

# Discovery Global Millennials Share Portfolio

June 2021

As millennials have entered their prime earning / spending years, they have become the world's most important consumer force reshaping spending patterns across global industries. This disruption is creating powerful, long-term, secular growth opportunities for investors which we call the 'Millennial Effect'. The strategy offers a thoughtful way of gaining exposure to the 'Millennial Effect' through an actively managed portfolio investing across all regions, sectors and market caps in order to effectively capture the widespread impact of this generation. The strategy invests in fundamentally solid companies that are aligning business models to service the tech-enabled consumption habits of the millennial generation. By carefully evaluating the quality of each business and investing at a reasonable valuation, we believe we can give our clients thoughtful exposure to the 'Millennial Effect', creating a well-diversified portfolio capable of generating wealth over the long-term.

The strategy is managed by 3 Co-Portfolio Managers, aided by 80+ research analysts working in 6 locations across the world. We think our local insights and global connectivity enables us to identify less researched companies that can benefit from the impact of the millennial generation. The Co-PMs work with the local analysts to identify what we believe are the best opportunities for this differentiated portfolio. Our team of 80+ investment professionals based across 6 locations globally has identified a proprietary universe of 400+ securities where the revenues are aligned to the millennial thematic. We look at companies that offer products as well as services that are catering to the spending patterns of the millennial generation and aim to keep a balanced portfolio. While the entire team vigorously debates investment ideas and overall portfolio structure, all final buy/sell decisions for the portfolio are a product of the collective decision of the Co-Portfolio Managers.

## Market Review

After the strong upward momentum of the first quarter, global equities continued on their upward trajectory in April but were impacted in May and rose back up in June while remaining volatile evidenced by MSCI All Country World Index returning a decent 7.39% during the quarter. Global rates largely rose during April on the back of strong economic data and the prospect of additional fiscal stimulus but stabilized towards the end of the month. The rotation trade from growth to value took a breather in April, with growth stocks outperforming their value counterparts by more than 3%. Starting May, equity markets across the world were impacted by rising commodity prices which stoked fears of an earlier than expected rate hike from central banks, particularly the Fed. In June, the equities rallied following a weaker-than-expected US payrolls release that eased concerns of a shift to tighter monetary policy, and market expectation for inflationary pressure, driven by pent-up demand and supply constraints. Overall, discussions throughout the quarter centered on the central bank liquidity tailwind, fiscal stimulus, vaccine progress, reopening momentum, strong corporate profit backdrop and robust equity inflows. While inflation concerns were fairly pervasive during the period, the Federal Reserve remained consistent in its messaging around expectations that price pressures will be transitory. The peak inflation theme gained traction as the quarter progressed even as economists suggested that the transitory period may be longer than expected. However, despite upgrading its growth forecasts for this year and expecting unemployment to decline, the Federal Reserve does not believe inflation will be meaningfully above target and does not expect to raise rates before 2024. Earnings season brought another round of outsized beats over consensus estimates, along with corporate commentary highlighting some input pressure offset for companies with above-average pricing power or productivity initiatives. Despite a late-quarter agreement between the White House and a bipartisan group of Senators on the framework of a physical infrastructure package, the path to additional fiscal stimulus remained complicated. In Japan, state of emergency measures following a third wave of COVID-19 cases (started in March) and slow vaccine roll outs continued to weigh on investors' sentiment for the majority of the quarter. However, the market rallied strongly during the first half of June likely driven by the increased pace of inoculations which has now risen to more than 1 million jabs per day, up from around 400,000 in May. This exuberance was short-lived as the direction of the market sharply turned south in during the middle of the month in step with the US markets. Additionally, after a great amount of uncertainty, the Olympics are finally happening in Japan starting 28<sup>th</sup> July, 2021. Most of the venues where events are to be held will be sans spectators and even at those few venues where viewers are allowed the number will be greatly restricted. All the sectors completed the quarter in green except Utilities and Information Technology, Energy and Health Care were the best performing sectors.

## Performance Overview

- The GSAM Global Millennials Equity Strategy returned 5.5% for the month of June, outperforming the MSCI ACWI Growth Index by +150bps and the MSCI World Index by +399bps.
- Strong stock selection in Consumer Discretionary and allocation to Industrials contributed to portfolio returns, while our allocation to Information Technology and positions in Health Care detracted from portfolio returns during the month.
- The strategy has seen inflows of over \$897Mn for the year so far and now has over \$2.7Bn in assets under management.

Source: GSAM, as of June 2021. **Past performance does not guarantee future results, which may vary.**

Periods Ending 30-June-2021	GSAM Global Millennials Equity Strategy (%)	MSCI ACWI Growth (%)	Excess Return (bps)	MSCI World (%)	Excess Return (bps)
June 2021	5.48	3.98	+150	1.49	+399
YTD 2021	12.45	10.29	+216	13.05	-60
Trailing 1 year	54.75	39.69	+1,506	39.04	+1,571
Trailing 3 years	28.04	20.37	+766	14.98	+1,306
Trailing 5 years	25.61	19.14	+647	14.82	+1,078
Since Inception	24.83	19.20	+564	15.05	+978

Source: GSAM. Inception Date: February 01, 2016. MSCI ACWI Growth is the official benchmark for the portfolio, and MSCI World returns have been presented only for comparison purposes. The returns are gross and do not reflect the deduction of investment advisory fees, which will reduce returns. Our investment advisory fees are described in Part 2 of our Form ADV. See additional disclosures. **Past performance does not guarantee future results, which may vary.** The holdings and/or allocations shown may not represent all of the portfolio's investments. Future investments may or may not be profitable.

## Performance Commentary

Some of the top contributors and detractors for the month include:

- **XPeng** (Contributor) – Chinese electric vehicle manufacturer
  - The stock outperformed during the month as the China's NEV (New Energy Vehicle) sales posted stronger than expected growth. China's NEV demand and guidance has been progressively re-rated with greater upside and a buoyant demand outlook. This was also supported by sustained strong growth in EV penetration in EU. XPeng is one of the fastest growing Chinese EV manufacturers, that made its U.S. market debut last August with the stock moving from \$15 to \$74 within a matter of 4 months. Consumers are starting to prefer NEVs as their first car or when they consider a car replacement, and NEV sales have enjoyed very strong growth in the past one year. XPeng offers a variety of NEVs with affordable pricing points, design and functionality, which is attractive to younger consumers, who are becoming the primary consumer group for automobiles in China. Moreover, the macroeconomic outlook for the company remains strong as China is the world's largest market for electric vehicles (1.2mn sold in 2020), and this is not expected to change in the foreseeable future, with the government offering subsidies for consumers who opt for pure electric vehicles. We expect strong sales volume growth from XPeng, driven by an increasing sales network, rising branding recognition, expanding product portfolio (launching one model each year), and a production ramp-up.
- **Etsy** (Contributor) – US based global online marketplace
  - The stock of the company that focuses on handmade and vintage items performed strongly after it announced 2 acquisitions that will potentially positively affect its top and bottom lines. In early June, Etsy announced its plan to acquire Depop, which is a leading fashion apparel retail marketplace in Europe primarily known for its vintage streetwear that targets younger consumers with ~90% of its customers being under the age of 26. Towards the end of the month, Etsy announced acquisition of Elo7, a privately-held Brazil-based marketplace for unique, handmade

items that has been frequently described as the “Etsy of Brazil.” Both the acquisitions are expected to be completed by 3Q 2021 and will together help Etsy to expand into Europe and LatAm, diversify into the apparel business, have a deeper connection with the younger consumers without affecting the strength of Balance Sheet. We like Etsy for its business strategy and are positive of the future growth of the company.

■ **MediaTek** (Detractor) – Taiwan based semiconductor manufacturer

- The share price declined during the month due to profit taking after a strong April rally and some headwinds from the Asian market sell-off. April performance was attributed to strong demand growth from China smartphone market, increased 5G adoption and market share gain. The company also released very solid set of results and FY21 guidance, which beat consensus expectations. The management attributed the strong quarterly momentum to sustained 5G smartphone application processors builds, ongoing market share gains in 4G, and strength in Wi-Fi / IoT / ASIC (application-specific integrated circuit) segments. MediaTek dethroned Qualcomm as the world’s leading smartphone chipset vendor for the first time in the third quarter of 2020 and has managed to capture about 27% of the global markets. The company has also been selected to be on the test bed for Wi-Fi 6E, a new certification from Wi-Fi Alliance® for Wi-Fi CERTIFIED 6™ devices with 6GHz support. We continue to like the long-term growth drivers for the company as we see the increasing demand for 5G, autonomous driving, IoT and other technologies that will require leading semiconductor manufacturers like MediaTek.

■ **Moncler** (Contributor) – Italian luxury fashion brand

- The stock underperformed in June after the rally in April and May due to rotation in the market after the stronger than expected Q1 results across peers that were released. While the retail business was affected due to the COVID-19 disruptions in Europe, management highlighted strong reorders during the period from wholesale partners and a strong reception to spring/summer collections contributed to sales. We were also happy to see the management confidence in the recovery as well as the focus on minority investors, as the company paid 38% of its earnings in dividend to its shareholders towards the end of the month. We continue to like the company for its fundamentals and believe that the underlying brand momentum remains strong. We see several catalysts like the Genius Capsule Collection and the Beijing Winter Olympics in February 2022 for the company’s growth in the near future.

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<b>Period</b>	<b>Gross Return</b>	<b>Net Return</b>	<b>Differential</b>
1 year	6.17%	5.54%	0.63%
2 years	12.72	11.38	1.34
10 years	81.94	71.39	10.55

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