



Alibaba HQ, Hangzhou, China

The Future Of Emerging Markets

June 28th, 2016

The Speakers



Dr. Burton Malkiel

Dr. Malkiel serves as an Advisor to the EMQQ Index Committee. 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 degrees from Harvard and a Ph.D. from Princeton University.



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). 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.



How Much Should We Invest in Emerging Markets?

Dr. Burton G. Malkiel

Figure 1 - Percentage of World GDP

Based on purchasing power parity

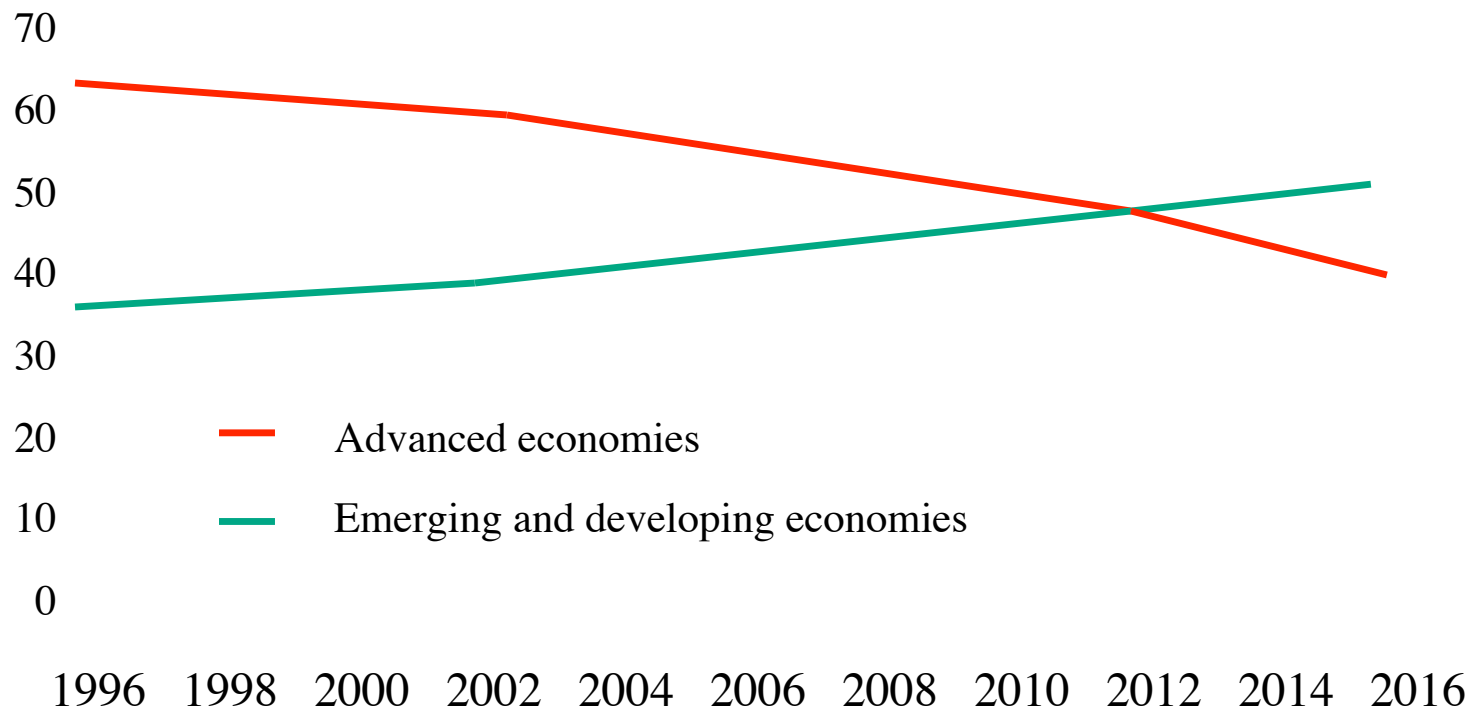
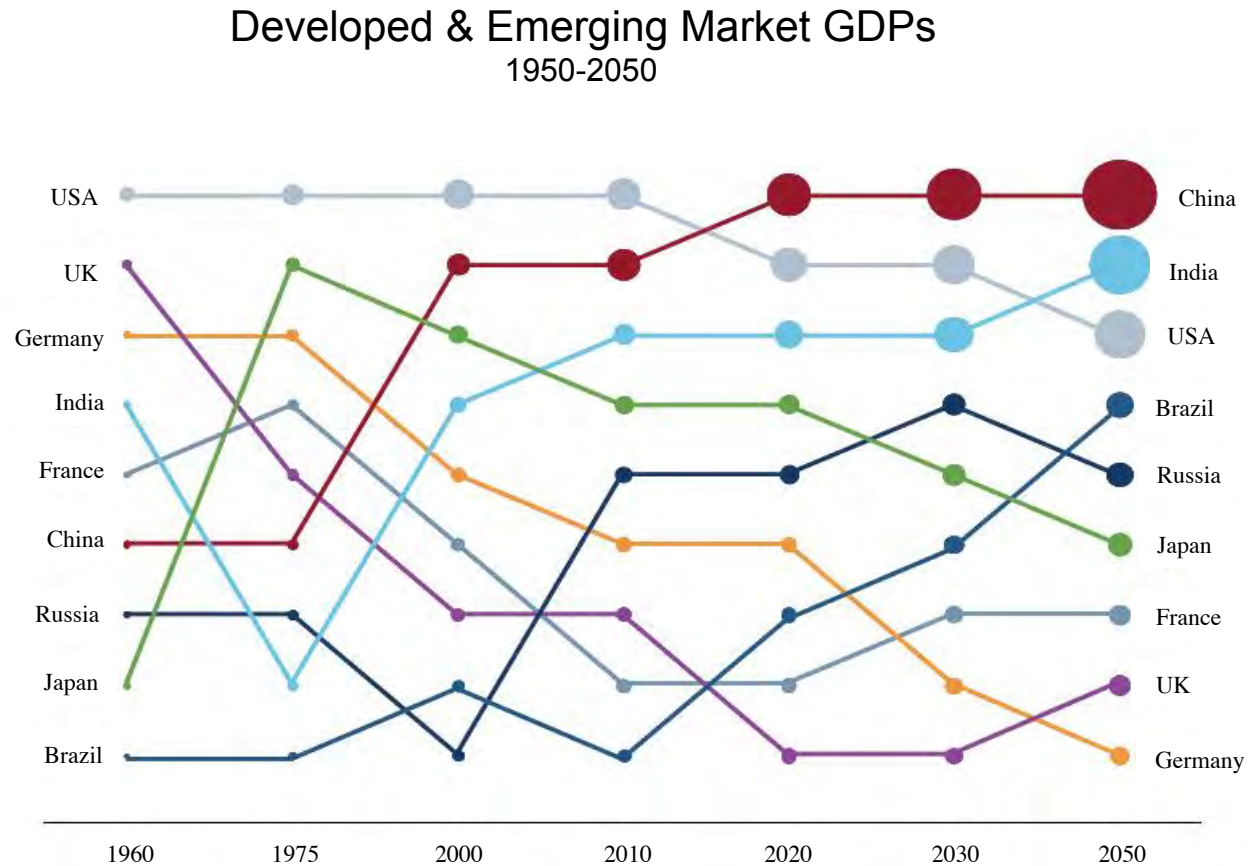


Figure 2 - Emerging Markets Will Dominate by 2050



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

Figure 3 – IMF GDP Growth Forecasts

Region	2016	2017
Developed Countries	1.9	2.0
United States	2.4	2.5
Euro Area	1.5	1.6
Japan	0.5	- 0.1
Developing Countries	4.1	4.6
Brazil	- 3.8	0.0
Russia	- 1.8	0.8
India	7.5	7.5
China	6.5	6.2
World	3.2	3.5



Source: IMF, World Economic Outlook database.

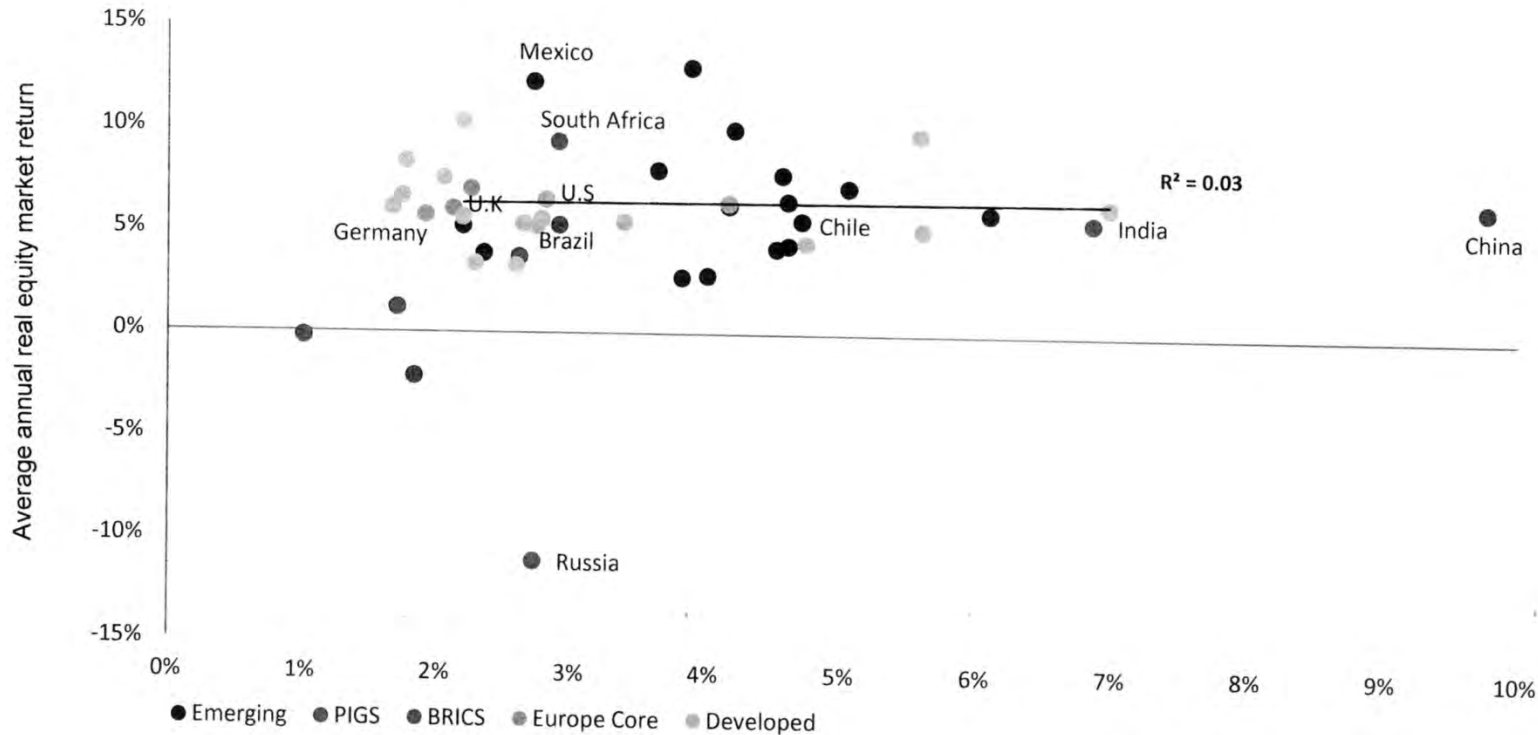
Figure 4 - Demographics Favor Emerging Markets

Ratio of Working-Age to Non-Working Population 2010 - 2025

	Developed Economies			Emerging Economies		
	U.S.	Germany	Japan	China	Brazil	India
2010	2.0	2.0	1.8	2.6	2.1	1.8
2015	1.9	1.9	1.5	2.7	2.2	1.9
2020	1.8	1.8	1.4	2.5	2.3	2.0
2025	1.7	1.6	1.4	2.4	2.2	2.1

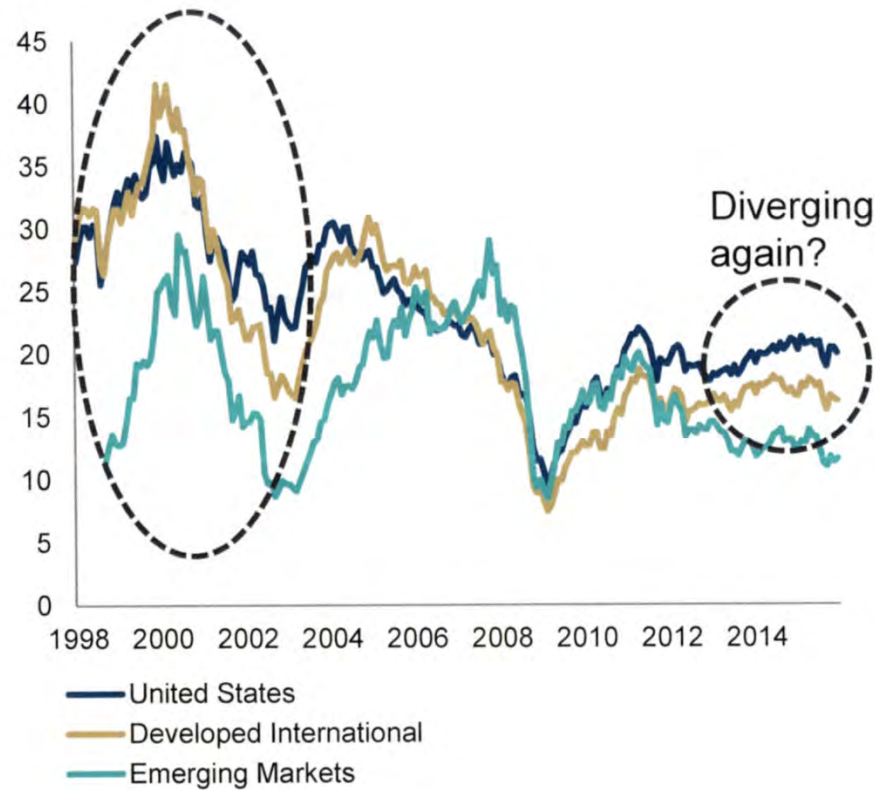
Figure 5 – Economic Growth and Equity Returns: Be Wary of the Allure of High Economic Growth

Real GDP growth and real stock returns 1970–2014



Notes: Figures display each country's average annualized real GDP growth rate along with that country's average annualized real stock return. We include all members of the FTSE All World Index (except the United Arab Emirates, for a lack of return history). The period covered begins in 1970, with the starting point for each country depending on the availability of both returns and GDP data (most developed markets have data from 1970 onward, and most emerging markets have data from 1988 onward). Real growth rates are computed using data from the IMF's World Economic Outlook database (for data prior to 1980, we use the April 2004 database; otherwise we use the April 2013 database). Return data are based on MSCI country indexes spliced with FTSE indexes once the latter are available. Both growth and return data are in real local terms, with the index returns deflated using the GDP deflator from the IMF databases. The 95% confidence interval for the cross-sectional regression slope of returns on GDP growth is -0.51 to 0.61 , with an R-squared of 0.00 . Source: Vanguard, based on data from the IMF, MSCI, and FTSE.

Figure 6 – Valuation for Global Equity Indexes Price over 36-month Trailing Earnings

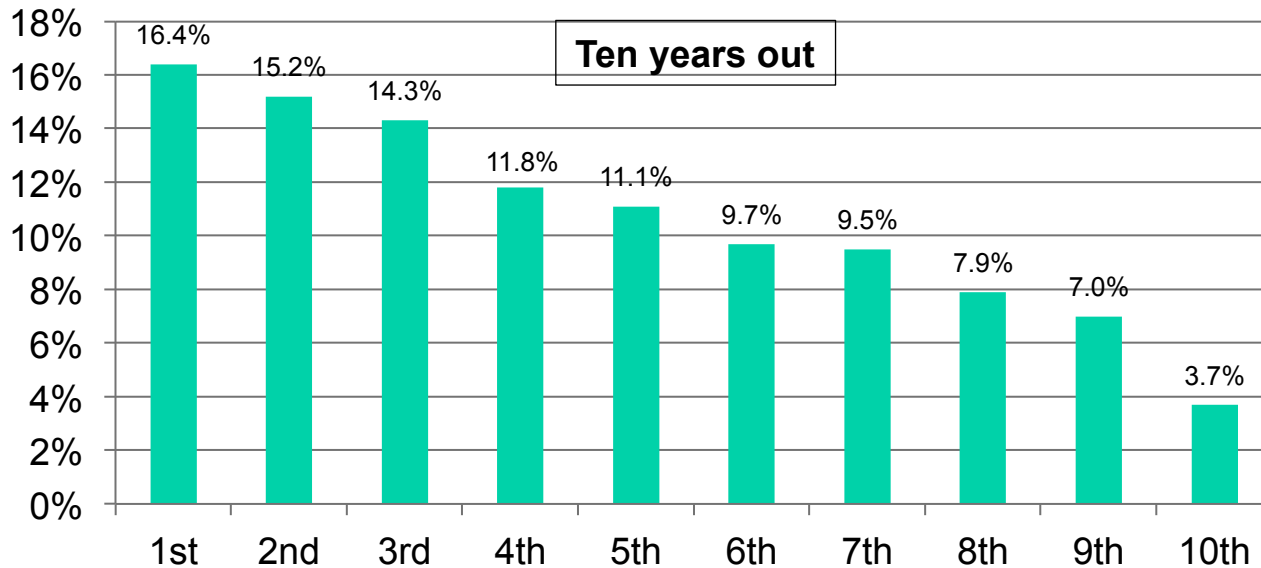


Notes: Figure displays the price/earnings ratio with 36-month trailing average earnings. United States is defined as the MSCI United States Index, developed markets ex-U.S. are defined as the MSCI All-World US Index, and emerging markets are defined as the MSCI Emerging Markets Index. Sources: Vanguard calculations, based on data from MSCI. Data as of December 31, 2015.

For institutional use only. Not for distribution to retail investors.

Figure 7 – U.S. Markets – Cyclically Adjusted P/E

Median ten year annual compound total returns from historic P/E deciles 1926 to date



P/E Decile	P/E Range for decile
1	Below 10.6x
2	10.6x to 11.6x
3	11.6x to 13.3x
4	13.3x to 15.1x
5	15.1x to 16.8x
6	16.8x to 18.2x
7	18.2x to 19.8x
8	19.8x to 21.6x
9	21.6x to 25.1x
10	25.1x and above

Stocks cheap

DECILES

Stocks expensive



Figure 8 – Shiller P/E



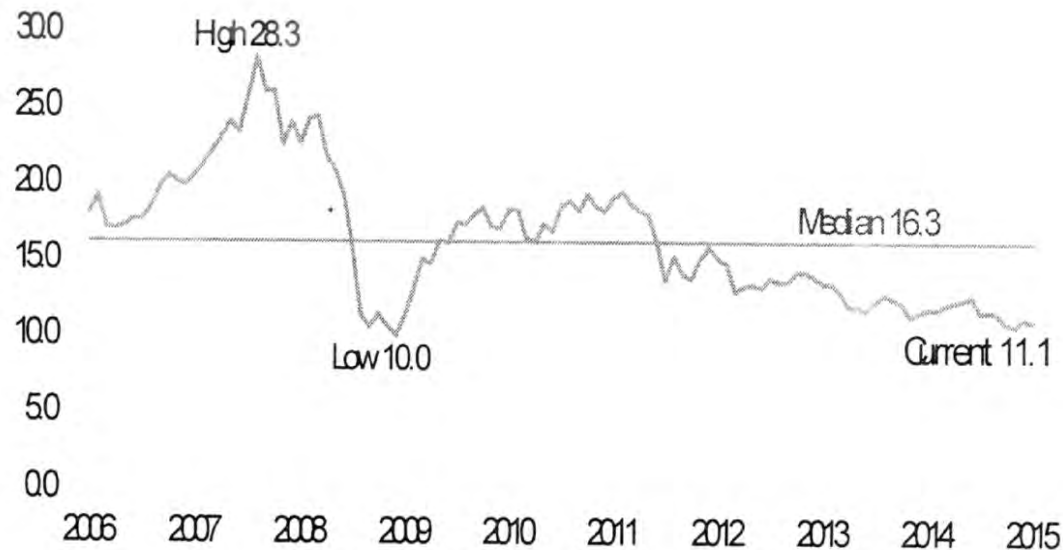
Current Shiller PE Ratio: 26.10 +0.26 (1.02%)

1:51 pm EDT, Tue May 10



Mean:	16.67	
Median:	16.03	
Min:	4.78	(Dec 1920)
Max:	44.19	(Dec 1999)

Figure 9 – MSCI EM Shiller PE/CAPE



- CAPE Range and Subsequent Est. Annual Returns

CAPE	3 Yr. CAGR	5 Yr. CAGR
<15	10.0%	6.7%
15-20	-5.5%	-0.3%
>20	-5.9%	-6.6%

Figure 10 – 2016 Standard & Poor's SPIVA Report

Percentage of Active Funds outperformed by S&P Emerging Market Index.

One Year to December 2015 64%

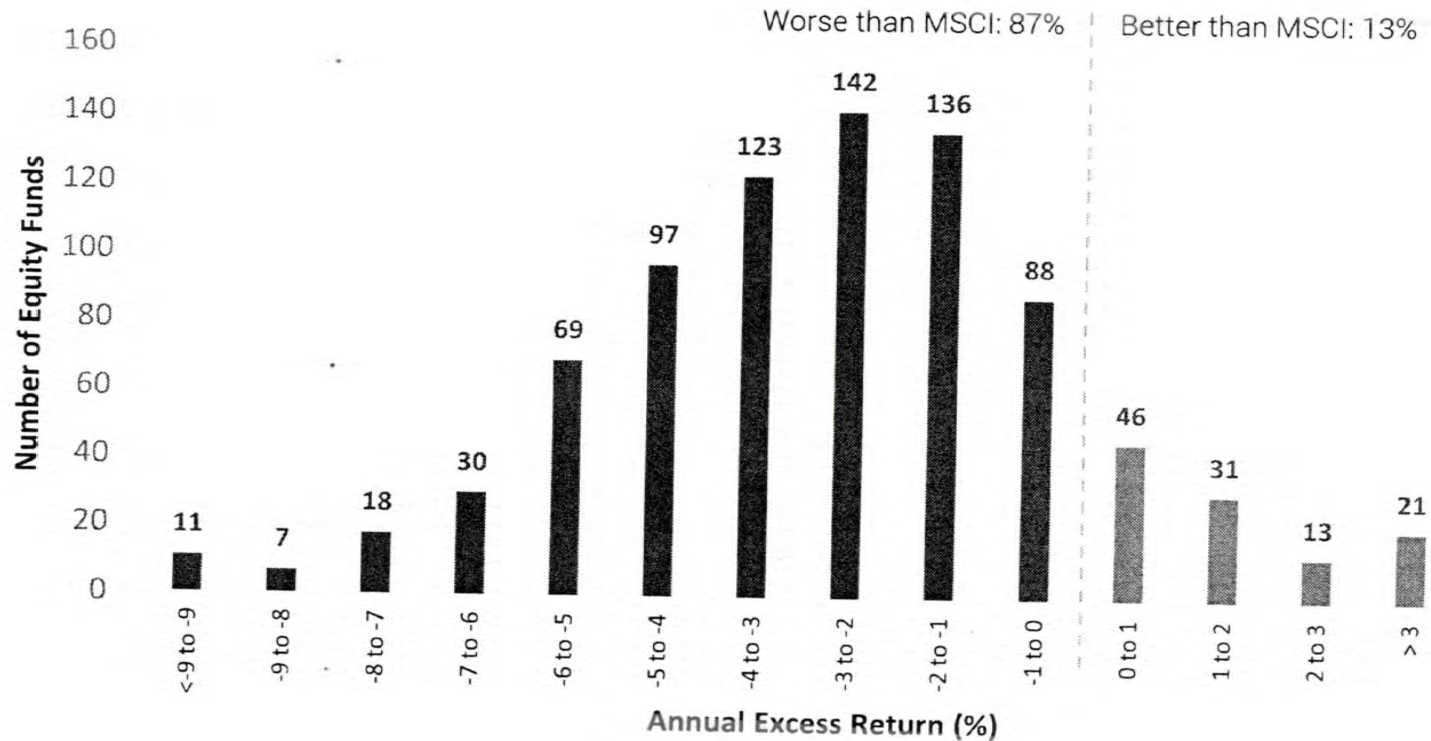
Three Years to December 2015 66%

Five Years to December 2015 70%



Source: Standard & Poor's.

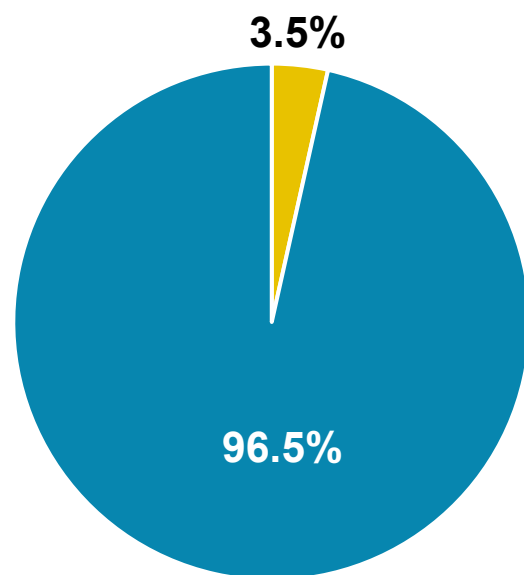
Figure 11 – Number of Emerging Markets Equity Funds vs. MSCI Emerging Markets Index



Source: Morningstar and the Vanguard Group.

Figure 12 - How much should we invest in Emerging Markets?

Emerging Markets Allocation of Average U.S. Investor*



* Using aggregated Morningstar fund data (which includes U.S.-domiciled equity and bond mutual funds and exchange-traded funds) as a proxy for the average U.S. investor, as of August 2014, investors have about a 3% to 4% allocation in emerging-markets equities.

Are Emerging Market ETFs Efficient?

Kevin T. Carter



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

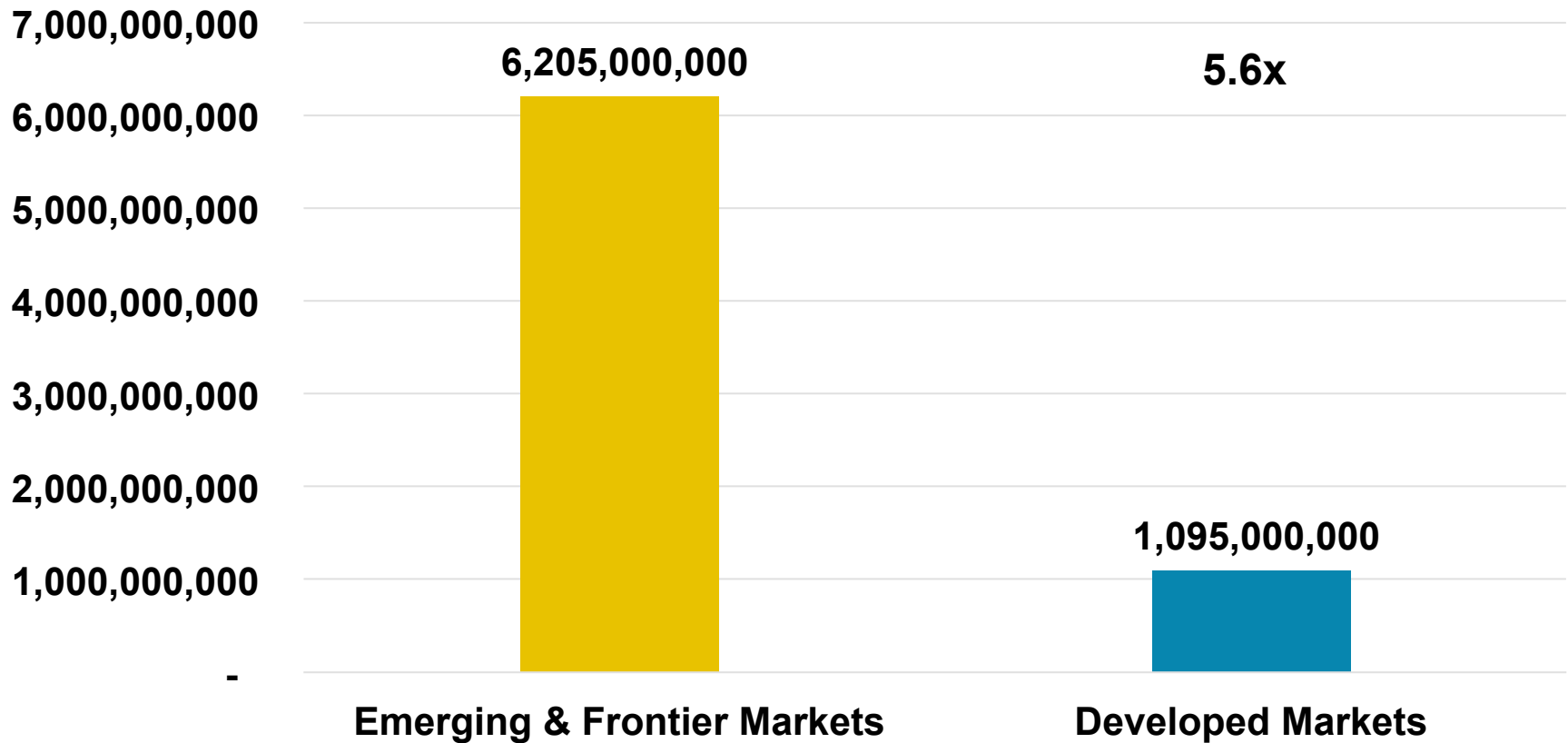
Emerging Asia

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



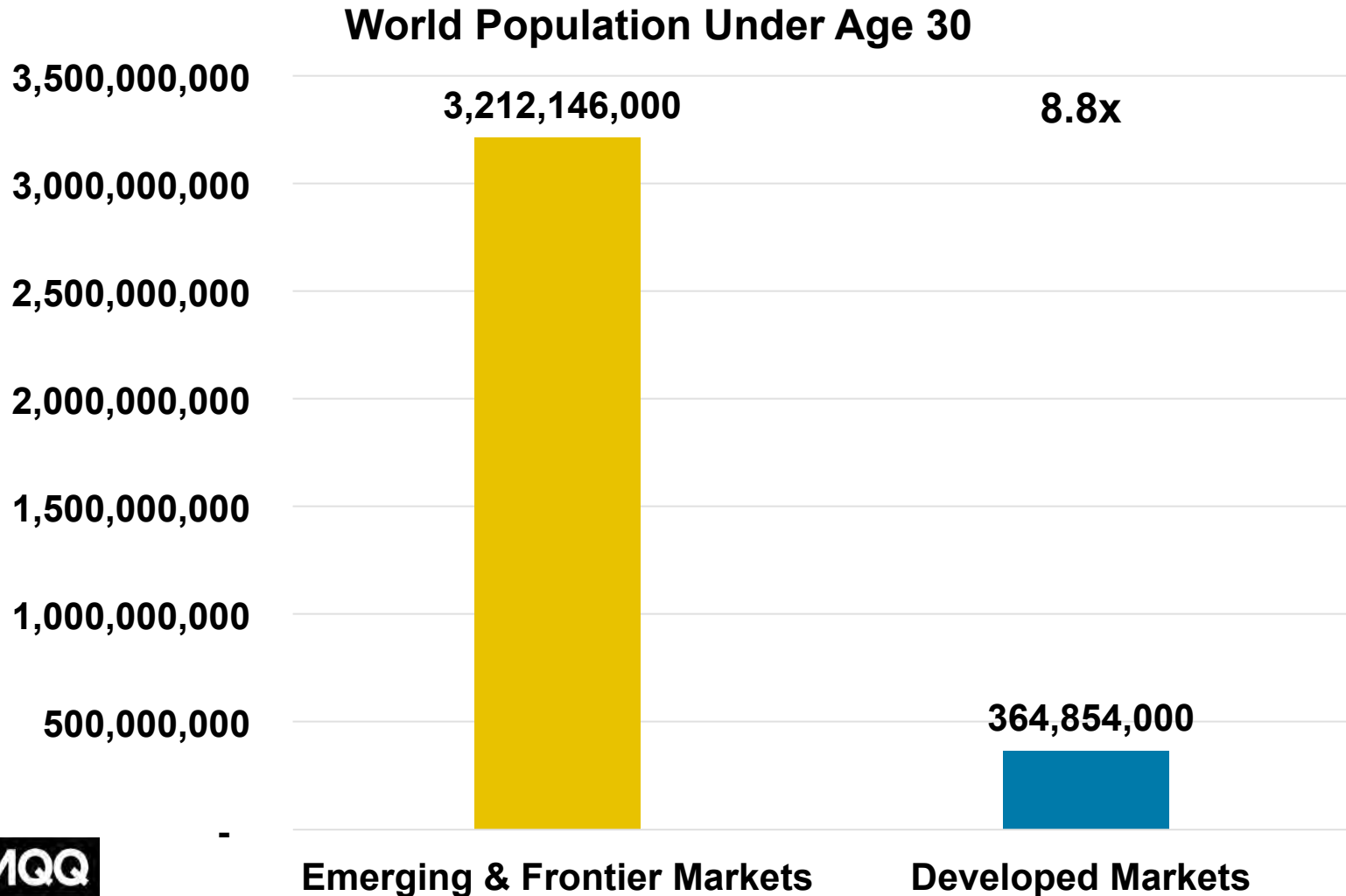
Emerging Markets are 85% of World Population

World Population 2014



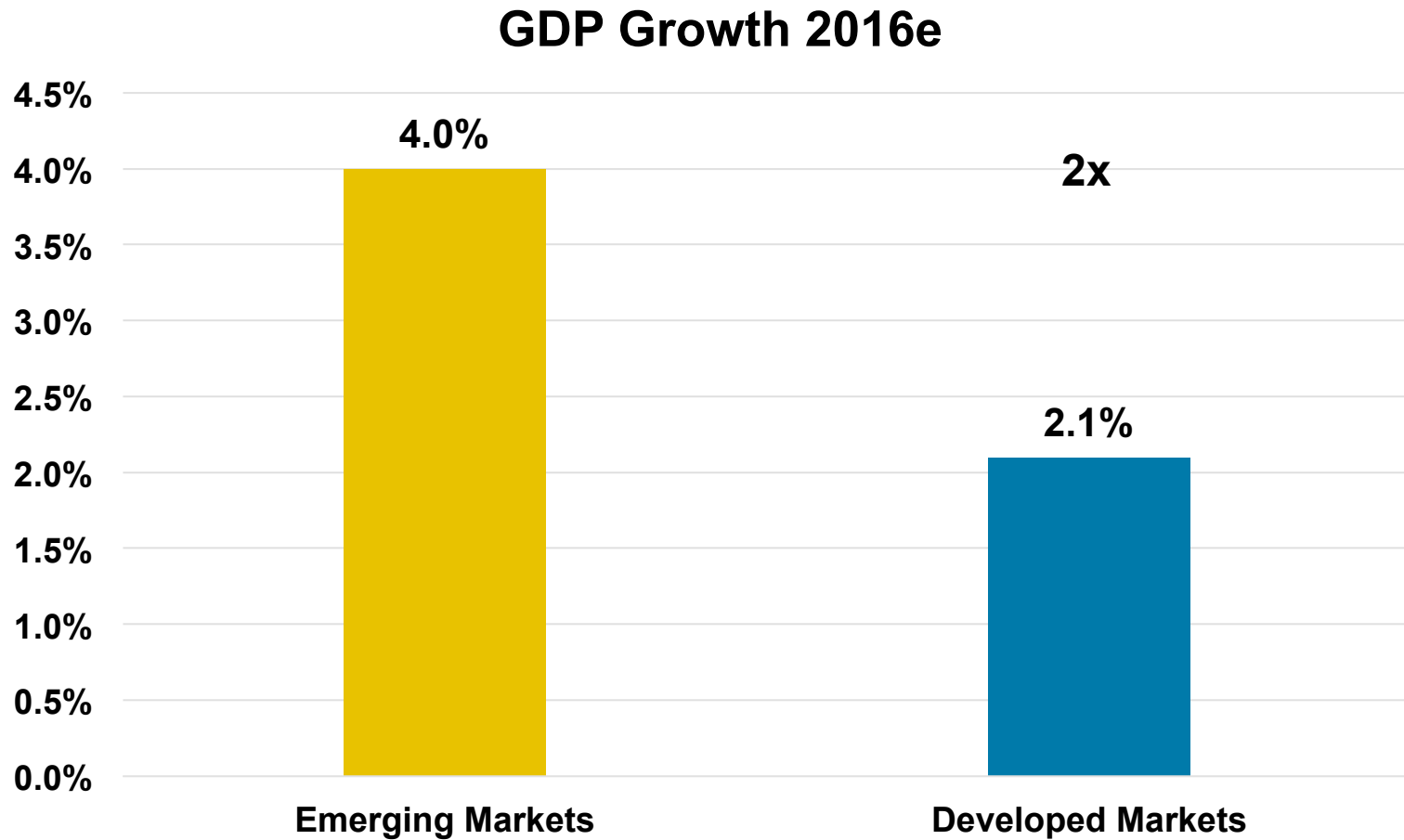
Source: World Bank

Emerging Markets have Better Demographics



Source: World Bank

Emerging Markets are Growing Faster



Risks are REAL and Present



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SOEs Dominate the Indexes and ETFs (EEM & VWO)

~30% of EEM & VWO are SOEs



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Source: Big Tree Capital, LLC.

Chinese “Economic Fugitives”



Russian “Oligarchs”

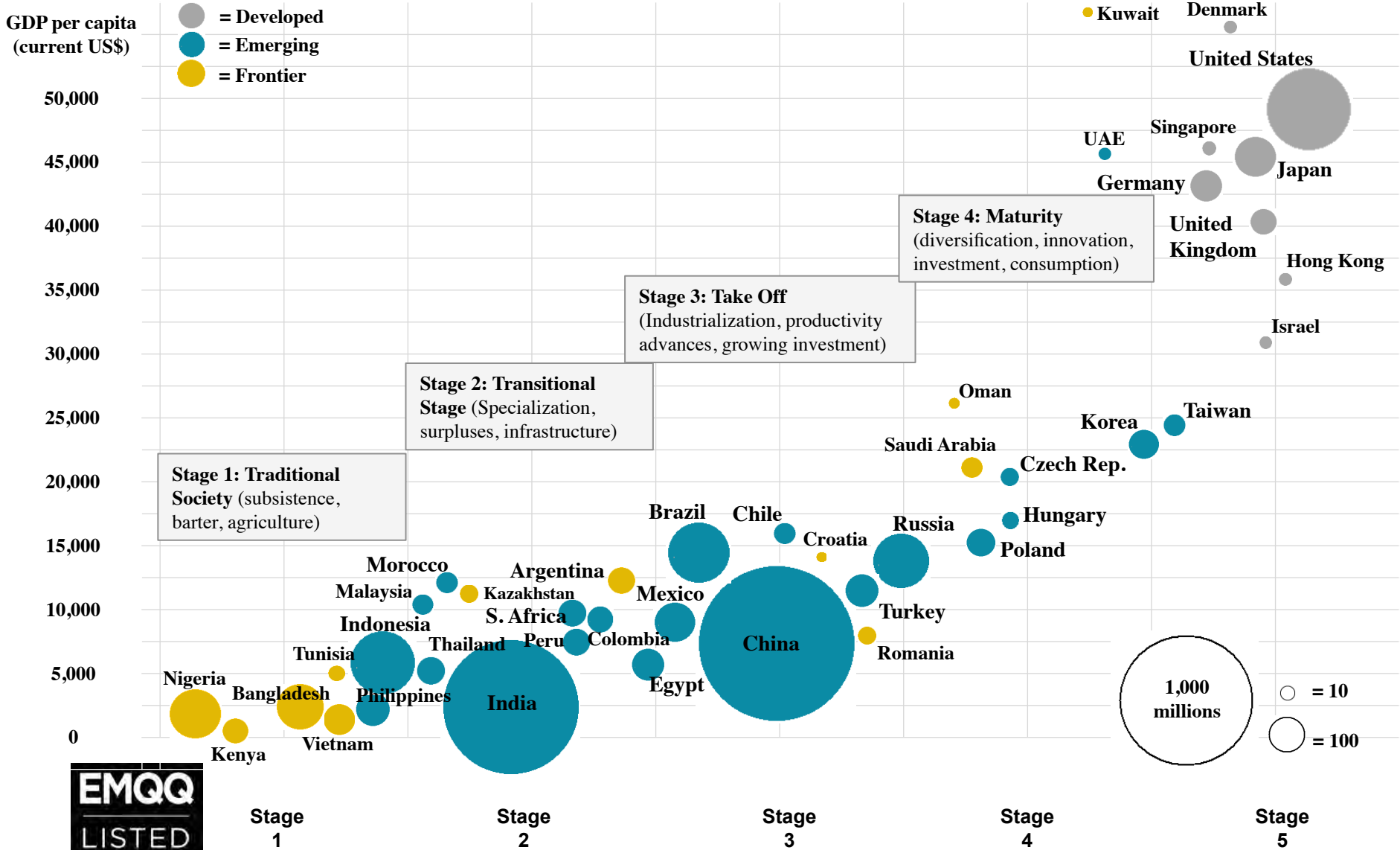


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NYSE ARCA

Source: Big Tree Capital, LLC.

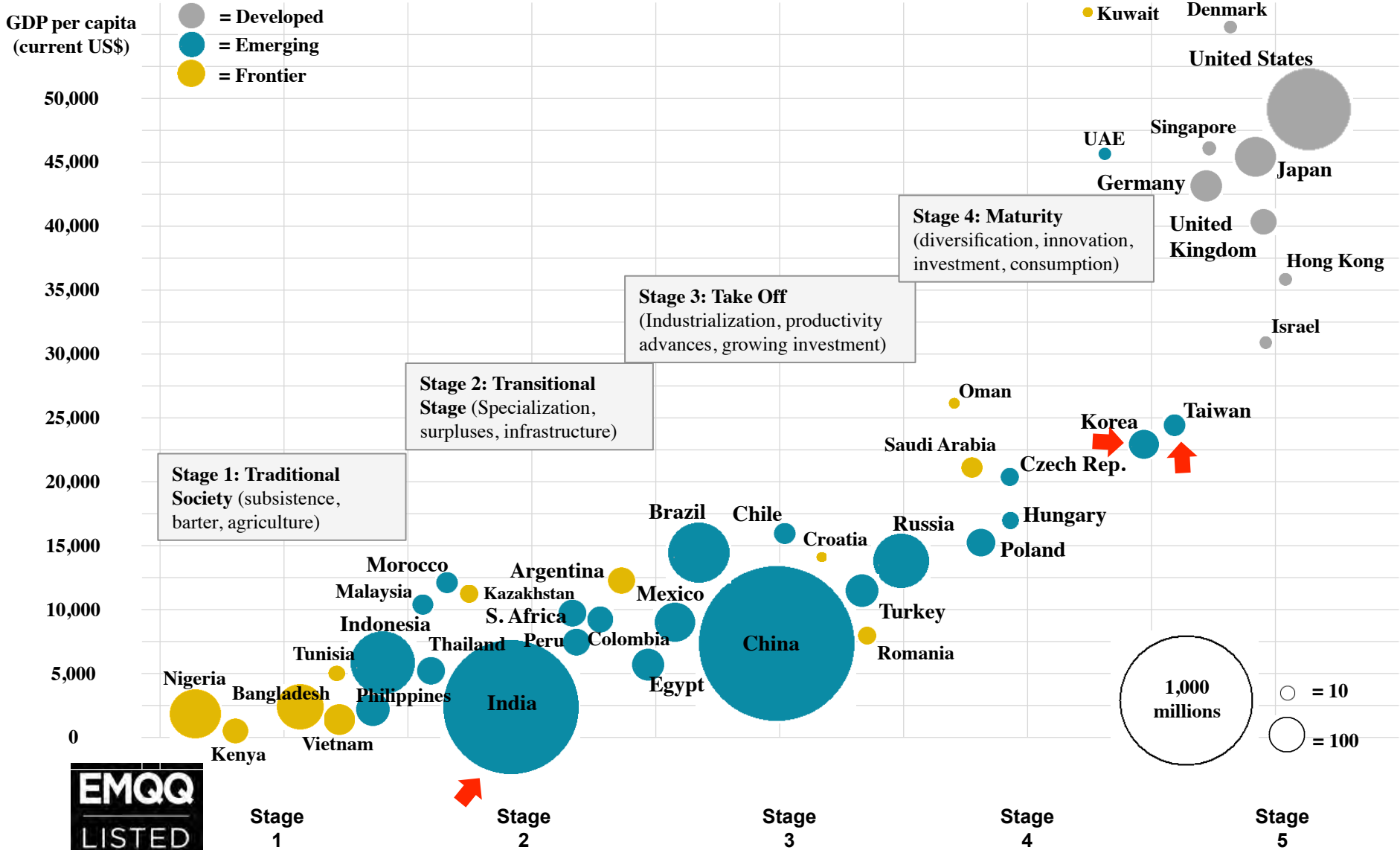
The Process of Emerging

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

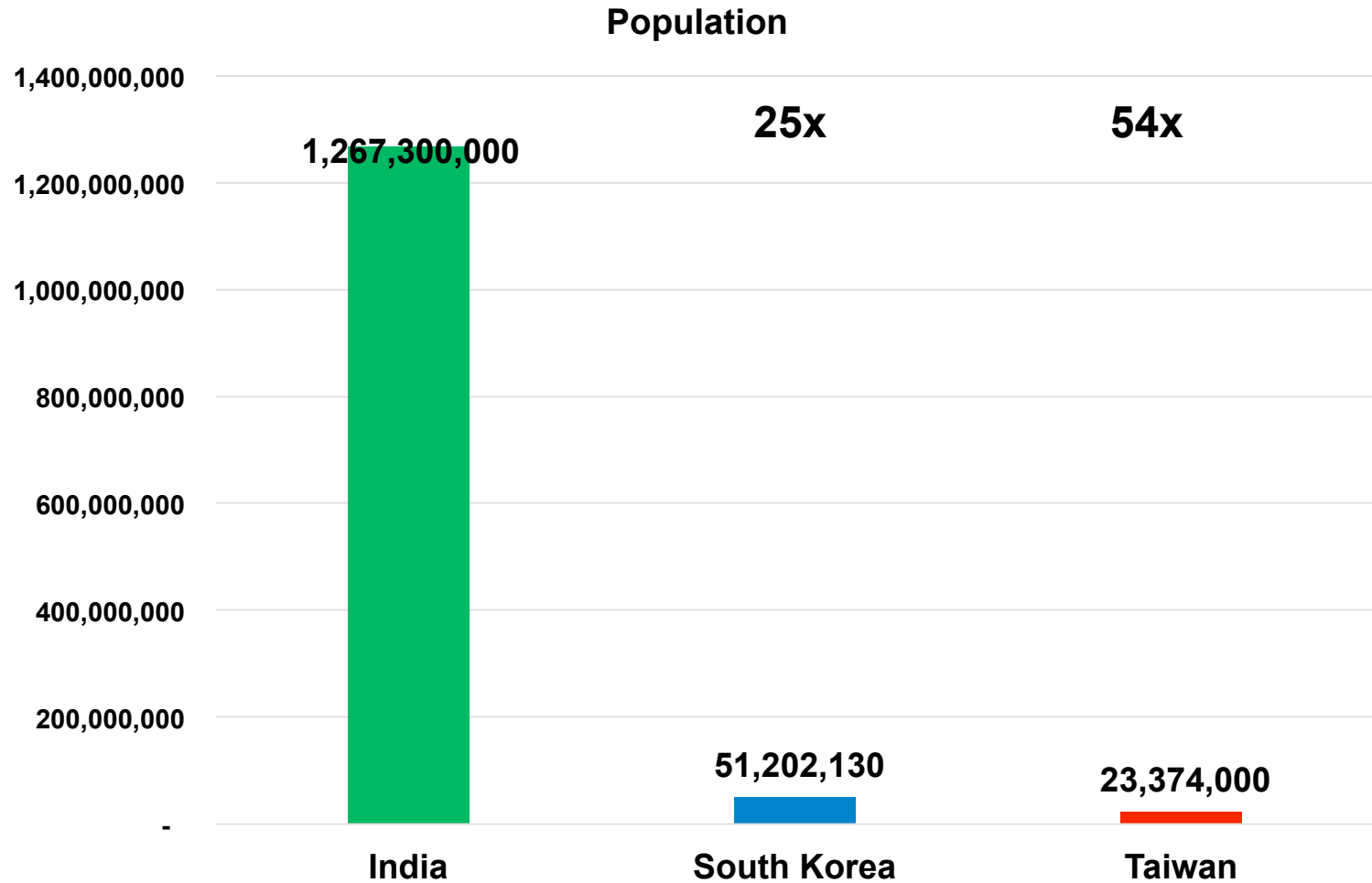


Questions about EM Index Weights

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

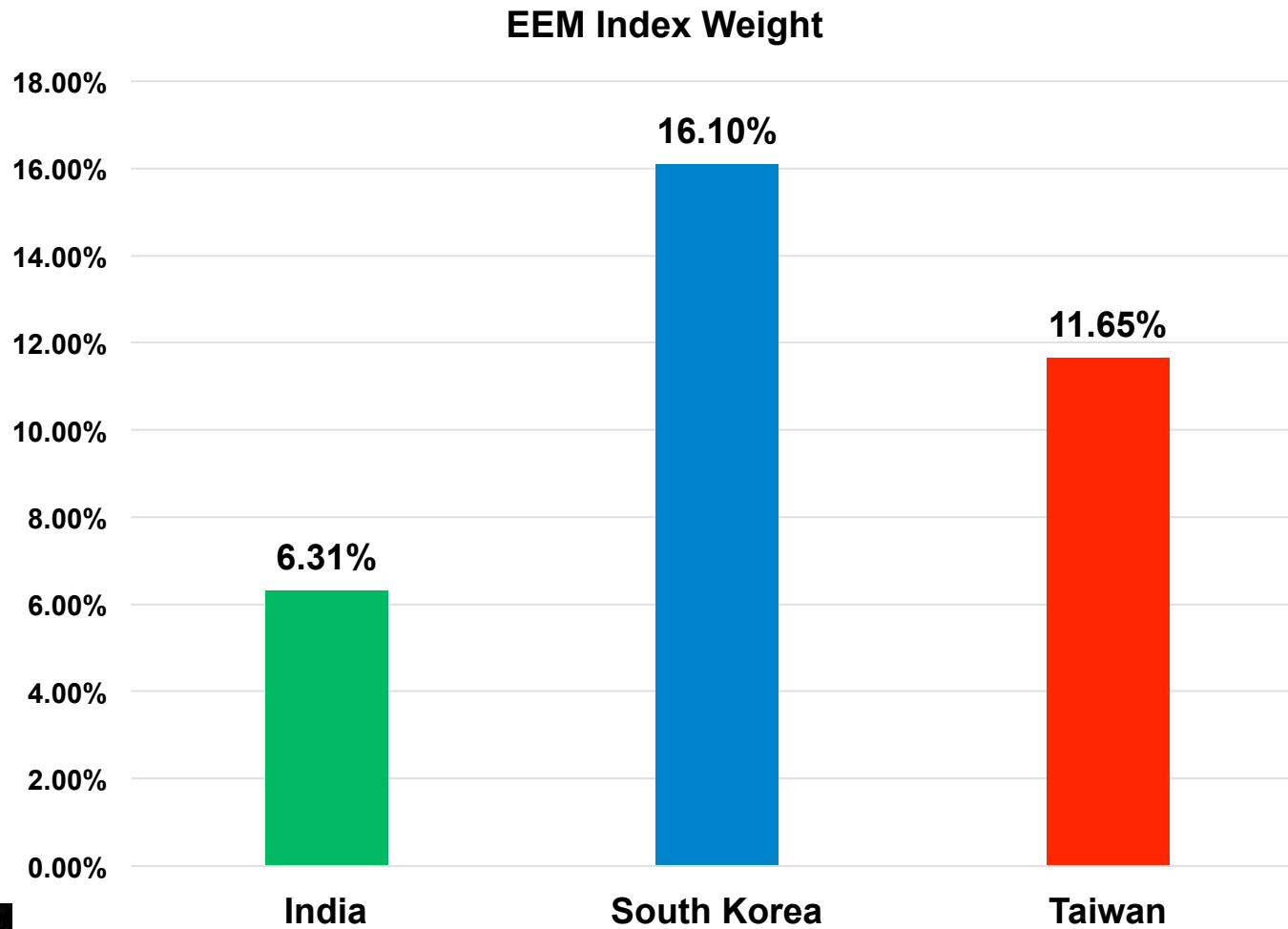


Questions about EM Index Weights



Source: World Bank.

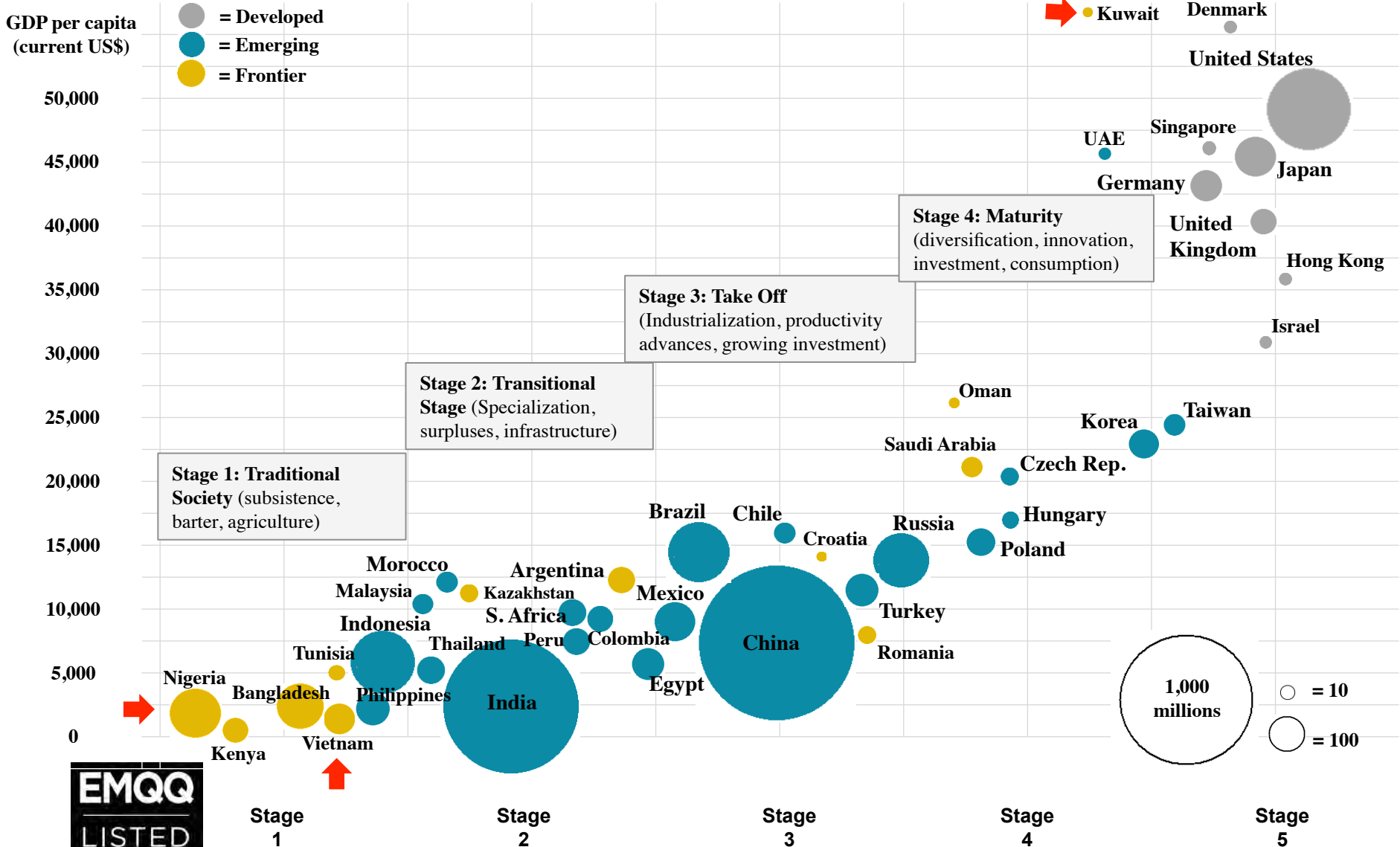
Does This Make Sense?



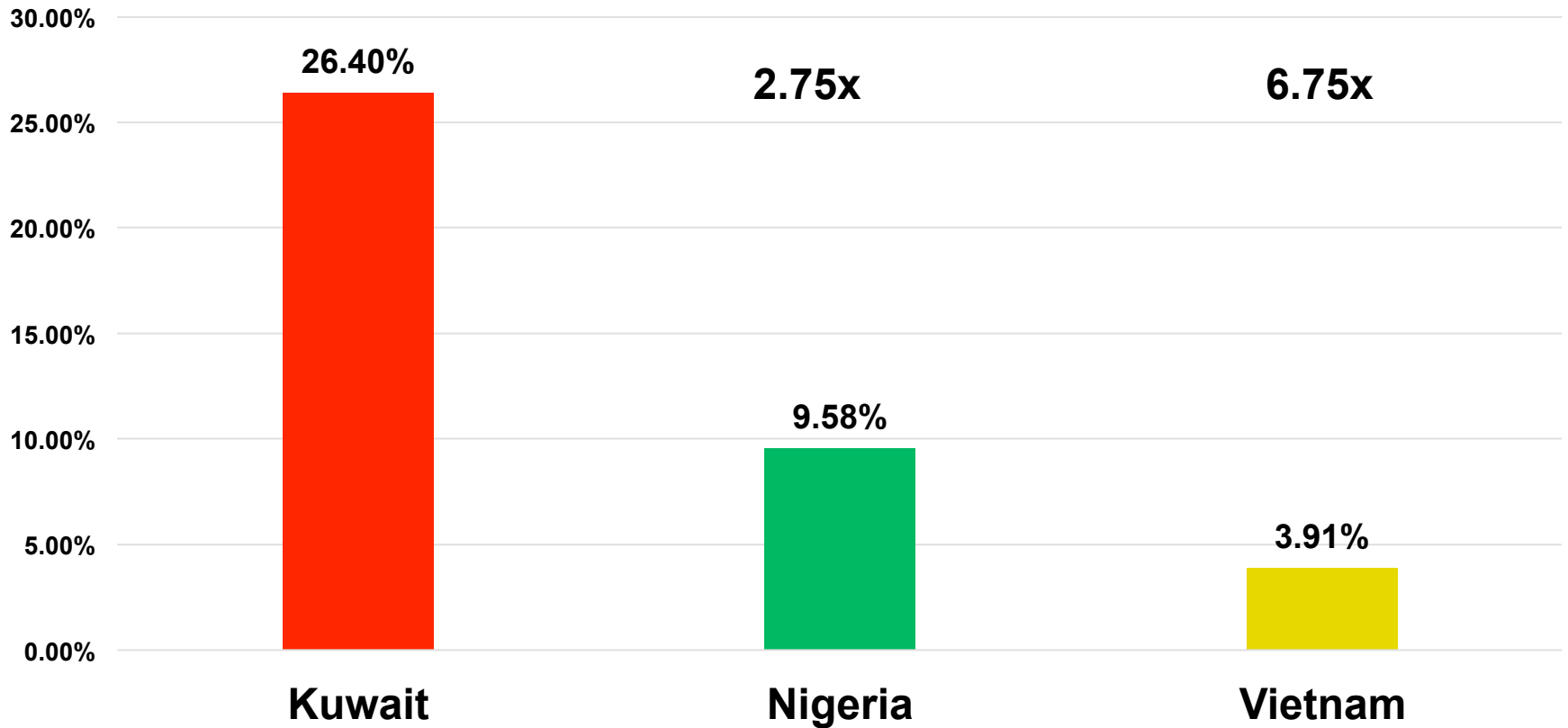
Source: www.ishares.com.

Questions about Frontier Markets Index Weights

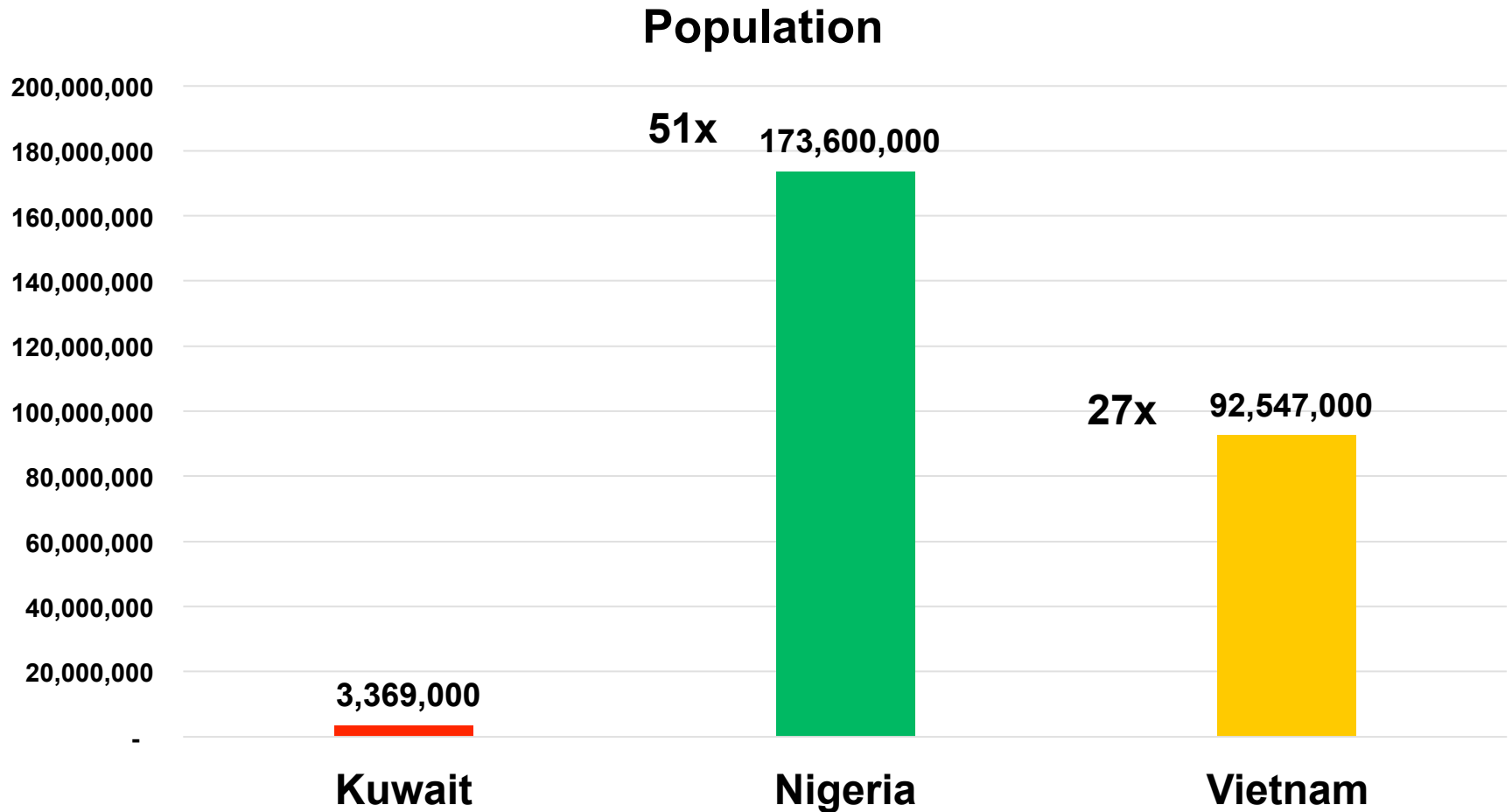
Stage 5: Mass Consumption
(Consumer goods flourish, dominant service sector)



Frontier Market Weights (NYSE: FM)



Country Definitions & Weights are Messed Up



Source: World Bank.

Kuwait – the 34th largest city in China

City	Population
Shanghai	22,315,474
Beijing	11,716,620
Tianjin	11,090,314
Guangzhou	11,071,424
Shenzhen	10,358,381
Wuhan	9,785,388
Dongguan	8,000,000
Chongqing	7,457,600
Chengdu	7,415,590
Nanjing	7,165,292
Nanchong	7,150,000
Xi'an	6,501,190
Shenyang	6,255,921
Hangzhou	6,241,971
Harbin	5,878,939
Tai'an	5,499,000
Suzhou	5,345,961
Shantou	5,329,024
Jinan	4,335,989
Zhengzhou	4,253,913
Changchun	4,193,073
Dalian	4,087,733
Kunming	3,855,346
Qingdao	3,718,835
Foshan	3,600,000
Puyang	3,590,000
Wuxi	3,543,719
Xiamen	3,531,347
Tianshui	3,500,000
Ningbo	3,491,597
Shiyan	3,460,000
Taiyuan	3,426,519
Tangshan	3,372,102
KUWAIT	3,369,000
Hefei	3,310,268
Zibo	3,129,228
Zhongshan	3,121,275
Changsha	3,093,980
Ürümqi	3,029,372

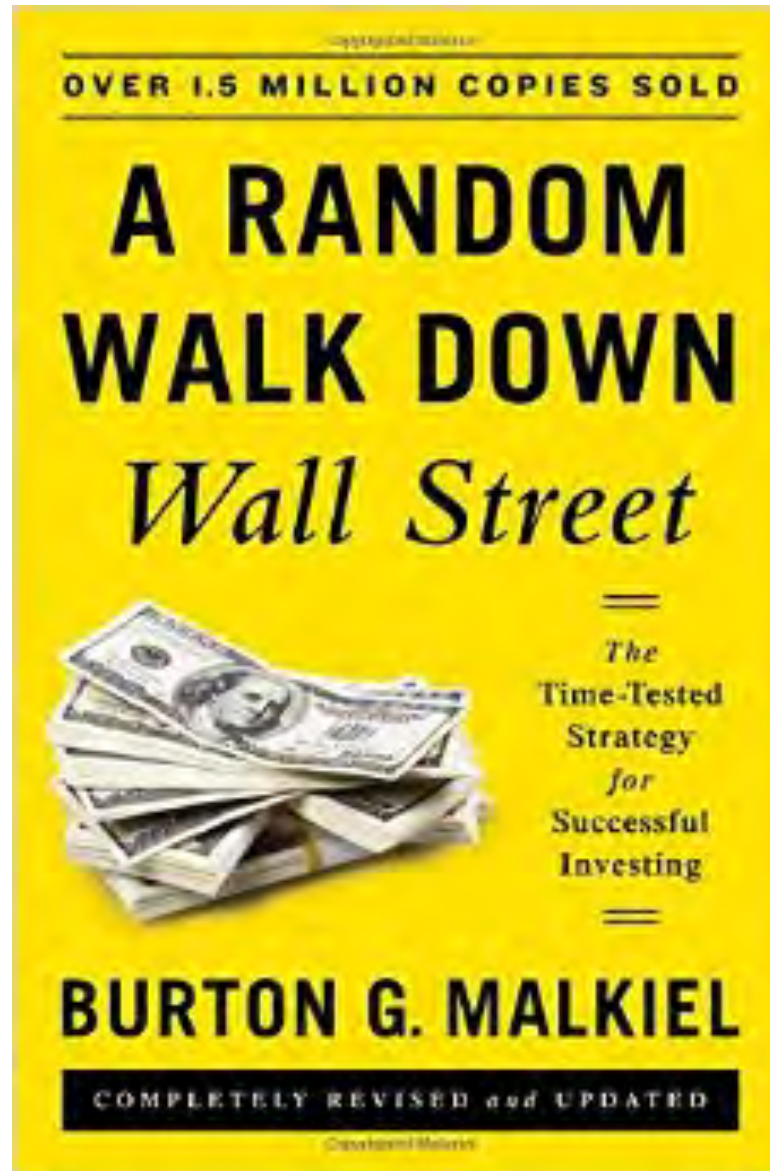


China A Shares



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A Random Walk Down Wall Street



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A Random Walk Down Wall Street

Stock Valuation from the Sixties through the Eighties

55

Jack Dreyfus, of Dreyfus and Company, commented on the mania as follows:

Take a nice little company that's been making shoelaces for 40 years and sells at a respectable six times earnings ratio. Change the name from Shoelaces, Inc. to Electronics and Silicon Furth-Burners. In today's market, the words "electronics" and "silicon" are worth 15 times earnings. However, the real play comes from the word "furth-burners," which no one understands. A word that no one understands entitles you to double your entire score. Therefore, we have six times earnings for the shoelace business and 15 times earnings for electronic and silicon, or a total of 21 times earnings. Multiply this by two for furth-burners and we now have a score of 42 times earnings for the new company. (K Tel?)

In a later investigation of the new-issue phenomenon, the

WSJ Headline May 12, 2015

What's a Buzzy New Company Name Worth? In China's Stock Market, a Lot



An investor walks past an electronic board showing stock information at a brokerage house in Fuyang, Anhui province, China, April 27, 2015.
Reuters

What does it take for a real estate developer to venture into the finance industry overnight? Maybe just a name change.



June 12, 2015 = The Top for the SSE Composite

May 25th, 2015
Margin Lending is
Tightened

June 9, 2015
MSCI Says NO A
shares in EM Index



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Source: www.bigcharts.com

Key Elements of Investing in Emerging Markets

- Most Investors are Underexposed to Emerging Markets
 - Emerging Market allocations are evolving as investors refine their exposure in an effort to capture the growth of Emerging and Frontier Markets
- 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
 - China A Shares not included
 - One more thing

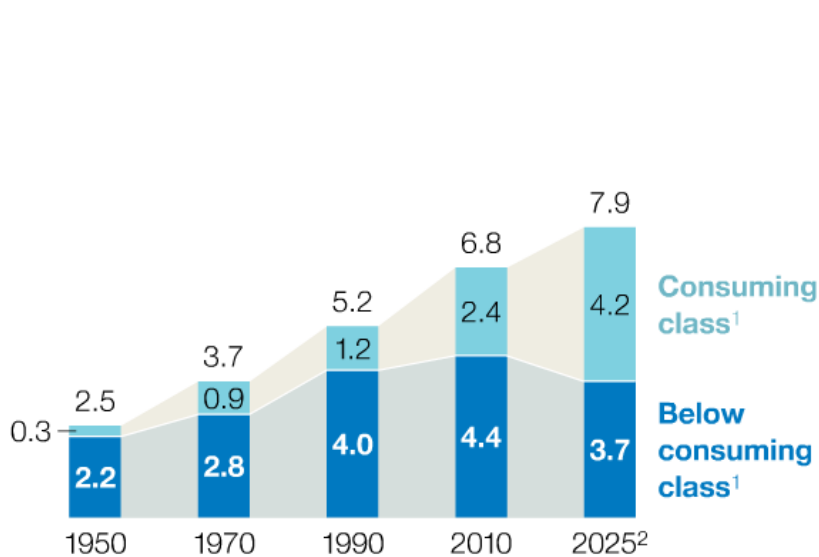
Something Big is Happening

The Growth of EM Consumption is a VERY Big Deal

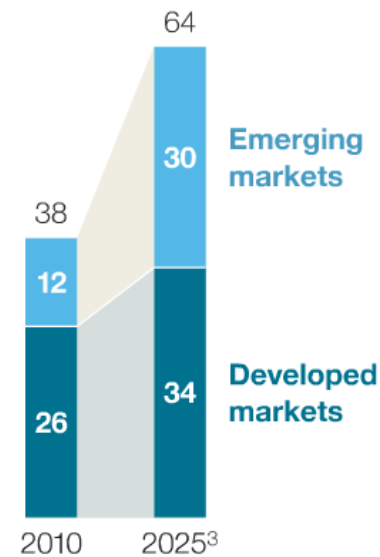
“The biggest growth opportunity in the history of capitalism”
- McKinsey & Company

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



Do you have a smartphone?



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Smartphones Changing Our Consumption Patterns

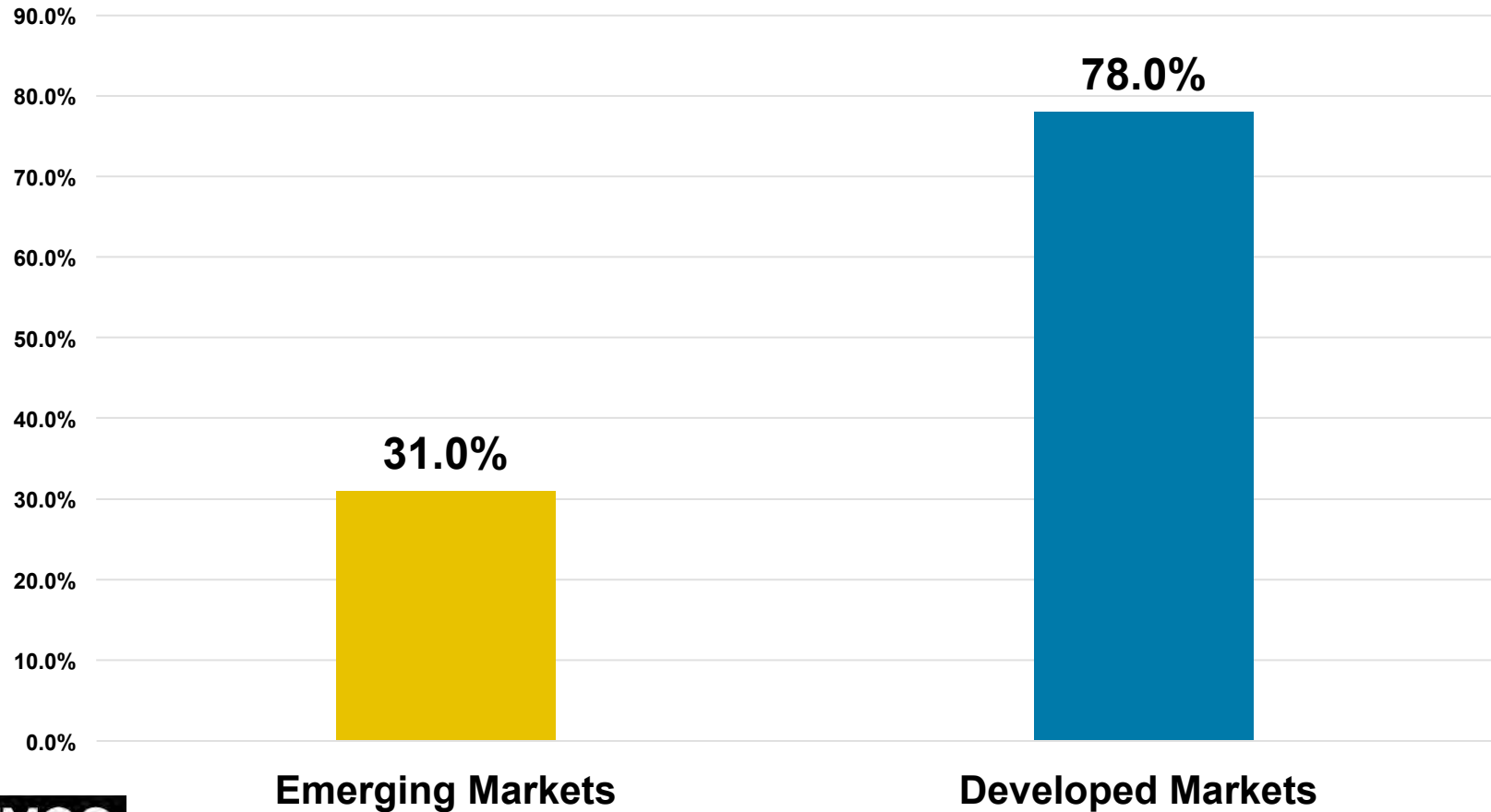


Smartphones Establishing EM Consumption Patterns

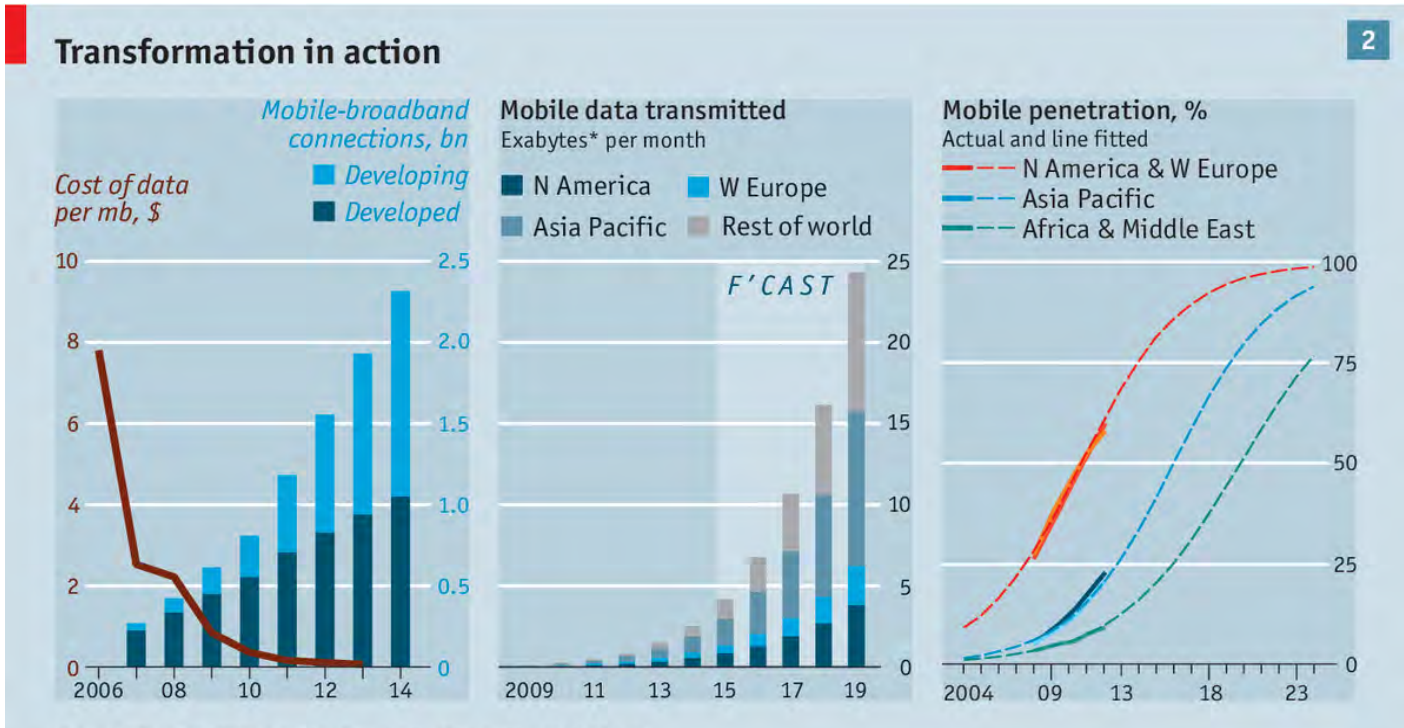


+ Low Internet Penetration

% Households with Internet Access 2014



+ Growth of Affordable Access to Broadband



+ New Entrants Offering Low Cost Smart Phones



= Falling Smart Phone Prices

Smartphone Costs Declining = 5% Annually, 2008-2013

*Smartphone prices continue to decline,
increasing availability to masses*

Average Global Smartphone Pricing Trends

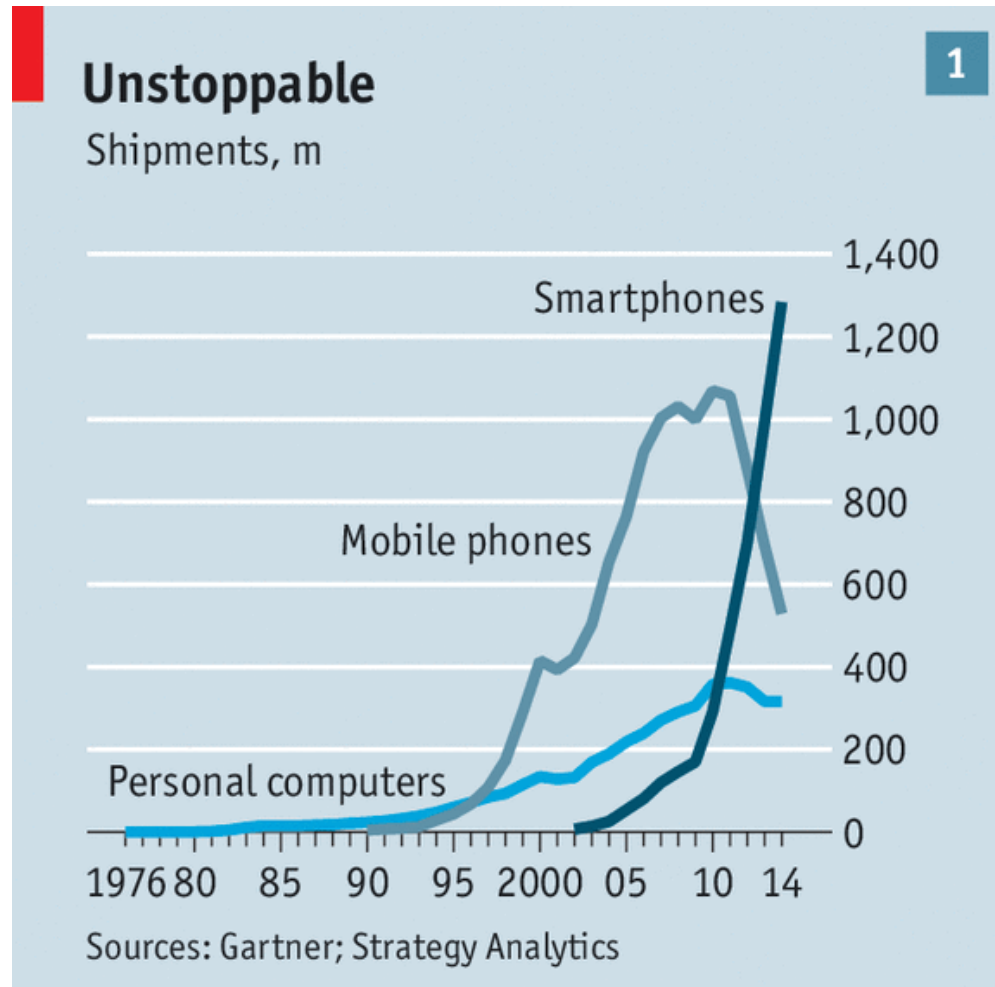


@KPCB

Source: IDC, 5/14.

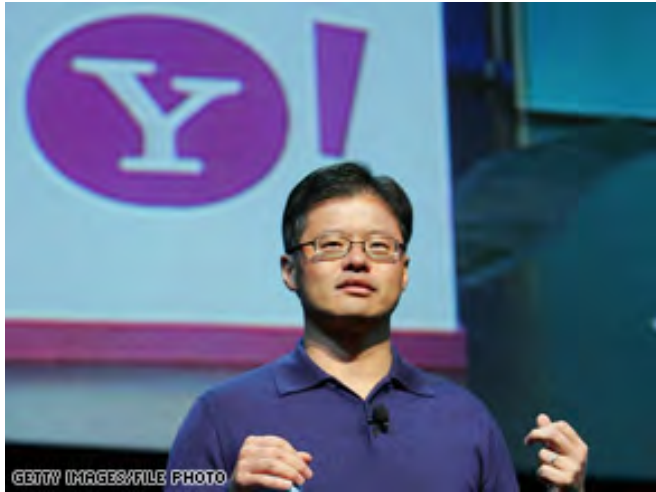
73

= Smartphones Sweeping Across World



Economist.com

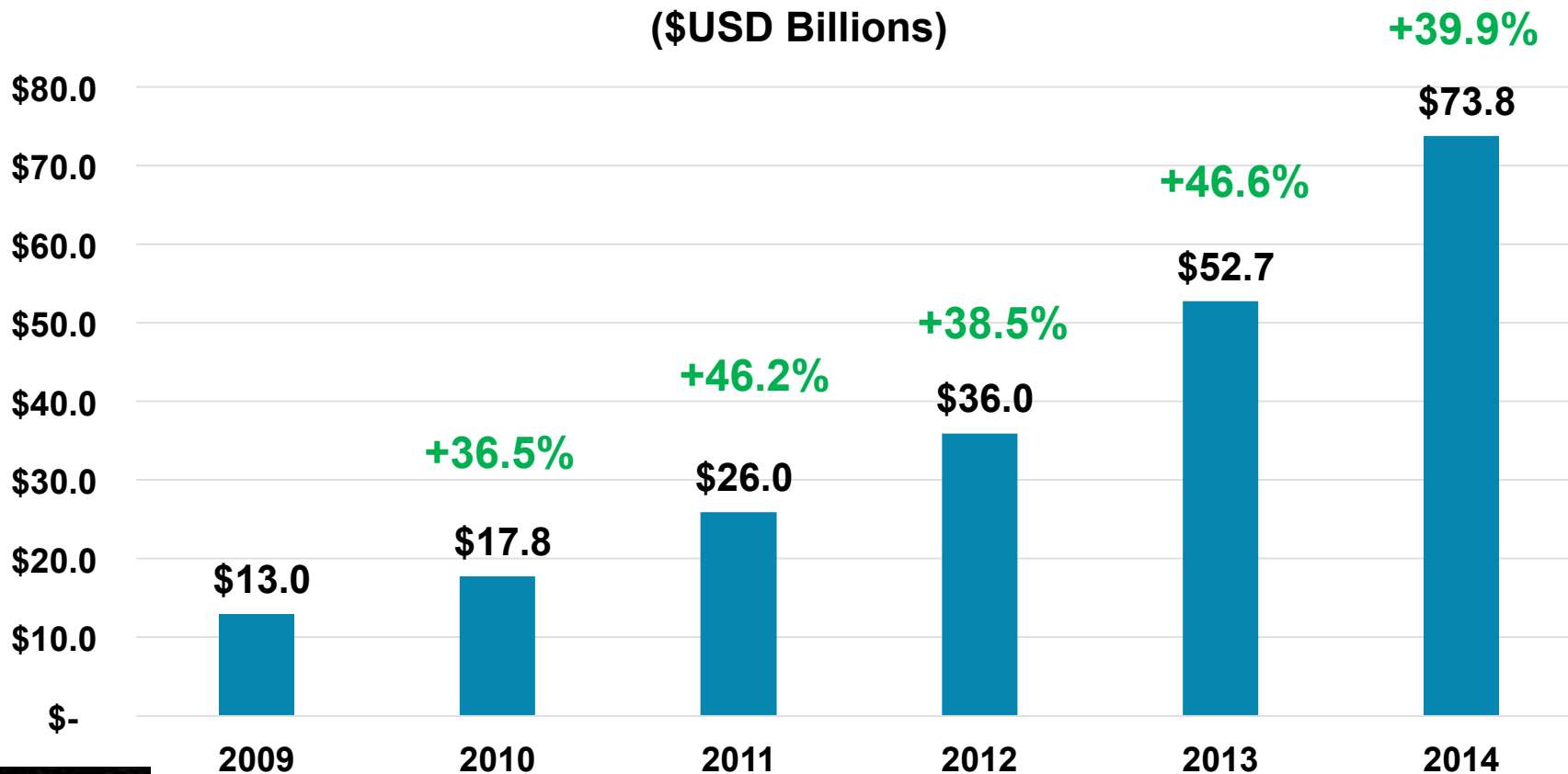
+ U.S. VC funding EM Entrepreneurs



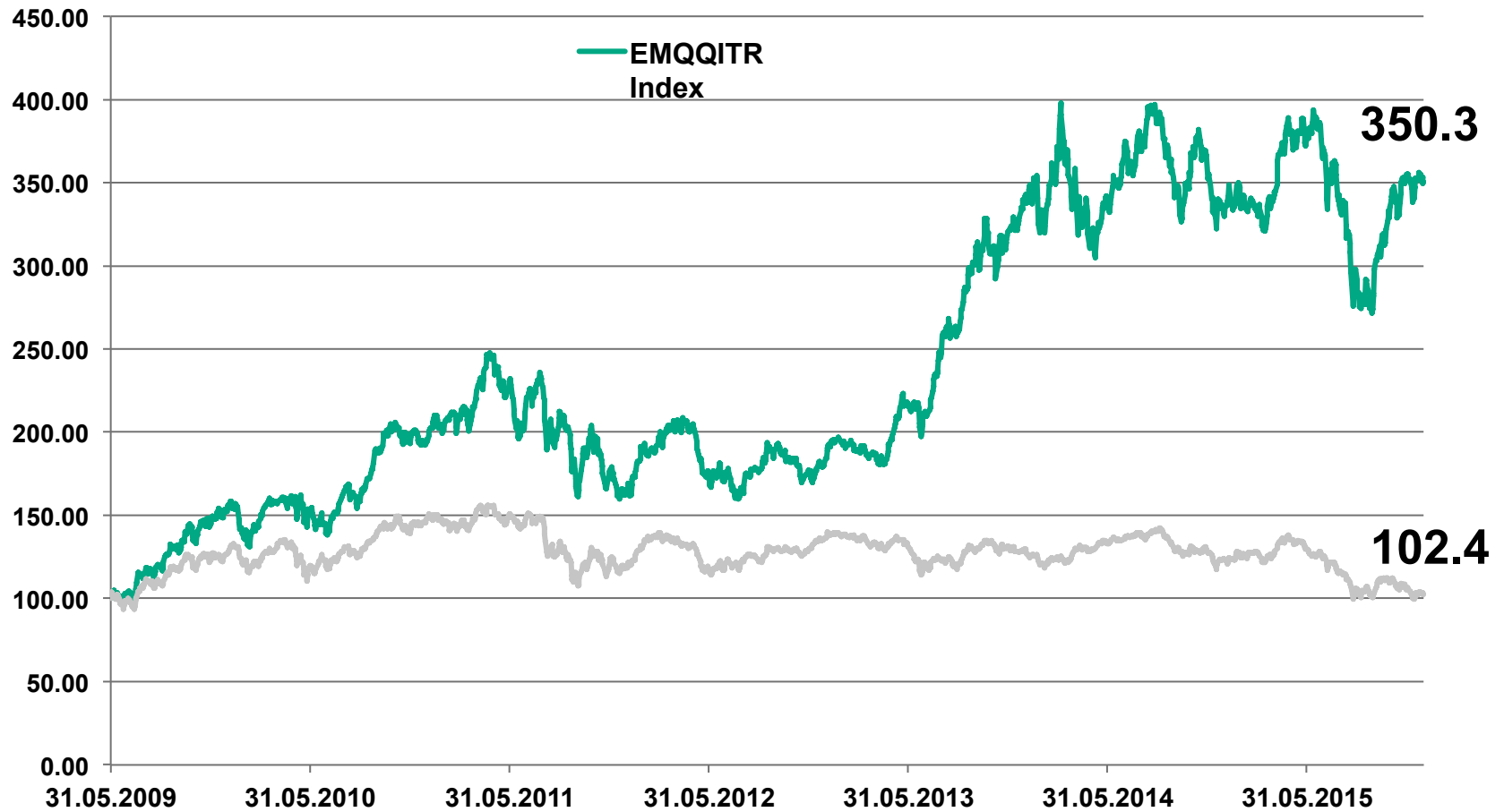
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= Massive Revenue Growth

Emerging Markets Internet Index Revenue & Growth Rate*
2009-2014
(\$USD Billions)



= Value Creation - EMQQ Index Returns



Source: Solactive AG.

= Largest IPO in U.S. History



One More thing – Say What? BABA's 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](#)

Not just BABA



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Private Companies inside of Public Companies



Flipkart – “the Alibaba of India”



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



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
- Current Valuations Compelling
 - PEG Ratio < 1.0



EMQQ Index Overview

- Overseen by EMQQ Index Committee
- Rules Based
 - 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.EMQQindex.com



EMQQ Index Holdings (at last rebalance 12.18.15)

Weight	Name	Exchange	Ticker	Country	Sector
8.00%	Alibaba Group Holding ADR	New York Stock Exchange	BABA	CHINA	Online Retail
7.50%	Tencent Holdings Ltd.	Hong Kong Stock Exchange	0700	CHINA	Social Network
7.00%	Naspers Limited Class N	Johannesburg Stock Exchange	NPN	SOUTH AFRICA	Social Network
6.50%	JD.com, Inc. Sponsored ADR Class A	NASDAQ	JD	CHINA	Online Retail
6.00%	Baidu, Inc. Sponsored ADR Class A	NASDAQ	BIDU	CHINA	Search Engine
5.50%	Naver Corp.	Korea Exchange	035420	SOUTH KOREA	Search Engine
5.00%	Vipshop Holdings Ltd. Sponsored ADR	New York Stock Exchange	VIPS	CHINA	Online Retail
4.50%	Yandex NV Class A	NASDAQ	YNDX	RUSSIA	Search Engine
4.35%	MercadoLibre SA	NASDAQ	MELI	ARGENTINA	Online Retail
3.40%	SINA Corp.	NASDAQ	SINA	CHINA	Internet Portal
3.12%	Ctrip.com International Ltd. Sponsored ADR	NASDAQ	CTRP	CHINA	Online Travel
2.67%	Qihoo 360 Technology Co., Ltd. ADR Class A	New York Stock Exchange	QIHU	CHINA	Internet Security
2.53%	Bitauto Holdings Ltd. Sponsored ADR	BM&F Bovespa	BTOW3	CHINA	Online Marketplace
2.46%	B2W - Companhia Digital	New York Stock Exchange	BITA	BRAZIL	Online Retail
2.34%	NCsoft Corporation	Korea Exchange	36570	SOUTH KOREA	Online Gaming
2.33%	SouFun Holdings Ltd Sponsored ADR Class A	New York Stock Exchange	SFUN	CHINA	Online Marketplace
2.32%	Jumei International Holding Ltd Sp ADR Class A	New York Stock Exchange	JMEI	CHINA	Online Retail
2.16%	Leju Holdings Ltd. Sponsored ADR	New York Stock Exchange	LEJU	CHINA	Online Marketplace
2.12%	Daum Communications Corp	Korea Exchange	035720	SOUTH KOREA	Social Network
1.94%	Sohu.com, Inc.	NASDAQ	SOHU	CHINA	Internet Portal
1.78%	Weibo Corp Sponsored ADR Class A	NASDAQ	WB	CHINA	Social Network
1.54%	51job Inc Sponsored ADR	NASDAQ	JOBS	CHINA	Online Marketplace
1.43%	Autohome, Inc. Sponsored ADR Class A	New York Stock Exchange	ATHM	CHINA	Online Marketplace
1.33%	NetEase, Inc. Sponsored ADR	NASDAQ	NTES	CHINA	Online Gaming
1.28%	YY, Inc. Sponsored ADR Class A	NASDAQ	YY	CHINA	Social Network
1.14%	Youku Tudou, Inc. Sponsored ADR Class A	NASDAQ	YOKU	CHINA	Online Video
0.88%	Mail.ru Group Ltd. Sponsored GDR RegS	London Stock Exchange	MAIL	RUSSIA	Search Engine
0.87%	Xunlei Ltd. ADR	NASDAQ	XNET	CHINA	Online Video
0.84%	Info Edge India Ltd.	Bombay Stock Exchange	532777	INDIA	Online Marketplace
0.83%	MakeMyTrip Ltd.	NASDAQ	MMYT	INDIA	Online Travel
0.81%	PChome Online, Inc.	Taipei Stock Exchange	8044	TAIWAN	Internet Portal
0.77%	HC International, Inc.	Hong Kong Stock Exchange	8292	CHINA	Online Marketplace
0.76%	E-Commerce China Dangdang, Inc. ADR Class A	New York Stock Exchange	DANG	CHINA	Online Retail
0.69%	58.com Inc. Sponsored ADR Class A	New York Stock Exchange	WUBA	CHINA	Online Marketplace
0.50%	Interpark Corporation	Korea Exchange	035080	SOUTH KOREA	Online Retail
0.45%	Wemade Entertainment Co., Ltd.	Korea Exchange	112040	SOUTH KOREA	Online Gaming
0.43%	Shanda Games Ltd. Sponsored ADR Class A	NASDAQ	GAME	CHINA	Online Gaming
0.41%	Qiyi Plc Sponsored ADR Class B	NASDAQ	QIWI	RUSSIA	E Payments
0.41%	21Vianet Group, Inc. Sponsored ADR Class A	NASDAQ	VNET	CHINA	Other Internet
0.41%	Renren Inc. Sponsored ADR Class A	New York Stock Exchange	RENN	CHINA	Social Network
0.38%	LingthInTheBox Holding ADR	New York Stock Exchange	LITB	CHINA	Online Retail
0.34%	Qunar Cayman Islands Limited ADR Class B	NASDAQ	QUNR	CHINA	Online Travel



For current holdings see <http://www.emqqetf.com/emqq-holdings.aspx>

The Future Of Emerging Markets is Here

Q&A



Contact

www.bigtreecapital.com

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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.

