



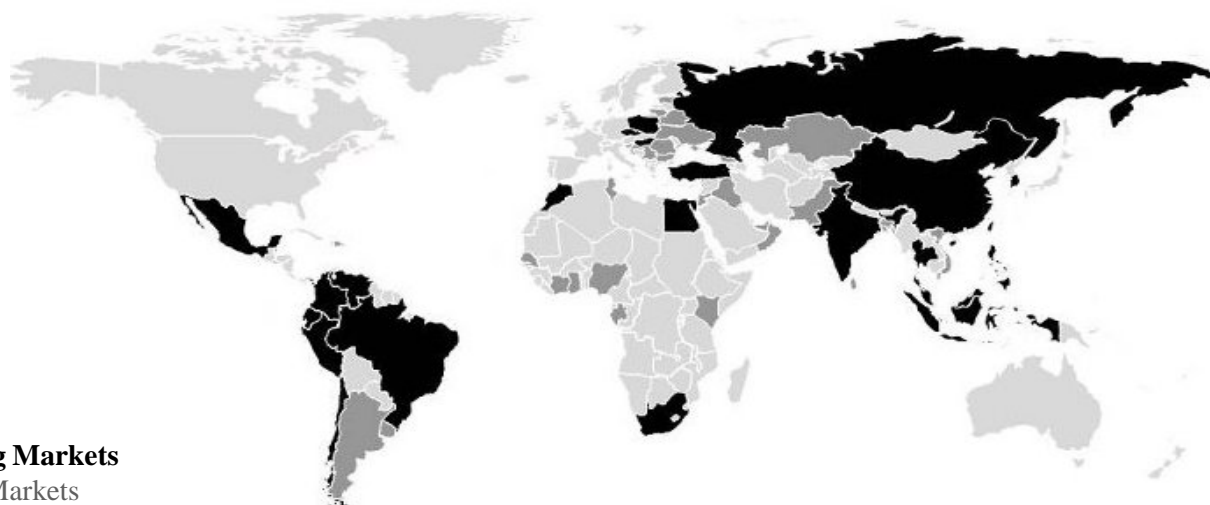
Alibaba HQ, Hangzhou, China

The Future Of Emerging Markets

Interactive Brokers Webcast

March 26, 2015

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

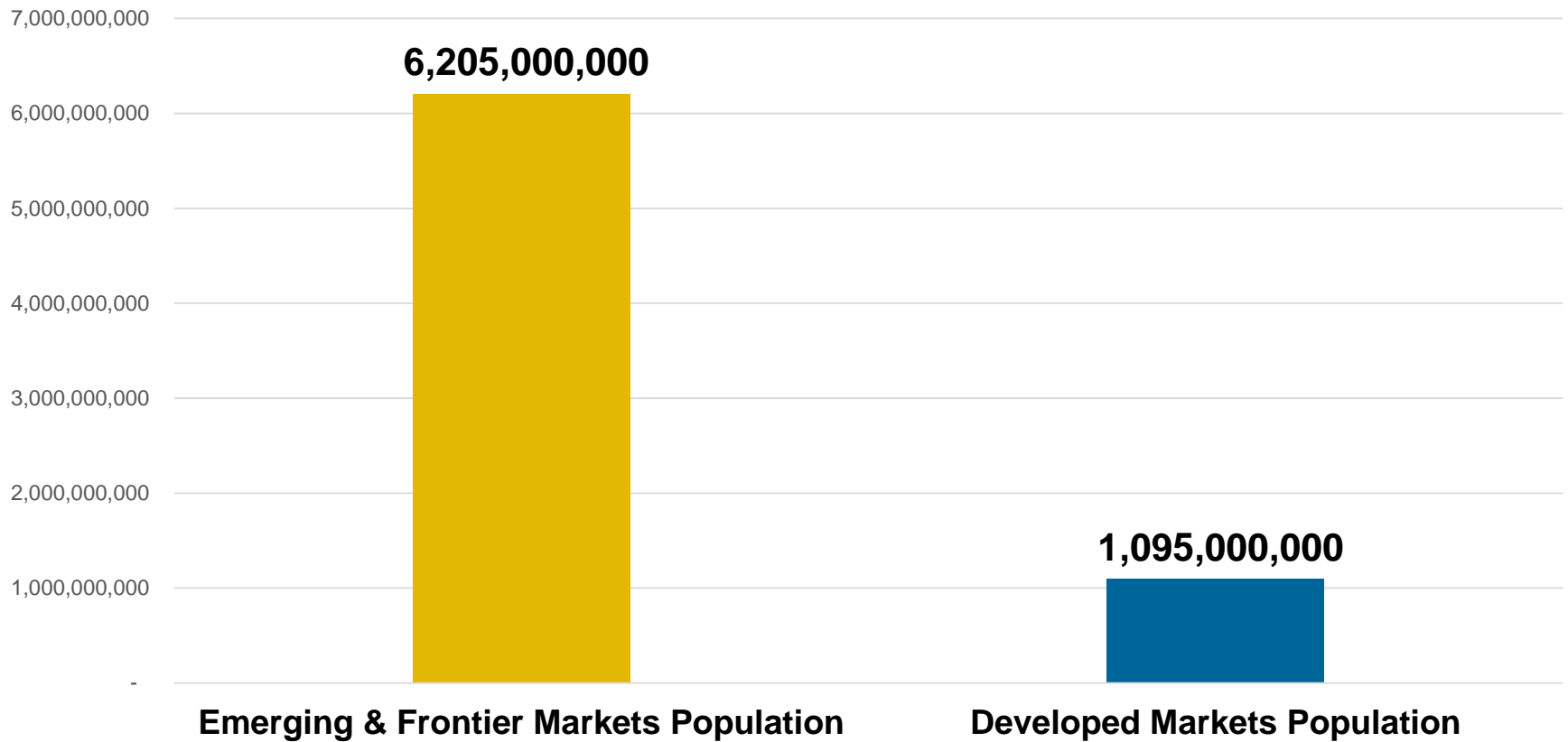
China
India
Indonesia
Korea*
Malaysia
Philippines
Taiwan
Thailand
Bangladesh
Pakistan
Sri Lanka
Vietnam

The Case for Emerging Markets

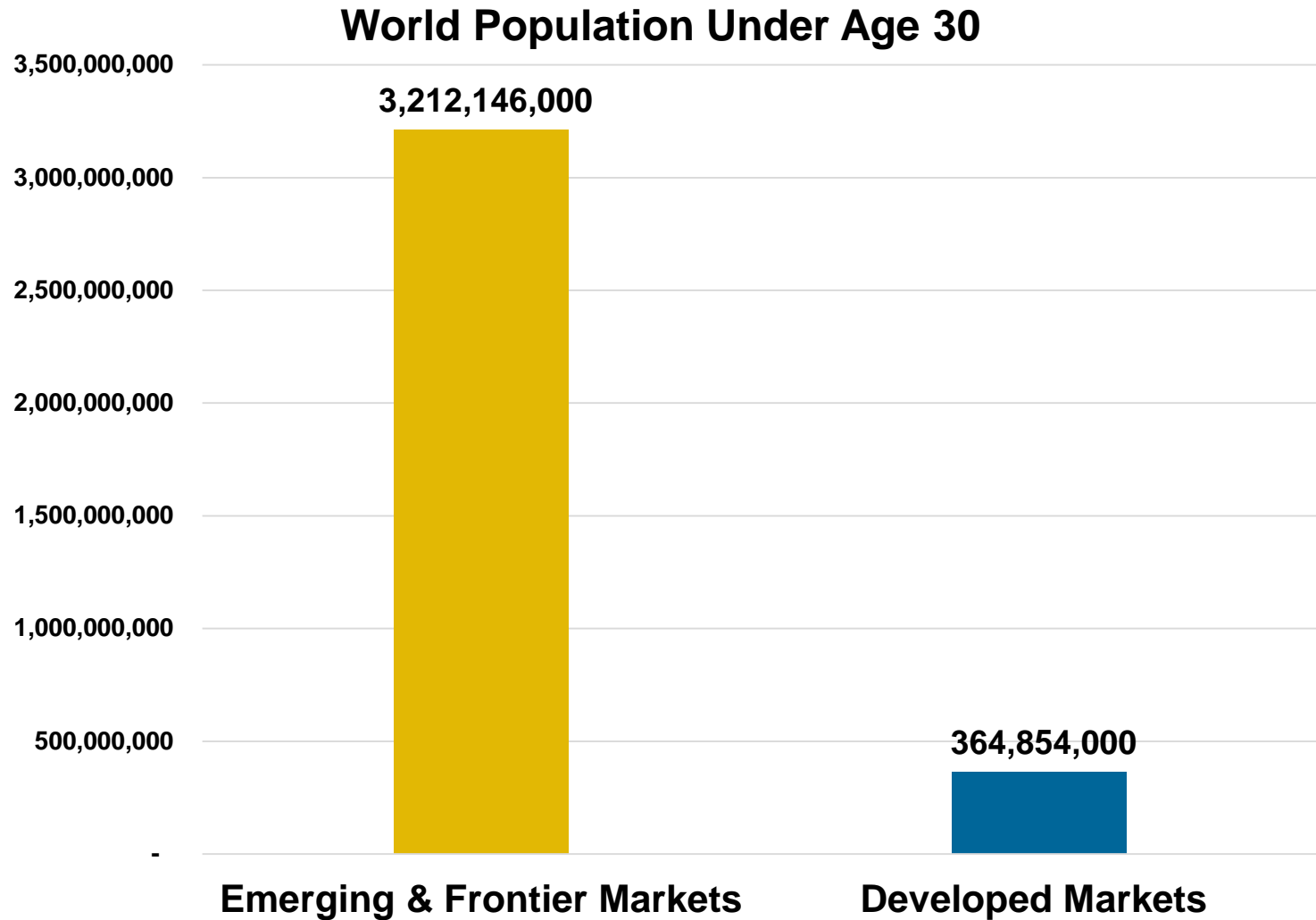
- Diversification benefits vs. U.S. & Other Developed Markets
 - Correlation to S&P 500 < 1.0
- Size (Lots of People)
 - 80% of global population and 50% of global GDP
- Favorable Demographics
 - Younger populations than developed markets
- Strong Government & Individual Fiscal Positions
 - Less debt than developed markets
- Growth
 - 80% of global GDP growth
 - Consumption!

85% of World Population

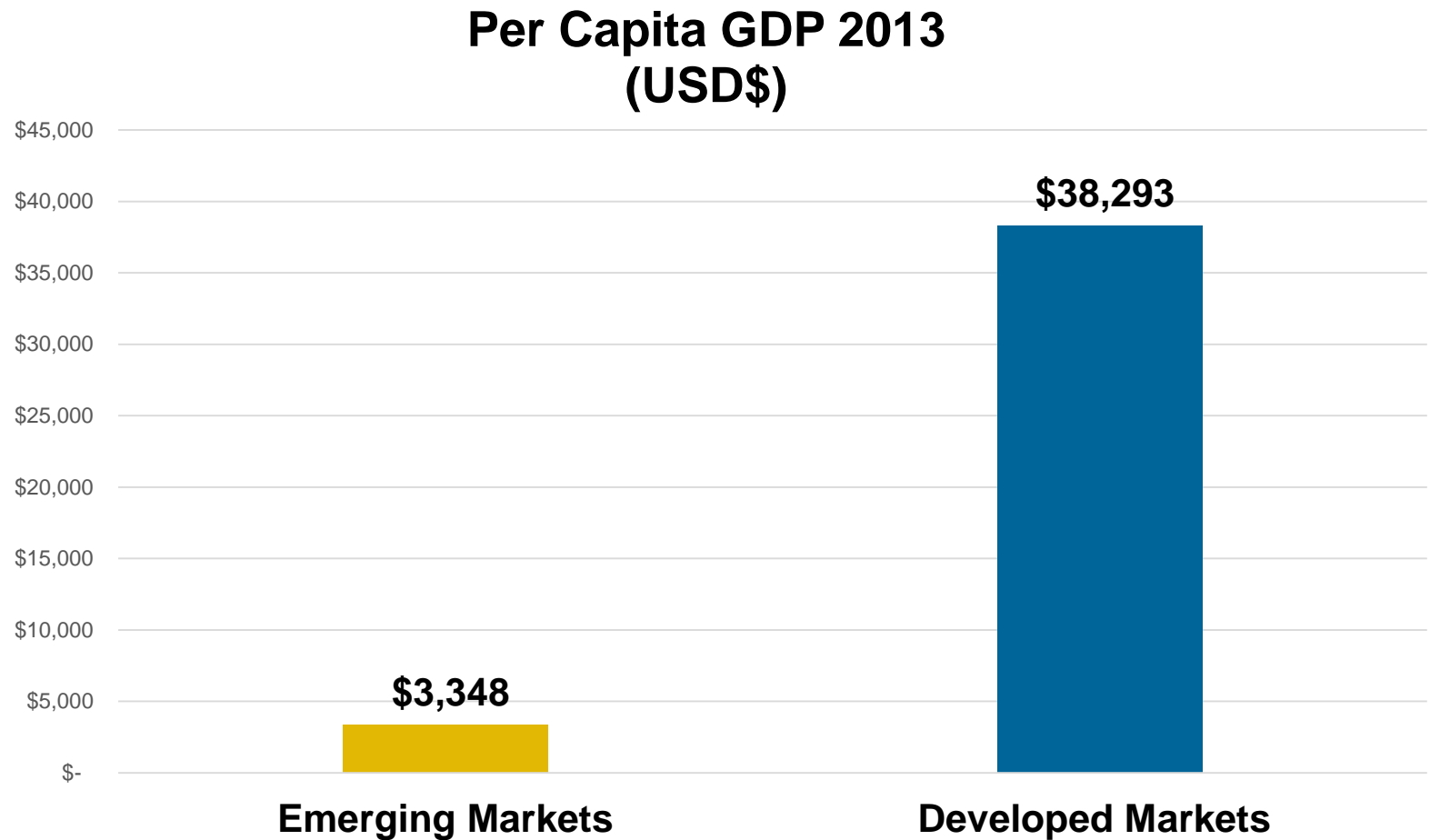
World Population 2014



Younger Populations

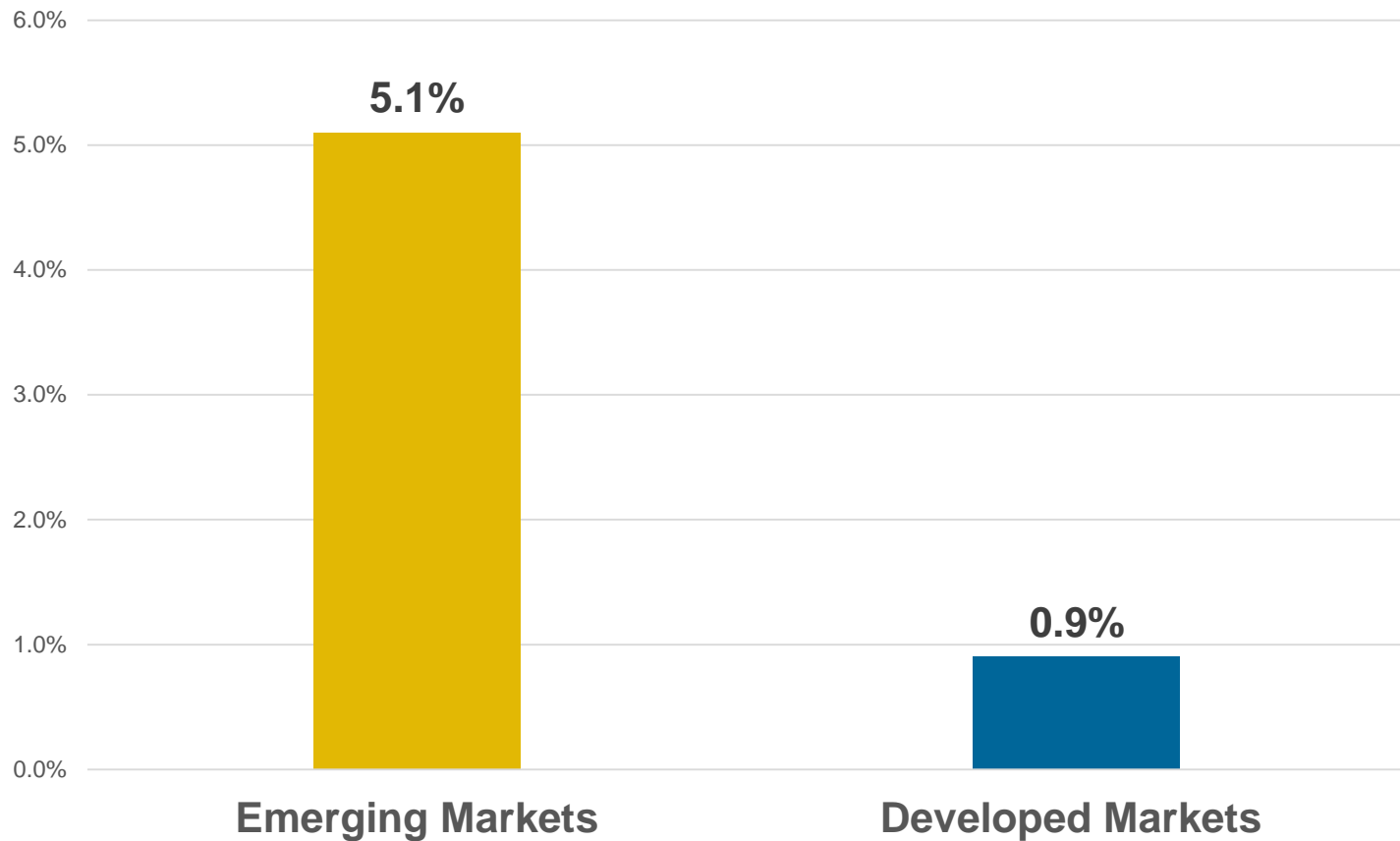


Low Incomes vs. Developed Markets



More Growth

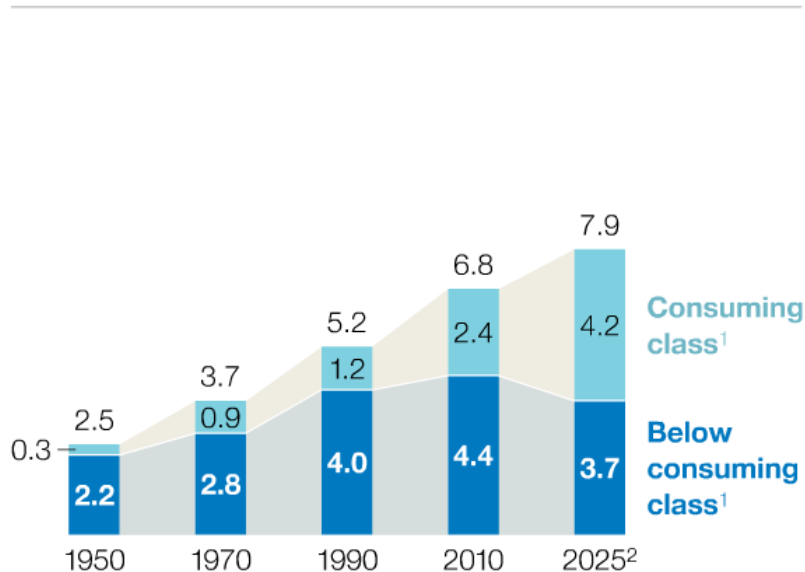
Per Capita GDP Growth 2003-2013 Annual Average % Increase



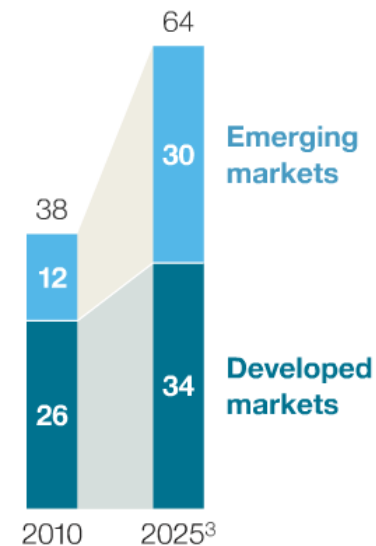
“The biggest growth opportunity in the history of capitalism”

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



¹Consuming class: daily disposable income is \geq \$10; below consuming class, $<$ \$10; incomes adjusted for purchasing-power parity.

²Projected.

³Estimate based on 2010 private-consumption share of GDP per country and GDP estimates for 2010 and 2025; assumes private consumption's share of GDP will remain constant.

The Case for Emerging Markets

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 - 80% of global GDP growth
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Investing in Emerging Markets

Key Elements of Investing in Emerging Markets

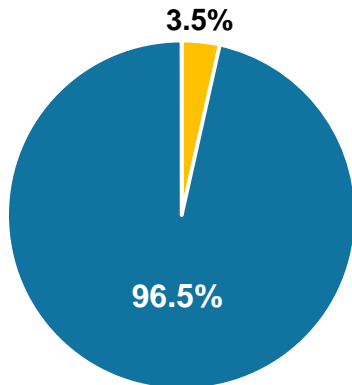
- Emerging Markets are Risky and Volatile
 - Fraud, War, Revolution & Nationalization happen
 - Volatility is historically 50% higher than U.S. volatility
- Most Investors are Underexposed to Emerging Markets
 - 3.5% of average portfolio vs. 50% of world GDP & 85% of world population
 - Emerging Market allocations are evolving
- Recent Performance of EM Has Been Poor vs. S&P 500
 - Lots of complaining and second guessing
 - Downside of diversification
 - Maybe it's the index?
- Major Emerging & Frontier Markets Indexes are Inefficient
 - SOEs dominate indexes/ETFs
 - Country definitions and weights are flawed
 - One more thing

Risks are Real

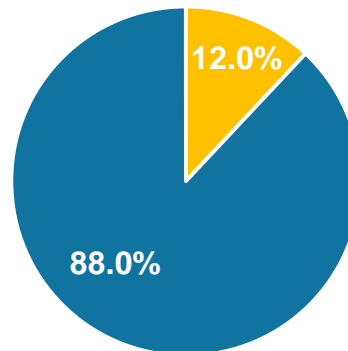


Investors May be Underexposed to Emerging Markets

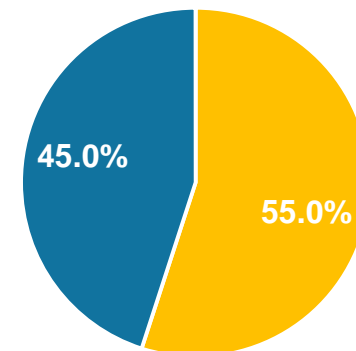
Allocation of Average U.S. Investor



% Global Market Cap 2014

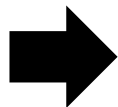


% Global Market Cap 2040e

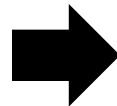


The Evolution of EM Investing: Emerging Markets 3.0

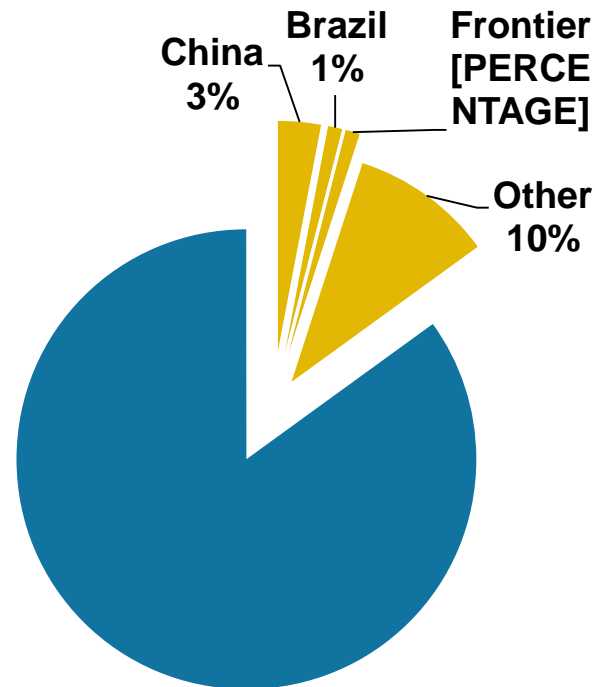
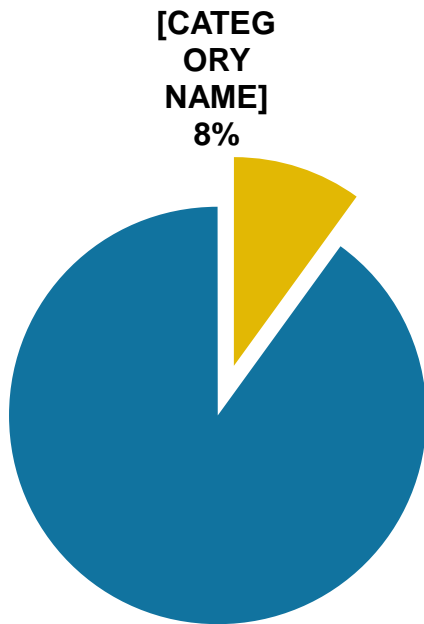
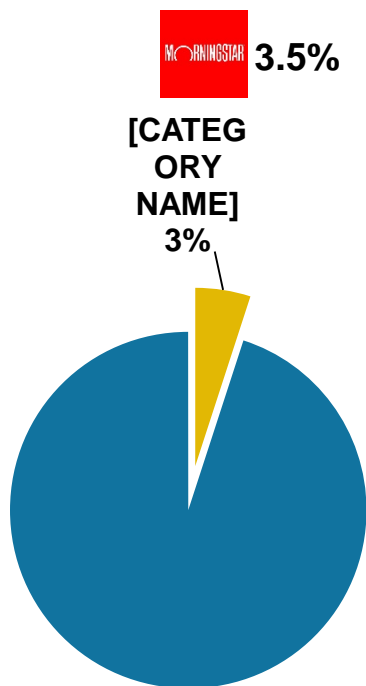
EM 1.0
"Toe in Water"



EM 2.0
Increased



EM 3.0
Index Weight +

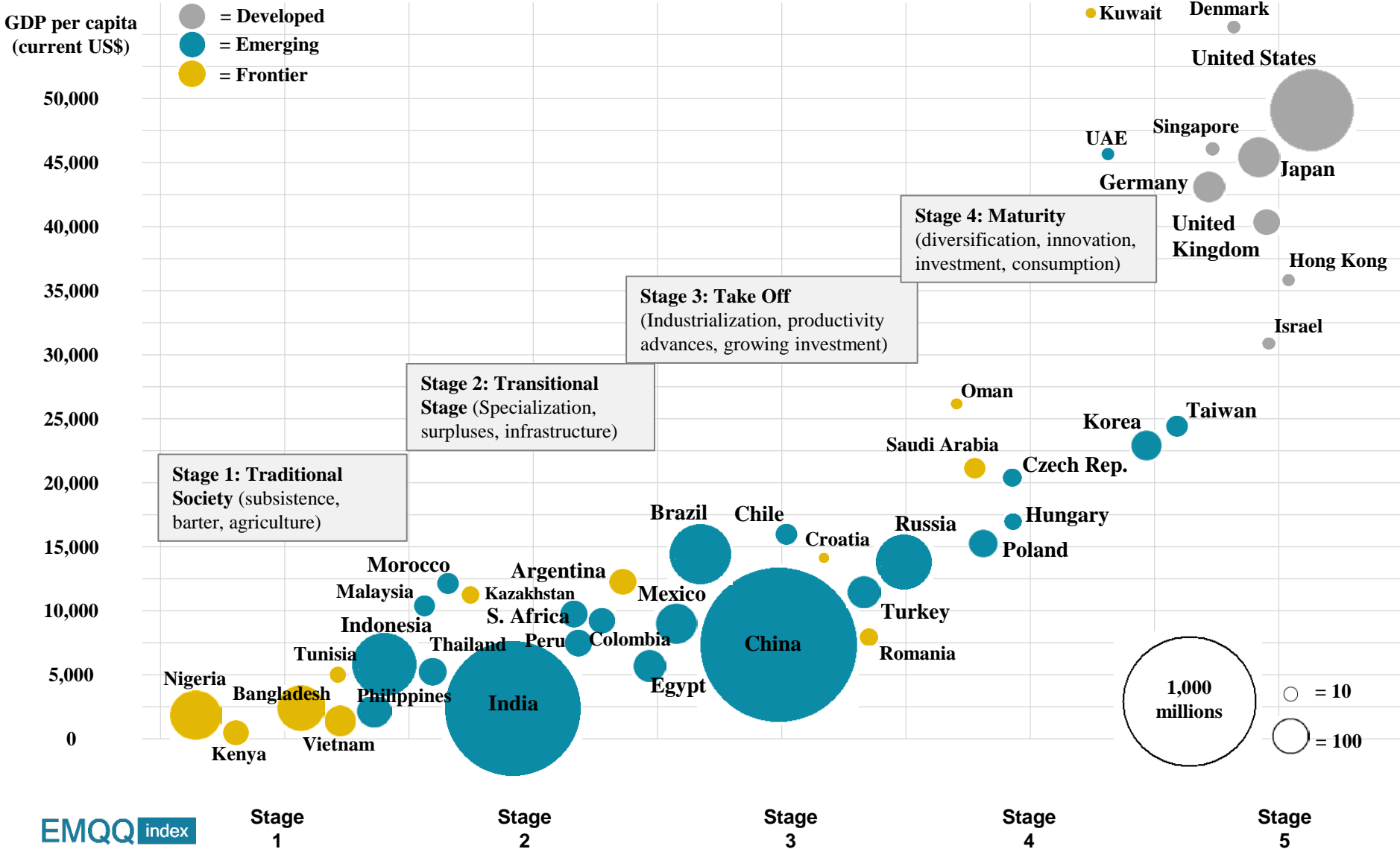


~30% EEM & VVO is SOEs = Corruption & Conflicts*

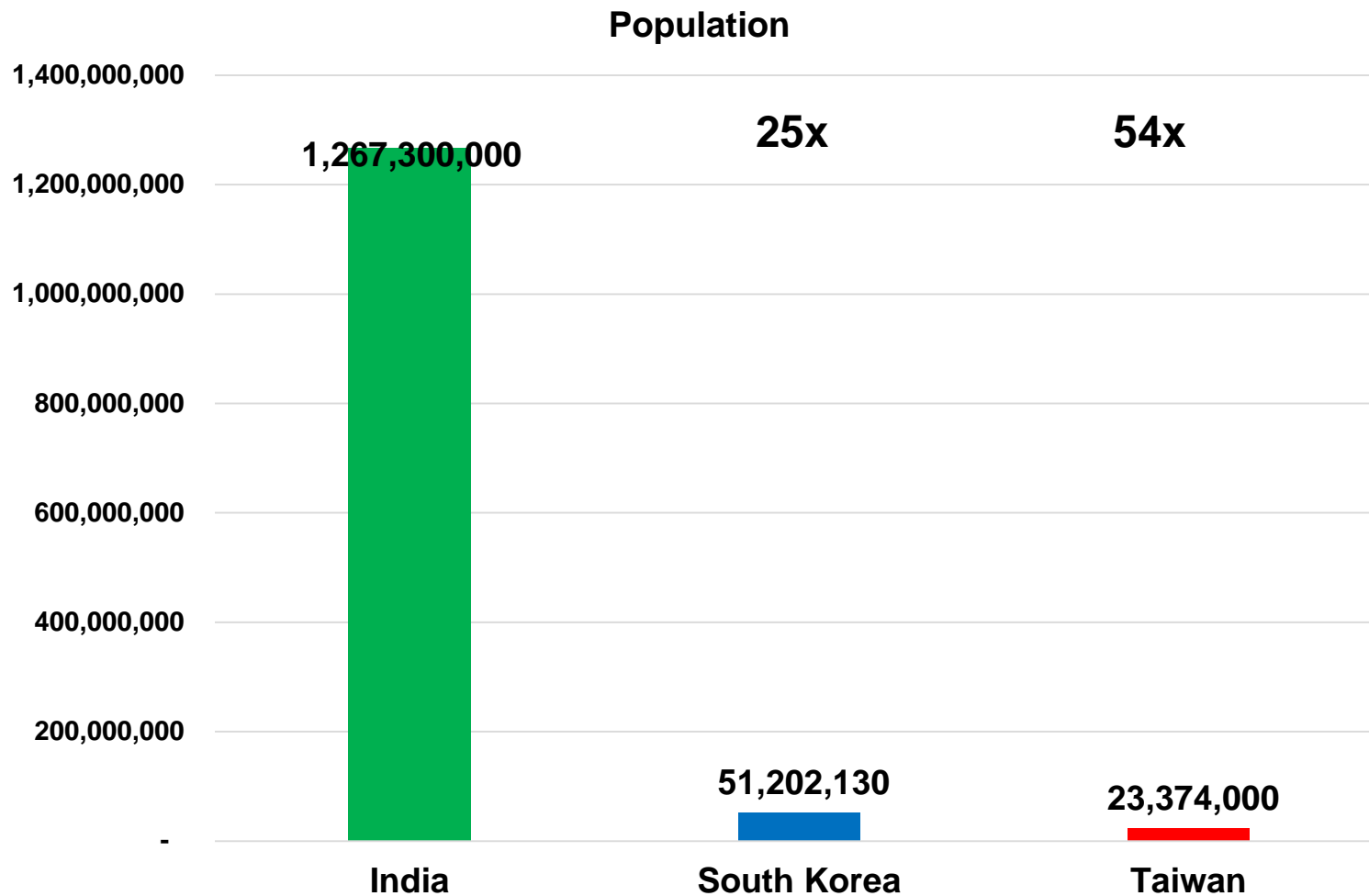


The Process of Emerging

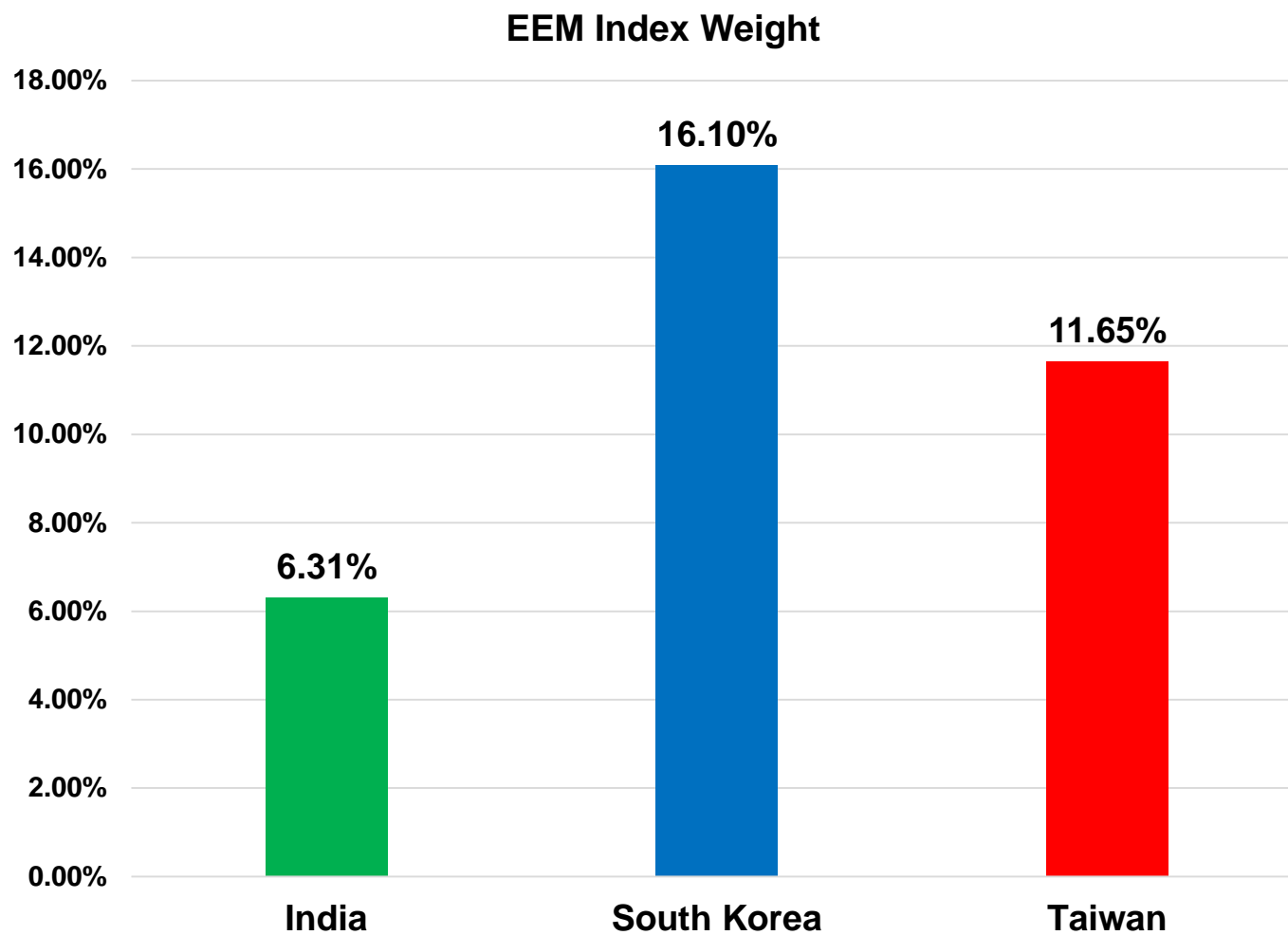
Stage 5: Mass Consumption
(Consumer goods flourish, dominant service sector)



Questions about Emerging Markets Index Weights

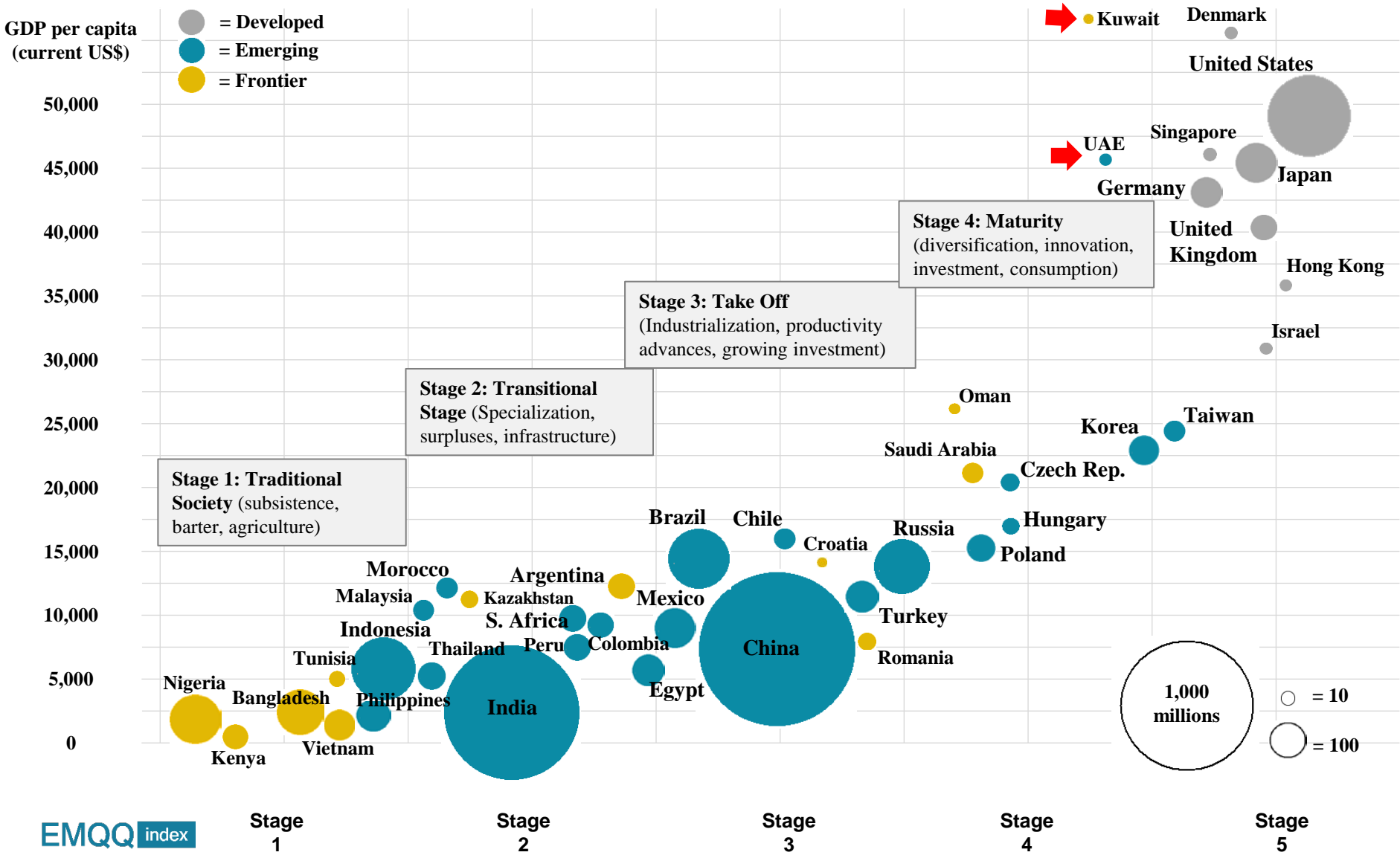


Does This Make Sense?



The Process of Emerging

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

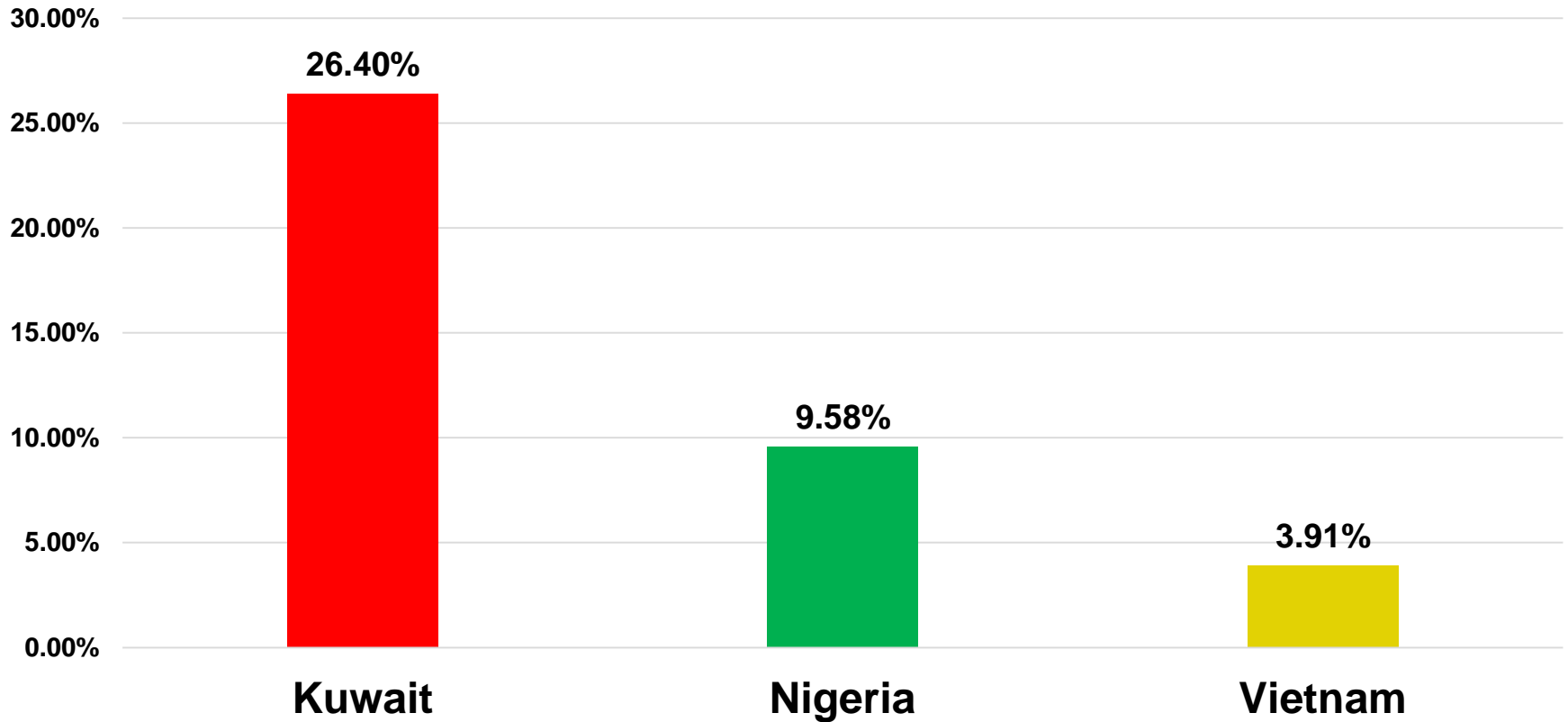


Are Qatar, UAE & Kuwait Frontier or Emerging Markets?

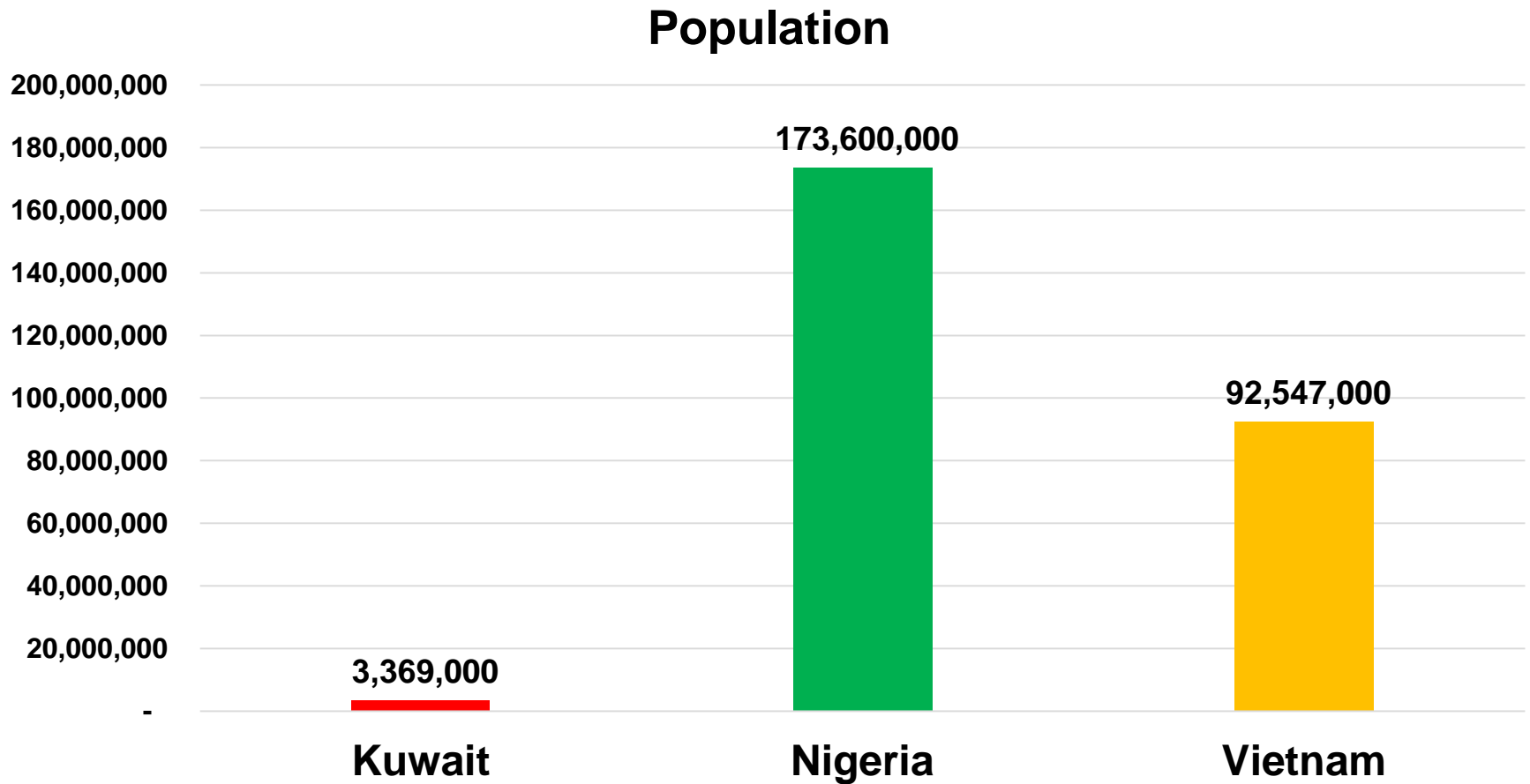


Questions about Frontier Markets

FM Index Weight



Does this make sense?



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

Future of Investing in Emerging Markets

- Risks are REAL and will remain as will volatility
- The Average Allocation to Emerging Markets will increase
- Emerging Markets 3.0 - Investors will continue to refine their exposure in an effort to capture the growth of Emerging and Frontier Markets
- Emerging and Frontier Markets Indexes are Messed Up
 - Investors getting exposure to the legacy and not to the future
 - SOEs are too large of a % of major indexes
 - Country weights are messed up
 - India, Indonesia, Nigeria, Bangladesh are the “real” Frontier
 - A Shares will be included in MSCI EM – but not for a long time
 - Is Russia heading to the Frontier?
 - One more thing

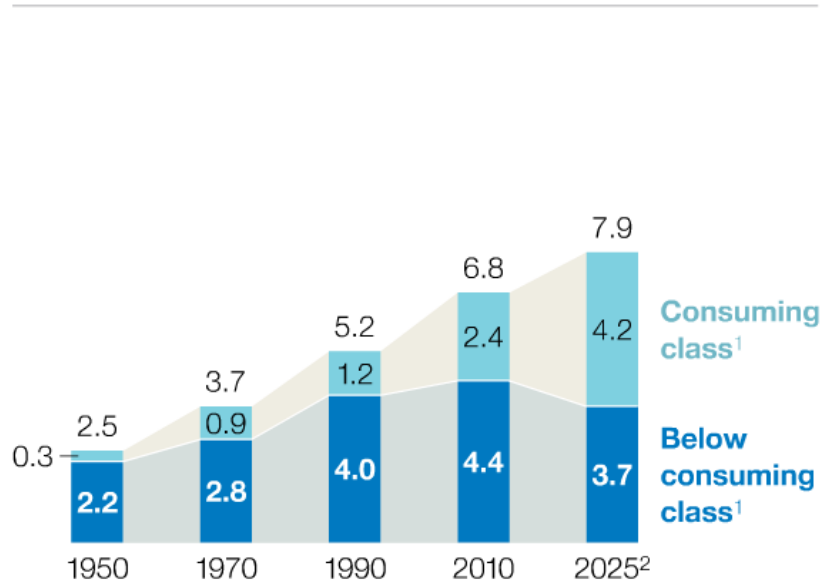
The Great Confluence

The Growth of EM Consumption is a VERY Big Deal

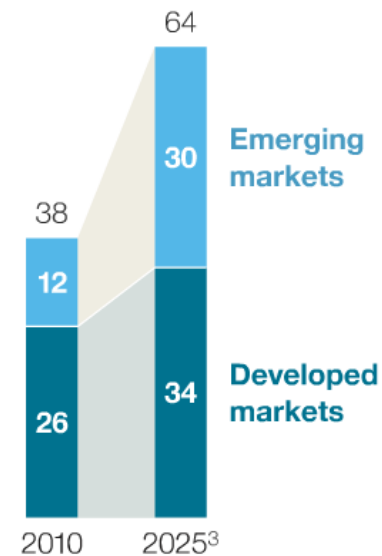
“The biggest growth opportunity in the history of capitalism”
- McKinsey & Company

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

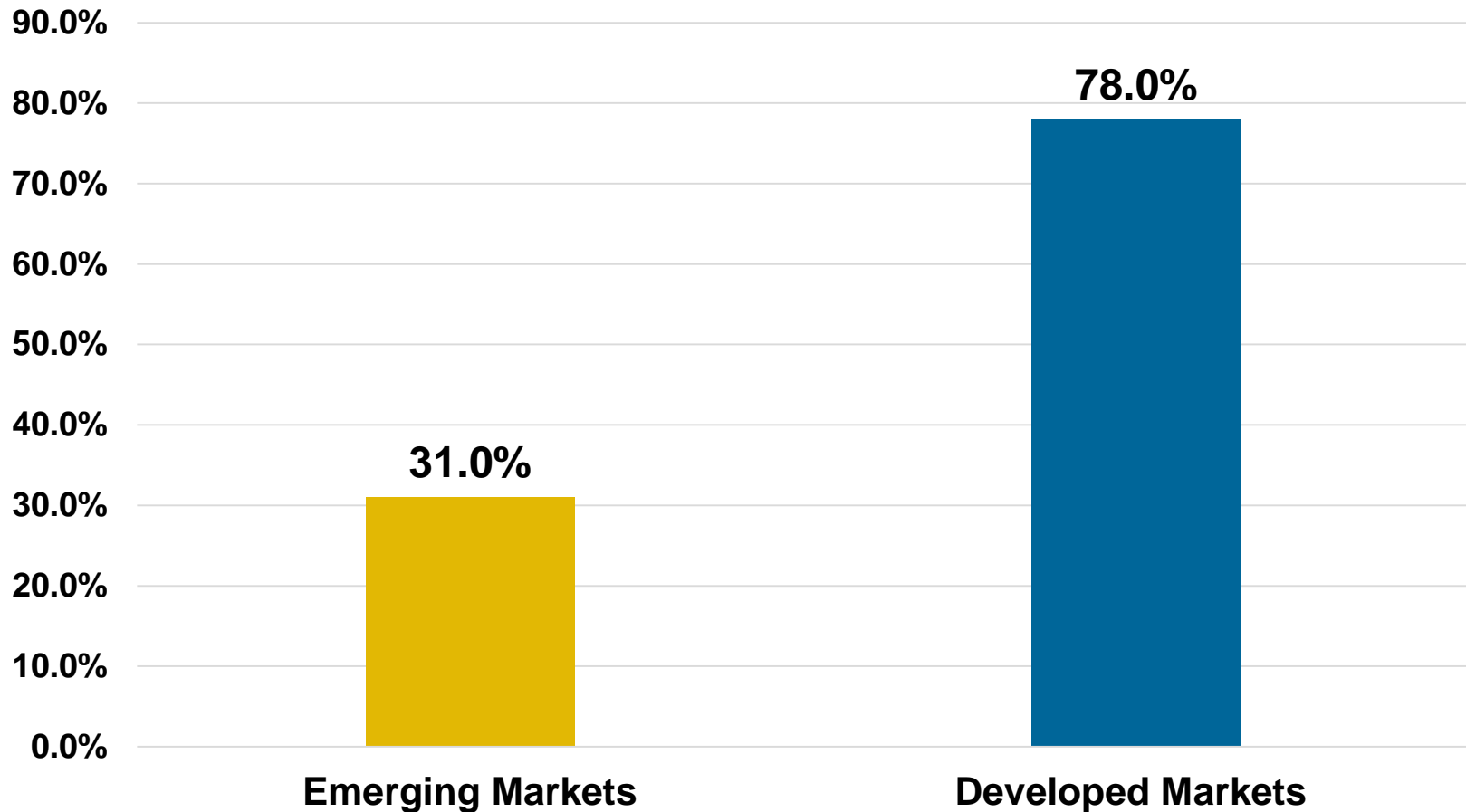


World consumption, \$ trillion



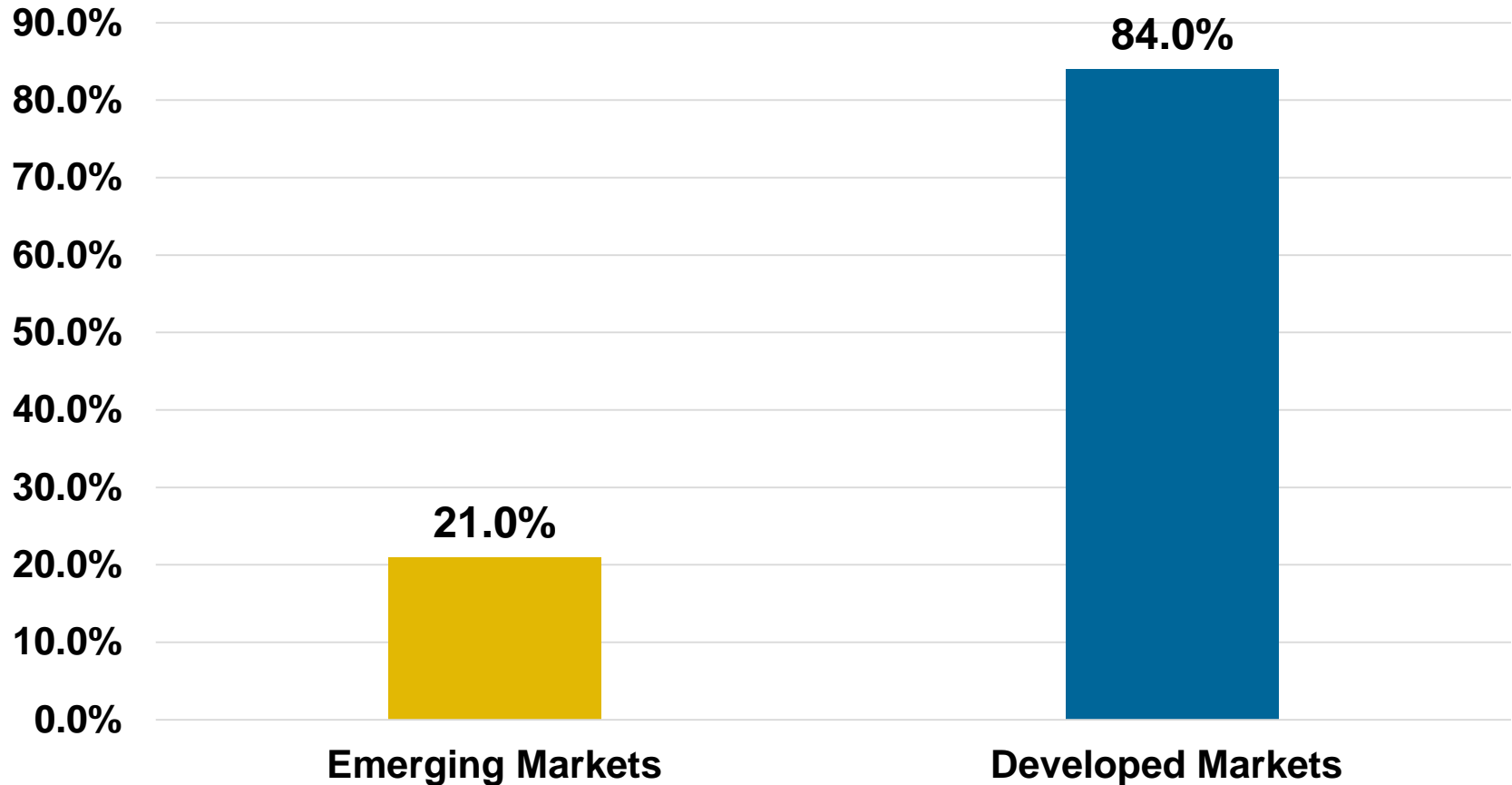
+ Low Internet Penetration

% Households with Internet Access 2014



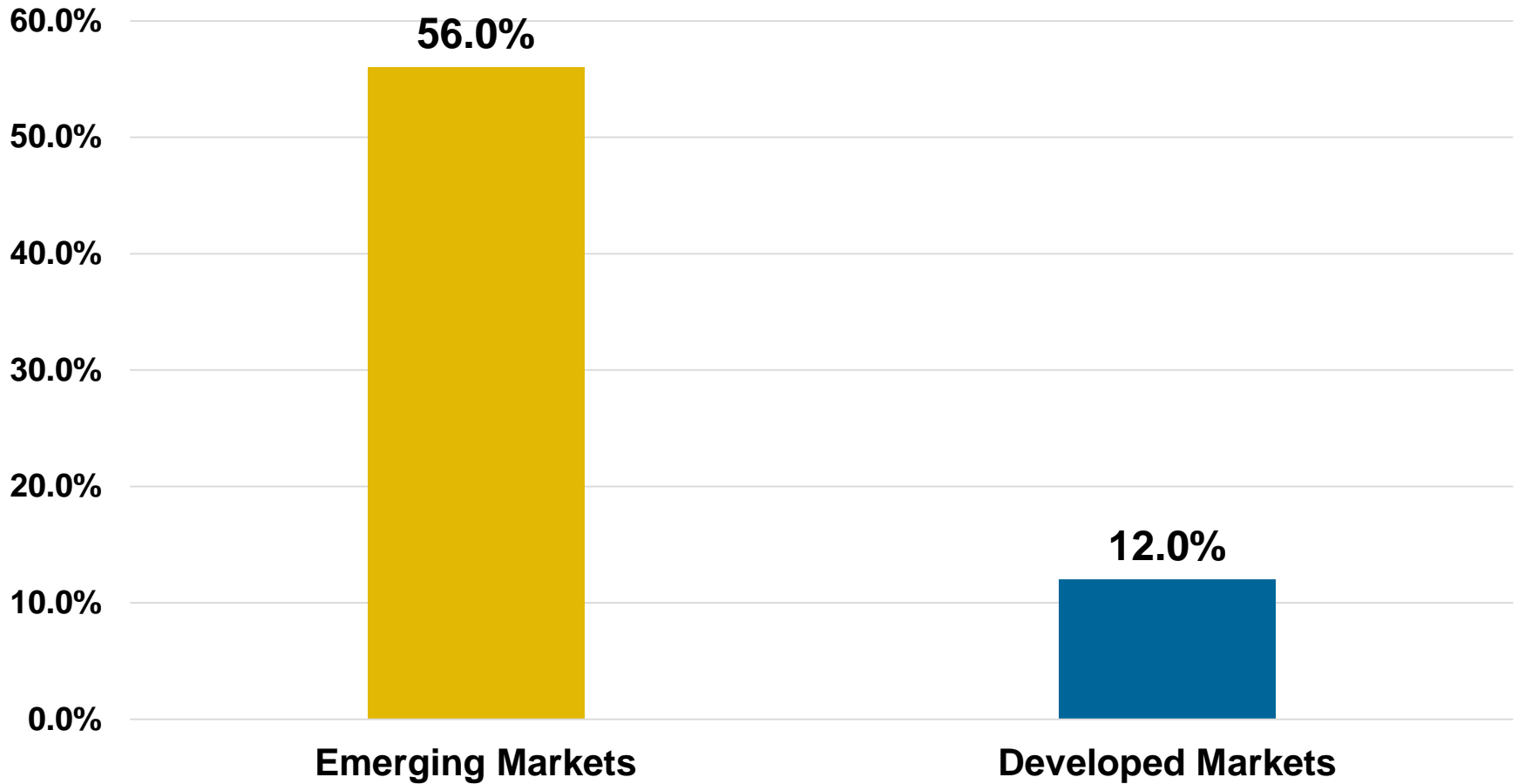
+ Low Mobile Broadband Penetration

% Population with Mobile Broadband



+ Growth of Access to Broadband

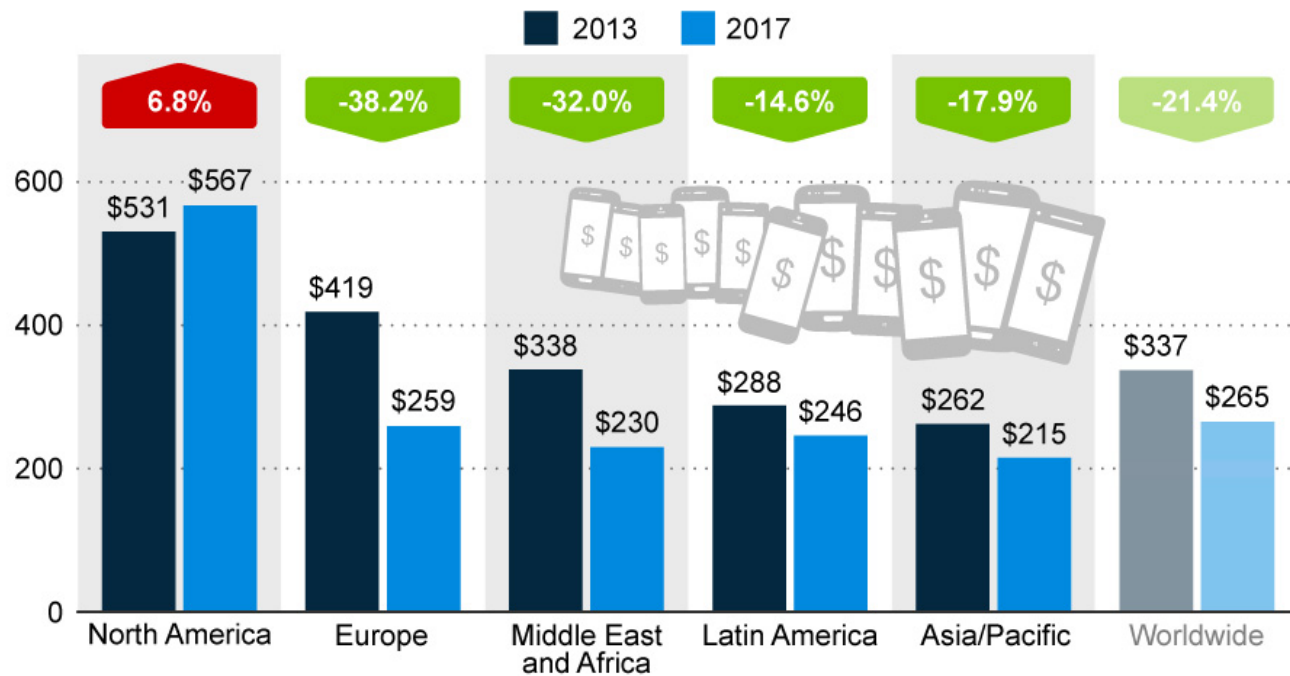
Growth in Broadband 2013-2018



+ Falling Smart Phone Prices

Smartphone Prices to Drop Everywhere But in North America

Estimated average selling price of smartphones in 2013 and 2017



+ Low Smartphone Penetration

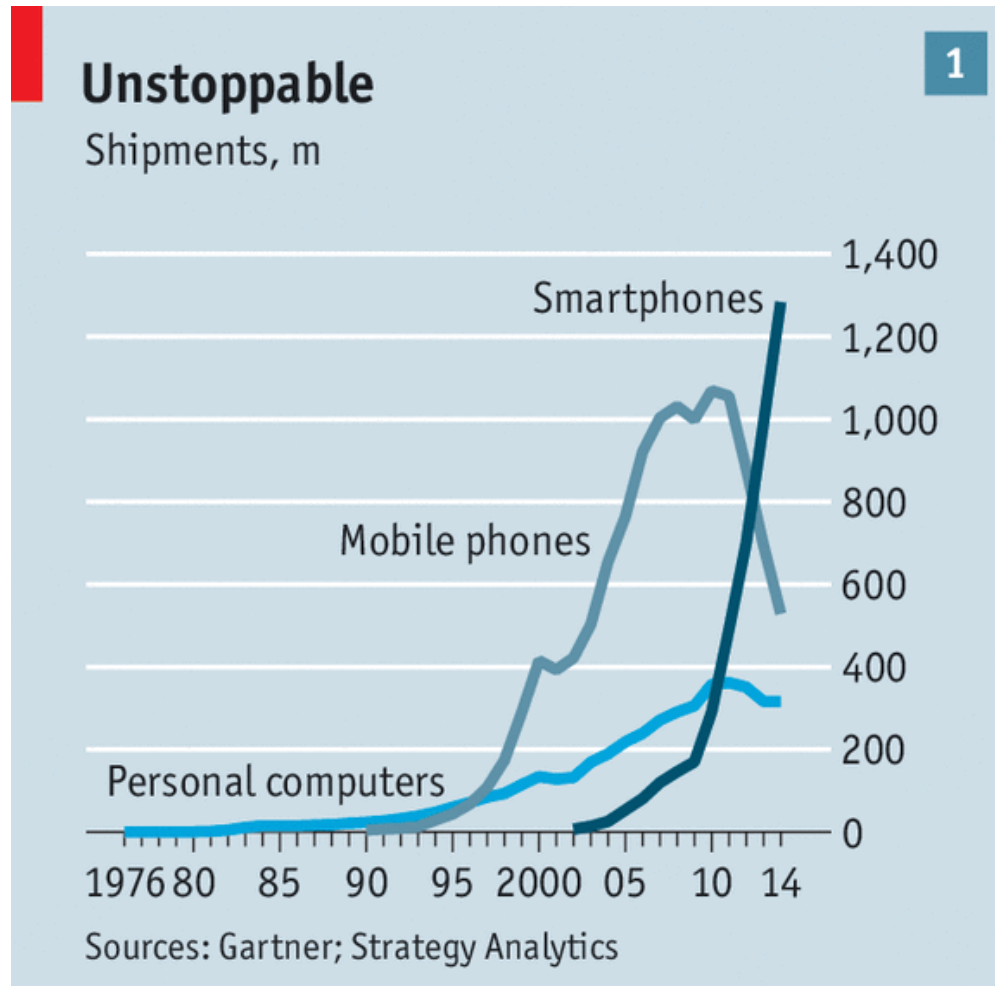
Rank	Country	2013E Smartphone Subs (MM)	Smartphone as % of Total Subs	Smartphone Sub Y/Y Growth	Rank	Country	2013E Smartphone Subs (MM)	Smartphone as % of Total Subs	Smartphone Sub Y/Y Growth
1	China	354	29%	31%	16	Spain	20	33%	14%
2	USA	219	58	28	17	Philippines	19	18	34
3	Japan*	94	76	15	18	Canada	19	63	21
4	Brazil	70	23	28	19	Thailand	18	21	30
5	India	67	6	52	20	Turkey	17	24	30
6	UK	43	53	22	21	Argentina	15	25	37
7	Korea	38	67	18	22	Malaysia	15	35	19
8	Indonesia	36	11	34	23	South Africa	14	20	26
9	France	33	46	27	24	Netherlands	12	58	27
10	Germany	32	29	29	25	Taiwan	12	37	60
11	Russia	30	12	38	26	Poland	11	20	25
12	Mexico	21	19	43	27	Iran	10	10	40
13	Saudi Arabia	21	38	36	28	Egypt	10	10	34
14	Italy	21	23	25	29	Sweden	9	60	16
15	Australia	20	60	27	30	Hong Kong	8	59	31

2013E Global Smartphone Stats: Subscribers = 1,492MM Penetration = 21% Growth = 31%

KPCB

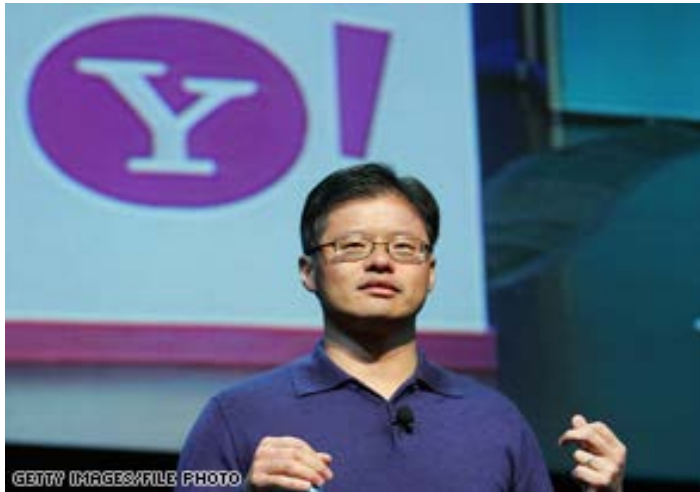
Note: *Japan data per Morgan Stanley Research estimate. Source: Informa. 40

= Smartphones Sweeping Across World



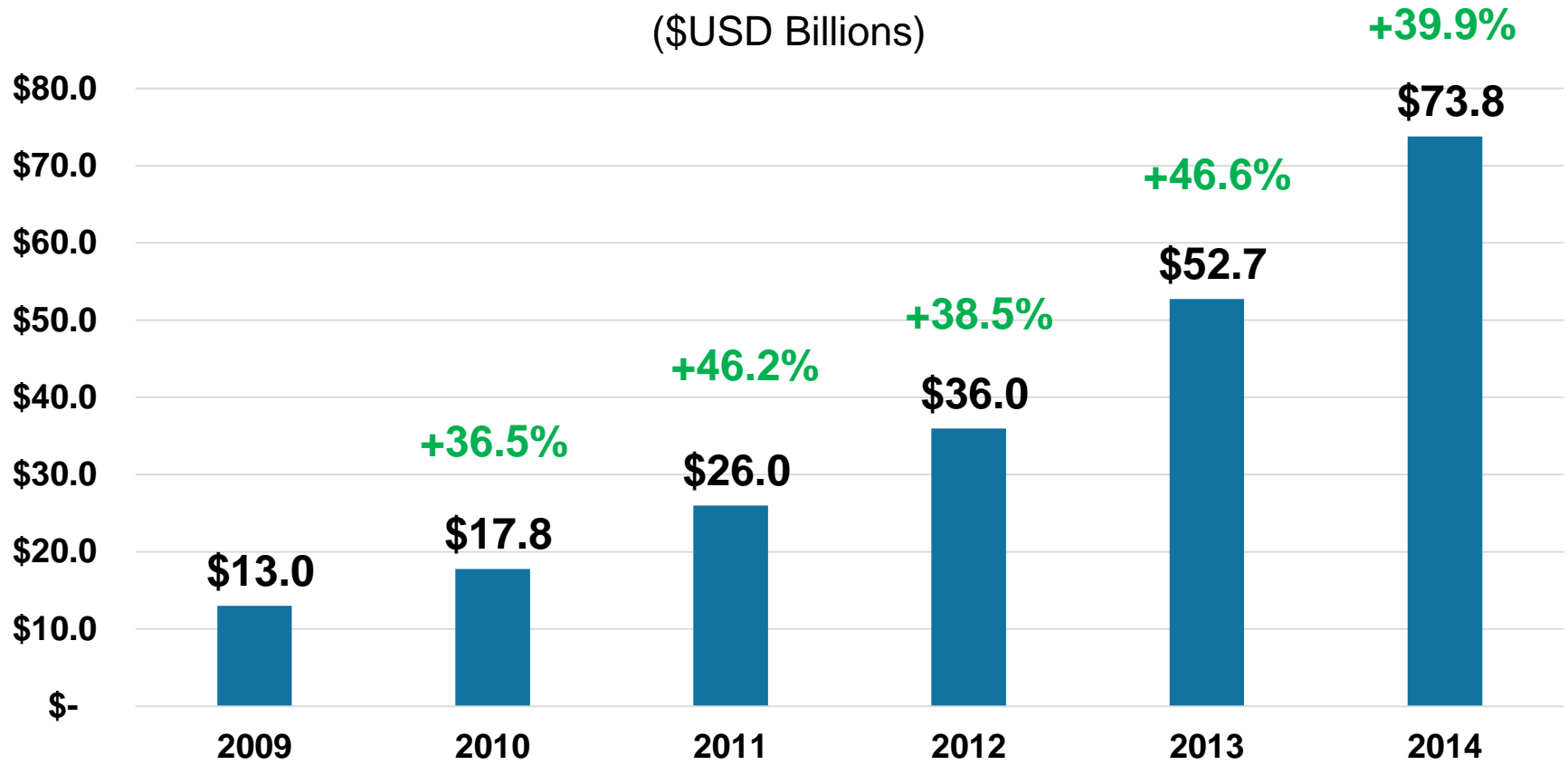
Economist.com

+ U.S. VCs funding EM Entrepreneurs



= Emerging Markets Ecommerce Revenue Growth

EMQQ Revenue
2009-2014
(\$USD Billions)



= U.S. IPOs



There is a Hole in EEM & VWO

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



Flipkart – “the Alibaba of India”



“The Steve Jobs of Africa”



konga.com

KONGA CEO IN Forbes

Sim Shagaya: On Building The Next Big Thing, Konga, Africa's Version Of Alibaba Part One

Chatting with Simdul 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 Building Th
Africa's Versio

is like an intense, super-
ness...in Africa. “We are the
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Konga.com’s
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The Future of Emerging Markets

- Consumption growth is the key story of EM Growth
 - + Traditional consumption infrastructure does not exist
 - + Low Broadband Penetration and Increased Access to Broadband
 - + Low Smart Phone Penetration and Falling Smart Phone Prices
 - + Young Entrepreneurs
 - + US Venture Capital
- = The Great Confluence

The Future Of Emerging Markets is Here

Q&A



Interactive Brokers Webcast
March 26, 2015

About the Speaker

Kevin T. Carter is the Chairman of the EMQQ Emerging Markets Internet & Ecommerce Index Committee. This index is the basis for EMQQ The Emerging Markets Internet ETF (NYSE: EMQQ). Since 1999, Mr. Carter has worked with Princeton Economist Dr. Burton G. Malkiel in the development of both passive and active index-based strategies.

Founder, Chairman & CEO of AlphaShares, an investment firm that offers five Emerging Markets 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 & EMRE. Mr. Carter remains a member of the AlphaShares Board of Directors and Index Committee. 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 of Electronic Investing Corporation (“eInvesting”). eInvesting 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.

Contact

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- Nothing in this document shall constitute an offer of investment advice. Such offer or solicitation can only be made by means of a Confidential Offering Memorandum and related exhibits which, among other things, disclose the risks of making an investment in the Fund.
- 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.



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Director ETF Sales

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