Executive Summary

■ We believe a critical driver of equity alpha generation in the years ahead will come from finding companies that can attract dollars spent by the Millennial generation – those born between 1980 and 2000.

■ Millennials are the biggest demographic wave in history – and as they become the global economy’s main source of wealth and spending, we believe their distinct characteristics and preferences will provide sustainable investment themes.

■ We believe this “Millennial effect” will be a secular growth tailwind and differentiator for specific sectors and companies, particularly in the current environment of slow overall growth and low prospective broader market returns. Three areas where we identify compelling investment opportunities as a result of the Millennial effect are:

1. Technology ecosystems: While the smartphone hardware market itself is starting to show signs of saturation, the ecosystem tied to smartphones is thriving. This includes Millennial-targeted advertising and marketing, storage and data services, mobile technology and big data.

2. Changing consumption patterns: Millennials have consumption preferences that favor specific areas such as e-commerce, fast fashion and sharing-economy tourism.

3. Health and wellness: Millennials are focused on fitness, which benefits athletic apparel, wearables/digital fitness and organic food and products.

EXHIBIT 1: MILLENNIALS ARE THE LARGEST GENERATION IN HISTORY
World demographics by generation in 2015 (billions)


This material is provided for educational purposes only and should not be construed as investment advice or an offer or solicitation to buy or sell securities. The economic and market forecasts presented herein have been generated by GSAM for informational purposes as of the date of this presentation. They are based on proprietary models and there can be no assurance that the forecasts will be achieved.
Who are the Millennials and why are they important?

Global demographics have always played a pivotal role in economic growth. Now the majority of Millennials, the world’s most populous generation, have entered the workforce. Their growing aggregate income and defining generational characteristics will, in our view, increasingly impact businesses and markets.

Millennials, also known as "Generation Y", are today’s 16- to 35-year-olds. This generation has a global population of over 2 billion, eclipsing that of Generation X and the Baby Boomers, at 1.4 billion and 1.2 billion respectively. Millennials will soon begin to replace Baby Boomers as the main economic engine of wealth creation and consumer spending. They are likely to account for 75% of the global workforce by 2025, and as this group moves up the career ladder, their aggregate income and spending will become more substantial. The generation’s spending is predicted to increase by 17% over the next 5 years and their purchasing power will likely overtake Baby Boomers’ by 2018.

EXHIBIT 2: MILLENNIALS ARE BECOMING THE MAIN ENGINE OF GLOBAL ECONOMIC GROWTH

Income and spending projections by generation

How are Millennials different from previous generations?

Millennials are the first generation of “digital natives”; they have grown up in a world where digital technology and internet are ubiquitous and critical to daily life. They are also becoming “smart” consumers due to the proliferation of smart devices. This constant access to information helps shape the way Millennials think, communicate and make decisions. For instance, Millennials are more likely to use online reviews and do price comparisons to make more informed decisions.

Many Millennials have shown a preference for access over ownership. This is in stark contrast to prior generations, who were more focused on home and auto ownership. Several factors may be contributing to this trend: 1) Millennials tend to be more price-sensitive and cautious about debt, likely due to a range of experiences in the financial crisis and its aftermath, 2) Technology and innovation in service offerings have created easy ways to share assets, 3) Millennials are more likely to value experiences, such as travelling and attending live events, over material possessions.

Source: Avg. Gross Income, Euromonitor

Source: BLS (US Data), Goldman Sachs Global Investment Research

1 World Bank, 2015
3 Avg. Gross Income, Euromonitor
Investing in the next generation

The rise of the Millennial generation is creating secular growth tailwinds and compelling investment opportunities. We believe identifying companies with sustainable growth drivers is especially valuable in the current low growth environment.

In our view, technological innovation and its incorporation into the daily lives of Millennials will drive some of the greatest areas of change and investment opportunities across sectors and geographic regions.

Tapping into technology ecosystems

Smartphones are essential to Millennials as the “gateway” to life online, from shopping to instant messaging and social media. Global mobile and smart device penetration has increased rapidly – 76% of Millennials polled owned a smartphone in 2013, up from 30% in 2011. While the smartphone hardware market itself is starting to show signs of saturation, the ecosystem tied to smartphones is thriving.

Continued expansion and adoption of social media is redefining the advertising and marketing landscape. We believe companies that are focused on adapting their advertising and marketing strategies toward Millennial-friendly mediums may be better positioned to gain mindshare of this important demographic. For example, some fast casual restaurants target Millennial consumers by focusing on marketing campaigns through social media and mobile applications. Traditional advertising and media companies that can similarly evolve are also more likely to benefit.

Millennials’ tech-enabled lifestyle could help data usage increase nine-fold over the next few years. Corporate spending on software as a service (SaaS) is already increasing to meet this demand and we believe storage and data services companies stand to benefit. We see young start-ups with new technologies and more established software companies that are adapting their businesses participating in the growing mobile technology ecosystem.

This tech-enabled lifestyle also impacts many companies outside of the tech sector. Increasing use of real-time measurement and big data (amount and availability of information, as well as how people gather, distribute and analyze it) may impact a wide variety of industrial and service companies, including autos and healthcare, among others.

Capturing changing consumption patterns

The generation that grew up online shops online. Global e-commerce is already a $1.4 trillion market, yet online sales represent only 7% of total retail sales, meaning there is significant room for growth.

At the same time, e-commerce is expanding from its roots in retail and disrupting new areas such as fashion, food delivery and financial services. For example, fast fashion, which focuses on speed-to-market to capture the latest trends at affordable prices, has grown to a $7 billion industry in the US alone and continues to take share from traditional retailers. Millennial consumers have been a large part of the industry’s market share gains.

Technology has also enabled the rise of the ‘sharing economy’, the peer-to-peer network for sharing goods and services. Given the tendency of many Millennials to prioritize access over ownership, they have been early adopters and helped companies to expand their market share to the mainstream. We believe companies that match drivers and passengers, find accommodations for travelers and allow for music/video content sharing will continue to disrupt the traditional transportation, travel and entertainment industries. In the car service industry, for instance, popular ridesharing apps allow for more efficient car utilization and have been gaining market share, while traditional taxi and minicab services are seeing their businesses challenged.

Millennials’ interest in experiences, combined with the declining costs of travel, has been a boon to the tourism industry. In China, a country where outbound travel is expected to grow substantially, Millennials comprise over 60% of travelers and represent close to 80% of online travel bookings. We believe online travel services companies and travel infrastructure, such as airport operators, may benefit from this trend.

---

2. Ericsson Mobility Report, 2016
6. Goldman Sachs Global Investment Research “Planes, Trains and Hotel Rooms; Buy Ctrip, Qunar” October 26, 2015
Seeking wealth in health and wellness

Millennials’ focus on health and wellness, including sports, leisure activities and lifestyle choices, is also influencing consumption patterns. Sales of athletic apparel are outpacing broader apparel sales, especially in countries like China, where young people are showing a much greater interest in fitness than previous generations. Wearables/digital fitness products are also gaining popularity as Millennials leverage technology to enhance their workouts. Millennials are twice as likely to adopt wearables as those over the age of 35.10

Millennials’ concern with health, combined with an increasing passion for environmental issues, is contributing to higher organic food sales. The health and wellness food market is expected to grow to approximately $1.1 trillion by 2019, with many companies enjoying high margins since they are able to command premium prices. More broadly, we believe health and wellness will be an area of secular growth that will create opportunities for many new and existing companies around the world.

Selective about secular growth

We believe Millennials will have a deep and long-lasting effect on businesses and financial markets. Many companies are poised to benefit from these secular growth tailwinds, but not all business models will lead to sustainable returns for investors. In our view, an active, bottom-up approach to find fundamentally strong companies is critical. We believe both local insights and a global investment capability are important to effectively capture the growing influence of the Millennial generation.

General Disclosures
This material is provided at your request for informational purposes only. It is not an offer or solicitation to buy or sell any securities.

Economic and market forecasts presented herein reflect a series of assumptions and judgments as of the date of this presentation and are subject to change without notice. These forecasts do not take into account the specific investment objectives, restrictions, tax and financial situation or other needs of any specific client. Actual data will vary and may not be reflected here. These forecasts are subject to high levels of uncertainty that may affect actual performance. Accordingly, these forecasts should be viewed as merely representative of a broad range of possible outcomes. These forecasts are estimated, based on assumptions, and are subject to significant revision and may change materially as economic and market conditions change. Goldman Sachs has no obligation to provide updates or changes to these forecasts. Case studies and examples are for illustrative purposes only.

This information discusses general market activity, industry or sector trends, or other broad-based economic, market or political conditions and should not be construed as research or investment advice. This material has been prepared by GSAM and is not financial research nor a product of Goldman Sachs Global Investment Research (GIR). It was not prepared in compliance with applicable provisions of law designed to promote the independence of financial analysis and is not subject to a prohibition on trading following the distribution of financial research. The views and opinions expressed may differ from those of Goldman Sachs Global Investment Research or other departments or divisions of Goldman Sachs and its affiliates. Investors are urged to consult with their financial advisors before buying or selling any securities. This information may not be current and GSAM has no obligation to provide any updates or changes.

Views and opinions expressed are for informational purposes only and do not constitute a recommendation by GSAM to buy, sell, or hold any security. Views and opinions are current as of the date of this presentation and may be subject to change, they should not be construed as investment advice.

Past performance does not guarantee future results, which may vary. The value of investments and the income derived from investments will fluctuate and can go down as well as up. A loss of principal may occur.

Although certain information has been obtained from sources believed to be reliable, we do not guarantee its accuracy, completeness or fairness. We have relied upon and assumed without independent verification, the accuracy and completeness of all information available from public sources.

Any reference to a specific company or security does not constitute a recommendation to buy, sell, hold or directly invest in the company or its securities. It should not be assumed that investment decisions made in the future will be profitable or will equal the performance of the securities discussed in this document.

In the United Kingdom, this material is a financial promotion and has been approved by Goldman Sachs Asset Management International, which is authorized and regulated in the United Kingdom by the Financial Conduct Authority.

Japan: This material has been issued or approved in Japan for the use of professional investors defined in Article 2 paragraph (31) of the Financial Instruments and Exchange Law by Goldman Sachs Asset Management Co., Ltd.

Please note that neither Goldman Sachs (Asia) LLC (GSALLC), nor any other entities involved in the Goldman Sachs Asset Management (GSAM) business maintain any licenses, authorisations or registrations in the People’s Republic of China (“PRC”), Thailand, Philippines, Indonesia, or Brunei nor are any of the GSAM funds registered in the PRC, Thailand, Indonesia, Brunei or the Securities and Exchange Commission of the Philippines under the Securities Regulation Code. The offer and sale of securities within Thailand and the provision of investment management services in Thailand or to Thai entities may not be possible or may be subject to legal restrictions or conditions. To the extent that GSALLC is providing a financial service in Australia, GSALLC is exempt from the requirement to hold an Australian financial services license for the financial services it provides in Australia to "wholesale clients" for the purposes of the Corporations Act 2001 (Cth). GSALLC is regulated by the Securities and Futures Commission of Hong Kong under the Securities and Futures Ordinance, which differ from Australian laws.

Not all services or products can be made available in Taiwan. Any particular offer of securities may not have been and may not be registered with the Securities and Futures Bureau, Financial Supervisory Commission of Taiwan pursuant to relevant securities laws and regulations and may therefore not be capable of being sold or publicly offered in Taiwan. The Goldman Sachs companies involved in any such promotion may not maintain any licenses, authorisations or registrations in Taiwan.

These materials are provided solely for your information and consideration, and are not intended as a solicitation in respect of the purchase or sale of instruments or securities, or the provision of services.

This material has been issued or approved for use in or from Hong Kong by Goldman Sachs (Asia) LLC. and in or from Singapore by Goldman Sachs (Singapore) Pte. (Company: 198602165W) and Goldman Sachs Asset Management (Singapore) Pte. Ltd. (Company Number: 201329851H).

This material is distributed by Goldman Sachs Asset Management Australia Pty Ltd ABN 41 006 099 681, AFSL 228948 (‘GSAMA’) and is intended for viewing only by wholesale clients for the purposes of section 761G of the Corporations Act 2001 (Cth).

Confidentiality
No part of this material may, without GSAM’s prior written consent, be (i) copied, photocopied or duplicated in any form, by any means, or (ii) distributed to any person that is not an employee, officer, director, or authorized agent of the recipient.

© 2016 Goldman Sachs. All rights reserved. Date of first use: August 31, 2016. 62809-OTU-352096