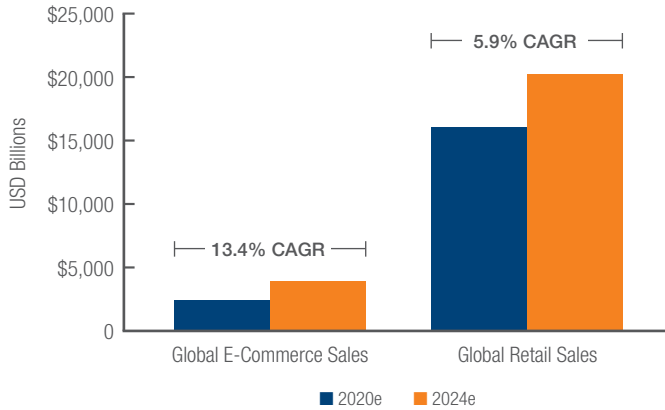




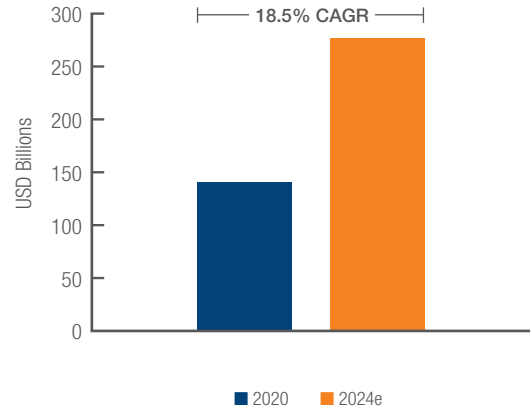
E-commerce Opportunities Outside of Asia

The Covid-19 pandemic, which led to lockdowns around the world, changed the way people purchase products. Consumers that were stuck indoors for much of 2020 turned to online shopping, accelerating powerful but still nascent trends within the e-commerce industry. Global e-commerce sales (i.e. internet retailing sales) are expected to reach more than US\$3.9 trillion by 2024, representing approximately 19.4% of global retail sales.¹

GLOBAL E-COMMERCE GROWTH



EM EX-ASIA E-COMMERCE GROWTH



Source: UBS, Euromonitor, Mirae Asset (November 2020). Note: e = expected, CAGR = Compound Annual Growth Rate

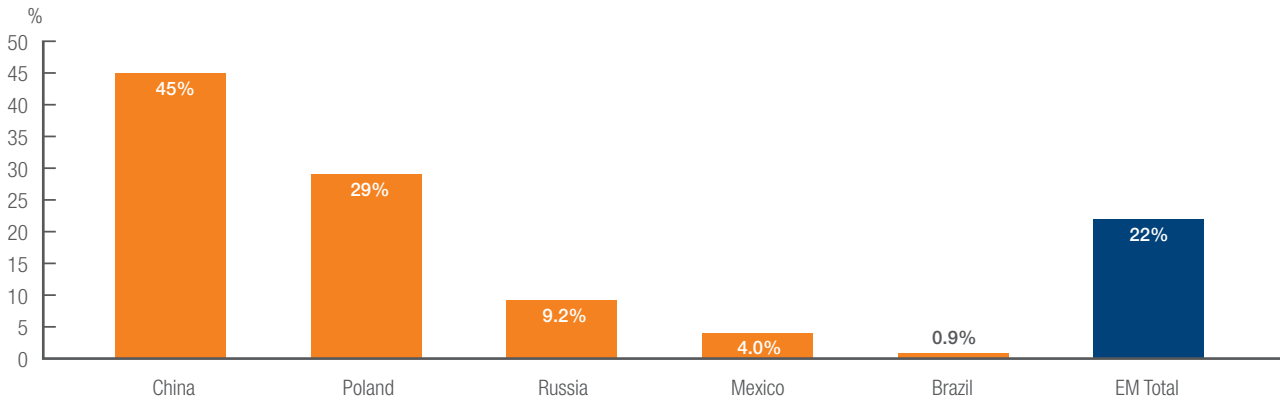
Past performance does not guarantee future results.

This figure does not reflect a measure of performance for any mutual fund.

International investors are likely familiar with the e-commerce story in China driven by companies such as Alibaba, Tencent, Meituan, and JD.com. E-commerce penetration in China leads most of the world at roughly 35% in 2021,² with online retail having experienced 34% 5-year CAGR from 2013-2018.² But what about the rest of the emerging markets (“EM”)? Although the MSCI EM

index’s internet and e-commerce exposure is about 82% Asian companies,² we have seen many new companies coming to the market in the EM ex-Asia region. We find that the total weight of e-commerce companies in each EM country’s market cap outside of Asia is still extremely low, ranging from 0.9% of the total market cap in Brazil to only 9.2% in Russia.³

INTERNET & E-COMMERCE AS A PERCENT OF COUNTRY’S MARKET CAP



Source: IBES, MSCI, DataStream, UBS (November 2020).

E-Commerce outside Asia

From a valuation perspective, as shown in the chart below, EM e-commerce companies trade at a discount to their developed market (DM) peers based on their 2022 Price-to-Sales (P/S) and Enterprise Value-to-Sales (EV/Sales) ratios. When we look at EM more granularly, we find that EM ex-Asia trades at even larger discounts. Latin America trades at the cheapest P/S and EV/S ratios within EM, followed by EEMEA, while Asia trades almost in line with DM peers.

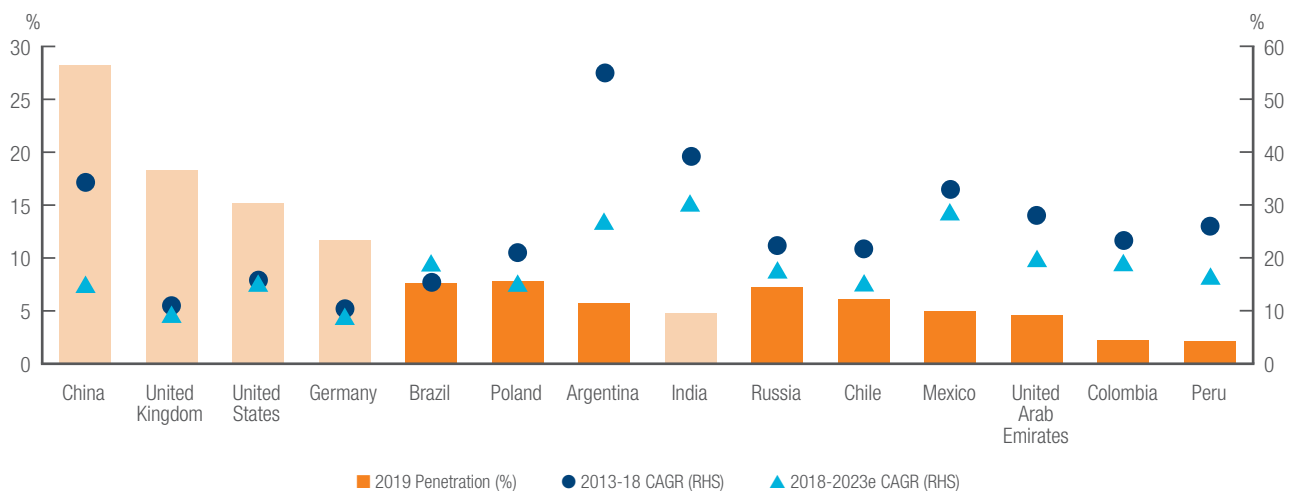
Within Latin America and EEMEA, more and more companies are making the leap from brick and mortar to online business models driven by structural shifts in the intertwined themes of growing mobile penetration, faster internet adoption, and greater financial inclusion via digital banking. E-commerce in EM ex-Asia is expected to grow at 18.5% CAGR through 2024 to reach US\$276 billion in total sales, well above the expected global and Asia Pacific e-commerce growth of 13.4% CAGR and 14.8% CAGR, respectively.⁴

E-COMMERCE VALUATION: EM VS DM

	P/S	DISCOUNT TO DM	EV/SALES	DISCOUNT TO DM
EM	5.4x	-14%	5.3x	-19%
EM Asia	6.6x	4%	6.2x	-5%
EM ex-Asia	4.7x	-25%	4.8x	-27%
• EEMEA	5.0x	-21%	5.2x	-21%
• Latin America	4.4x	-31%	4.4x	-34%
DM	6.3x		6.6x	

Source: Bloomberg, based on 12-month forward multiples. As of 4/6/2021.

E-COMMERCE PENETRATION AND GROWTH RATES



Source: UBS & Euromonitor (March 2021). Note: RHS = Right-hand side, e=expected.

Past performance does not guarantee future results.

This figure does not reflect a measure of performance for any mutual fund.

Roughly 52% of Russian consumers increased the frequency of their online shopping during the pandemic, and 90% plan to keep shopping as much or more frequently post pandemic.

Countries in EM ex-Asia are in the best position for future growth with higher expected e-commerce penetration growth rates. For example, Brazilians have been adopting FinTech for transactions faster than their American peers, and Russians have been rapidly opening online retail brokerage accounts, skipping over traditional stockbrokers. EM countries are being democratized by improving technological adoption including increasing mobile phone penetration, better wireless connectivity, and rapid FinTech adoption. These improvements are driving above-average growth in e-commerce. They are creating opportunities for niche players to reach their domestic markets with custom solutions that fit their level of logistics and financial development.

Most EM countries are expected to see 10-20% CAGR growth of e-commerce from 2020-2025, and those with favorable demographic trends are more likely to grow at even stronger levels, upwards of 30%.⁵ Furthermore, this rapid growth often creates additional opportunities for stock selection as new companies are coming to market to support e-commerce development in high growth areas such as logistics, hosting, marketplace services, and financial support through credit solutions. Because of these dynamics, e-commerce penetration across Latin America and EEMEA should grow at a faster growth rate compared to their Asian Pacific and DM peers in 2021 and beyond.

We expect this trend to be supported from both the buyer and seller side in EM ex-Asia. In particular, we expect more sellers to join third-party marketplaces given improvements in logistics offerings and selling capabilities, which should increase overall marketplace assortment, shopping frequency, and store traffic. Simultaneously, as buyers' comfort level and credit penetration increase, it should drive higher average tickets and order frequency.

Key Growth Drivers

Part of the reason consumers shopped online before the pandemic was the wider assortment of products available. With Covid-19 lockdowns in place, many consumers expanded into new online product categories. In Russia for example, e-grocery penetration is estimated at 1% compared to 9% for total e-commerce.⁶ Although the e-grocery segment suffers from lower margins, there is a significant catch-up opportunity as purchase frequency in the more penetrated developed markets is typically higher than other categories. Roughly 52% of Russian consumers increased the frequency of their online shopping during the pandemic,⁷ and 90% plan to keep shopping as much or more frequently post pandemic.⁷ Only about 23% of Russian consumers purchase fresh food online, lagging pet food (38%), home appliance (54%), digital consumer electronics (62%) and clothes and shoes (66%).⁷ Traditional grocery chains, such as X5, have built impressive logistics networks to deliver fresh produce in Russia. Meanwhile, technology companies like Yandex are using their fleet of taxi's and increasing capacity and density of trips made by leveraging delivery for multiple e-commerce segments including food delivery, e-grocery, and typical ride hailing. As users gain confidence in using digital payments over cash, we expect average tickets to increase as not only larger purchases will be made (e.g. furniture, appliance), but it should also allow for the future purchase of services, which will continue to grow in importance within EM. The growth from underpenetrated categories such as e-grocery will compliment this momentum. Together, the combination allows for higher frequency of purchases, with larger average tickets, helping e-commerce companies increase revenues ahead of traditional brick and mortar and mom & pop competitors.

COUNTRY EXAMPLE: OPPORTUNITIES IN MEXICO

These intertwined themes of growing mobile penetration, faster internet adoption, and greater financial inclusion are especially pronounced in Mexico, where digital payment systems and e-commerce are growing simultaneously. In 2019, 93% of payments in Mexico were in cash, only declining to 86% in 2020 due to the Covid-19 pandemic,⁸ compared to 19% in the US and 17% in China.⁹ Credit penetration, which stands at 37% in Mexico, is well below Brazil (59%), China (165%) and the US (192%).¹⁰ The percentage of Mexican adults with a smartphone remains below 60%.¹¹

These numbers show the massive potential within the country as new groups open digital bank and payment accounts, take lines of credit, and open the doors to online shopping. While those over 65 years old make up only about 5% of Mexico's online shoppers, we are encouraged by the 51% of online shoppers that are

under the age of 35.¹¹ Not only are we going to see more digital natives with higher levels of adoption going forward, but online shoppers are no longer just coming from the upper socioeconomic classes. Middle-income consumers already represent more than 51% of online shoppers in Mexico.¹² Historically, Mexican e-commerce development has lagged compared to the rest of Latin America due to concerns on (1) security, (2) payments, (3) information, and (4) logistics — all areas that are being actively managed and improved by companies such as Walmex and MercadoLibre. If companies can tackle these challenges and improve consumer confidence in using online payment platforms and mobile wallets, it could further accelerate Mexico's forecasted e-commerce growth of 29% CAGR through 2024 as e-commerce continues to make users lives even easier and more convenient.¹²

Winner Takes All?

We expect markets in Latin America and EEMEA to experience faster consolidation than international peers as large and well-capitalized players continue to take market share. However, we do not anticipate it will be a winner takes all environment. The boom in e-commerce is creating opportunities for niche players such as eObuwie (shoes), Arezzo (shoes and clothing), Petz (pet food and products), and Centauro (sports goods) to flourish with solid omnichannel execution. Third-party logistics companies such as Sequoia Logistica are helping expand e-commerce's footprint. IT companies such as Locaweb are helping bring new merchants online, giving them access to logistics networks and e-commerce management tools they would never be able to develop independently. Other players such as Kaspi in Kazakhstan and Jumia in Africa have a complete ecosystem offering that works on mobile phones with a growing marketplace, payment solution, and financing options included.

Company Snapshots:

- Walmex is leading retailer in Mexico that competes with the large informal market. Large brick and mortar network allows Walmex to reach 90% of consumers in Mexico City within 15 minutes. The company has invested heavily in grocery assortment in recent years and is now leveraging omnichannel and Walmart's technology experience in the US and abroad (e.g. Flipkart India). (Source: Company Presentation (2021))
- MercadoLibre is the largest e-commerce player in Latin America with key operations in Brazil, Mexico, and Argentina. The company offers a full ecosystem including payments through MercadoPago and is rapidly growing its credit business for both merchants and consumers. (Source: Company Presentation (2021))
- Magazine Luiza is a traditional brick and mortar retailer that has transformed itself into a formidable third party marketplace player in Brazil with strong logistics and

omnichannel offering. (Source: Company Presentation (2021))

- Sequoia Logistica recent IPO in Brazil and offers an asset lite third party logistics platform that serves eight of the largest ten e-commerce players in Brazil. (Source: Company Presentation (2021))
- Ozon is an e-commerce marketplace in Russia that started in the 1990's as an online book retailer. Since a new management team was put in place in 2018 the company has seen rapid growth. The business expanded from first-party to third-party marketplaces and has been building out a strong IT and logistics backbone. (Source: Company Presentation (2021))
- Detsky Mir is the largest toy goods retailer in Russia that has recently launched a third-party marketplace to complement their assortment of children's goods. In addition, they have recently launched a new pet store format and plan to use their rapidly growing store network and logistics capabilities to serve their ambitious plans for their third-party marketplace. (Source: Company Presentation (2021))
- Allegro is the largest e-commerce player in Poland with roughly 33% market share. The company is currently building out their pay platform and recently launched Smart! Subscription, similar to Amazon Prime. (Source: Company Presentation (2021))
- Yandex is the largest search and advertising company in Russia that also boasts the only profitable joint venture with Uber globally. The company only recently started investing into their online marketplace after their joint venture with Sberbank ended. Yandex has tremendous advantages given their existing price compare tool, which is used by 40% of consumer in Russia before online purchases, and growing ecosystem of products. (Source: Company Presentation (2021))
- Locaweb a dominant online hosting business in Brazil, has a fast growing commerce business that offers e-commerce solutions (e.g. marketing, CRM, logistics) that help merchants begin selling their products online. The company boasts high level of recurring revenues with low churn. (Source: Company Presentation (2021))
- Kaspi is Kazakhstan's largest fintech firm that is connecting merchants and consumers by enabling digital payments, e-commerce, and financial services. Merchants save interchange fees from buyers that use Kaspi's financial products, and with over 9 million users the network effects are powerful. (Source: Company Presentation (2021))
- Jumia is a pan-African e-commerce marketplace, logistics, and payment services company that is seeing improved profitability by focusing on unit economics driven by smaller sized, but more profitable orders. JumiaPay transactions have reached 33% of total orders through their platform. (Source: Company Presentation (2021))

E-commerce trends in Emerging Asia, led by Chinese companies Alibaba, Tencent, Meituan, and JD.com, is a strong and familiar story to most investors. However, E-commerce in EM ex-Asia is still in its early development phase with powerful growth tailwinds that are set to accelerate as younger shoppers grow-up online. As the MSCI EM Index's sector weights continue to shift towards technology, communication services, and consumer discretionary sectors we are excited by the many prospects for growth and attractive opportunities for stock selection ahead.

Footnotes

- ¹ UBS & Euromonitor (November 2020)
- ² UBS & Euromonitor (November 2020)
- ³ UBS & Euromonitor (November 2020)
- ⁴ UBS & Euromonitor (November 2020)
- ⁵ HSBC EEMEA E-Commerce – Digitalisation of Retail (March 2021)
- ⁶ JP Morgan Research, Russian E-Commerce Report (March 2021)
- ⁷ JP Morgan Research, Russian E-Commerce Report (March 2021)
- ⁸ BTG Pactual, Mexico E-Commerce: The lay of the land (March 2021)
- ⁹ Euromonitor, BofA Global Research (March 2021)
- ¹⁰ Santander & World Bank Data (March 2021)
- ¹¹ INEGI (2020)
- ¹² AMVO, JP Morgan Research (February 2021)

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