Investing in the Gig Economy

SoFi

Introduction

You may not realize it, but you are already a participant in a booming new economic growth area – the gig economy. You have almost certainly been a consumer and nearly half (47%) of the U.S. workforce have participated as a subcontractor.[1] Now, there is a new way to tap into the innovation and growth that has added $1.4 trillion annually to the US economy – as an investor.[2]

Many investors are quite familiar with gig economy companies. They are already engaging with them as customers and/or workers. And now they want to invest in them too. But while they are easily participating in the gig economy – finding work online, selling products on eBay, getting around via Lyft and Uber, and ordering dinner and their pet's food online – until recently, it has been difficult to access this area's growing investing opportunities. While many of the brands that American consumers know and love like Airbnb, Fiverr, Lyft, Postmates, Slack, Uber and Upwork have made Initial Public Offerings (IPOs) or announced plans to do so, IPOs are inaccessible to many individual investors; established gig economy stocks have sky-high stock prices; and most funds don't fully represent the sector's breadth.

The gig workforce is adding $1.4 trillion annually to the U.S. economy, an increase of almost 30% since 2017.

The purpose of this paper is to define the gig economy, why it can be an attractive long-term, high-growth investment opportunity and the way to access this global, dynamic sector.

What is the Gig Economy?

The "gig economy" refers to the group of companies that embrace, support or otherwise benefit from a workforce where independent consultants, contractors, temporary or on-call workers are empowered to create their own freelance business by leveraging recent developments in technology platforms that enable individuals to offer their services directly to retail and commercial customers.

Examples of gig economy businesses include selling or reselling products through auction platforms or web-based stores and offering delivery services through an app-based platform. Gig workers are doing ad hoc work; short-term engagements; temporary contracts; or long-term, short-term or occasional contracting.

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[1] MBO Partners, "State of Independence in America," 2018.
[2] Upwork and Freelancers Union, "Freelancing in America: 2018," October 31, 2018.

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There are a number of new terms being created as the gig economy grows, such as the "freelancer economy," "sharing economy," "independent workforce," and "solopreneurs." The latter are sole proprietors who rather than hiring a full-time team contract with other gig workers in areas of web design, IT, marketing, sales, accounting, etc., which expands the gig ecosystem further. Regardless of the terms used, the growing number of workers involved and companies supporting the gig economy are clear signs that the nature of work as we know it is forever changed.

Size and Growth Potential

Growing Gig Workforce: Independent workers are a significant part of today's workforce. In the U.S., independent workers are nearly 42 million adults. Nearly half – 47% – of the U.S. adult workforce is either currently working as an independent or has at some point during their career. Over the next five years, that figure is projected to grow to 52%.[3]

The freelance workforce grew at a rate three times faster than the U.S. workforce overall since 2014.

According to the Freelancing in America study by Upwork and the Freelancers Union, the freelance workforce grew at a rate three times faster than the U.S. workforce overall since 2014. At its current rate, the majority of the U.S. workforce will be freelancing by 2027.[4]

Outside the U.S., an estimated 4.8 million people in the U.K. and up to 162 million across the European Union (EU) work in the gig economy.[5] Freelancers are the fastest-growing labor group in the EU with their number doubling between 2000-2014.[6]

Growing Number of Gig Companies: The more that people work in and interact with the gig economy, the more gig companies will be created and rapidly grow. While startups may experience volatility, consider their high-growth potential. For example, Grubhub's revenue for the quarter ending March 31, 2019, was a 39.21% increase year-over-year and DocuSign's revenue for the quarter ending April 30, 2019, was a 37.32% increase year-over-year. More established firms such as Amazon, PayPal and Twitter had first quarter revenue growth increases year over year of 16.96%, 12.02% and 18.35%, respectively.[7]

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[3] MBO Partners.
[4] Upwork and Freelancers Union.
[5] https://sifted.eu/articles/fintech-gig-workers/
[6] Deloitte, "Deloitte Insights: 2019 Global Human Capital Trends" report.
[7] https://macrotrends.net

The Attractiveness of Freelancing

The number of independents is growing even as payroll jobs continue to rise. The primary reason people become independents is flexibility. Other main reasons include saving for a big life event and paying day-to-day bills. An improving economy leads to greater demand for skilled talent. Independents get more work and can charge more, and skilled workers can leave traditional full-time work and successfully do independent work.

According to Prudential's 2017 Gig Worker On-Demand Economy Survey, nearly 32% of full-time employees expressed a strong interest in switching to gig work, whereas 19% of gig-only workers expressed a strong interest in moving to traditional work. And a 2018 survey of Millennials across 36 countries by Deloitte found that 64% of full-time workers want to do "side hustles" to make extra money.

Workforce Demographics

Gig workers represent all ages, income levels and skills across sectors. Their demographics closely resemble the U.S. workforce as a whole. Baby Boomers (aged 51-74) and Millennials (aged 21-38) dominate both the U.S. workforce and the gig economy. In 2018, full-time independents were 37% Millennials, 35% Baby Boomers and Matures (aged 75+), and 28% were Gen X (aged 39-54).[8] Almost half (47%) of working Millennials freelance.[9]

Twenty-one percent of full-time, highly-skilled independents (technology, accounting, web development and design, marketing) report earning $100,000 or more, up from 12.5% in 2011.[10] And 37.6% of permanent, full-time gig workers hold graduate degrees.[11]

While the tech industry has the most freelancers, there are also gig workers in finance; agriculture and forestry; transportation; education; healthcare; retail; construction; and many varied services from running errands, cleaning and dog walking.[12]

Why Invest in the Gig Economy?

More investors and their financial advisors are considering the gig economy as a potential high-growth investment and an effective way to have their portfolios benefit from long-term, global labor and technology trends.

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[8] MBO Partners.
[9] Upwork and Freelancers Union.
[10] MBO Partners.
[11] Deloitte 2019 Global Human Capital Trends report.
[12] Deloitte 2019 Global Human Capital Trends report.

Declining Work Force: Many countries around the world are seeing declining birth rates, which is reducing their labor pool and therefore forcing companies to find an alternative workforce. 45% of companies worldwide surveyed by Deloitte said they are having trouble filling positions, the largest percentage since 2006. Among companies with more than 250 employees, the percentage to find qualified candidates rose to 67%.[13]

Technology Advancements: Rapidly accelerating technological changes in processing power and connectivity has created a data revolution, which is placing unprecedented amounts of information in the hands of consumers and businesses and enabling a proliferation of technology-enabled business models like GrubHub and Lyft.

In emerging countries, technology offers economic progress for billions of people at a speed that would have been unimaginable without the mobile Internet. Twenty years ago, less than 3% of the world's population had a mobile phone; in 2014, two-thirds of the world's population had one, and one-third of all humans were able to communicate on the Internet.[14]

The furious pace of technological innovation is shortening the lifecycle of companies[15], enabling rapid introduction and adoption of gig-related tools and platforms. Equally, it is changing the economies of scale equation, allowing small companies to compete in a global marketplace. Businesses such as WhatsApp can start and gain scale very quickly and enjoy advantages over large, established businesses.

New online talent networks are being created, companies such as The Mom Project, The Second Shift and WeGoLook, which together manage over $2 billion in outsourced activity, employing hundreds of millions of people in every geography around the globe.[16]

Of the respondents participating in an UpWork and Freelancers Union study, 64% of freelancers found work online, a 22-point increase since 2014.[17] Ultimately, many believe the growing development and acceptance of technology may disintermediate the employment model.

> *The furious pace of technological innovation is shortening the life cycle of companies, enabling rapid introduction and adoption of gig-related tools and platforms.*

[13] Deloitte 2019 Global Human Capital Trends report.
[14] Emarketer.com, "Smartphone Users Worldwide Will Total 1.75 Billion in 2014," January 16, 2014; referencing Broadband Commission, "*The state of broadband 2012: Achieving digital inclusion for all,"* September 2012.
[15] McKinsey, "Four Global Forces Breaking All the Trends," April 2015.
[16] Deloitte 2019 Global Human Capital Trends report.
[17] Upwork and Freelancers Union.

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How to Access the Gig Economy?

Investors typically use the following investment vehicles to access a portion of the gig economy: individual securities, IPOs and/or technology or thematic funds. Each have their advantages and disadvantages.

Employers' Perspective on Gig Economy

Corporate executives worldwide realize the rise of alternative working arrangements will have a significant impact on their workforce. In a 2018 survey of 6,500 executives conducted by BCG in partnership with Harvard Business School's Managing the Future of Work Initiative, almost 40% said they expected to see an increase in the use of freelance talent in the next five years and 50% agreed that the adoption of gig platforms would be a significant or highly significant trend.

Companies are recognizing the cost efficiencies in utilizing gig workers. They can convert fixed costs to variable, reduce benefits, and gain resource flexibility and agility to better respond to competitive and/or changing market conditions.

Single Stocks: There are two advantages of owning individual stocks: they don't have any management fees and they are typically liquid. When buying individual stocks, investors don't have to pay the fund company an annual management fee for investing their assets. Instead, they pay a fee when they buy and sell the stock. Most stocks trading on a major exchange can be easily bought and sold, providing investors the flexibility and liquidity when they need it.

The disadvantages of owning individual stocks include lack of diversification, difficulty in accessing them if the share price is exorbitantly high and time consuming. Investing in one or only a handful of stocks is risky because the investor's portfolio can be severely impacted when one of the stocks declines in price. And in the case of high-growth stocks such as gig companies, price volatility may be higher. Burton Malkiel, author of *A Random Walk Down Wall Stre*et, says that a portfolio of 20 different stocks similarly weighted and diversified across sectors can reduce the total risk of a portfolio by 70%.[18] This can add up to a large sum of money depending on each stock's share price, and trading costs can quickly eat returns.

Finally, it is time consuming to research and monitor stocks while also staying on top of industry and macro-economic trends. The disadvantages of stocks lead many investors and financial advisors to choosing funds instead.

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[18] Burton Malkiel, *A Random Walk Down Wall Street*, 1973.

IPOs: With all the news about gig economy IPOs, investors and their financial advisors may want to get in on the "ground floor" of a company if they believe it has long-term potential. But finding a good IPO and being able to access it is difficult. Some people argue that we are experiencing an IPO bubble, which means the company's valuation at the time of the IPO is inflated and investors who buy at the time of the IPO are less likely to realize a return on their investment.

But perhaps the biggest challenge is most investors can't participate in IPOs. Many of the shares go to hedge funds, investment banks and other large institutional investors. And brokerage firms typically have high-bar requirements to invest in IPOs.

Technology or Thematic Mutual Funds: An alternative to investing in single stocks or IPOs is to invest in technology or thematic mutual funds, which invest across sectors related to a common theme. Both types of funds may have a percentage of their holdings in gig economy securities. While a fund will typically be diversified, cost effective, liquid, and have a portfolio manager, the main disadvantages are some funds disclose their holdings only every 90 days, so investors do not have full transparency in what they own. And funds that focus on technology or an IPO theme, for example, are not fully representing the gig economy across all market capitalizations, sectors and countries.

Exchange Traded Funds (ETFs) Alternative

ETFs can offer a compelling alternative option for accessing the gig economy. ETFs are well known for their low annual expense fees, transparency of holdings and diversification. They are also considered by investors to provide liquidity, though there is no assurance that an ETF will trade with sufficient volume to provide liquidity and low trading volume may result in an ETF trading at a premium or discount price. For an investor or financial advisor interested in getting the broadest exposure to the gig economy, of the benefits listed above, the one most likely to be of highest importance is diversification. This is for two reasons:

One, when investors are trying to get as much return as they can for the least amount of risk, a top concern should be diversification. A well-diversified portfolio is designed to reduce the potential impact of any single holding's volatility. It's important to remember that diversification does not ensure profit or protect against loss when the overall market declines.

Two, the gig economy has an expansive definition, encompassing large-, mid- and small-caps stocks; nearly all sectors and many developed, developing and emerging market countries. Therefore, a broadly diversified gig economy ETF can help an investor fully access the breadth of the ecosystem.

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The Value of an Actively Managed ETF

There is not a gig economy index for any passive managers to track, but if there were one, most experts would say the best way to generate greater opportunities for enhanced returns in a rapidly growing, ever-evolving gig economy would be through active management. Why? Active managers can be nimble, making portfolio changes quickly as conditions of the market or companies change. Passive managers must adhere strictly to the rules of an index, buying and selling the securities the index provider selects. However, an actively managed ETF does not seek to replicate the performance of a specified index and therefore may frequently trade all or a significant portion of its portfolio and have higher portfolio turnover than funds that do seek to replicate the performance of an index.

Active managers have the flexibility to add new IPOs sooner than index providers. This is particularly important as many gig companies recently went public or are slated to in 2019.

About the SoFi Gig Economy ETF (GIGE)

GIGE is the first ETF to seek long-term capital appreciation concentrating specifically on the gig economy. It offers an attractive entry point with a $20 per share stock price. GIGE is very much a theme of themes by tapping into the global trends in the workforce and technology, providing access to the companies that have transformed the way people access goods, services and work. The fund is actively managed by Toroso Investments to keep on top of emerging companies and market trends and conditions. The fund is structured so most companies that IPO and fit GIGE's criteria can be included in the portfolio after one month of trading, as opposed to traditional passive funds that typically wait 60 to 90 days to include a new IPO.

GIGE's breadth of holdings represents the broadest definition of the gig economy to tap into its high-growth potential. GIGE's holding are approximately 40% outside the U.S, and include large-, mid- and small-cap securities.

GIGE companies include four categories:

Platform Businesses: This is likely what most people think of when they hear gig economy. This category includes: app-based platforms, web-based stores, auction sites, and other commission-based platforms such as Alibaba, eBay and Etsy.

Services and Transactions Businesses: This includes companies that facilitate transactions and support the operations of the gig economy such as DocuSign, PayPal and Square.

Marketing Businesses: Traditional marketing is expensive and doesn't work in the gig economy. However, social media and messaging companies work well and therefore make up a large portion of this segment. Examples include Eventbrite, Facebook, Tencent, and Twitter.

Ancillary Businesses: This category includes non-traditional companies, such as HealthEquity, that are not directly related to the gig economy but support and/or benefit from the gig economy.

Conclusion

The SoFi Gig Economy ETF offers a compelling investment option for investors and financial advisors to position portfolios to help benefit from global demographic changes and technology innovations. Investors are already engaging with the rapidly growing gig companies and now they can more readily invest in them.

About SoFi

SoFi helps people achieve financial independence to realize their ambitions. Our products for borrowing, saving, spending, investing and protecting give our more than 700,000 members fast access to tools to get their money right. For more information, go to http://sofi.com

About Toroso Investments

Toroso Investments is an innovative partnership between financial thought leaders in the ETF space that have developed a suite of solutions for financial advisors, ETF issuers and other players in the industry. Through our three core business units – consulting, asset management and wealth advisor – we help our clients grow, prosper and succeed. For more information, go to http://torosoinv.com

Before investing you should carefully consider the Fund's investment objectives, risks, charges, and expenses. This and other information is in the prospectus. A prospectus may be obtained by visiting www.sofi.com/invest/etfs/. Please read the prospectus carefully before you invest.

There is no guarantee that the Fund's investment strategy will be successful. Shares may trade at a premium or discount to their NAV in the secondary market, and a fund's holdings and returns may deviate from those of its index. These variations may be greater when markets are volatile or subject to unusual conditions. A high portfolio turnover rate increases transaction costs, which may increase the Fund's expenses. The Fund is new and has a limited operating history. You can lose money on your investment in the Fund. Diversification does not ensure profit or protect against loss in declining markets. Investments in foreign securities may involve risks such as social and political instability, market illiquidity, exchange-rate fluctuations, a high level of volatility and limited regulation. Investing in emerging markets involves different and greater risks, as these countries are substantially smaller, less liquid and more volatile than securities markets in more developed markets. Because the Fund may invest in a single sector, country or industry, its shares do not represent a complete investment program. As a non-diversified fund, the value of the shares may fluctuate more than shares invested in a broader range of industries and companies because of concentration in a specific sector, country or industry. Since the Fund is actively managed it does not seek to replicate the performance of a specified index. The Fund may frequently trade all or a significant portion of its portfolio; and have higher portfolio turnover than funds that do seek to replicate the performance of an index.

SoFi ETFs are distributed by Foreside Fund Services, LLC.
For the Funds top ten holdings please click here.

[19] BCG Henderson Institute. BCG Henderson Institute, "The New Freelancers: Tapping Talent in the Gig Economy," January 17, 2019.
[20] Prudential, Gig Worker On-Demand Economy Survey, 2017.
[21] Deloitte, 2018 Deloitte Millennial Survey.