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# BERKSHIRE HATHAWAY INVESTS IN EMERGING MARKETS CONSUMER GROWTH

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At Berkshire Hathaway's 2018 annual shareholder meeting, Warren Buffett lamented missing the opportunity to invest in Google and Amazon. The chairman and CEO admitted he did not understand the technology well enough to determine whether the companies had a durable competitive advantage or if the "prospects were far better than the prices indicated" at the time. In the last decade, Buffett has appointed Todd Combs and Ted Weschler to manage a portion of the conglomerate's stock investments. The two submanagers have been credited with adding investments in payment companies Visa and Mastercard to Buffett's already large stake in American Express. More recently, Combs invested in two emerging market payment companies, Paytm and StoneCo Ltd.

Paytm,<sup>1</sup> a privately held company, is best known as India's largest mobile payments company, which facilitates transactions across 300 million users<sup>2</sup> and over 7 million merchants.<sup>3</sup> Helped by the [demonetization](#) of 87% of India's currency in circulation, Paytm has become a dominant competitor in mobile wallet payments, which have grown 14x in total volume since 2014.<sup>4</sup> Importantly, India's [real GDP growth](#) is expected to outpace growth in emerging market developing economies and advanced economies through 2023, driven in part by robust consumer spending.<sup>5</sup> As Buffett aptly stated, "The potential for India is incredible...it's a lot of people, a lot of buying power."

StoneCo,<sup>6</sup> which began trading on the NASDAQ in October 2018, is the fourth-largest payment processor by volume in Brazil.<sup>7</sup> Brazil is the fourth-largest market for non-cash transaction volumes in the world, and there is increased opportunity for growth. The nation's retail e-commerce sales are expected to grow at a compound annual growth rate from 2017 to 2022.<sup>8</sup> StoneCo's target demographics are small and medium-sized businesses within small and medium-sized cities. Cities with between 20,000 and 500,000 inhabitants are expected to account for more than 50% of Brazil's total consumer spending growth between 2015 and 2025.<sup>9</sup> The company estimates there are 8.8 million small and medium-sized businesses that are underpenetrated and ripe for outsized growth.

Paytm and StoneCo., much like American Express, Visa and Mastercard, are businesses that are positioned to benefit from self-reinforcing network effects in the nascent, but rapidly evolving, emerging market consumer sector. Their services are increasingly valuable to both existing and potential users as their networks grow. For example, over the trailing eight quarters, StoneCo. has experienced over 100% revenue retention while increasing its user base by 216%, demonstrating that the corresponding 161% increase in total revenue has been driven by organic transaction growth from both existing and new users.<sup>10</sup> From a financial perspective StoneCo and Paytm also benefit from positive [operating leverage](#)—network growth drives margin expansion from economies of scale and low marginal user costs. With large consumer networks already intact, Paytm and StoneCo are

also able to extend their value propositions by offering new services in addition to their core payments capabilities. Case in point, Paytm has leveraged its strong network to capitalize on the rise of the digital consumer in India by launching what is now the third-largest e-commerce business (Paytm Mall, behind Flipkart<sup>11</sup> and Amazon) as well as banking (Paytm Payments Bank) and mutual funds businesses (Paytm Money).<sup>12</sup>

### How to Position for Broader Growth

Berkshire Hathaway's investment in Paytm and StoneCo are two examples of the long-run growth potential for emerging market countries, including India and Brazil, as well as for the consumer-oriented businesses in these countries, in particular. These payments businesses also demonstrate that in order to tap into consumer growth businesses, one must broaden the search beyond merely a specific consumer sector strategy.

The [WisdomTree Emerging Markets Consumer Growth Fund \(EMCG\)](#) was built with this exact mindset. EMCG's investment thesis is predicated on the fact that emerging markets have growing populations with the potential for increasing incomes over time; therefore, consumer-focused stocks, like Paytm and StoneCo, should benefit. As an actively managed fund, EMCG employs Buffett-like methods of assessing investment opportunities by focusing on quantitatively researched high-quality companies with sustainable earnings growth.

For investors seeking a basket of securities that has the potential to capture growth trends in emerging market consumers and their local economies, in a liquid and transparent vehicle, WisdomTree believes one should consider EMCG.

<sup>1</sup>As of 11/19/18, the WisdomTree Emerging Market Consumer Growth Fund does not currently have exposure to Paytm. Holdings subject to change.

<sup>2</sup>Source: Nicole Friedman and Peter Rudegeair, "Warren Buffett's Firm Invests Millions in Fintech," The Wall Street Journal, 10/29/18.

<sup>3</sup>Source: Paytm, 11/12/18. See: <https://paytm.com/about-us/>.

<sup>4</sup>Source: Reserve Bank of India, 11/13/18.

<sup>5</sup>Source: World Economic Outlook, October 2018, International Monetary Fund, 10/8/18.

<sup>6</sup>As of 11/19/18 the WisdomTree Emerging Market Consumer Growth Fund does not currently have exposure to StoneCo Ltd. Holdings subject to change.

<sup>7</sup>Source: StoneCo Ltd., 2018 Prospectus. See: <http://www.sec.gov/edgar>.

<sup>8</sup>Source: StoneCo Ltd., 2018 Prospectus.

<sup>9</sup>Source: StoneCo Ltd., 2018 Prospectus.

<sup>10</sup>Source: StoneCo Ltd., 2018 Prospectus.

<sup>11</sup>As of 11/19/18, the WisdomTree Emerging Market Consumer Growth Fund does not currently have exposure to Flipkart. Holdings subject to change.

<sup>12</sup>Sankalp Phartiyal, "India's Paytm Mall Looks to Deepen Partnerships in Fight with Flipkart, Amazon," Thomson Reuters, 8/29/18.

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DEFINITIONS

**Demonetization**: The act of stripping a currency unit of its status as legal tender..

**Real growth**: Refers to the rate of economic growth with the inflation rate subtracted from it.

**Leverage**: Total assets divided by equity. Higher numbers indicate greater borrowing to finance asset purchases; leverage can tend to make positive performance more positive and negative performance more negative.