulated by De Nederlandsche Bank and the BaFin.
E-mail: dusseldorf@lombardodier.com

Gibraltar

Lombard Odier Darier Hentsch Private Bank Limited
Suite 921 Europort · P.O. Box 407 · Gibraltar
Bank supervised by the Gibraltar Financial Services Commission (FSC).
E-mail: gibraltar@lombardodier.com

Jersey

Lombard Odier Darier Hentsch (Jersey) Limited
P.O. Box 641 · N° 1 Seaton Place · St Helier · Jersey JE4 8YJ · Channel Islands
E-mail: jersey@lombardodier.com

London

Lombard Odier Darier Hentsch (UK) Limited
Queensberry House · 3 Old Burlington Street · London W1S 3AB · England
Wealth Management Services company authorized and regulated by the Financial Services Authority (FSA).
E-mail: london@lombardodier.com

Madrid

Lombard Odier Darier Hentsch & Cie (España) S.V., S.A.
Paseo de la Castellana 66 · 28046 Madrid · España
Investment company supervised by the Comisión Nacional del Mercado de Valores (CNMV).
E-mail: spain@lombardodier.com

Paris

Lombard Odier Darier Hentsch & Cie (France)
8, rue Royale · 75008 Paris · France
Investment company approved by the Comité des Etablissements de Crédit et des Entreprises d'Investissement (CECEI).
E-mail: paris@lombardodier.com
Lombard Odier Darier Hentsch Gestion
8, rue Royale · 75008 Paris · France
Portfolio management company approved by the Autorité des Marchés Financiers (no. GP 01-011).
E-mail: paris@lombardodier.com

Prague

Lombard Odier Darier Hentsch & Cie - Representative Office Prague
Praha City Center · Klimentská 46 · 110 02 Praha 1 · Czech Republic
E-mail: prague@lombardodier.com

MIDDLE EAST, AMERICAS, ASIA | PACIFIC

Bermuda

Lombard Odier Darier Hentsch (Bermuda) Limited
Lombard Odier Darier Hentsch Trust (Bermuda) Limited
3rd Floor, Victoria Place · 31 Victoria Street · Hamilton HM 10 · Bermuda

Dubai

Lombard Odier Darier Hentsch & Cie - Representative Office Dubai
The Fairmont - 25th Floor · Sheikh Zayed Road · P.O. Box 212240 · Dubai · UAE

Hong Kong

Lombard Odier Darier Hentsch (Asia) Limited
1501, Two Exchange Square · 8 Connaught Place · Central · Hong Kong

Montreal

Lombard Odier Darier Hentsch (Canada), Limited Partnership
1000 Sherbrooke Street West · Suite 2200 · Montreal (Quebec) ·
Canada H3A 3R7

Nassau

Lombard Odier Darier Hentsch Private Bank & Trust Limited
Goodman's Bay Corporate Centre · West Bay Street · P.O. Box N-4938 · Nassau ·
Bahamas

Singapore

Lombard Odier Darier Hentsch & Cie (Singapore) Ltd.
9 Raffles Place · Republic Plaza #46-02 · Singapore 048619

Tokyo

Lombard Odier Darier Hentsch Trust (Japan) Limited
Izumi Garden Tower 41F · 1-6-1 Roppongi, Minato-ku · Tokyo 106-6041 · Japan