

Millennials

The geek shall inherit the earth

- What makes millennials so important for investors?
- How millennial preferences and consumption habits are unique
- Why AI-driven investing in millennials could help future proof your portfolio



Lyxor's Thematic ETFs - March 2020

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Preparing for change



Smart Cities



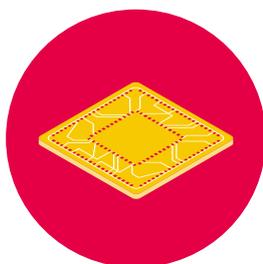
Digital Economy

Our world is changing. Technological breakthroughs, evolutionary economic forces and the climate emergency are reshaping reality for billions of people. **The question is: will your portfolio keep up?**

At Lyxor, we have identified a series of investment themes we believe will be at the forefront of this new revolution. To access these most powerful of megatrends, we've partnered with data powerhouse MSCI and a board of leading industry experts to build an innovative range of thematic ETFs:



Future Mobility



Disruptive Technology



Millennials

Each of these ETFs combines human insight, cutting edge data science and Artificial Intelligence techniques in a unique way to identify the companies that matter most, and ensure your portfolio stays one step ahead. We use low cost indexing to help maximise your return. And we screen our holdings based on their ESG impact on the world around them.

As a pioneering ETF provider with a history of innovation, we've gone the extra mile to build some truly state-of-the-art funds for a new state of mind. We're incredibly excited about this range and hope you can join us in preparing portfolios for change.



“ In large developed economies like the US, consumer spending accounts for around 70% of all economic activity. Aligning your portfolio with the unique spending habits of billions of millennials therefore makes a lot of sense. ”

Chanchal Samadder
Head of Equities, Lyxor ETF

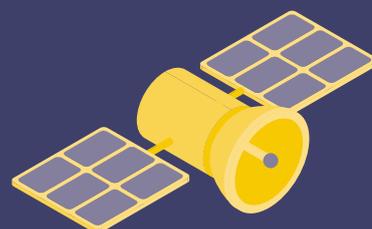
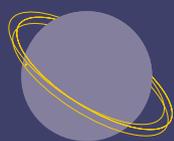
Growing up in a changing world

Millennials – or Generation Y as they are also known – are set to have a huge impact on the global economy. Their spending and saving decisions will mean the demise of some long-established business models and the rise of new ones.

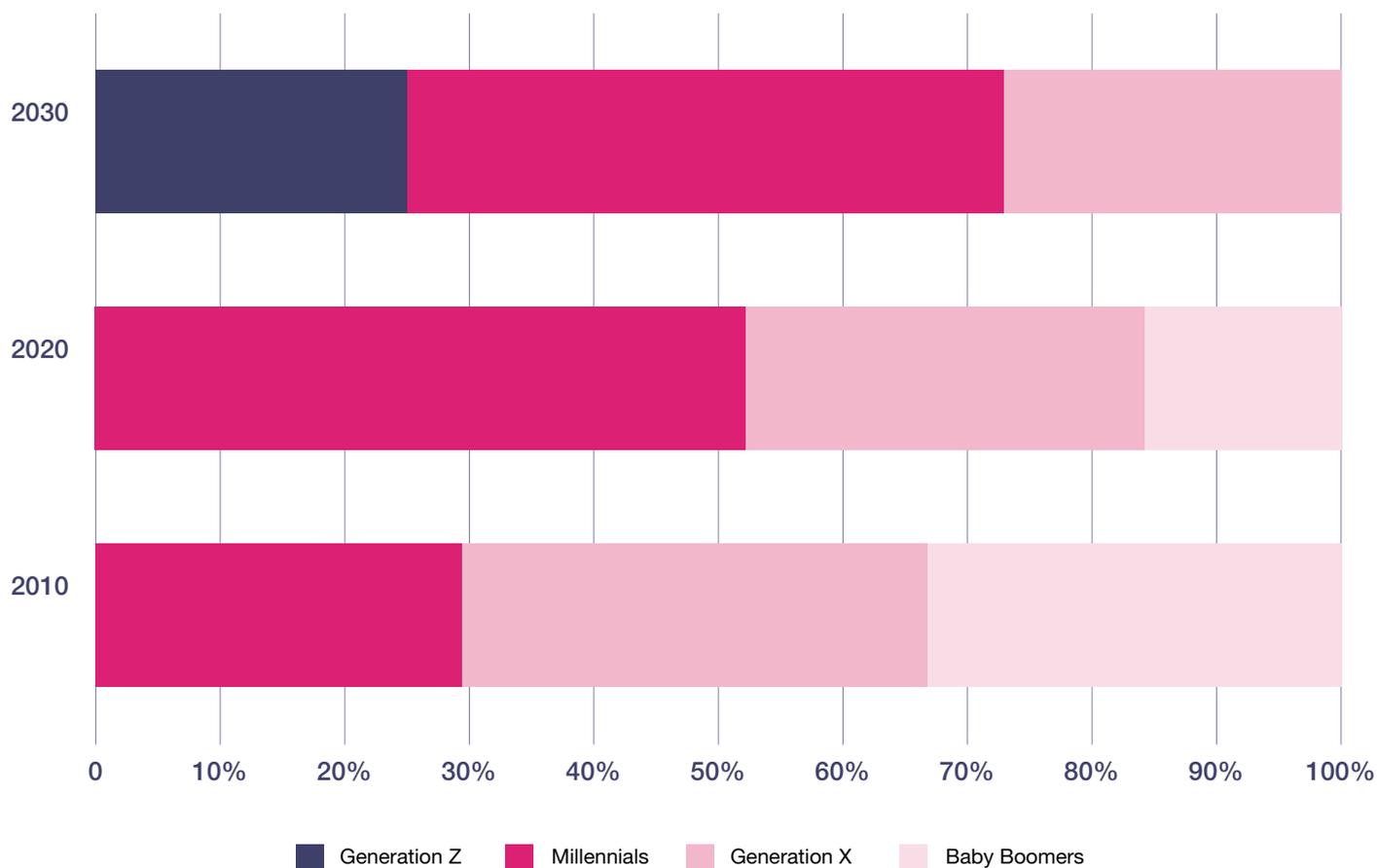
That's partly due to sheer weight of numbers. Millennials include the 2.4 billion people born in the 1980s and 1990s¹. They make up almost one-third of the global population and account for around half of the global workforce². Together with their successors (known as Generation Z), whose habits are likely to be similar, they will account for almost three-quarters of the workforce by 2030 – replacing the baby boomers and Generation X who drove the economy in recent decades.

¹Bloomberg using United Nations World Population Prospects data, August 2018, <https://www.bloomberg.com/news/articles/2018-08-20/gen-z-to-outnumber-millennials-within-a-year-demographic-trends>

²Calculations based on United Nations World Population Prospects 2019 data, <https://population.un.org/wpp/Download/Standard/Population/>



Millennials will be the biggest group in the workforce

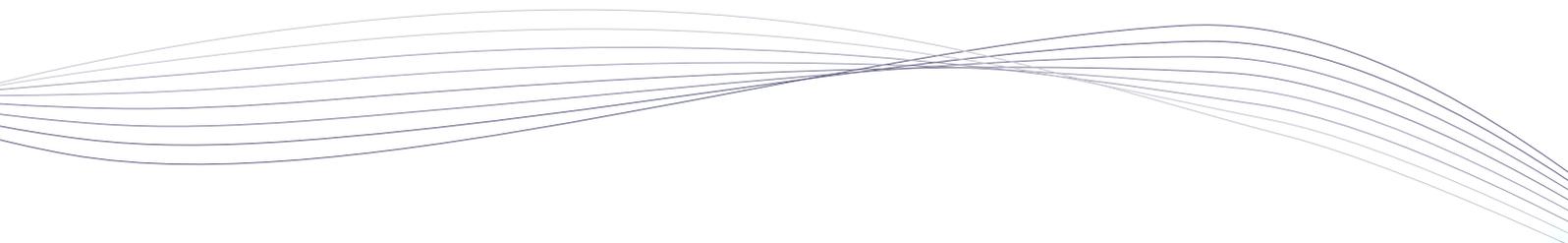


Source: Calculations based on United Nations World Population Prospects 2019 data

With the oldest millennials only now reaching their late thirties, they still haven't reached their peak earning power. Millennials' global annual earnings are expected to rise from \$18.4trn in 2015 to \$32trn by 2030; Generation Z will add a further \$30trn.³ They already account for an estimated \$10trn of consumer spending globally, a figure that will rise as their incomes grow.⁴

³Bank of America Merrill Lynch, August 2016, *New Kids On The Block – Millennials & Centennials Primer*

⁴Bank of America Merrill Lynch, August 2016, *New Kids On The Block – Millennials & Centennials Primer*



Growing up in a digital age

Consumer spending accounts for close to 60% of global GDP.⁵ So as millennials become the key earners and spenders, their decisions will have a huge impact on the economy.

This matters, because millennials have very different lifestyle habits to those of previous generations. They are a big part of the urbanisation megatrend, moving to cities to study or work or both – especially in the emerging world, where younger people are leaving rural areas in search of a better life.

Millennials are having fewer children and doing so later in life. That means that they have more disposable income and more leisure time than those with families. And they spend that time and money in new ways.

Most obviously, millennials grew up with the internet and are “digital natives” who are enthusiastic adopters of new and innovative technologies that fit in with their lifestyle choices. They like smart technology for phones, tablets, cameras, speakers, TVs, and credit cards. Wi-Fi is their oxygen, and they live and breathe online through social media and the cloud, where a huge amount of their data is stored.

⁵World Bank, <https://data.worldbank.org/indicator/NE.CON.PRVT.ZS>

US millennials and technology



93%
own a smartphone



55%
own a tablet



86%
use social media

Source: Pew Research Center, <https://www.pewresearch.org/fact-tank/2019/09/09/us-generations-technology-use/>

The conscious consumer

In the developed world in particular, many millennials are acutely conscious of climate change and want to prioritise sustainability both in their consumption and their investing. One study showed that compared to the wider population, US millennials are twice as likely to invest in companies targeting social and environmental goals, and twice as likely to purchase from a sustainable brand⁶.

An eco-conscious millennial may finish doing some freelance 'gig' work at home at the weekend before ordering a car share to the gym for a workout in eco-friendly running shoes. Following this, a snack of avocado or a meat-substitute burger with quinoa and açai berries, washed down with an alcohol-free craft beer.

Perhaps they drink organic Fairtrade coffee while shopping online for the latest fast-fashion trend, or booking a last-minute flight for a weekend away using a price comparison site – an experience they'll no doubt share with friends and family with pictures posted to social media.

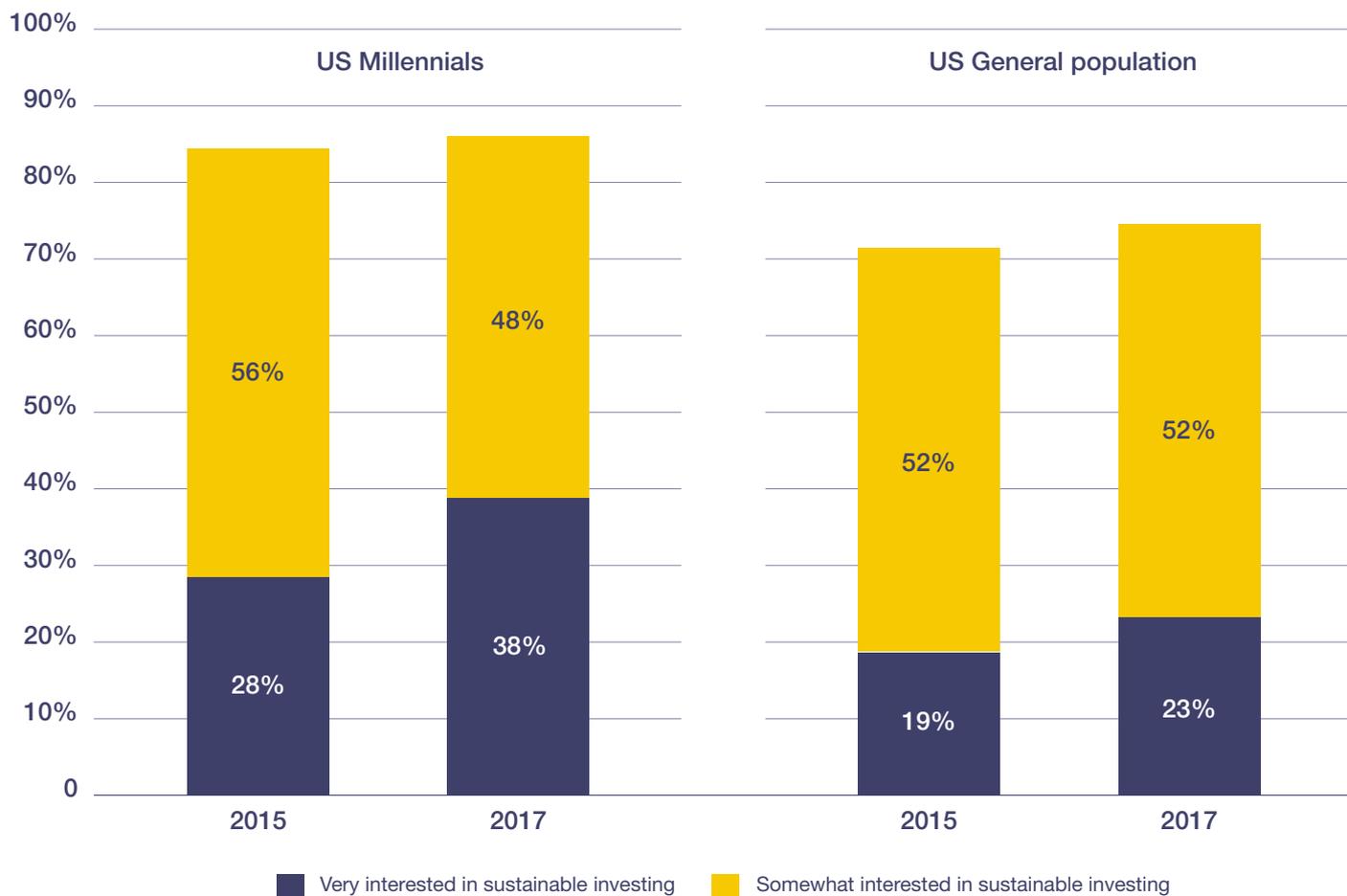
Some may even pay for these items using crypto currencies and payment apps. When it comes to making their savings and investments decisions, it wouldn't be uncommon for them to use a digital 'robo' wealth adviser – perhaps one that only invests in companies aligned with their personal sustainability preferences.

Stereotypical? Over the top? Maybe – but every millennial is making decisions that are very different to older generations. And each of those changes represents a challenge to an old way of doing business and a chance for a different company to profit.



⁶ Morgan Stanley, August 2017, Sustainable Signals

Millennials are more interested in sustainable investing



Source: Morgan Stanley, 2017, Sustainable Signals

eSports: the next billion-dollar industry

If football was the global game for previous generations, could eSports replace it for millennials? Organised videogame tournaments are a fast-growing business, with total revenues of over \$1bn in 2019.⁷ While this is still far behind traditional sports – the top 20 football clubs generated revenues of €8.3bn in 2017/2018⁸ – it is still almost twice as much as in 2017.

Total global audiences are expected to reach 454 million, up from 335 million in 2017. eSports are particularly popular in Asia, which accounts for more than half of audiences, meaning that these countries will be particularly important for companies aiming to expand market share – including those that plan to cash in on the growing popularity of eSports for marketing purposes, as more than 50% of eSports revenue comes from advertising and sponsorship.



⁷Green Man Gaming, The Money Game 2019, <https://www.greenmangaming.com/the-money-game/>

⁸Deloitte, January 2019, Deloitte Football Money League 2019 <https://www2.deloitte.com/global/en/pages/consumer-business/articles/deloitte-football-money-league.html>

Investing in millennials

Our millennials ETF selects companies attuned to the mindset, tastes, priorities, and aspirations of Generation Y. The investment process uniquely blends human oversight by industry experts, with state-of-the-art AI techniques that aim to capture the theme in its entirety. Unlike approaches based around historical financial data, our philosophy is forward looking, and looks to more unconventional sources of data such as company filings, news stories and other media.

This process ensures that the portfolio goes beyond the most obvious sectors and the familiar US or global brand names. It includes more specialist businesses that will be particularly affected by millennials' habits, and regional players that have a powerful position in some of the larger emerging markets.

For example, many investors will see technology and communication as being the key feature of the millennials' world. The ETF includes firms such as South Korea's Samsung, the world's largest maker of smartphones⁹, but also Xiaomi – a Chinese firm perhaps less familiar to western investors, but a leader in the Indian market¹⁰ and a major player in its home country¹¹.

But the implications of this go far beyond the latest gadgets. Growing up in a globalised, interconnected world means that millennials expect convenience and speed – what's sometimes referred to as “on-demand culture”. This is reflected in the popularity of video-streaming giant Netflix, but also business such as Germany's Delivery Hero, whose meal-delivery services now connect hungry consumers with restaurants in more than 40 countries around the world¹².

⁹IDC, June 2019, <https://www.idc.com/promo/smartphone-market-share/vendor>

¹⁰IDC, August 2019, <https://www.idc.com/getdoc.jsp?containerId=prAP45442419>

¹¹IDC, August 2019, <https://www.idc.com/getdoc.jsp?containerId=prAP45428519>

¹²Delivery Hero, <https://www.deliveryhero.com>

¹³CNBC, <https://www.cnn.com/2019/10/29/how-to-win-over-millennials.html>

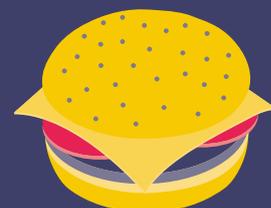
¹⁴<https://www.prnewswire.com/news-releases/meituan-dianping-becomes-the-first-worldwide-on-demand-delivery-platform-to-process-more-than-10-million-orders-and-deliveries-per-day-300429549.html>

Right here, right now

Everyday living is just one part of the millennial experience and creating a comprehensive portfolio means digging a lot deeper into their preferences – something our big data approach is specifically designed to do.

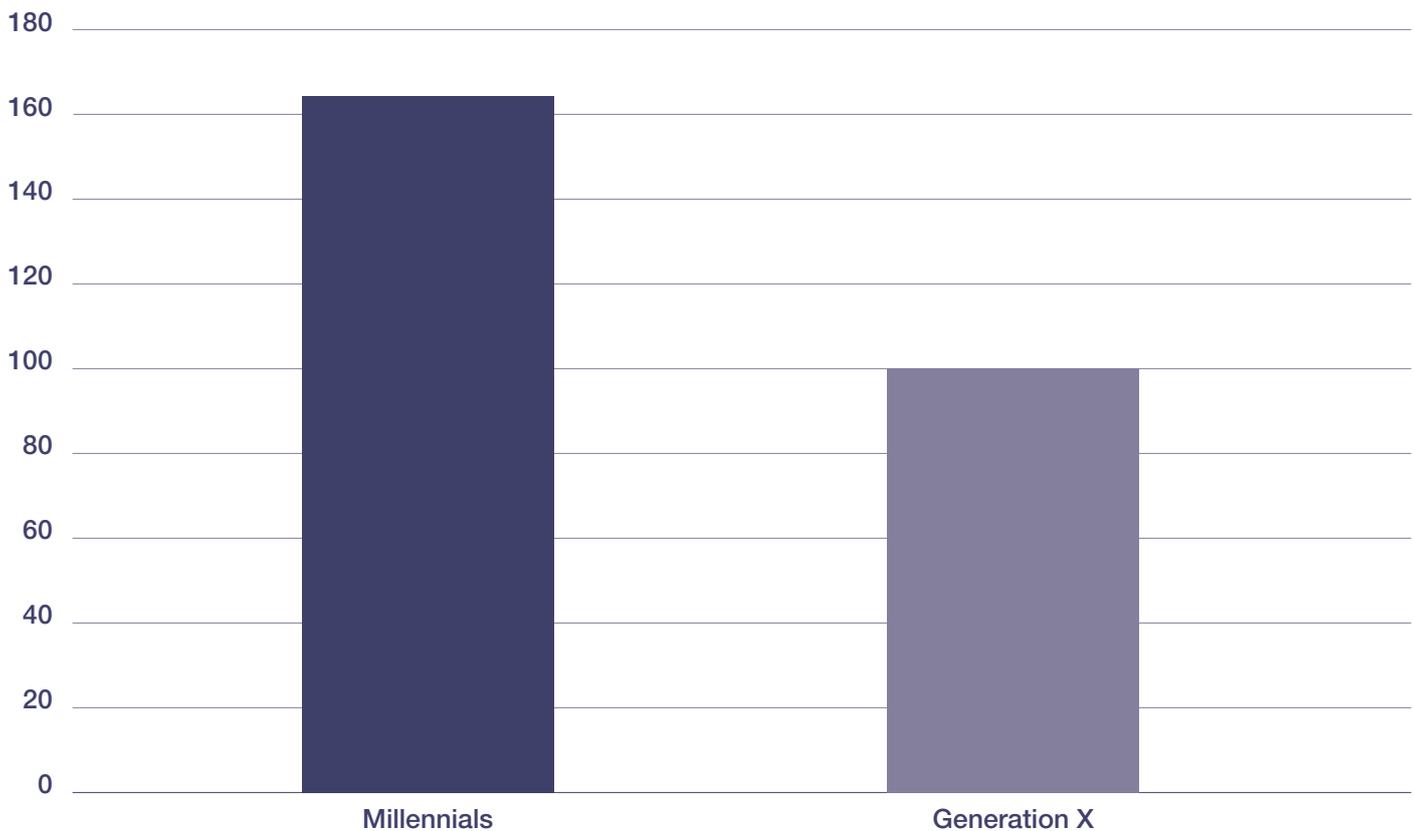
Millennials increasingly prioritise convenience and quality over cost – “on demand” extends far beyond video streaming these days.

Premium burger joint Shake Shack is a good example of a company that understands this well. The company offers a mobile ordering app with in-store pickup, meaning customers can simply order their burger on their phones ahead of time.¹³



Meanwhile in China, Meituan-Dianping dominates the food delivery market. You may never have heard of it, but locally it's a household name. The company became the first online delivery platform in the world to hit more than ten million orders and deliveries per day.¹⁴

Spending on experiences such as eating out, movies and sporting events (USD per month)



Source: McKinsey, May 2016, Millennial Survey

A next generation ETF

Millennials' buying preferences are already a leading indicator for consumer and technological trends, and their spending patterns will both ride and shape megatrends. Millennials should see their income rise, and spending power grow, helping their favourite companies succeed in the new economy.

Our millennials ETF is designed to expose your portfolio to these shifts. Partnering with data powerhouse MSCI, we use cutting-edge artificial intelligence techniques combined with advice from experts in the field to identify companies that are in a prime position to exploit these trends. We also include an ESG filter to build a more responsible exposure.

We want to make sure our investors benefit from the full growth potential of these markets, which is why we've designed our investment process to find up-and-coming firms as well as those that are already well-known. In fact, almost half of the portfolio is invested in small caps.¹⁵

Our unique investment process helps us identify the companies that can change the world, and make obsolescence a thing of the past. As a next-generation product, our fund represents an ideal solution for those ready to invest in the next generation of consumers.

¹⁵Lyxor International Asset Management, as at 28/02/2020.

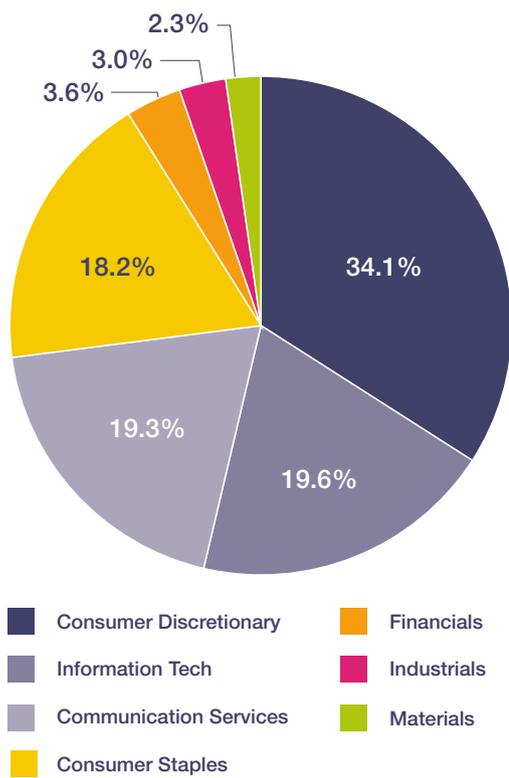
A quick look under the lid



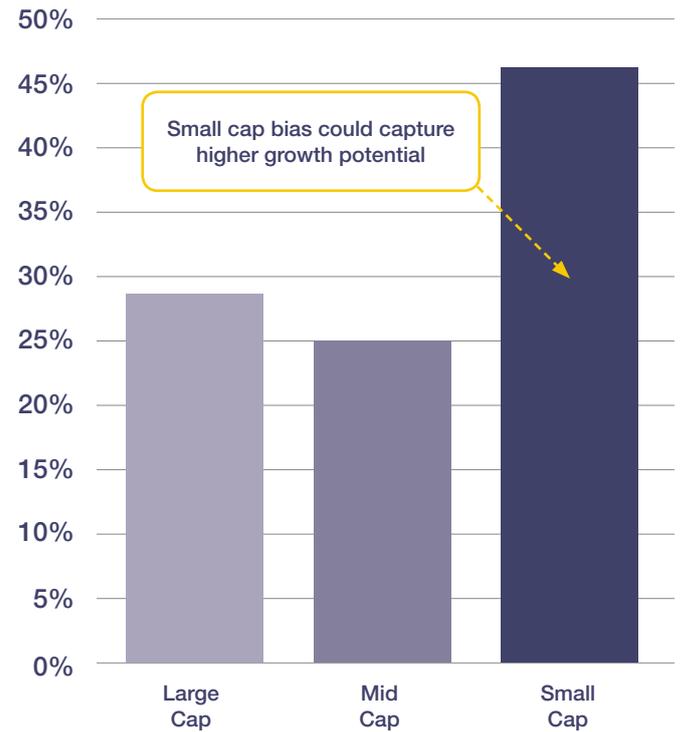
Related concepts, products and services

- Popular Brands
- Health & Fitness
- Food & Dining
- Travel & Leisure
- Clothing & Apparel
- Financial Services
- Housing & Home goods
- Social Media & Entertainment

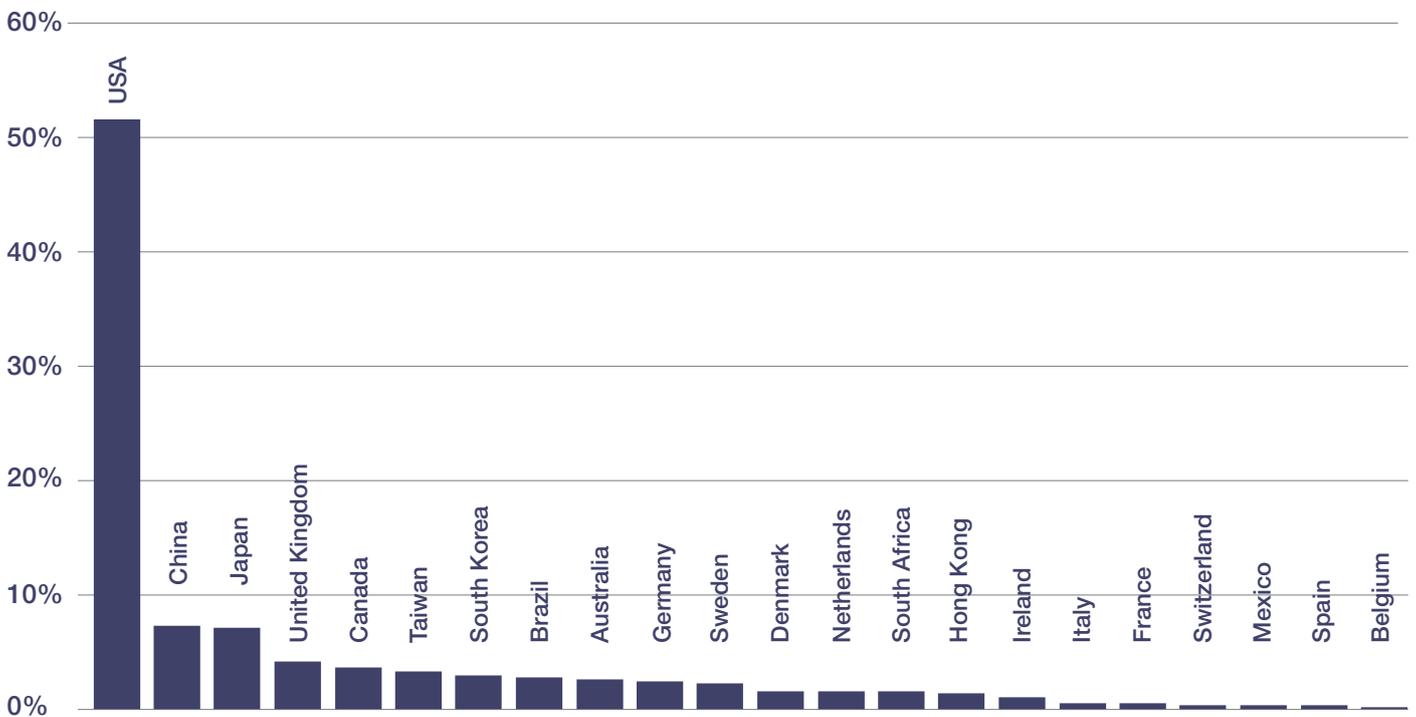
Sector breakdown



Market cap breakdown



Country breakdown



Source for all data: Lyxor International Asset Management, MSCI, as at 28/02/2020.

Top 10 holdings

Security name	GICS Sector	Country	Weight
EVOLUTION GAMING GROUP	Consumer Discretionary	Sweden	1.74%
FACEBOOK A	Communication Services	USA	1.43%
ADYEN NV	Information Technology	Netherlands	1.18%
GREAT CANADIAN GAMING CO	Consumer Discretionary	Canada	1.18%
ADOBE	Information Technology	USA	1.17%
TWITTER	Communication Services	USA	1.14%
ZYNGA A	Communication Services	USA	1.13%
RING CENTRAL A	Information Technology	USA	1.11%
CAPCOM CO	Communication Services	Japan	1.08%
SMARTSHEET A	Information Technology	USA	1.07%
Total			12.21%

ETF name	Replication type	Bloomberg tickers	ISIN	Current temporary TER*	Target TER*
Lyxor MSCI Millennials ESG Filtered (DR) UCITS ETF	Physical	MILL, GENY	LU2023678449	0.15%*	0.45%*

Source for top 10 holdings data: Lyxor International Asset Management, MSCI, as at 28/02/2020.

*Source: Lyxor International Asset Management, as at 10/03/2020. Target TER is 0.45% but has temporarily been decreased to 0.15% until September 2021.

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A note on investing in megatrends

Time horizons are long, and portfolios may be concentrated



- ▶ Megatrends take time to shape the world; your investment horizon should be **long term**



- ▶ Thematic indices are more narrow than traditional cap weighted indices
- ▶ As a result of this increased concentration, **volatility may be higher**



- ▶ Unconstrained by traditional allocations based on countries and sectors, thematic ETFs could be used as **'satellites'** to strengthen the core of your equity portfolio

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Knowing your risk

It is important for potential investors to evaluate the risks described below and in the fund prospectus on our website www.lyxoretf.com

Capital at risk

ETFs are tracking instruments: Their risk profile is similar to a direct investment in the Underlying index. Investors' capital is fully at risk and investors may not get back the amount originally invested.

Replication risk

The fund objectives might not be reached due to unexpected events on the underlying markets which will impact the index calculation and the efficient fund replication.

Counterparty risk

With synthetic ETFs, investors are exposed to risks resulting from the use of an OTC swap with Société Générale. In-line with UCITS guidelines, the exposure to Société Générale cannot exceed 10% of the total fund assets. Physically replicated ETFs may have counterparty risk if they use a securities lending programme.

Underlying risk

The Underlying index of a Lyxor ETF may be complex and volatile. For example, when investing in commodities, the Underlying index is calculated with reference to commodity futures contracts exposing the investor to a liquidity risk linked to costs such as cost of carry and transportation. ETFs exposed to Emerging Markets carry a greater risk of potential loss than investment in Developed Markets as they are exposed to a wide range of unpredictable Emerging Market risks.

Concentration risk

Thematic ETFs select stocks or bonds for their portfolio from the original benchmark index. Where selection rules are extensive it can lead to a more concentrated portfolio where risk is spread over fewer stocks than the original benchmark.

Currency risk

ETFs may be exposed to currency risk if the ETF is denominated in a currency different to that of the Underlying index they are tracking. This means that exchange rate fluctuations could have a negative or positive effect on returns.

Liquidity risk

Liquidity is provided by registered market-makers on the respective stock exchange where the ETF is listed, including Société Générale. On exchange, liquidity may be limited as a result of a suspension in the underlying market represented by the Underlying index tracked by the ETF; a failure in the systems of one of the relevant stock exchanges, or other market-maker systems; or an abnormal trading situation or event.

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Disruptive Technology



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