The Growth Opportunity of Emerging Markets

October 26, 2016
The Speakers

**Kevin T. Carter**
Mr. Carter is the Founder of Big Tree Capital an investment manager focused on Emerging & Frontier Markets and of The Emerging Markets Internet ETF (NYSE: EMQQ). He has been a featured speaker for organizations including Columbia Business School, Bloomberg, Guggenheim Partners, Morningstar and the CFA Society. Mr. Carter has worked with Princeton Economist Dr. Burton G. Malkiel in the development of both passive and active index-based strategies since 1999. Previously, Mr. Carter was the Founder & CEO of AlphaShares, an investment firm offering five Emerging Markets ETFs in partnership with Guggenheim Investments. Mr. Carter was also the Founder & CEO of Active Index Advisors acquired by Natixis in 2005 and the Founder & CEO of eInvesting acquired by ETRADE in 2000. Mr. Carter received a degree in Economics from the University of Arizona in 1991 and began his career in 1992 with Robertson Stephens & Company.

**Richard Kang**
Richard Kang has the experience of over 25 NYSE listed ETF launches since May 2009. Richard was one of three founders of a NY based asset manager whose ETF product lineup focused on underlying exposures in emerging and frontier markets. Over his 20 years of buy-side experience, Richard has had senior roles at a hedge fund, fund-of-hedge fund, investment counseling firm, index provider and ETF issuer/manager. He sits on FTSE's Country Classification Indexing Committee as well as the editorial board of Institutional Investors’ The Journal of Index Investing, the only academic journal for the indexing and ETF industry.
Investing in Emerging Markets
What Are Emerging Markets?

Emerging Markets
Frontier Markets

Emerging Americas
Brazil
Chile
Columbia
Mexico
Peru
Argentina
Jamaica
Trinidad & Tobago

Emerging Europe
Czech Republic
Greece
Hungary
Poland
Russia
Turkey
Bosnia
Bulgaria
Croatia
Estonia
Lithuania
Kazakhstan
Romania
Serbia
Slovenia
Ukraine

Emerging Africa
South Africa
Botswana
Egypt
Ghana
Kenya
Mauritius
Morocco
Nigeria
Tunisia
Zimbabwe

Emerging Middle East
Bahrain
Jordan
Kuwait
Lebanon
Oman
Qatar
Saudi Arabia
United Arab Emirates

Emerging Asia
China*
India
Indonesia
Korea*
Malaysia
Philippines
Taiwan
Thailand
Bangladesh
Pakistan
Sri Lanka
Vietnam
The Case For Emerging Markets

- Different - Diversification benefits vs. U.S. & Developed Markets
  - Correlation to S&P 500 < 1.0

- Bigger - Size (Lots of People)
  - 85% of global population and 50% of global GDP

- Younger - Favorable Demographics
  - Younger populations than developed markets

- Growing Faster
  - Consumption
The Downside of Diversification
Emerging Markets Are 85% of World Population

World Population 2014

- Emerging & Frontier Markets: 6,205,000,000
- Developed Markets: 1,095,000,000

5.6x
Emerging Markets Have Better Demographics

**World Population Under Age 30**

- **Emerging & Frontier Markets**: 3,212,146,000
- **Developed Markets**: 364,854,000

Ratio: 8.8x
Emerging Markets Have Low Relative Incomes

Per Capita GDP 2013 (USD$)

$3,348

Emerging Markets

$38,293

Developed Markets

11x
Emerging Markets Are Growing Faster

GDP Growth 2016e

- Emerging Markets: 4.0%
- Developed Markets: 2.0%

2x growth comparing Emerging Markets to Developed Markets.
Emerging Markets Will Dominate by 2050

Developed & Emerging Market GDPs
1950-2050

USA
UK
Germany
India
France
China
Russia
Japan
Brazil


Source: Data from World Bank and The World in 2050, PricewaterhouseCoopers 2008
Moving On Up

“The biggest growth opportunity in the history of capitalism”
- McKinsey & Company

By 2025, the consuming class will swell to 4.2 billion people. Consumption in emerging markets will account for $30 trillion—nearly half of the global total.
Risks are REAL and Present
SOEs Dominate the Indexes and ETFs (EEM & VWO)

~30% of EEM & VWO are SOEs

Source: Big Tree Capital, LLC.
Chinese “Economic Fugitives”
Russian “Oligarchs”

Source: Big Tree Capital, LLC.
Rethinking Emerging Markets
This attempts to differentiate you from your peers:

1. Emerging markets are no longer simply geographic. It’s not only about emerging countries but:
   - People (a new middle class with a unique behavior)
   - Technology and innovations (based on this new global citizen, their history and geography)
   - Themes (not just consumption but how they consume)

2. Fast pace growth is not only in skylines. But how we go about consuming (behavior)

3. Based on a global mindset (many are educated in the west), the new middle class consumer is now competing globally.

4. The future of global business may look a lot more like what we see coming out of Asia than we see from US centers of innovation like Wall Street and Silicon Valley.
Emerging Market Cities have transformed the landscape and consumption of goods

35 years of growth: Shenzhen, China from 1980 to today. Little House on the Prairie to Blade Runner in one generation
How to define Emerging Markets?

• What matters now is a combination of emerging countries, emerging themes and emerging innovations. What is truly emerging?

  - India or We-chat? Frontier markets or artificial intelligence?
  - Why is growth only viewed based on location and industry?
  - Think about the area of convergence below. Do you think about ways to “future-proof” your client portfolios?
Emerging Markets: EM Millennials the new YUPPY’s

The future EM professionals: And what are they doing now? They’re studying hard. They’re trying to get a better job. They’re communicating with each other, acquiring knowledge/skills, media, products and services. These are among the best and brightest anywhere. Some will stay in Silicon Valley or Wall Street but some may work with products they know back home.

WeChat in Malaysia

No. 1 Social Mobile Platform

WECHAT Malaysia Market Share

90% smartphone penetration rate

Top downloaded App on AppStore & Google Play

Malaysia Google Trend 2013

Top 10 search term

The only mobile app search term that made it to top 10
Where will they work? Google or Baidu?

Source: http://www.huffingtonpost.com/rahul-choudaha-phd/post_10471_b_8563904.html

Source: https://factly.in/number-of-indian-students-in-the-usa-at-an-all-time-high-second-only-to-china/
What is the difference in the photos below?
Alibaba & Canada sign MOU to boost flow of Canadian goods to China via ecommerce

This is an infrastructure story. Why did Walmart buy Jet.com?
Want access to consumer growth? Buy the toll booth.
11.11 China Singles’ Day

Alibaba Singles’ Day vs. U.S. Cyber Monday

$USD Billions

Source: Big Tree Capital LLC Estimates
# How Big is Singles’ Day?

### Alibaba Singles' Day sales, 2015

<table>
<thead>
<tr>
<th>Category</th>
<th>US dollar equivalents</th>
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<tbody>
<tr>
<td>Total Alibaba Singles’ Day Sales</td>
<td>$14.3 billion</td>
</tr>
<tr>
<td>Viacom 2014 revenue</td>
<td>13.8</td>
</tr>
<tr>
<td>Facebook 2014 revenue</td>
<td>12.5</td>
</tr>
<tr>
<td>GDP of Laos, 2014</td>
<td>11.7</td>
</tr>
<tr>
<td>Alibaba sales at 2pm</td>
<td>9.9</td>
</tr>
<tr>
<td>Ferrari valuation at IPO</td>
<td>9.8</td>
</tr>
<tr>
<td>Singles Day sales 2014</td>
<td>9.2</td>
</tr>
<tr>
<td>Alibaba sales at 10am</td>
<td>7.7</td>
</tr>
<tr>
<td>NFL 2014 revenue</td>
<td>7.2</td>
</tr>
<tr>
<td>Netflix 2014 revenue</td>
<td>5.5</td>
</tr>
<tr>
<td>One hour of Alibaba sales</td>
<td>4.7</td>
</tr>
<tr>
<td>Cyber Monday desktop sales</td>
<td>2</td>
</tr>
<tr>
<td>Eight minutes of Alibaba sales</td>
<td>1</td>
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Something Big is Happening:
The Great Confluence
The Growth of EM Consumption is a VERY Big Deal

“The biggest growth opportunity in the history of capitalism”
- McKinsey & Company

By 2025, the consuming class will swell to 4.2 billion people. Consumption in emerging markets will account for $30 trillion—nearly half of the global total.
Smartphones are a New Thing
Smartphones Changing Our Consumption Patterns
+ Low Internet Penetration

% Households with Internet Access 2014

Emerging Markets: 31.0%
Developed Markets: 78.0%
+ Growth of Affordable Access to Broadband
+ New Entrants Offering Low Cost Smart Phones
= Smartphones Sweeping Across World

![Graph showing the growth in shipments of smartphones, mobile phones, and personal computers over time. The graph includes data sources: Gartner; Strategy Analytics.](Economist.com)
+ U.S. $ Funding EM Entrepreneurs
EMQQ Index Revenue & Growth Rate*
2009-2015
($USD Billions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($USD Billions)</th>
<th>Growth Rate</th>
</tr>
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<tbody>
<tr>
<td>2009</td>
<td>$14.9</td>
<td>+41.1%</td>
</tr>
<tr>
<td>2010</td>
<td>$21.1</td>
<td>+48.5%</td>
</tr>
<tr>
<td>2011</td>
<td>$31.3</td>
<td>+39.2%</td>
</tr>
<tr>
<td>2012</td>
<td>$43.6</td>
<td>+46.6%</td>
</tr>
<tr>
<td>2013</td>
<td>$63.9</td>
<td>+40.7%</td>
</tr>
<tr>
<td>2014</td>
<td>$89.9</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>$120.6</td>
<td>+34.2%</td>
</tr>
</tbody>
</table>

Source: Big Tree Capital LLC Estimates
Value Creation - EMQQ Index Returns

Source: Solactive AG.
= Largest IPO in U.S. History

Alibaba IPO’s Huge ETF Conundrum
“...many questions have been raised regarding how the newly public company will be placed in ETFs.”
- ETF.com

One place you won't get Alibaba: The big ETFs “Alibaba's blockbuster debut as a publicly traded stock has been everywhere. One place it won't be, though, is in a lot of investor portfolios.....The fact that they're saying it won't be in many indices, or broadly followed indices, it raises the question of what indices are supposed to do.” - USA Today

Didn't buy into the Alibaba IPO? You may own it anyway...
“...So how about an ETF that tracks Chinese firms? Not so fast: The major indexes for Chinese shares don't consider Alibaba a Chinese company (Alibaba is incorporated in the Cayman Islands), so you won't find Alibaba in those funds either.”
- Consumer Reports

Alibaba doesn’t fit into the indexing framework at FTSE and MSCI so “it kind of just gets lost.”
- Morningstar

“...why even have these indexes?”
- CNBC.com

“It’s the clash of the old world legacy index companies with the fast pace of IPOs and ETFs today”
- Tom Lydon
WUBA - 58.com “The Craigslist of China”
MELI – “The Amazon/PayPal of Latin America”
YNDX – “The Google of Russia”
MMYT – “The Expedia of India”
Private Companies Inside of EMQQ Index - Didi
Private Companies inside of EMQQ Index - Flipkart

Next IPO?
Private Companies inside of EMQQ Index – Konga.com
EMQQ Index Overview

• Includes 45 Publicly Traded Emerging Markets Internet Companies

• Rules Based Index
  – All companies with >50% of revenue from internet and/or ecommerce in emerging and frontier markets
  – Minimum $300mm market capitalization
  – Liquidity screen $1.5mm average daily turnover
  – Rebalanced semi-annually in June & December

• Licensed to Exchange Traded Concepts as the basis for an ETF

• EMQQ The Emerging Markets Internet ETF (NYSE: EMQQ)

• More information at www.EMQQetf.com
The Case for the EMQQ Index

• Growth - The Great Confluence
  – EM Consumer + Smartphones + Internet via Mobile Broadband
  – Ecommerce models “leapfrogging” traditional models
  – Ecommerce growing 5x as fast as consumption

• Completion
  – “New” exposure to holders of largest Emerging Markets ETF (VWO)
  – Significant exposure to Private Companies & Frontier Markets

• Better Corporate Governance
  – No State Owned Enterprises
  – Most companies backed by U.S. VC & trade on U.S. exchanges
The Future Of Emerging Markets is Here

Q&A
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• Not all investments are suitable for all investors.
• There are risks in investing including the risk of capital loss.
• All commentary, analysis and opinions represent the subjective views of Big Tree Capital and are subject to change at any time without notice.