The Through Train is Coming:
An Overview of the Shanghai-Hong Kong Stock Connect

Presented by:
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KraneShares is dedicated to raising awareness of opportunities in China’s economy & capital markets among global investors.
Shanghai-Hong Kong Stock Connect Is a Significant Event For Investors Globally

1. Unprecedented Access to China’s Mainland Markets For the First Time

2. Immediate buy opportunity
   - Mainland Discount to Hong Kong Dual Listed Companies
   - Inexpensive Valuations
   - Technical Analysis
   - Lack of Correlation to Equity Indices

3. Potential Inclusion In Benchmarks
China Is Home To Three of the World’s Largest Stock Exchanges

- There are 120 active stock exchanges in the world
- The top 15 stock exchanges hold 81.69% of global market capitalization
- 10.83% of global market capitalization is held on the three Chinese stock exchanges

### Top 15 stock exchanges by market cap, July 2014

<table>
<thead>
<tr>
<th>Rank</th>
<th>Exchange</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>NYSE</td>
<td>26.59%</td>
</tr>
<tr>
<td>2</td>
<td>NASDAQ OMX</td>
<td>9.35%</td>
</tr>
<tr>
<td>3</td>
<td>Japan Exchange Group - Tokyo</td>
<td>6.69%</td>
</tr>
<tr>
<td>4</td>
<td>London Stock Exchange Group</td>
<td>6.41%</td>
</tr>
<tr>
<td>5</td>
<td>Euronext</td>
<td>5.20%</td>
</tr>
<tr>
<td>6</td>
<td>Hong Kong Exchanges</td>
<td>4.73%</td>
</tr>
<tr>
<td>7</td>
<td>Shanghai Stock Exchange</td>
<td>3.76%</td>
</tr>
<tr>
<td>8</td>
<td>TMX Group - Canada</td>
<td>3.48%</td>
</tr>
<tr>
<td>9</td>
<td>Deutsche Bourse</td>
<td>2.60%</td>
</tr>
<tr>
<td>10</td>
<td>Shenzhen Stock Exchange</td>
<td>2.34%</td>
</tr>
<tr>
<td>11</td>
<td>SIX Swiss Exchange</td>
<td>2.22%</td>
</tr>
<tr>
<td>12</td>
<td>Australian Stock Exchange</td>
<td>2.17%</td>
</tr>
<tr>
<td>13</td>
<td>Bombay Stock Exchange India</td>
<td>2.14%</td>
</tr>
<tr>
<td>14</td>
<td>National Stock Exchange India</td>
<td>2.10%</td>
</tr>
<tr>
<td>15</td>
<td>Korea Exchange</td>
<td>1.92%</td>
</tr>
</tbody>
</table>

Source: [www.world-exchanges.org](http://www.world-exchanges.org) as of July 2014, KraneShares
Foreign Investors Have Had Very Limited Exposure to the Mainland Markets. Investing In China Has Historically Meant Investing in Chinese Companies Listed in Hong Kong

<table>
<thead>
<tr>
<th>Share Class</th>
<th>Exchange</th>
<th>Currency</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Share</td>
<td>Shanghai or Shenzhen</td>
<td>RMB</td>
</tr>
<tr>
<td>B Share</td>
<td>Shanghai or Shenzhen</td>
<td>USD</td>
</tr>
<tr>
<td>H Share</td>
<td>Hong Kong</td>
<td>HKD</td>
</tr>
<tr>
<td>Red Chip</td>
<td>Hong Kong</td>
<td>HKD</td>
</tr>
<tr>
<td>N Share</td>
<td>NYSE or NASDAQ</td>
<td>USD</td>
</tr>
<tr>
<td>S Share</td>
<td>Singapore</td>
<td>SGD</td>
</tr>
<tr>
<td>P Share</td>
<td>Hong Kong</td>
<td>HKD</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>Hong Kong</td>
<td>HKD</td>
</tr>
</tbody>
</table>

Source: KraneShares
Historical Access to the Mainland Markets – QFII

270 Institutions Globally Have Been Provided Access to the Mainland Markets through the Qualified Foreign Institutional Investor Program (QFII).

Key points regarding QFII:

• The goal of the QFII program is to attract long-term, stable foreign capital into China’s capital markets

• Institutions must go through a lengthy process to apply for and receive a QFII license from the China Securities Regulatory Commission (CSRC)
  • Criteria for application: asset size, # of years in business, headquarters, home country
  • Currently hedge funds are not eligible for QFII

• Approved QFII licensees must then apply for an investment quota from the State Administration for Foreign Exchange (SAFE)

• QFII Custodians – who must be approved by the CSRC – play a significant role in the application process

• QFII investments have a 1 year lock up period
In response to the success of the QFII program, Chinese authorities created the Renminbi Qualified Foreign Institutional Investor Program (RQFII). RQFII allowed Chinese asset managers to list mainland access ETFs and mutual funds in Hong Kong.

**Key points regarding RQFII:**

- Originally launched in 2011, allowing Hong Kong-incorporated subsidiaries of Chinese asset managers to apply for investment quota.
- RQFII allows offshore Chinese asset managers to structure passive strategies such as ETFs which invest directly in Mainland equities or fixed income products.
- RQFII was recently expanded to other financial institutions whose primary business is conducted in Hong Kong.
- RQFII applicants must apply for and receive an RQFII quota.
- RQFII provides daily liquidity whereas QFII allows for only weekly liquidity.
- RQFII is denominated in RMB and does not impact China’s foreign currency reserves, providing greater ease of approval and ability to receive more quota.
New Access to the Mainland Markets – The Shanghai-Hong Kong Stock Connect

Shanghai-Hong Kong Stock Connect Allows Foreign Investors Access to the Shanghai Stock Exchange without QFII. It also provides access to the Hong Stock Exchange for mainland investors.

Key points regarding the Shanghai-Hong Kong Stock Connect:

• In mid to late October, 2014, 568 Stocks on the Shanghai Stock Exchange (SSE) will be eligible for purchase

• These stocks represent 90% of the SSE market capitalization & 80% of Average Daily Turnover

• Within the 568, 66 are dually listed on the SSE and Hong Kong Stock Exchange

• Aggregate Connect Quota RMB 300 billion (~US $48.7 billion)

• Aggregate Quota = Aggregate Buy Trades + Aggregate Sell Trades

• RMB 13 billion Daily Quota (~US $2.1 billion)

• Daily Quota = Buy Orders + Sell Trades + Adjustments (eg Buy Order cancelled, Buy Order rejected by SSE, Buy Order executed at a better price)
Short Term Implication of Hong Kong-Shanghai Stock Connect

Hang Seng AH Premium Index tracks the companies with stocks dually listed on the Hong Kong Stock Exchange and mainland exchanges. When values are above 100, the mainland stocks are at a premium to the Hong Kong share class.

A/H Premium Index
01/01/2006 – 10/01/2014

When values are above 100 the mainland stocks are at a premium to the Hong Kong share class

Source: Bloomberg 10/1/2014
Inexpensive Valuations

The mainland markets are trading to low valuations compared to other indices.

<table>
<thead>
<tr>
<th>Index</th>
<th>P/E</th>
<th>P/E Fwd</th>
<th>P/BV</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSCI China A</td>
<td>12.56</td>
<td>9.7</td>
<td>1.7</td>
</tr>
<tr>
<td>MSCI ACWI IMI</td>
<td>17.83</td>
<td>14.4</td>
<td>2.02</td>
</tr>
<tr>
<td>MSCI Emerging Markets</td>
<td>12.67</td>
<td>10.3</td>
<td>1.52</td>
</tr>
<tr>
<td>MSCI USA</td>
<td>18.91</td>
<td>15.64</td>
<td>2.72</td>
</tr>
</tbody>
</table>

The mainland market’s low P/E (green line) has been driven by strong Earnings Per Share growth (blue line).

Mainland Market P/E and Earnings Per Share Growth

Source: Table from MSCI as of September 30, 2014; Chart from Bloomberg as of October 1, 2014
Technical Analysis

The mainland markets appear to have completed a triangle breakout named for resembling a sideways triangle.

Source: MSCI China A Chart from Sejul Gokal, Bloomberg’s Technical Analyst of Bloomberg as of October 2, 2014
Onshore Chinese Equities Have Exhibited Low Correlation to other Indices Historically

- As Emerging Markets (EM) become more correlated with Developed Markets over the years, the diversification benefits of EM investing have largely diminished
- Frontier Markets (FM) still has relatively low correlations with the rest of the world
- Remarkably, China A-shares exhibits an even lower correlation than Frontier Markets

- MSCI’s “China A-shares: Too Big to Ignore” September 2014

### MSCI Indices Correlation to MSCI China A

<table>
<thead>
<tr>
<th></th>
<th>ACWI</th>
<th>EAFE</th>
<th>EM</th>
<th>USA</th>
<th>China</th>
<th>Frontier</th>
<th>China A</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACWI</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EAFE</td>
<td>0.96</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EM</td>
<td>0.88</td>
<td>0.86</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USA</td>
<td>0.94</td>
<td>0.83</td>
<td>0.74</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>0.67</td>
<td>0.67</td>
<td>0.83</td>
<td>0.53</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Frontier</td>
<td>0.38</td>
<td>0.39</td>
<td>0.36</td>
<td>0.32</td>
<td>0.31</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>China A</td>
<td>0.16</td>
<td>0.17</td>
<td>0.28</td>
<td>0.08</td>
<td>0.43</td>
<td>0.15</td>
<td>1</td>
</tr>
</tbody>
</table>

- ACWI - All Country World Index
- EAFE - Europe, Australasia, Israel and Far East
- EM - Emerging Markets
- China - Chinese companies listed in Hong Kong
- Frontier - Frontier Markets
- China A - Chinese companies listed on Shanghai and Shenzhen Stock Exchanges

Source: Table from Bloomberg, weekly correlation from September 30, 2003 to September 30, 2014
Potential Inclusion in Benchmarks:
Mainland Stocks Have Not Been Included In Broader Indices
Due to the Lack of Access By Foreign Investors
Successful implementation of the Shanghai-Hong Kong Stock Connect, could allow MSCI to include mainland equities in their indices. Below is MSCI’s roadmap for including the mainland in their MSCI Emerging Markets Index.

KR = South Korea  
BR = Brazil  
TW = Taiwan  
SA = South Africa  
RU = Russia  
In = India  
MX = Mexico  
MY = Malaysia  
TH = Thailand  
ID = Indonesia  

* The percentage number refers to the Inclusion Factor applied to the free float-adjusted market capitalization of China A share constituents in the pro forma MSCI China Index. China A-share securities are subject to a foreign ownership limit of 30%  
Data as of October 18, 2013 based on the pro forma results of November 2013 SAIR (Semi-Annual Index Review)  
Source: MSCI
In October, the Shanghai-Hong Kong Stock Connect Begins

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# KBA Performance as of 9/30/2014

<table>
<thead>
<tr>
<th>KBA Performance History Cumulative as of 9/30/2014*</th>
<th>1 Month</th>
<th>3 Months</th>
<th>6 Months</th>
<th>Since Inception 3/4/2014</th>
<th>Since Inception as of QTR Ending 9/30/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund NAV</td>
<td>5.49%</td>
<td>16.55%</td>
<td>19.57%</td>
<td>15.27%</td>
<td>15.27%</td>
</tr>
<tr>
<td>Closing Price</td>
<td>5.61%</td>
<td>16.45%</td>
<td>19.37%</td>
<td>16.07%</td>
<td>16.07%</td>
</tr>
<tr>
<td>MSCI China A Index</td>
<td>5.70%</td>
<td>16.98%</td>
<td>19.49%</td>
<td>15.96%</td>
<td>15.96%</td>
</tr>
</tbody>
</table>

*Cumulative return is the aggregate amount that an investment has gained or lost over time. Annualized Return is the average return gained or lost by an investment each year over a given time period.

The performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor’s shares, when sold or redeemed, may be worth more or less than their original cost and current performance may be lower or higher than the performance quoted. Please visit www.kraneshares.com or call 1-855-857-2638 for most recent performance a given time period.
Definitions – Source Bloomberg

Price/Earnings Ratio equals the security’s current price divided by the earnings per share.

Price/Earnings Forward Ratio uses forecasted earnings for the P/E calculation for the next twelve moths.

Price/Book Value Ratio equals a stock’s price divided by the book value per share.

There is no guarantee that any security will be added to an index or a Fund.

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Read the prospectus carefully before investing.

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Narrowly focused investments and investments in smaller companies typically exhibit higher volatility. Internet companies are subject to rapid changes in technology, worldwide competition, rapid obsolescence of products and services, loss of patent protections, evolving industry standards and frequent new product productions. Such changes may have an adverse impact on performance.

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