

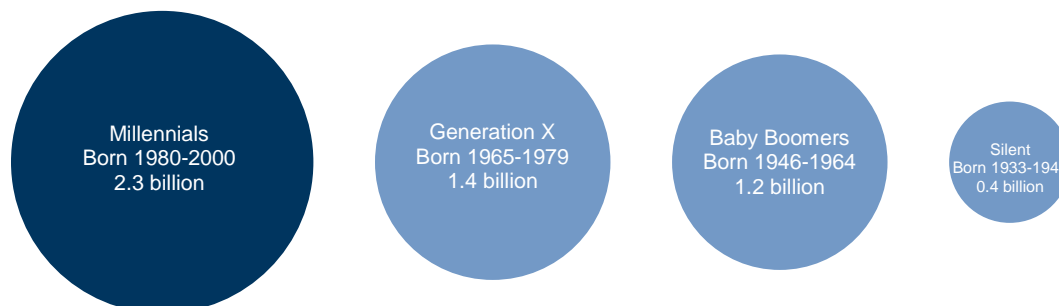
Investing in the Millennial Effect

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)



Source: World Bank, 2015

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Who are the Millennials and why are they important?

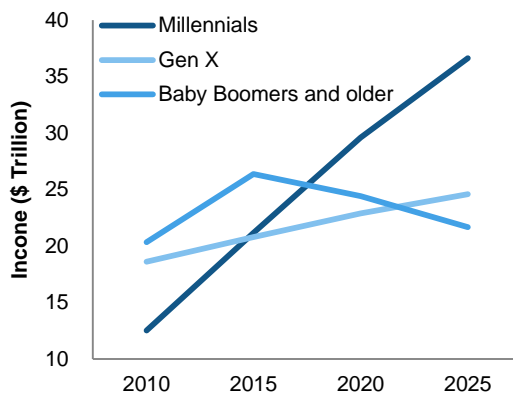
Global demographics have always played a pivotal role in economic growth. Now the majority of Millennials, the world’s most populous generation, have entered the workforce. Their growing aggregate income and defining generational characteristics will, in our view, increasingly impact businesses and markets.

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 respectively¹. 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 2025², 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 2018³.

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

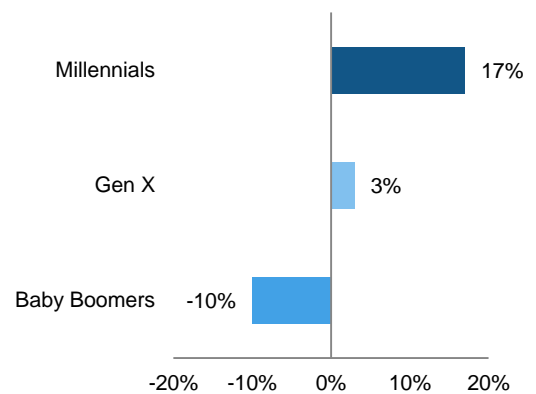
Income and spending projections by generation

Global Income Projections to 2025



Source: Avg. Gross Income, Euromonitor

Cumulative change in spending over next 5 years



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

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.

¹ World Bank, 2015

² Bank of America Merrill Lynch, “Generation Next- Millennials Primer”, May 22, 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 2011⁴. 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 years⁵. 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 sales⁶, 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 retailers⁷. 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 ride-sharing 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 travelers⁸ and represent close to 80% of online travel bookings⁹. We believe online travel services companies and travel infrastructure, such as airport operators, may benefit from this trend.

⁴ Telefonica, Bank of America Merrill Lynch, “Generation Next- Millennials Primer”, May 22, 2015

⁵ Ericsson Mobility Report, 2016

⁶ Bank of America Merrill Lynch, “Global eCommerce outlook: High Growth and the big are getting bigger”, Nov 16, 2015

⁷ Bank of America Merrill Lynch, “Generation Next- Millennials Primer”, May 22, 2015

⁸ Bank of America Merrill Lynch, “Generation Next- Millennials Primer”, May 22, 2015

⁹ 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 35¹⁰.

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 2019¹¹, 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.

¹⁰ PWC, "Consumer Intelligence Series – The Wearable Future", 2014

¹¹ Euromonitor, Bank of America Merrill Lynch, "Generation Next- Millennials Primer", May 22, 2015

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