

BERKSHIRE HATHAWAY INVESTS IN EMERGING MARKETS CONSUMER GROWTH

Kara Marciscano — Associate, Research
11/30/2018

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,¹ a privately held company, is best known as India's largest mobile payments company, which facilitates transactions across 300 million users² and over 7 million merchants.³ 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 2014.⁴ 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.⁵ As Buffett aptly stated, "The potential for India is incredible...it's a lot of people, a lot of buying power."

StoneCo,⁶ which began trading on the NASDAQ in October 2018, is the fourth-largest payment processor by volume in Brazil.⁷ 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 2022.⁸ 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 2025.⁹ 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.¹⁰ 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 Flipkart¹¹ and Amazon) as well as banking (Paytm Payments Bank) and mutual funds businesses (Paytm Money).¹²

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.

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

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

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

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

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

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

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

⁸Source: StoneCo Ltd., 2018 Prospectus.

⁹Source: StoneCo Ltd., 2018 Prospectus.

¹⁰Source: StoneCo Ltd., 2018 Prospectus.

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

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

Important Risks Related to this Article

There are risks associated with investing, including possible loss of principal. Foreign investing involves special risks, such as risk of loss from currency fluctuation or political or economic uncertainty. Funds focusing on a single sector and/or smaller companies generally experience greater price volatility. Investments in emerging, offshore or frontier markets are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation, intervention and political developments. Due to the investment strategy of this Fund it may make higher capital gain distributions than other ETFs. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended

for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Kara Marciscano, Jianing Wu and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

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.