

# Goldman Sachs Global Millennials Equity Portfolio

Global

## Introduction

(Offshore)

This fund was set up to capitalise on the spending power of 'millennials' who have become the world's most powerful consumer force. They have different priorities and spending habits which will drive both consumption and disruption going forward. The fund has the flexibility to alter its industry and sector biases as spending patterns of millennials evolve, some of which will be driven by the eventual aging of this demographic. The fund is looking to capitalise on a long-term thematic secular growth opportunity and as a result is benchmarked against a global growth orientated index - the MSCI AC Growth Index - which has a higher leaning to technology and a lower weighting to financials than broad global market indices. However the fund is quite different from this index and so can deviate from this performance wise.



[Click here to read the Goldman Sachs Asset Management approach to ESG investing.](#)

## Why RSMR Rate this Fund

- Investment theme highlights what GSAM believe will be some of world's fastest growing companies due to favourable tailwinds.
- Following a demographic cohort will enable shape of fund to evolve over time.
- Goldman Fundamental Equity Team have strong record of successful stock picking.
- Fund will flex between technology/ecommerce and consumption/lifestyle experiences.
- Thematically driven fund which also places high emphasis on long-term valuation opportunities with many stocks sitting in other Fundamental Equity Team funds.

## Fund Process

This fund falls within the remit of the Fundamental Equity Team at Goldman and there are three Co-Portfolio managers. The fund is aiming to invest in quality companies at an attractive price to maximise risk adjusted returns. Whilst the theme is a top down input, the team evaluate companies on a bottom up basis to ensure they meet valuation criteria for the fund. The first stage is using theme identification and define the universe, which is over 400 stocks, and there also the identification of sub-themes within it. The themes chosen are dynamic in that stocks can be added or removed if these evolve. The type of themes in the fund will alter over time as the millennial generation ages. Stocks are classified by thematic sub sector and the level of exposure to the theme.

The second stage of the process is to identify high quality businesses and there is a cross check of the universe against stocks held in other global Fundamental Equity Team funds. They focus on free cash flow and ROIC to rank companies. Stocks are analysed from a bottom up perspective, working with local analysts who research stocks in all geographies. This produces a watch list of around 120 stocks which are constantly monitored to find attractive entry points. Out of this comes a 40-50 stock fund with position size driven by conviction level and the extent of thematic exposure. There is a weekly formal portfolio management meeting and the portfolio managers received daily risk reports to ensure any non-intended risks are minimised. The team have to undergo significant internal work on stocks as companies do not disclose the demographic of their revenues. The fund will invest where the team are confident millennial spending is significant for a business. The process therefore encompasses both top down and bottom up factors.

Goldman believe millennials are the largest and most educated population cohort in history and that they think differently about their spending habits than previous generations. This fund looks to identify fundamentally solid companies which are aligning their business models to service millennials and can benefit from their tech-enabled consumption behaviours. This is an actively managed unconstrained fund which can invest across all regions, sectors, and market caps. To ensure the theme will deliver returns there needs to be careful evaluation of the quality of the business and it also must invest only at reasonable valuations.

The GSAM Fundamental Equity team manage approximately \$80bn of AUM. The co-portfolio managers are assisted by over 80 research analysts working in six different offices across the world. The fund aims to leverage the research resource to find less well understood companies which can benefit from the impact of millennials. This team have built up a proprietary universe of 400+ stocks which have significant exposure to the behavioural trends of this generation, taking into account both the technology part of the portfolio and the lifestyle part of the portfolio. Each stock is assessed for its level of exposure to the millennials theme, ranging from low to high. As the thematic is based on a cohort and spending patterns will evolve over time, the shape of the portfolio will alter over the medium and longer term. This fund can be tilted between defensive and cyclical areas of the market and with millennials being more focused on sustainability factors, the fund is expected to invest in companies that incorporate sustainability as an active part of their decision making. The fund has a strong score on environmental factors reflected in very low carbon metrics.

Stocks with an attractive thematic exposure are then assessed to see if they have sustainable competitive advantages and strong management teams with a history of high returns on invested capital. Valuation disciplines focus on cash flow metrics which should be resilient across different market cycles. By focusing on both technology and lifestyle sectors the fund will invest in both the enablers and products of millennial spending. A company that appears in existing portfolios has already been vetted by a research analyst and if it is also exposed to the thematic tail winds then it is a potentially strong candidate for investment. The fund will only invest in stocks which trade at a discount to what GSAM believe it is worth. Cash flow base metrics are the most important valuation methodology used. Position sizing reflects the exposure to the theme, potential upside and volatility.

The portfolio construction team of three are responsible for taking a holistic view of the overall fund to ensure that the thematic exposure to the millennial effect is maintained across the overall portfolio, but the stocks reflect the highest conviction ideas, and the overall fund remains within appropriate risk criteria. Stocks will be sold if they approach the target price, there is a deterioration in long-term fundamentals or underlying business characteristics, or the thematic exposure becomes invalidated by subsequent developments.

## Evaluation

The fund will be helped by market environments benefiting growth stocks and may struggle if the market favours cyclical or slow growing defensive companies. Due to the approach taken, there is a bias towards technologically enabled disruptive businesses. The success of the fund depends on strong stock picking and the investment theme remaining in favour.

## Application

The fund is a satellite holding as it is a concentrated fund focussed on one demographic cohort. The theme identifies businesses the GSAM Fundamental Equity Team believe will have tailwinds driving future growth. The fund will suit long-term investors seeking to hold stocks which can deliver above average growth over reasonable time periods.

## Our Opinion

This fund takes a thematic approach to investment but one which is dynamic as the types of businesses invested in will evolve over time as the spending patterns of this cohort alter. Stocks are assessed not only on their exposure to the theme but very importantly on the valuation opportunity, and full use is made of the resource of the Fundamental Equity team at Goldman.

The fund will flex between opportunities in technology/ecommerce and consumption/lifestyle according to prospects and valuations. The lifestyle part of the fund was temporarily depressed by Covid-19 as experiences and leisure spending were hard hit but is now on a path to recovery. Going forward the stocks will reflect that millennials will be starting families and owning properties which will influence spending decisions and the future technology will likely facilitate different ways of doing things. Millennials are now entering their prime earning years as their careers develop and this is in contrast to baby boomers who are now expected to spend around 10% less over the next five years. Millennials were the first generation to grow up with access to the internet, so they use the power of information in a different way to previous demographic cohorts and by using technology are better informed on price transparency and convenience. Over time the fund is likely to have quite significant exposure to emerging markets.

This is a new economy orientated fund but the focus on a demographic cohort means the stocks included will evolve over time. Some thematic approaches focus too much on theme purity at the expense of valuation, but the Goldman Fundamental Equity Team are valuation aware, although prepared to take a longer term view on the ultimate prospects of a business. The fund has generated strong performance through a theme which is easily understood, and it is an interesting satellite option for long-term growth orientated investors. The fund has generated strong returns over the long-term and is a useful satellite holding for investors focussed on strong capital growth potential and is well worth an RSMR rating.



### Important Notice

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