



# Piguet Galland & you.

## Launch of the US Millennials Equity Certificate

16 January 2017

The Millennial generation is bigger in size than its parent generation, the Baby Boomers. Having made it through the financial crisis, Millennials are now coming of age, and some characteristics of this large cohort offer interesting investment opportunities. Our equity certificate aims to take advantage of this little-known investment theme. Guy Charlet, the investment manager, tells us all about Millennials and shares his convictions.



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### Who are the Millennials?

Some say they're cynical, narcissistic, superficial, lazy and lacking in empathy, but they're also laid back, confident, independent and open-minded. In the USA, there are 75 million people in the 20 to 36 age bracket,<sup>1</sup> making the Millennials the largest generation since they knocked their parents, the Baby Boomers, off the top spot in 2016. They are now reaching an age when they want to settle down, and their purchasing power should increase considerably as the US economy continues to pick up steam. Understanding their needs will be a strategic priority for companies in the years to come.

### What sets them apart?

A number of researchers<sup>2</sup> have hypothesised that the education that Millennials received from previous generations boosted their self-esteem to such an extent that they became a narcissistic generation that may well become disillusioned by the realities of working life. Only time will tell if this is true. But while they may be overprotected, they are more than anything a product of new technologies, which they easily master and make their own. This is what really sets them apart from previous generations. They display themselves on social networks, put on a performance and turn themselves into micro-celebrities – that's what makes them image-obsessed. But when asked whether they think their generation spends too much time sharing

### US Millennials Equity Certificate

#### Initial basket

- Amazon	8%
- Facebook	8%
- Alphabet	8%
- Electronic Arts	8%
- Nike	8%
- Starbucks	8%
- Whole Foods	8%
- Comcast	8%
- Expedia	8%
- Grubhub	4%
- Match Group	4%
- Pandora Media	4%
- Wayfair	4%
- American Homes 4 Rent	4%
- Zoës Kitchen	4%
- Cash	4%

#### Details

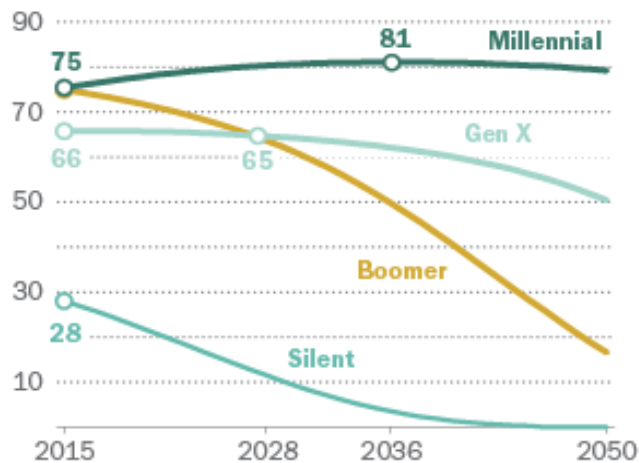
- Currency: USD
- Legal form: Open-ended
- Issuer: Zürcher Kantonalbank (to be confirmed)
- Subscription deadline: 31 January 2017
- Number of stocks: Initially 15
- Management type: Active
- Universe: Russell 3000
- Dividends: To be reinvested, with withholding tax deducted in accordance with US tax law.

The manager of the US Millennials Equity Certificate, Guy Charlet, CFA, is our US market analyst. He also manages the "Piguet Actions Amérique du Nord" investment fund. He holds master's degrees in economics, business administration and philosophy.

personal information online, 90% of Millennials said that they thought they did.<sup>3</sup> This shows that they are also capable of self-criticism. What's more, the globalised world in which they live makes them more open to the world, more liberal on a number of social issues, less attached to organised politics and religion, and less inhibited by authority or hierarchy. These can all work to their advantage in a professional environment.

#### Population by generation<sup>4</sup>

*In millions*



Source: Pew Research

#### What's their purchasing power?

The first Millennials were just entering the workforce when the financial crisis hit them head on in 2008. However, this didn't undermine their confidence in the future, which is comparable to that of previous generations. They have better training as well, which increases their chances of financial success. Their annual income, which is currently close to USD 4 trillion, is set to equal that of Generation X by 2020 and increase twofold by 2025.<sup>5</sup> It is also estimated that over time they will inherit a colossal USD 40 trillion from the older generations.<sup>6</sup>

#### How do they spend their money?

The answer is complex. How Millennials spend is a reflection of all the psychological, sociological and economic characteristics described above. They also spend differently depending on whether they are among the older or younger members of their generation. But overall, it's safe to say that they tend to put leisure activities before work and spend more time on their smartphones listening to music, watching videos and making purchases. They also take the time to look after themselves and prefer experiences over products – they buy less jewellery and accessories but travel and eat out more. All these themes are reflected in our stock selection.

#### Which stocks stand to gain from the rise of the Millennials?

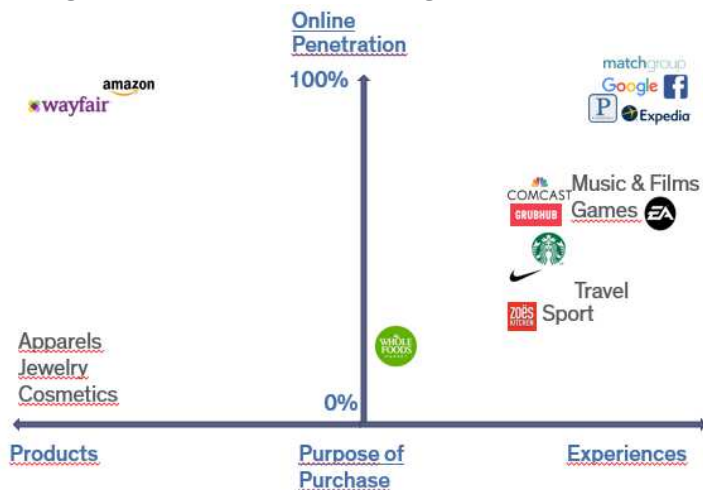
Our initial stock selection, which may be modified during the product's lifetime depending on how the certificate and the markets perform, draws primarily on the consumer spending and tech sectors – which are often hard to tell apart. We are bullish on: e-commerce (e.g. Amazon, Wayfair for furniture, and Grubhub for online ordering from restaurants); live and streamed music (Pandora); the internet and social media (Facebook, Google and Match Group, which owns the Tinder app); online travel (Expedia); telecoms (Comcast); cafés and restaurants (Starbucks and Zoës Kitchen); organic food (Whole Foods); sport (Nike); games (Electronic Arts); and real estate (American Homes 4 Rent).

#### What are our investment criteria?

Selected companies must be in high demand predominantly among Millennials and offer strong growth prospects at a reasonable price. The

aim is to beat the Russell 3000 Index over the medium to long term. Eligible stocks come essentially from cyclical sectors and will probably be sensitive to market corrections. To mitigate risk, the portfolio is diversified and the weighting of the smallest caps limited. To ensure flexibility, the composition of the equity basket can be changed during the product's lifetime depending on how individual shares and the markets perform. The certificate is open-ended, which means that as long as the investment theme remains attractive, the certificate will continue to be managed. The certificate may be liquidated with due notice, particularly in the event of substantial gains.

#### Geotag of the selected stocks and categories



Source: Piguet Galland

#### References

1. Opinions on when the Millennial generation starts and ends vary. We've taken the definition used by the Pew Research Center, which has produced numerous studies on the subject and defines Millennials as those born between 1981 and 1997.
2. R. Baumeister: various writings on self-esteem, referenced at <https://psy.fsu.edu/faculty/baumeister#>
3. Pew Research Center: Millennials in Adulthood, March 2014
4. According to the Pew Research Center, the previous generations are: Generation X (1965-80), the Baby Boomers (1946-64) and the Silent Generation (1928-45)
5. Javelin Research & Strategy, cited in Bank of America Merrill Lynch: Millennials Primer, July 2015
6. Bank of America Merrill Lynch: Millennials Primer, July 2015

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