Discovery Global Millennial Share Portfolio

July 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, and a volatile second quarter, the month of July continued to remain volatile with global equities reacting to both 2Q earnings results and COVID-19 delta variant concerns. The MSCI All Country World Index returned 0.69% during the month. Discussions centered around the reflation trade in July with different dynamics in focus, including traction behind the peak growth, inflation themes and policy themes and the spread of the Delta variant of Covid-19. Focus remained on the possibility that the Federal Reserve may not be as willing to let the economy run as hot as initially envisaged under its policy framework. Bullish narrative surrounding central bank liquidity tailwind, excess savings from fiscal stimulus, reopening momentum, vaccine efficacy, upside earnings surprises, elevated operating leverage, corporate buyback boom and retail impulse has prevailed in July. The Federal Reserve reported in its July policy statement that progress is being made toward tapering. The Senate voted in late July to advance debate on nearly $1 trillion bipartisan infrastructure package that features $550 billion of new spending on transportation, power, water and broadband. However, the path to additional fiscal stimulus remains complicated. On the jobs front, June nonfarm payrolls came in at 850 thousand ahead of consensus expectations for 700 thousand. Unemployment rate came in at 5.9% above consensus expectations for 5.6% and prior reading of 5.8%. In terms of prices, June headline and core Consumer Price Index readings were ahead of consensus, with the year-over-year core rate of 4.5% noting the highest reading since 1991. Japan continued its underperformance during the month of July with TOPIX down 2.2%. Defensive sectors such as Communication Services, Health Care and Consumer Staples were the key sectors which dragged the index downwards while cyclical sectors were relatively resilient. News-flow on the corporate side was fairly muted during the month as Olympics and COVID-19 cases dominated Japan related headlines. Tokyo Olympic games began as scheduled on 23 July with lower fanfare. An event like Olympics typically provides economic benefit in two ways: 1) Infrastructure development for the event and 2) Inbound tourist expenditure. Japan is estimated to have spent about $12-$15bn in infrastructure development in preparation for the games. The overall impact from this was estimated to be about 0.2% of GDP which benefitted some of the building materials and construction companies, but it did not meaningfully change their long term prospects. The other benefit was supposed to come from the expenditure from inbound tourists who would have visited Japan during the games. However, international tourists have been banned from Japan since the start of the pandemic. From a corporate earnings perspective, we think there is going to be only a minor upside for consumer companies as residents in Japan are still expected to go out, watch the games and obviously spend more, but it is unlikely to be a meaningful impact. Health Care and Materials were the best performing sectors, while Energy and Consumer Discretionary returned the lowest numbers.

Performance Overview

- The GSAM Global Millennials Equity Strategy returned -1.1% for the month of July, trailing the MSCI ACWI Growth Index by -253bps and the MSCI World Index by -288bps.
- Our positions in Information Technology and Consumer Discretionary sectors detracted from strategy returns while our holdings in Industrials and Utilities sectors supported the strategy during the month.
- The strategy has seen inflows of over $940Mn for the year so far and now has over $2.7Bn in assets under management.

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

Periods Ending 31-July-2021	GSAM Global Millennials Equity Strategy (%)	MSCI ACWI Growth (%)	Excess Return (bps)	MSCI World (%)	Excess Return (bps)
July 2021	-1.09	1.43	-253	1.79	-288
YTD 2021	11.22	11.87	-65	15.07	-385
Trailing 1 year	39.99	31.93	+806	35.07	+491
Trailing 3 years	27.46	20.01	+745	14.48	+1,298
Trailing 5 years	23.84	18.39	+545	14.28	+956
Since Inception	24.16	19.18	+498	15.18	+898

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:

- **Snap** (Contributor) – Social Media company behind the popular Snapchat app
  - The stock of the social media and video streaming company, behind the popular Snapchat app has performed well on the back of solid 2Q 2021 results. Strong results were driven by increased advertiser traction with the spotlight product and an uptick in engagement with spotlight and discovery. Snap announced developments on their camera and augmented reality platform, invested in their content offering in an effort to build a more robust creator economy, and released more integrations to make it easier for advertisers to leverage Snap products. The company has put together a powerful combination of effective advertising tools and brand new content (Discover allows access to latest TV shows) to drive strong revenue growth over the long term. Digital ad spending might be slow in upcoming months, but over the next five years, more ad spending is expected to shift from traditional media to digital platforms, which is likely to benefit Snap's Dynamic Ads business.

- **Nike** (Contributor) – US based athletic apparel company
  - Nike was another major contributor driven by strong 2Q 2021 earnings results. During the pandemic, Nike accelerated its digital transformation, heightened consumer engagement and posted soaring sales, margins and cash flows. With direct sales and digital revenue now accounting for more than one-third of its $45 billion in annual sales, Nike's technology investments are clearly delivering. The stock price appreciated as the company reported better-than-consensus earnings, revenues and margins as a result of acceleration in the company's online business. Nike is aiming to achieve a 'Digital Advantage' which is nothing but a competitive advantage driven technological advancement and innovation. We like the name and believe in its growth.

- **Meituan** (Detractor) – China based food delivery giant
  - Shares for Meituan remained under pressure in July over regulatory uncertainty in China as policymakers tightened oversight over protecting the rights of employees within the food-delivery segment in the country, days after policymakers introduced a slew of reforms within the online education sector. Having said that, share prices witnessed a rebound during the end of the month as reports emerged that Chinese authorities were wrapping up an ongoing anitrust investigation into the company. As such, as long-term investors, we focus on fundamentals and remain positive on the longer-term potential on the name.

- **Alibaba Health** (Contributor) – Digital health company
  - The stock has underperformed for the third month in a row despite a strong earnings season, as the Asian markets have experienced a sell-off on the back of investor sentiment. Alibaba Health runs one of the largest online healthcare platforms and the largest online retail pharmacy in China. The underperformance continued from 2Q where the fund underperformed as it announced plans to ramp up investments throughout its supply chain and in the area of artificial intelligence technology, which is likely to cap profitability over the next few years. The company has reported good results with an increase of 62% in revenues and with 42,000 new health-care consultants joining the platform. We continue to like the company for its future prospects as the construction of IT infrastructure at hospital, pharmaceutical and healthcare insurance businesses to accelerate in the post-COVID-19 era. Alibaba Health has a first-mover advantage for the stickiness of its consumers, which it may further enhance via partnerships with multiple parties. We like the company for the strong fundamentals which are supported by tailwinds of increasing spend on new digital infrastructure construction. We view the underperformance as near-term and believe that the company is likely to remain the primary beneficiary of increasing breakthroughs within the internet healthcare sector given its clear monetization model, low penetration, and high scalability.

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The following table provides a simplified example of the effect of management fees on portfolio returns. Assume a portfolio has a steady investment return, gross of fees, of 0.5% per month and total management fees of 0.05% per month of the market value of the portfolio on the last day of the month. Management fees are deducted from the market value of the portfolio on that day. There are no cash flows during the period. The table shows that, assuming all other factors remain constant, the difference increases due to the compounding effect over time. Of course, the magnitude of the difference between gross-of-fee and net-of-fee returns will depend on a variety of factors, and this example is purposely simplified.

Period	Gross Return	Net Return	Differential
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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