

Capturing the Growth of Emerging Markets

December 7, 2017



PRESENTED BY



fa-mag.com

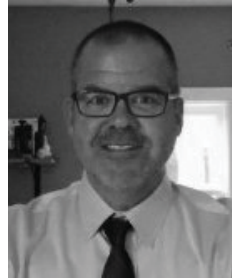


pw-mag.com



etf-mag.com

About the Speaker



Kevin T. Carter

Kevin T. Carter is the Founder and Managing Partner of Big Tree Capital and the Founder of EMQQ. Since 1999, Mr. Carter has worked with Princeton Economist Dr. Burton G. Malkiel in the development of both active and index-based investment strategies. Previously he was:

Founder, Chairman & CEO of AlphaShares, an investment firm that offers four China focused Exchange Traded Funds (“ETFs”) in partnership with Guggenheim Investments. These funds trade on the New York Stock Exchange under the tickers YAO, HAO, TAO & CQQQ. More information at www.alphashares.com.

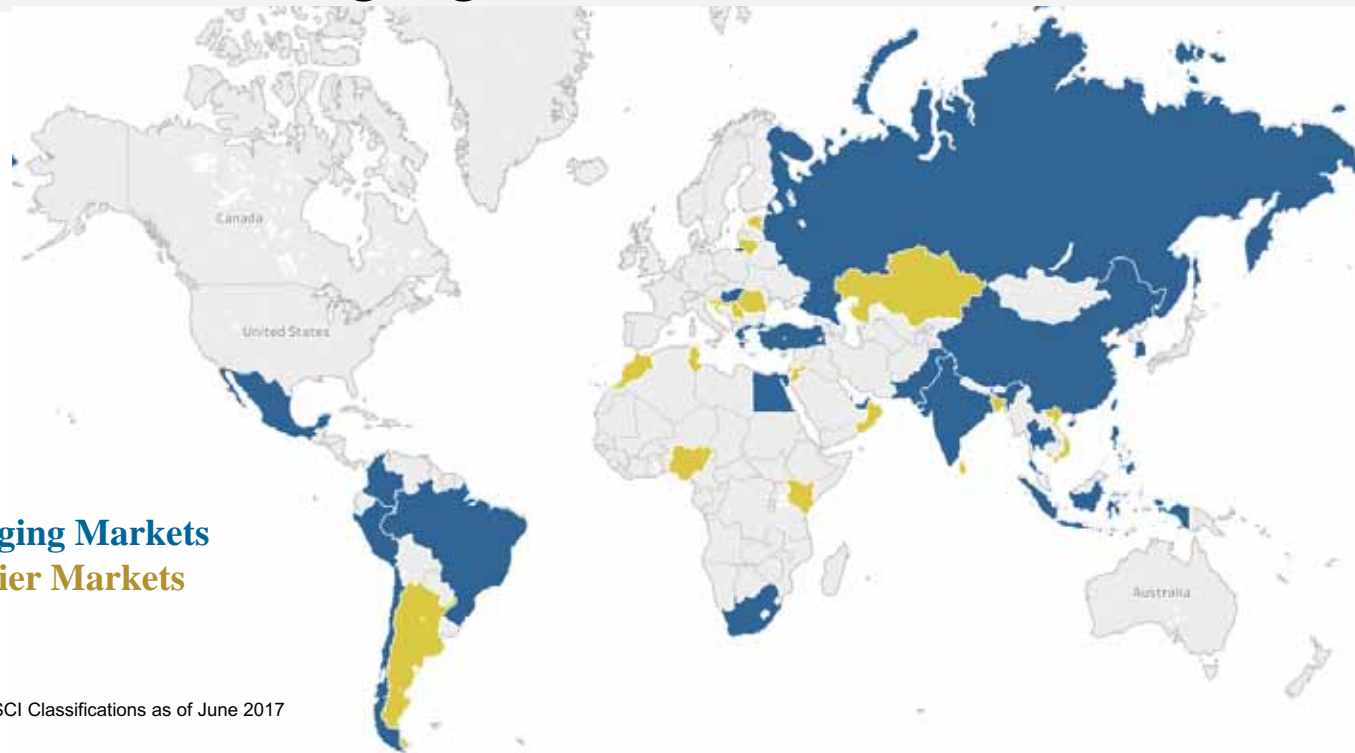
Founder, Chairman & CEO of Active Index Advisors (“AIA”), an investment management firm specializing in index and ETF based investment strategies. AIA was acquired by Natixis Asset Management in December 2004. The AIA *Active S&P 500* strategy has outperformed the S&P 500 on an after tax basis by over 3.0% annually net of fees since inception in 2002. More information at www.activeindexing.com.

Founder, Chairman & CEO of Electronic Investing Corporation (“eInvesting”). eInvesting was an online broker that allowed investors to trade stocks in dollar amounts instead of share amounts thus allowing for diversification of smaller portfolios. Mr. Carter led eInvesting from inception through its July 2000 acquisition by E*TRADE Group.

Mr. Carter received a BA in Economics from the University of Arizona and began his career with the investment management division of Robertson Stephens & Company in San Francisco in 1992.



What are Emerging Markets?



Emerging Markets
Frontier Markets

Source: MSCI Classifications as of June 2017

Emerging Americas

Brazil
Chile
Columbia
Mexico
Peru
Argentina

Emerging Europe

Czech Republic
Greece
Hungary
Poland
Russia
Turkey
Croatia
Estonia
Lithuania
Kazakhstan
Romania
Serbia
Slovenia

Emerging Africa

South Africa
Kenya
Mauritius
Morocco
Nigeria
Tunisia

Emerging Middle East

Egypt
Qatar
United Arab Emirates
Bahrain
Jordan
Kuwait
Lebanon
Oman

Emerging Asia

China*
India
Indonesia
Korea*
Malaysia
Pakistan
Philippines
Taiwan
Thailand
Bangladesh
Sri Lanka
Vietnam

*MSCI & FTSE
Disagree



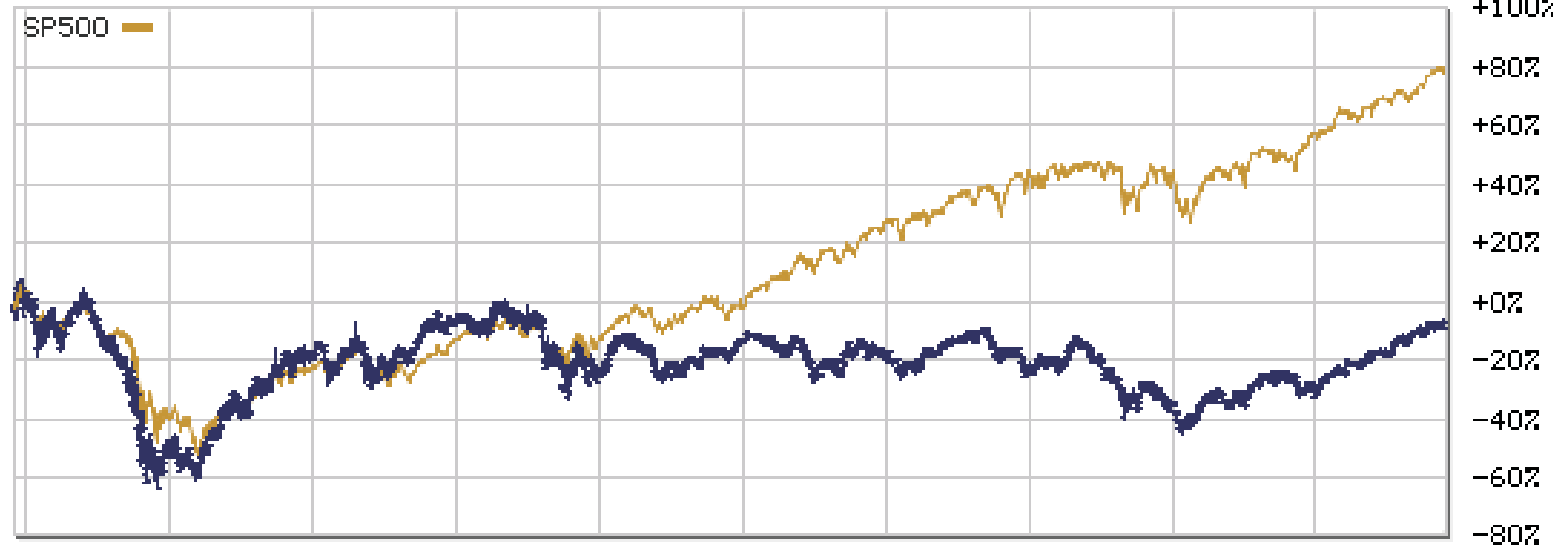
The Case for Emerging Markets

- Different - Diversification benefits vs. 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

A Lost Decade in Emerging Markets

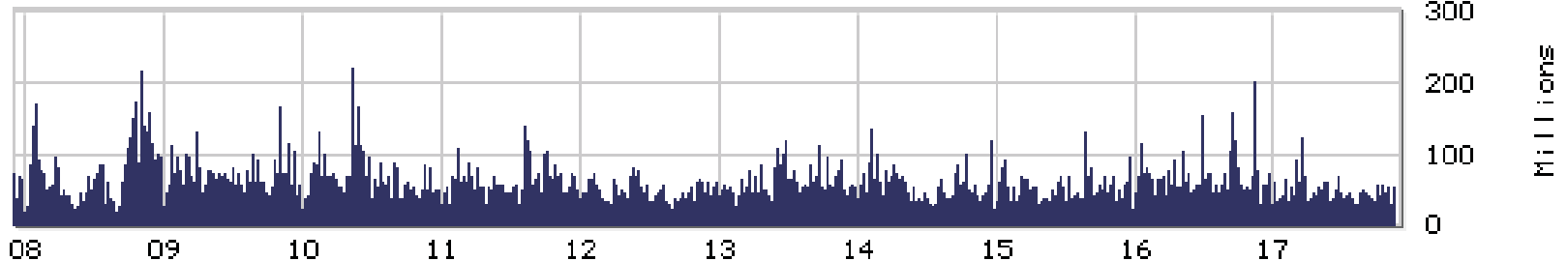
EEM Daily

11/20/17



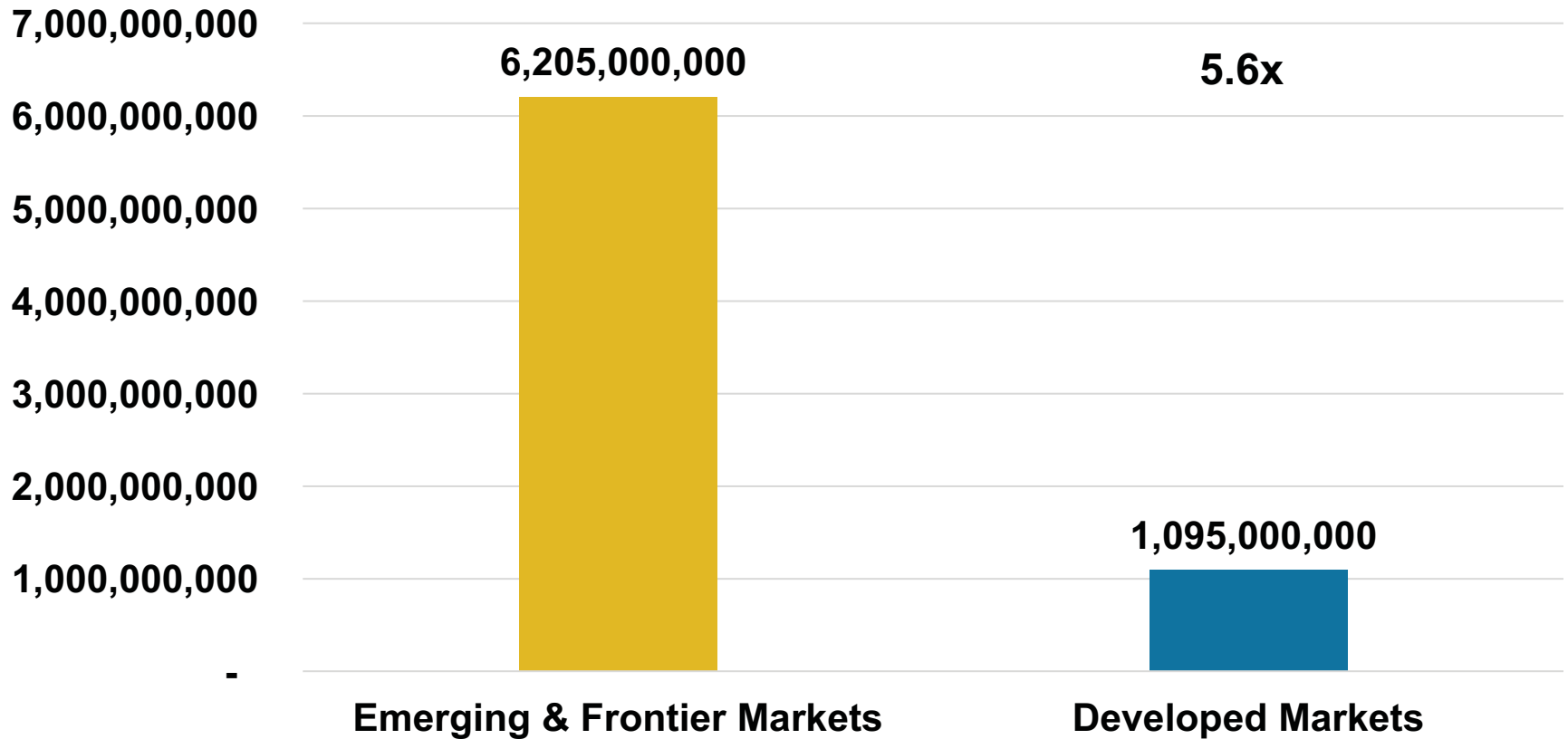
Volume

©BigCharts.com

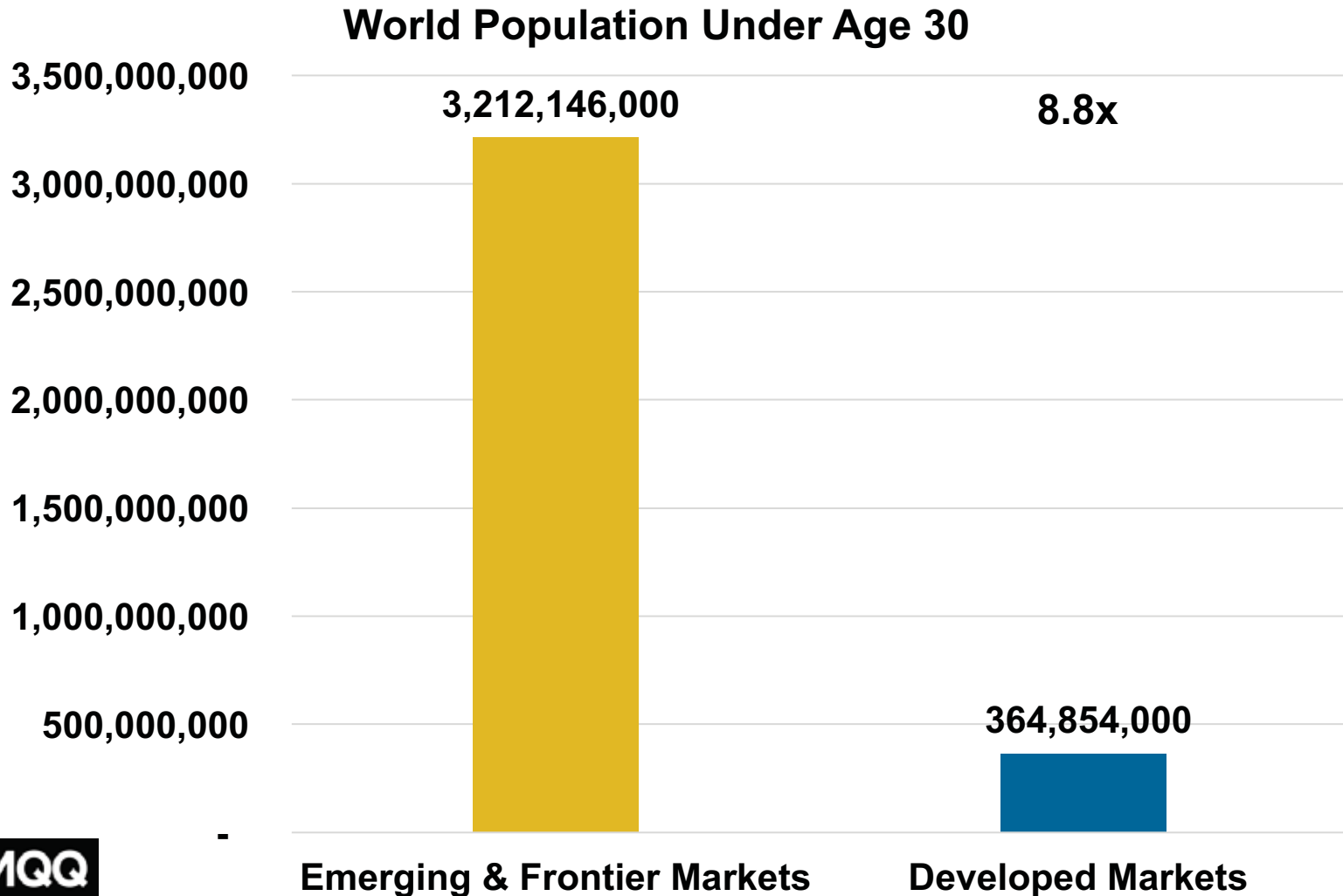


Emerging Markets are 85% of World Population

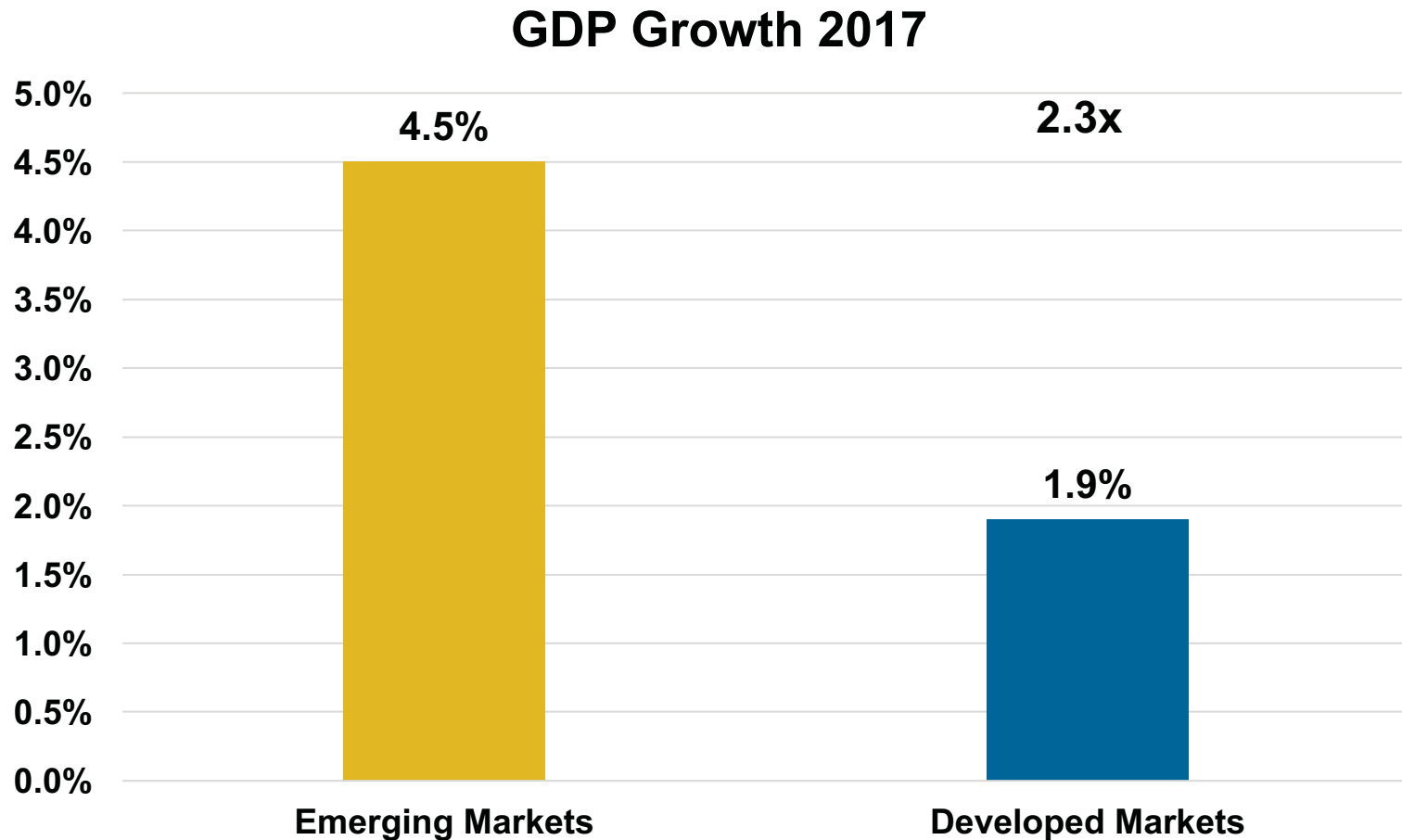
World Population 2014



Emerging Markets Have Better Demographics



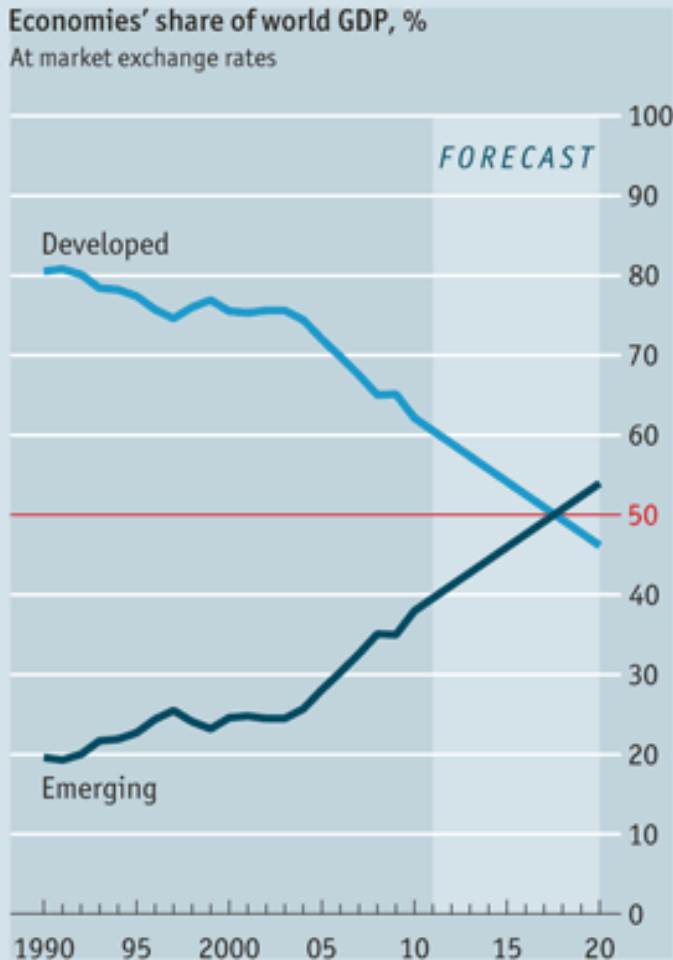
Emerging Markets Are Growing Faster



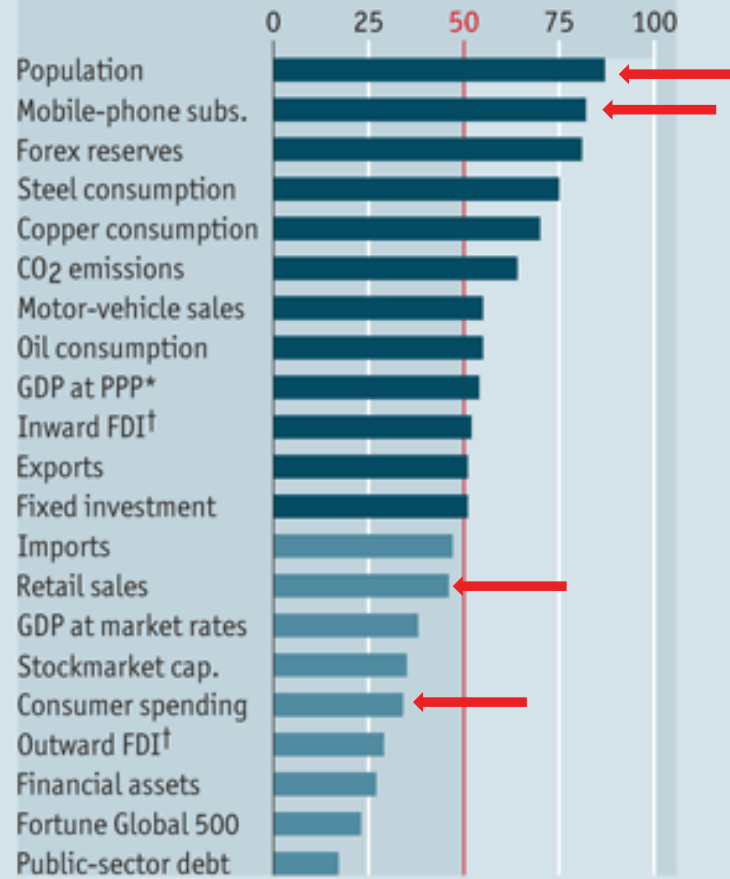
Source: IMF, World Economic Outlook database.

Emerging Markets are Passing Developed Markets

Global balance



Emerging economies' world share 2010, %

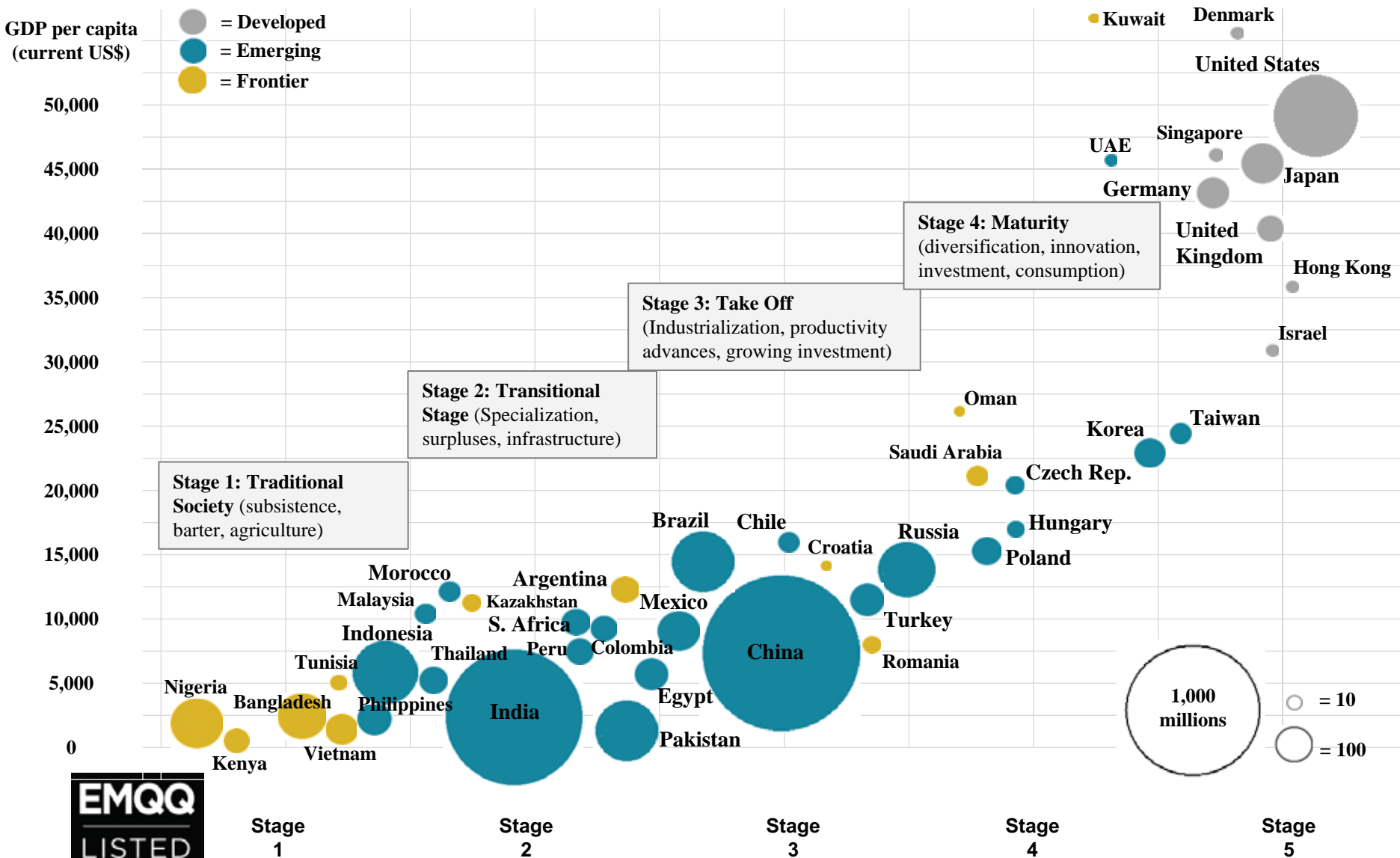


Sources: AT Kearney; Bloomberg; BP; dotMobi; Fortune; IMF; UBS; UN; World Bank; World Steel Association; WTO

* Purchasing-power parity
† Foreign direct investment

The Process of Emerging

Stage 5: Mass Consumption
(Consumer goods flourish, dominant service sector)

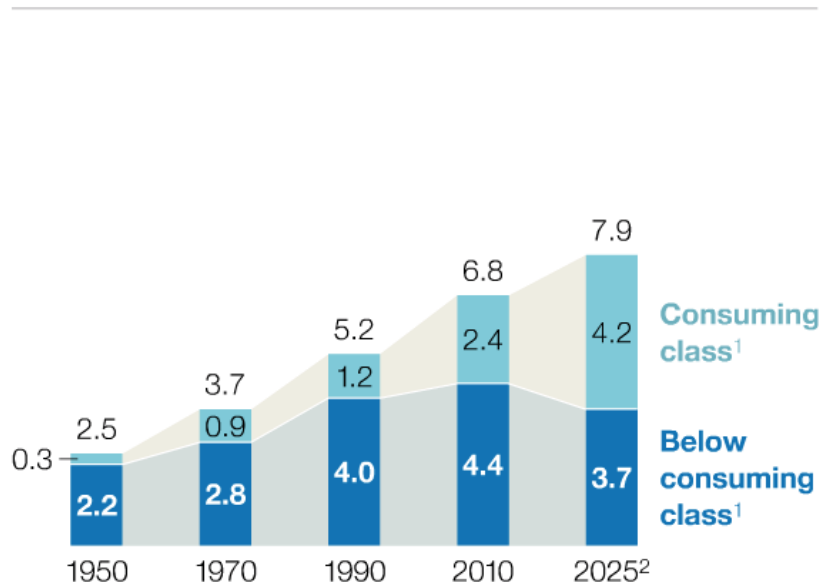


The Growth of the EM Consumer is THE story

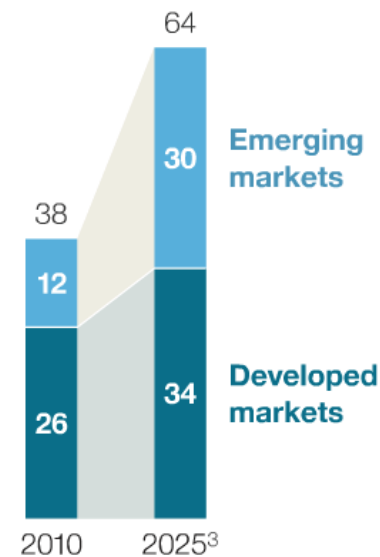
“The biggest growth opportunity in the history of capitalism”
- McKinsey & Company

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.

World population, billions



World consumption, \$ trillion



Risks are REAL and Present in Emerging Markets



EMQQ
LISTED
NYSE ARCA

#1 Problem: State Owned Enterprises (“SOEs”)

- SOEs are companies created by the government in order to partake in commercial activities on the government's behalf.
- State Owned Enterprises:
 - Conflicts of Interest
 - Inefficient
 - Poor Corporate Governance
 - Widespread Corruption
- Largest Emerging Market ETFs have ~30% in SOEs
 - Does not include Korean Chaebol & Russian Oligarchs

SOEs: Brazil, Petrobras and “Operation Car Wash”

~30% of EEM & VWO are SOEs



SOEs: Chinese Economic Fugitives



Korean Chaebol

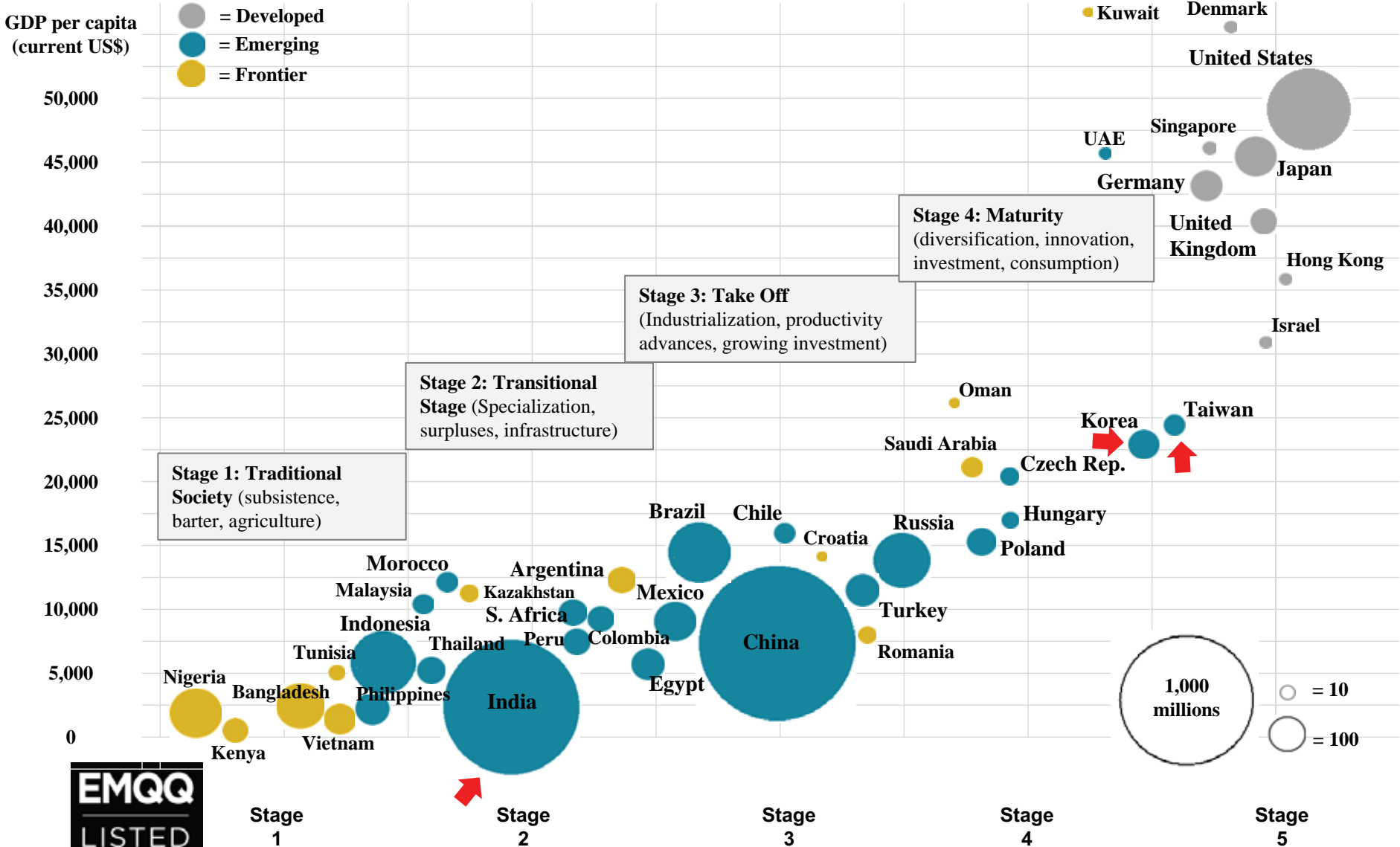


#2 Problem: Country Definitions and Weights

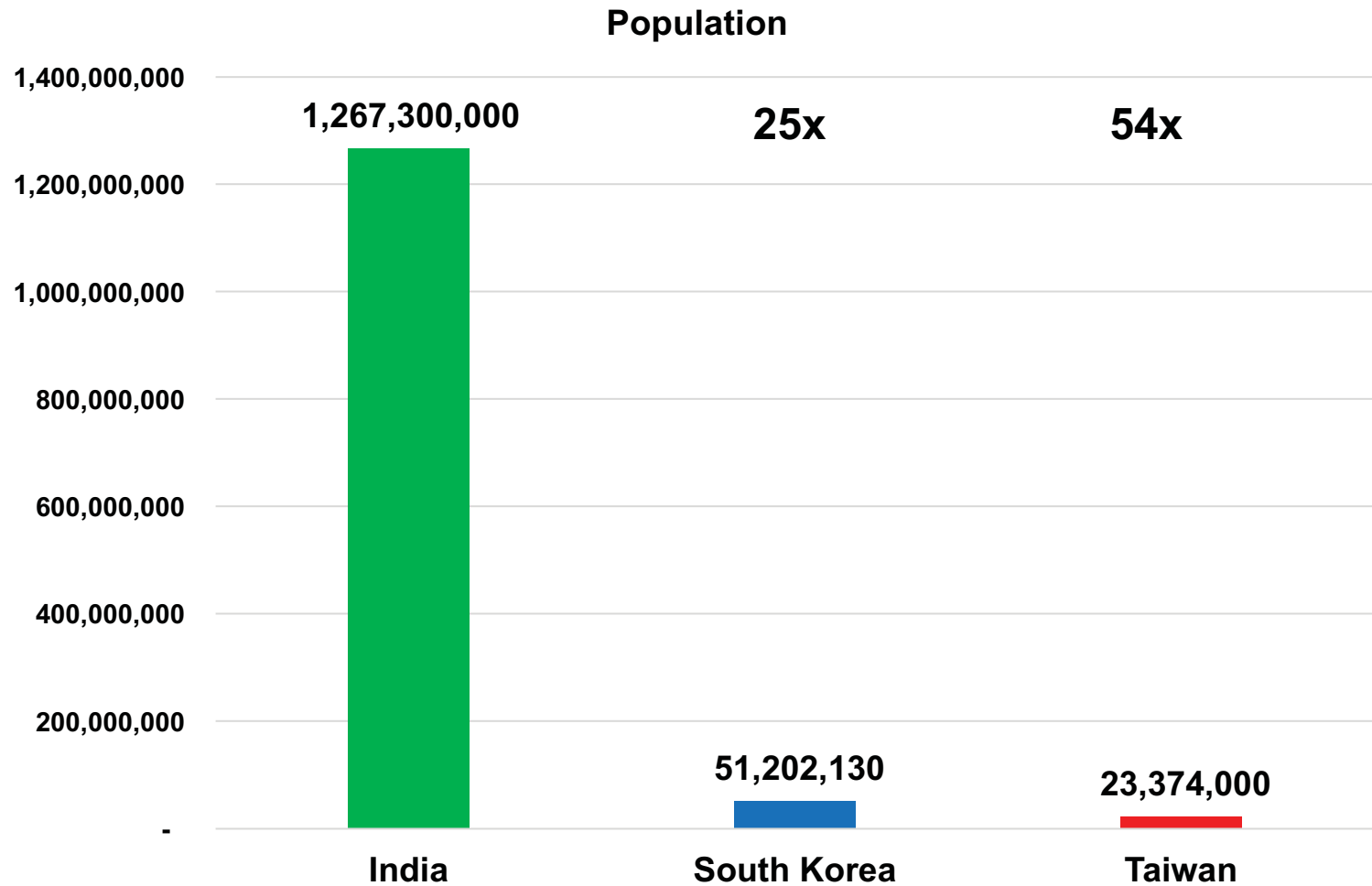
- FTSE & MSCI Disagree on Some Countries
 - S. Korea
 - China A Shares
- Weighting Skewed
 - Towards Developed Countries (Korea & Taiwan)
 - Towards Legacy industries
 - Away from Growth opportunities

Questions about EM Index Weights

Stage 5: Mass Consumption
(Consumer goods flourish, dominant service sector)

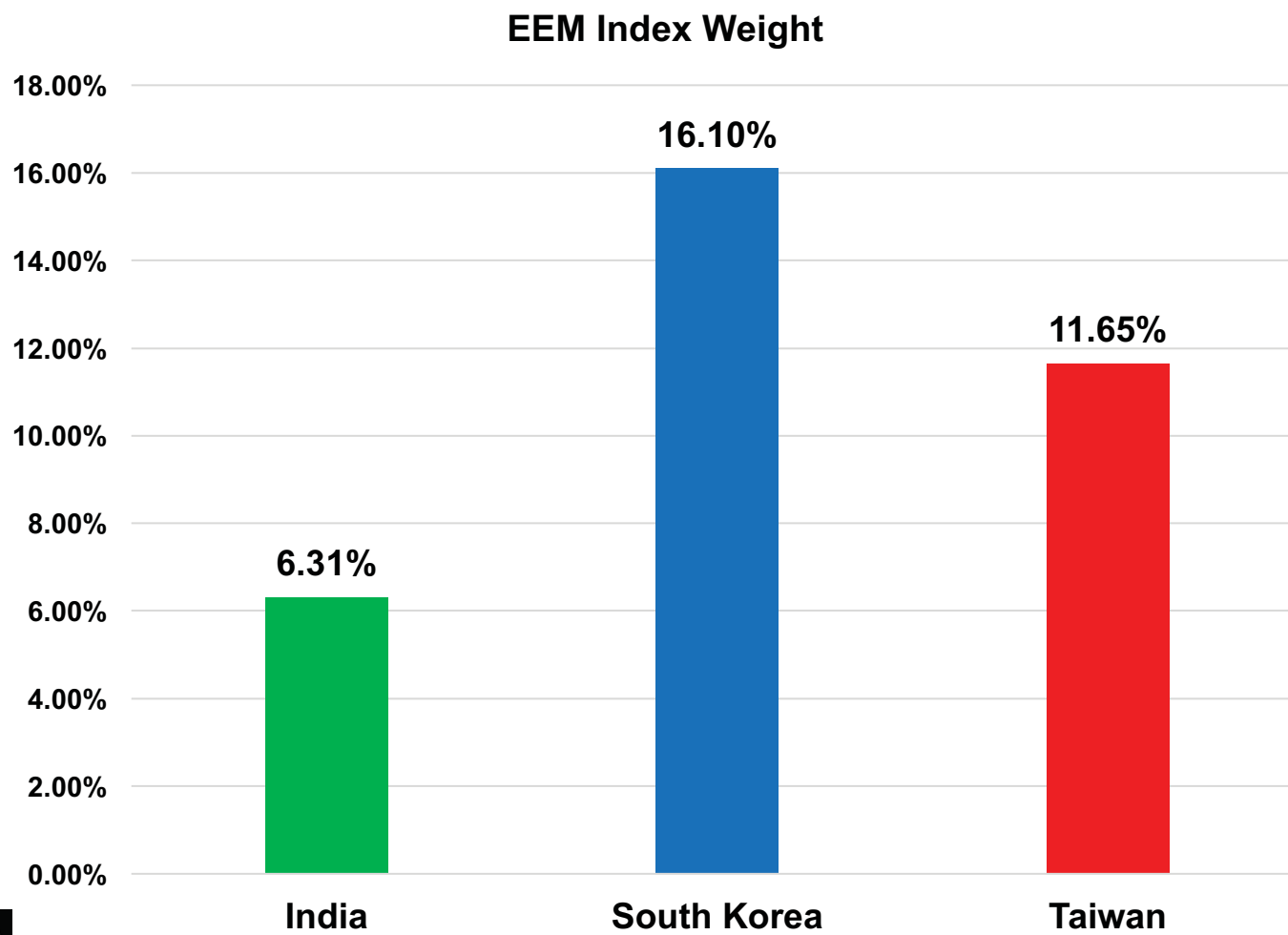


Questions about EM Index Weights



Source: World Bank.

Does This Make Sense?



Source: www.ishares.com.

Key Elements of Investing in Emerging Markets

- No Single Definition of Emerging Markets
 - MSCI & FTSE Disagree
 - Performance differences between iShares & Vanguard
- Emerging Markets are Risky and Volatile
 - Fraud, War, Revolution & Nationalization happen
- Major Emerging Markets Indexes & ETFs are Failing Investors
 - SOEs dominate
 - Country definitions and weights are flawed
 - Growth segments of Emerging Markets diluted by legacy industries

**Something Big is
Happening:**

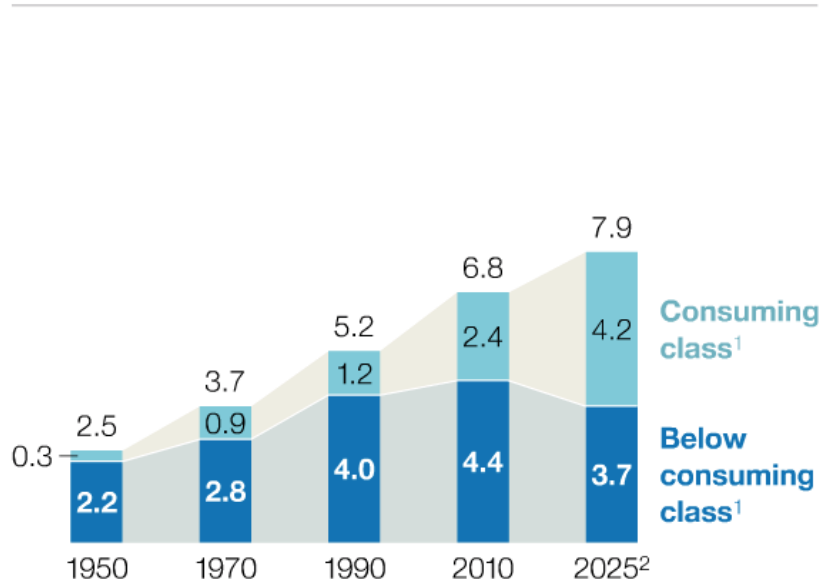
The Great Confluence

The Growth of EM Consumption is a VERY Big Deal

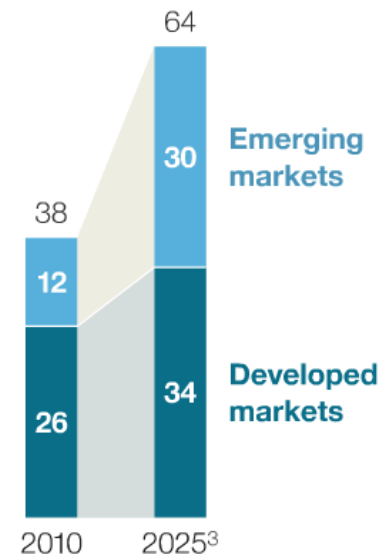
“The biggest growth opportunity in the history of capitalism”
- McKinsey & Company

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.

World population, billions



World consumption, \$ trillion



Smartphones are a New Thing



EMQQ
LISTED
NYSE ARCA

Smartphones Changing Our Consumption Patterns

OLD WAY



Smartphones Changing Our Consumption Patterns

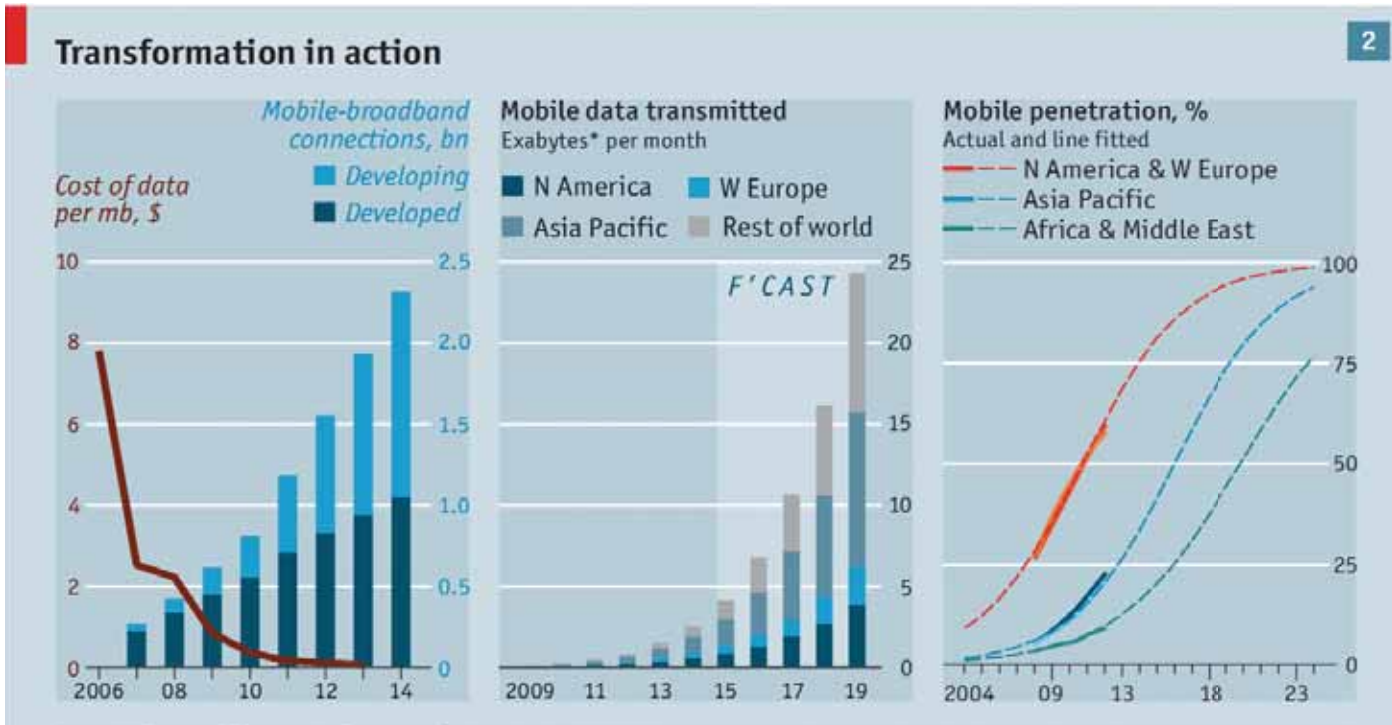
NEW WAY



+ New Entrants Offering Low Cost Smart Phones



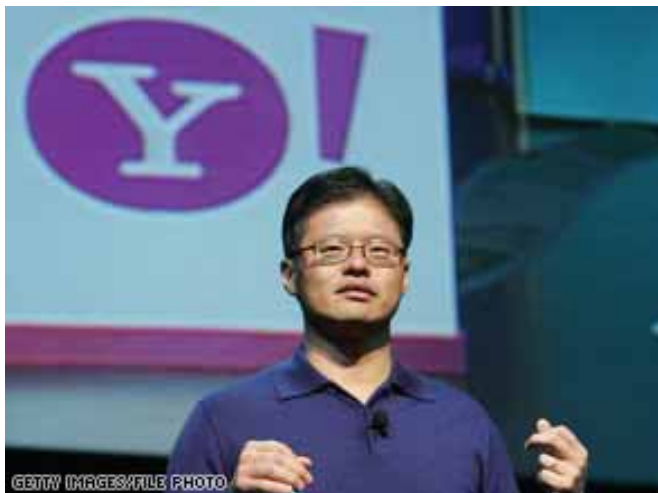
+ Growth of Affordable Access to Broadband



= Smartphones Sweeping Across World



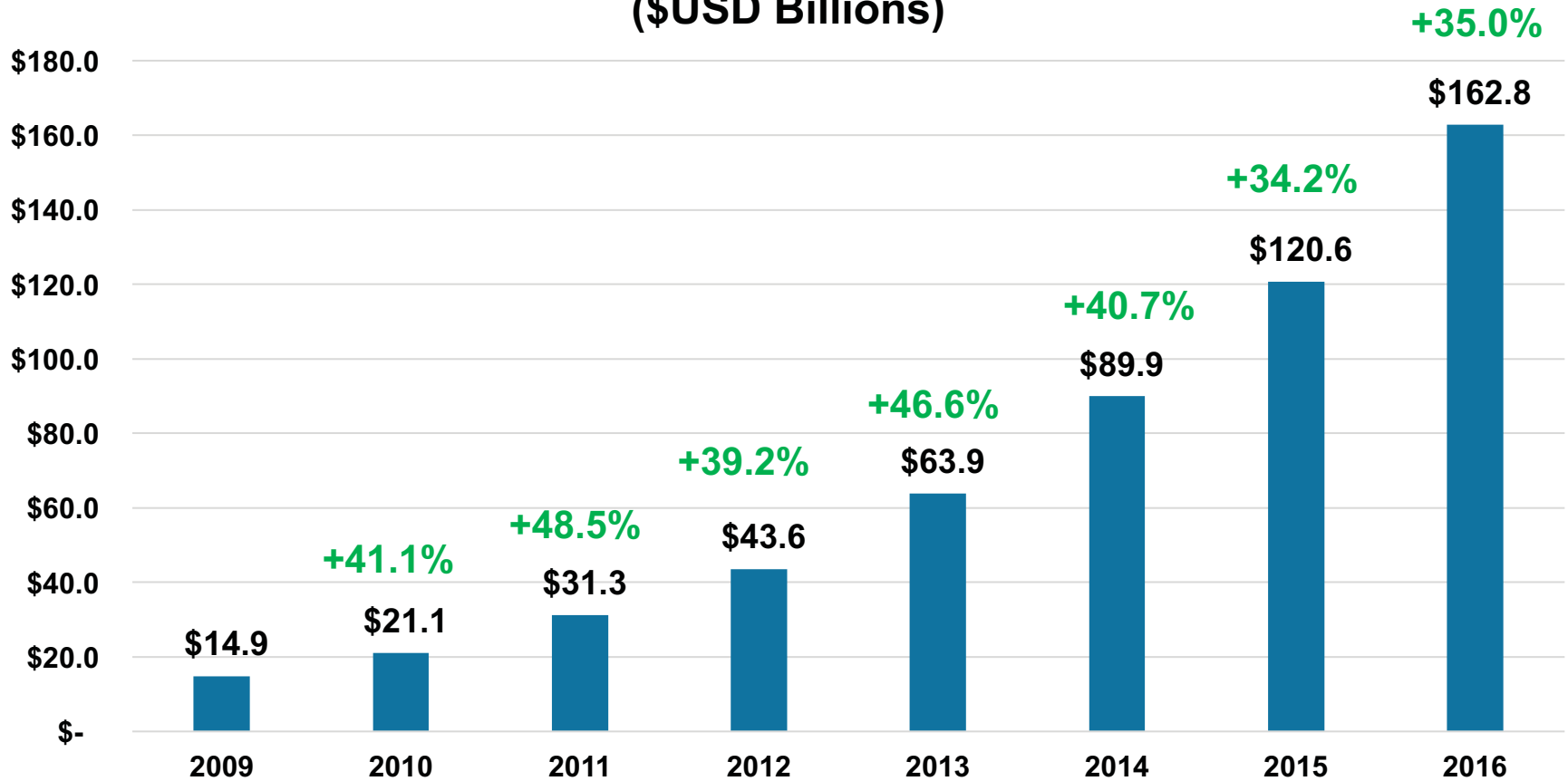
+ U.S. VC funding EM Entrepreneurs



EMQQ
LISTED
NYSE ARCA

Result #1= Massive Revenue Growth (CAGR 40.7%)

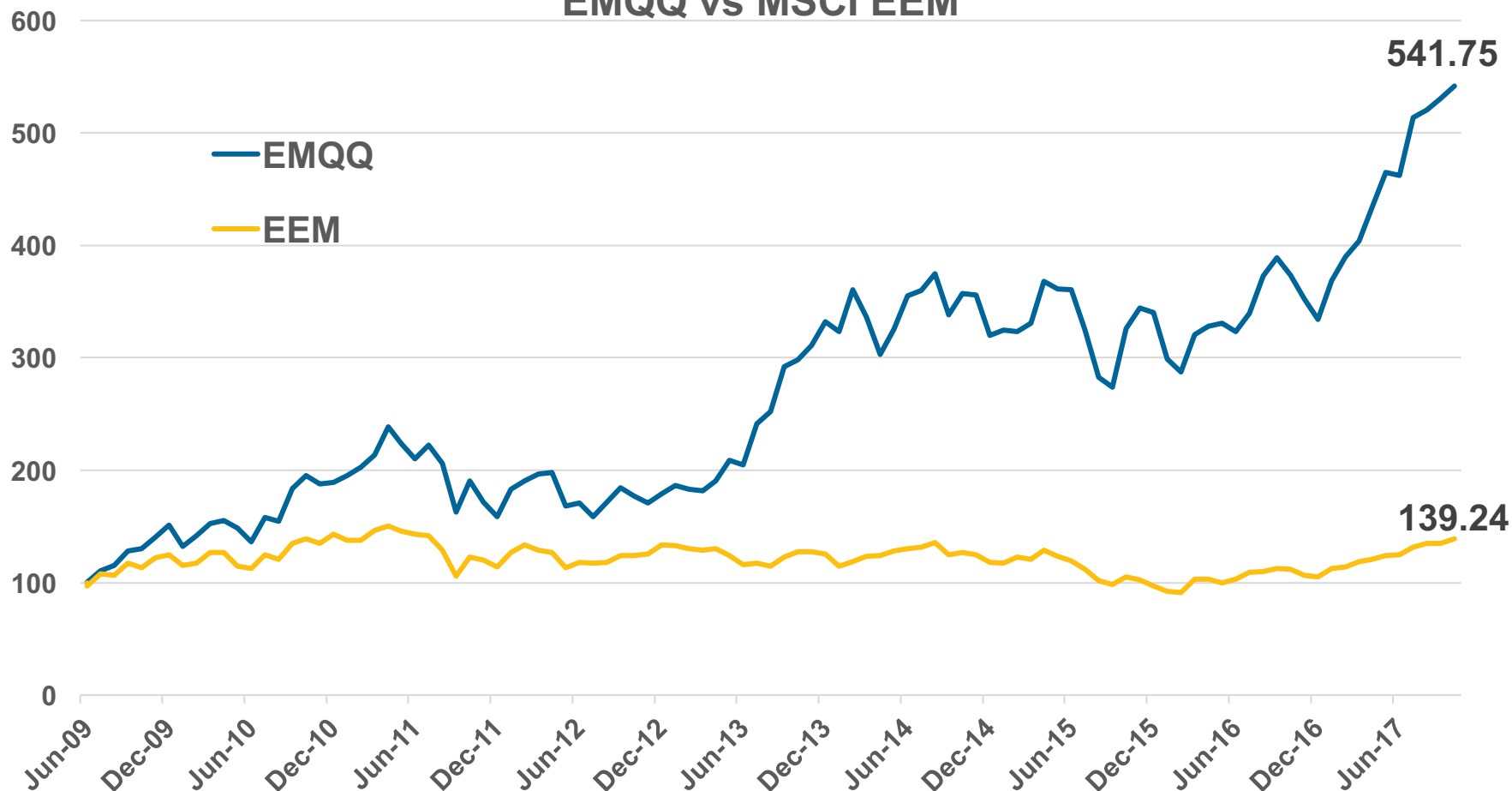
EMQQ Index Revenue & Growth Rate* 2009-2016 (\$USD Billions)



Source: Big Tree Capital LLC Estimates

Result #2 = Value Creation

EMQQ vs MSCI EEM



Source: Big Charts.

= Largest IPO in U.S. History



One More thing – BABA was NOT in the index

Alibaba IPO's Huge ETF Conundrum

“...many questions have been raised regarding how the newly public company will be placed in ETFs.”

- ETF.com

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

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

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

Where is Alibaba (NYSE: BABA)?*

VWO was missing most of the Great Confluence

| VWO (Vanguard Emerging Markets ETF) FTSE Emerging Markets Index | | |
|--|--|-------|
| | Company | % |
| 1 | Tencent Holdings Ltd. | 3.51% |
| 2 | Taiwan Semiconductor Manufacturing Co. | 2.12% |
| 3 | Naspers Ltd. | 1.67% |
| 4 | China Construction Bank Corp. | 1.64% |
| 5 | Taiwan Semiconductor Manufacturing Co. ADR | 1.34% |
| 5 | China Mobile Ltd. | 1.31% |
| 6 | Industrial & Commercial Bank of China Ltd. | 1.08% |
| 7 | Hon Hai Precision Industry Co. Ltd. | 1.02% |
| 9 | Bank of China Ltd. | 0.86% |
| 10 | Housing Development Finance Corp. Ltd. | 0.83% |



Source: Vanguard 8.31.17*.
BABA and other US listings were added to FTSE EM Index as of 9.15.17.

Social Networks - Tencent (HK: 0700)

U.S.



China

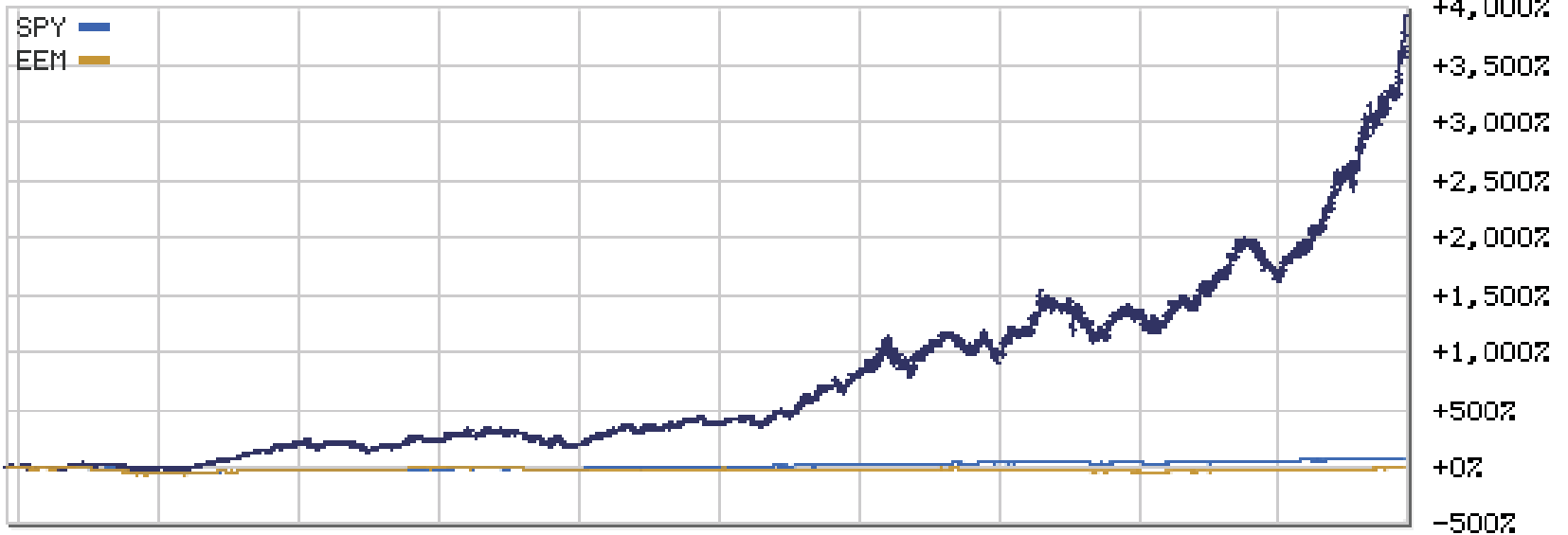


EMQQ
LISTED
NYSE ARCA

A Lost Decade? (Tencent vs. SP 500 vs. MSCI EM)

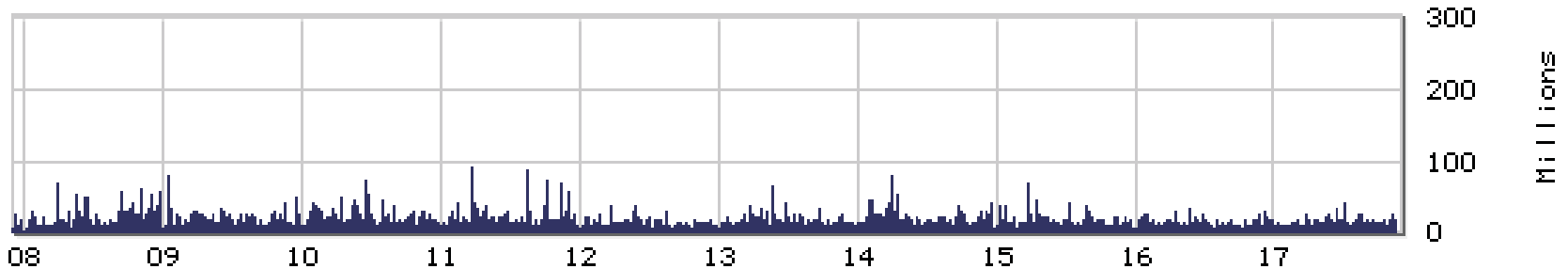
HK:0700 Daily

11/20/17



Volume

©BigCharts.com



Source: BigCharts.

WUBA - 58.com “The Craigslist of China”



MELI – “The Amazon/PayPal of Latin America”



EMQQ
LISTED
NYSE ARCA

YNDX – “The Google and Uber of Russia”



EMQQ
LISTED
NYSE ARCA

MMYT – “The Expedia of India”



EMQQ
LISTED
NYSE ARCA

Private Companies in EMQQ: Didi “the Uber of China”



EMQQ
LISTED
NYSE ARCA

Go-Jek – “The Uber of Indonesia”



EMQQ
LISTED
NYSE ARCA

GO JEK
An Ojek For Every Need

Flipkart – “the Alibaba of India”



“The Steve Jobs of Africa” – Konga CEO Sim Shagaya



The image is a composite graphic. On the left, the Konga logo (a smiling orange face with the text 'konga.com') is positioned above a grey bar containing the text 'KONGA CEO IN'. Below this, the word 'Forbes' is written in a large, blue, serif font. Underneath 'Forbes', there is a snippet of a Forbes article titled 'Sim Shagaya: On Building The Next Big Thing, Konga, Africa's Version Of Alibaba Part One'. The article text is partially visible and reads: 'Chatting with Simdal Shagaya is like an intense, super-charged colloquy on doing business...in Africa, "We are the custodians of the dreams of the middle-class of Africa," Shagaya emphasized repeatedly, as he talked about his fast-growing e-commerce company, Konga.com, that he founded just 2 years ago, July 2012. With his ambitious goal of making Konga.com "the engine'.

On the right side of the composite, there is a black and white portrait of Sim Shagaya, the CEO of Konga. He is smiling broadly, with his hands clasped in front of him. The background of the portrait is a light grey with some faint, illegible text from the Forbes article.



The Case for the Emerging Markets Internet Sector

- **Growth - The Great Confluence**
 - EM Consumer + Smartphones + Internet via Mobile Broadband
 - Ecommerce models “leapfrogging” traditional models
 - Ecommerce growing 5x as fast as consumption
- **Better Corporate Governance**
 - No State Owned Enterprises
 - Most companies backed by U.S. VC & trade on U.S. exchanges
- **Exposure to Private Companies & Frontier Markets**

EMQQ Index Team



Kevin T. Carter

Mr. Carter is the Founder of The Emerging Markets Internet ETF (NYSE: EMQQ). He has been a featured speaker for Columbia Business School, Bloomberg, Guggenheim Partners, Morningstar and the CFA Society. Previously, Mr. Carter was the Founder & CEO of AlphaShares, an investment firm offering four China focused ETFs in partnership with Guggenheim Investments. These ETFs trade on the NYSE with the ticker symbols CQQQ, TAO, HAO & YAO. 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 began his career in 1992 with Robertson Stephens & Co.



Dr. Burton Malkiel

Dr. Malkiel serves as an Advisor to EMQQ. Dr. Malkiel is the Chief Investment Officer of WealthFront and a long time Professor of Economics at Princeton University. He is widely considered one of the pioneers of index investing and ETFs. He has served as a member of the Board of Directors of Vanguard, Dean of the Yale School of Management and as Chairman of the Princeton University Economics Department. Dr. Malkiel is also well known for his seminal work *A Random Walk Down Wall Street*. Dr. Malkiel holds B.A. and MBA from Harvard and a Ph.D. from Princeton University.



Richard Kang

Mr. Kang is a Member of the EMQQ Index Committee. Mr. Kang has the experience of over 25 NYSE listed ETF launches and was previously the Chief Investment Officer of EGShares and Portfolio Manager of the EGShares Emerging Markets Consumer ETF (NYSE: ECON). 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.



EMQQ Index Overview

- Includes 43 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 \$1.0mm 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 Future Of Emerging Markets is Here

Q&A



Contact

www.bigtreecapital.com

Kevin Carter

415.533.2249

kcarter@bigtreecapital.com

- 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.



CE CREDITS

This webcast qualified for the following continuing education credits:

CFP Board – 1 hour

Investments & Wealth Institute™ (previously known as IMCA) – 1 hour

If you would like to receive credit for participating in this webcast, please follow the directions below.

***NOTE: YOU WILL HAVE 10 DAYS TO REPORT COMPLETION OF THIS WEBCAST VIA OUR WEBSITE. FINANCIAL ADVISOR MAGAZINE WILL THEN REPORT TO THE CFP BOARD AND CIMA ON YOUR BEHALF. AFTER 10 DAYS THE WEBCAST WILL NO LONGER BE AVAILABLE FOR REPORTING.**

1. Visit our website at http://www.fa-mag.com/ce_center.php
2. Select the designation you would like to report the webcast to.
3. If you have already registered to complete and report CE credits with us, please login using your username and password. If you are new to our CE Center, please complete a registration form in its entirety.
(Note: You will need to supply your ID# generated from Investments & Wealth Institute™.)
4. Once you are logged in to your CE Center account, SCROLL TO THE BOTTOM OF THE PAGE to find the list of CE exams and webcasts we offer. (Please read the important information on that page regarding the CE reporting process.)
5. Click on the webcast you are interested in and complete the short questionnaire and print the “Certificate Of Completion” page for your records.
6. The webcast credit will be reported by *Financial Advisor* magazine the first week of the new month for the previous month. Allow 10 business days for the credit to be posted on your account.

If you have any questions regarding CE credit reporting, please email Sherri Scordo at sherri@fa-mag.com

To view the slides and a recording of this webcast please visit:

<http://www.fa-mag.com/EMQQWebcastDec7>

For upcoming webcasts, please visit: <http://www.fa-mag.com/webcasts.html>

Please send your questions, comments and feedback to: dawn@fa-mag.com

Presented by

