



# Potential Benefits of an All China Exposure to the New China Economy

An Overview of the KraneShares Zacks New China ETF (ticker: KFYP)



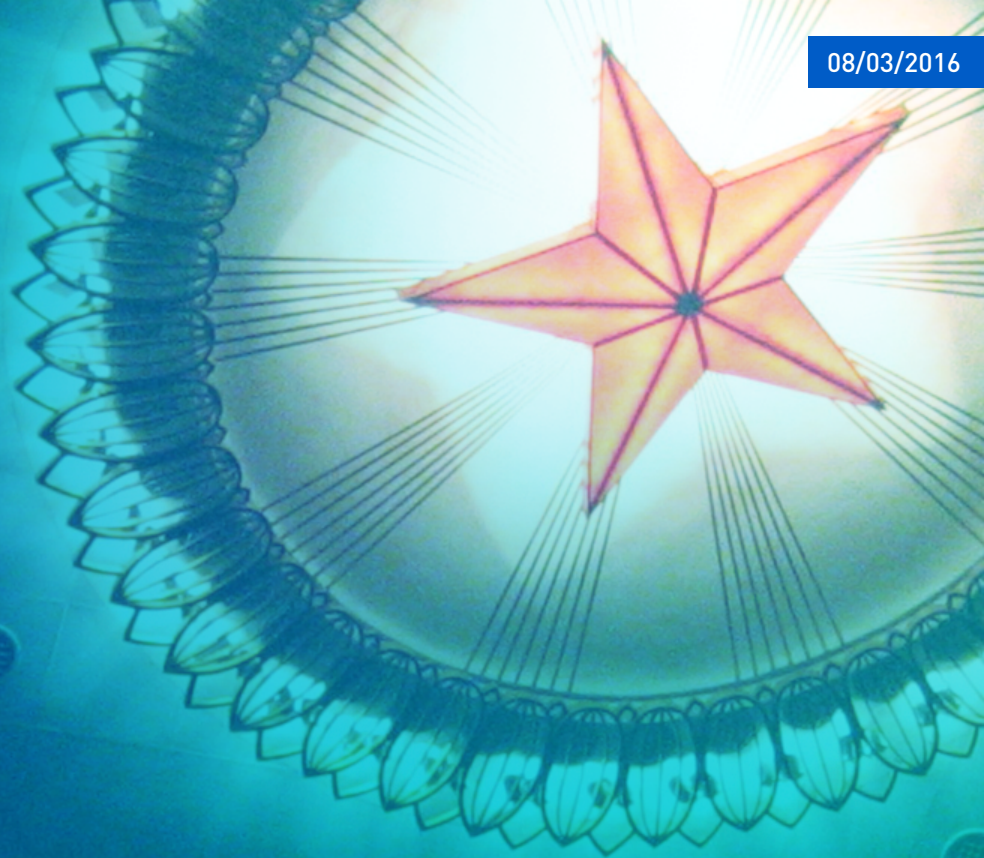
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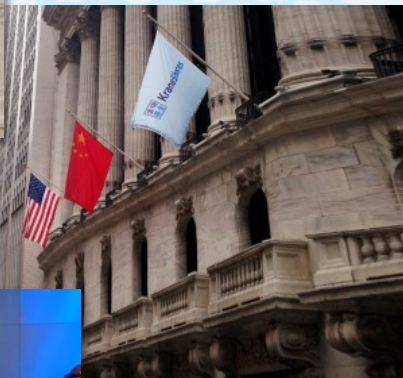
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## Introduction to KraneShares

### About KraneShares

Krane Funds Advisors, LLC is the investment manager for KraneShares ETFs. The firm is focused on providing investors with strategies to capture China's importance as an essential element of a well-designed investment portfolio. KraneShares ETFs represent innovative, first to market strategies that have been developed based on the firm and its partners' deep knowledge of investing. These strategies allow investors to stay ahead of global market trends and provide meaningful diversification.





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- I. **Understanding China's Weight in Indexes**
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## Understanding China's Weight in Indexes

## Many popular China-focused indexes only represent a small portion of China's total market capitalization

The MSCI China Index is limited to 145 Chinese companies listed on the Hong Kong Stock Exchange and the recently included 13 Chinese companies listed in the United States. This definition represents only a small percentage of Chinese stocks.

**MSCI China Index** (Hong Kong and US only)  
 153 Stocks  
 \$854 Billion Free Float Market Capitalization\*

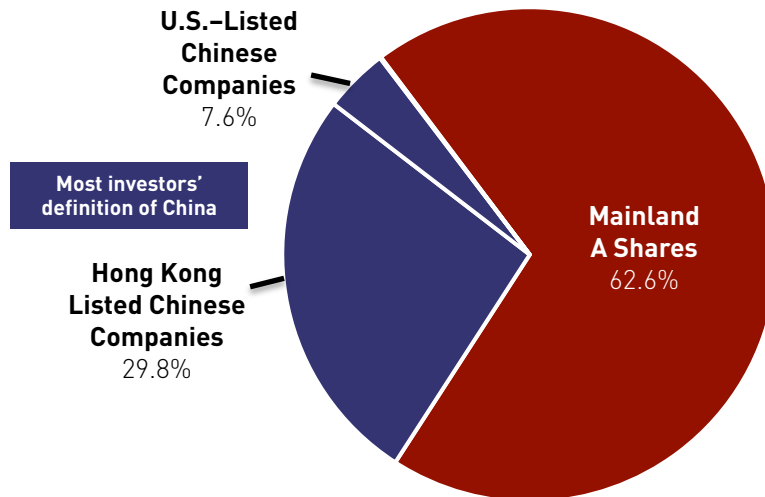
**MSCI All China Investable Market Index**  
 2,519 Stocks  
 \$3.14 Trillion Free Float Market Capitalization\*

Source: MSCI June 30, 2016

**\*Free Float Market Capitalization:** Free-float methodology market capitalization is calculated by taking the equity's price and multiplying it by the number of shares readily available in the market. Instead of using all of the shares outstanding like the full-market capitalization method, the free-float method excludes locked-in shares such as those held by promoters and governments.

Index returns are for illustrative purposes only. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results. See page 21 for index definitions.

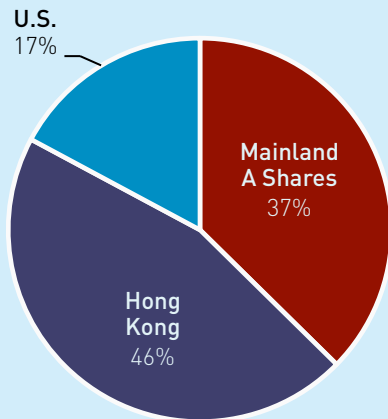
**China Share Class Breakdown of  
 MSCI All China Investable Market Index  
 (MSCI June 30, 2016)**



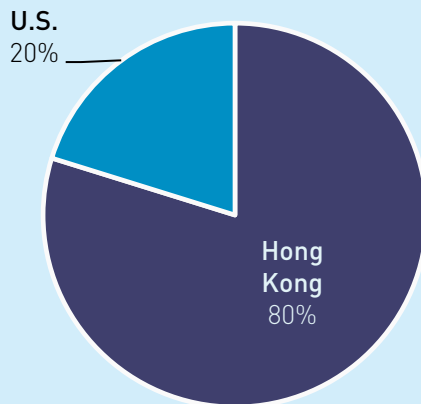
## Many popular China indexes do not include China's Mainland A share equity market

Popular indexes, such as the MSCI China Index and the FTSE China 50 Index, define the investment universe for many emerging market funds. Their definition of China includes companies listed on the Hong Kong Stock Exchange and recently Chinese companies that list in the United States, but does not include Mainland A-shares listed on the Shanghai and Shenzhen stock exchanges. The KraneShares Zacks New China ETF includes Mainland A shares.

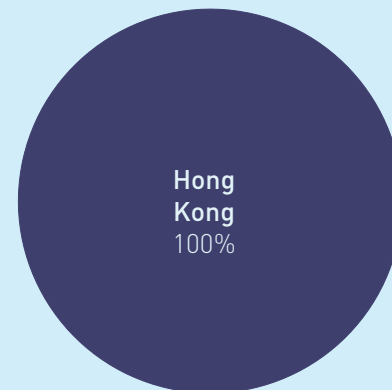
**China Share Class Breakdown of KFYP**



**China Share Class Breakdown of MSCI China Index**



**China Share Class Breakdown of FTSE China 50 Index**



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## Mainland China A share equities exhibit low correlation to other global markets

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), countries whose stocks are less mature than those in EM, still have relatively low correlations with the rest of the world
- Remarkably, China A-shares exhibit an even lower correlation than Frontier Markets

## MSCI Indexes Correlation to MSCI China A Index

	ACWI	EAFE	EM	USA	China	Frontier	China A
ACWI	1						
EAFE	0.98	1.00					
EM	0.91	0.87	1.00				
USA	0.96	0.90	0.80	1.00			
China	0.74	0.73	0.88	0.63	1.00		
Frontier	0.82	0.80	0.86	0.74	0.71	1.00	
<b>China A</b>	<b>0.43</b>	<b>0.40</b>	<b>0.52</b>	<b>0.39</b>	<b>0.65</b>	<b>0.42</b>	<b>1.00</b>

- 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, monthly correlation from June 30, 2006 to June 30, 2016

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## China's 13<sup>th</sup> Five Year Plan



## China's 13<sup>th</sup> Five Year Plan provides investors with China's business plan for its next phase of economic development

The Chinese government has outlined five key tenets that will drive all aspects of China's society. These tenets also reveal the economic sectors that the Chinese government has targeted for growth.

### Five Year Plan Tenets:



Inclusivity



Innovation



Coordination



Green



Openness



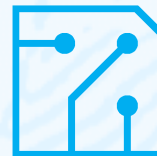
Xi Jinping – 习近平  
President of the People's  
Republic of China

## Five Tenets of the 13<sup>th</sup> Five Year Plan



### Inclusion

Secure a strong middle class base by building up existing social services



### Innovation

Shift China's economic structure into a higher-tech focus as a primary driver of growth



### Coordination

Ensure equal development across both urban and rural areas.



### Green

Protect the environment and pursue environmentally friendly means of growth

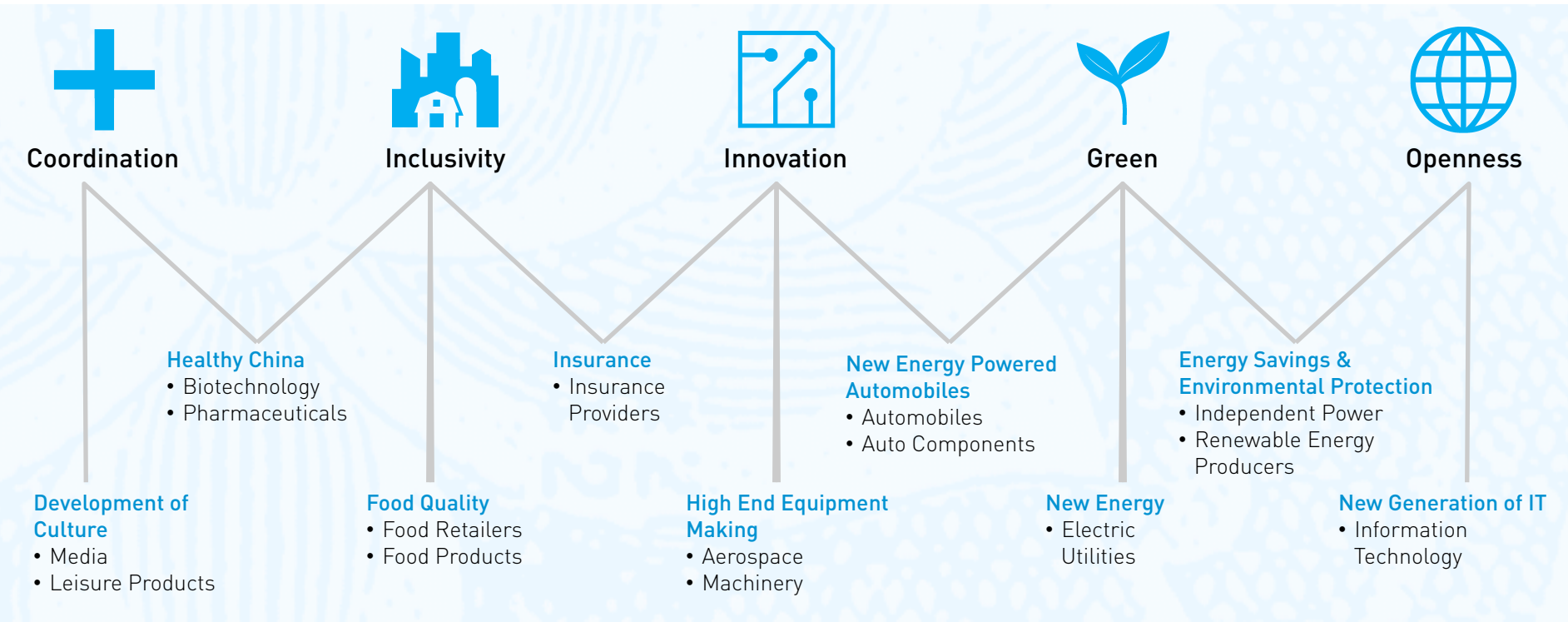


### Openness

Utilize both domestic and global markets to take a more active role in global governance

## The main tenets of China's 13<sup>th</sup> Five Year Plan can be subdivided into social & economic policy areas of focus

We believe these areas of focus may benefit as a direct result of the Chinese government's policies.








## KraneShares partnered with Zacks Index Services to provide investors with exposure to tradable companies within the 13<sup>th</sup> Five Year Plan's focus areas

We organized the focus areas into investable sectors and provided examples of KFYP holdings within these sectors.

Policy Focus Area(s)	Sector	Largest Holding within Sector and % weight in KFYP as of 6/30/2016*
<b>Development of Culture</b>	Consumer Discretionary	SAIC Motor Corp. (3.43%)
<b>Food Quality</b>	Consumer Staples	Inner Mongolia Yili Group (3.68%)
<b>Insurance</b>	Financials	China Pacific Insurance Group (3.65%)
<b>Healthy China</b>	Health Care	Sinopharm Group (3.83%)
<b>New Energy Powered Automobiles High End Equipment Making</b>	Industrials	Zhengzhou Yutong Bus Co. (2.38%)
<b>New Generation of Information Technology</b>	Information Technology	Netease Inc. (4.33%)
<b>New Energy Energy Savings &amp; Environmental Protection</b>	Utilities	Beijing Jingneng Clean Energy (2.39%)

\*The Fund's holdings are subject to change. See page 18 for the Fund's top 10 holdings

**KFYP provides balanced exposure to the companies poised to benefit from the 13<sup>th</sup> Five year Plan, regardless of where they choose to list.**

<b>Consumer Discretionary</b>	SAIC Motor Corp	 SAIC MOTOR	<b>Mainland Listed</b>	SAIC Motor Corporation Ltd., through joint ventures, manufactures and markets automobiles and related parts and accessories.
<b>Consumer Staples</b>	Inner Mongolia Yili Group		<b>Mainland Listed</b>	Inner Mongolia Yili Industrial Group Co., Ltd. produces milk, powdered milk, ice cream, and other dairy products. The Company also produces frozen food and noodles.
<b>Financials</b>	China Pacific Insurance Group	 太平洋保险 CPIC	<b>Mainland Listed</b>	China Pacific Insurance (Group) Company, Ltd. is an integrated insurance services provider. The Company offers life and property insurance products through its subsidiaries.
<b>Health Care</b>	Sinopharm Group	 国药网 WWW.SINOPHARM.COM	<b>Hong Kong Listed</b>	Sinopharm Group Co Ltd is a pharmacy distribution company. The Company also owns several pharmacy enterprise groups in different industries such as logistics, retail stores, pharmaceutical manufacturing, and chemical testing.
<b>Industrials</b>	Zhengzhou Yutong Bus Co., Ltd.		<b>Mainland Listed</b>	Zhengzhou Yutong Bus Co., Ltd. manufactures and markets medium and large size buses.
<b>Information Technology</b>	Netease Inc.	 网易 NETEASE www.163.com	<b>U.S.-listed</b>	NetEase, Inc. is an Internet technology company that develops applications, services and other Internet technologies in China. The Company's core businesses consist of email service, web portal and online entertainment, including online gaming services. NetEase also offers online advertising, search, mobile applications and e-commerce.
<b>Utilities</b>	Beijing Jingneng Clean Energy	 北京京能清洁能源电力股份有限公司 Beijing Jingneng Clean Energy Co., Limited	<b>Hong Kong Listed</b>	Beijing Jingneng Clean Energy Co, Ltd. provides clean energy in China. The Company offers gas-fired power, heat energy, wind power, small to medium hydropower, and other clean energy projects. Beijing Jingneng Clean Energy owns and operates various energy plants.

The Fund's holdings are subject to change. See page 18 for the Fund's top 10 holdings


While elements of the Five Year Plan affect all aspects of China’s economy, the 13<sup>th</sup> Five Year Plan is dominated by technology, consumer discretionary, healthcare, and consumer staples.

**KFYP sector weightings vs. popular China index sector weightings** (as of June 30 2016)

Sector	KFYP	MSCI China Index	FTSE China 50 Index
<b>Technology</b>	37.00	31.05	10.30
<b>Consumer Discretionary</b>	19.15	7.80	2.15
<b>Healthcare</b>	12.92	2.02	0.00
<b>Consumer Staples</b>	12.48	2.52	1.54
<b>Financials</b>	7.44	30.61	52.63
<b>Utilities*</b>	5.85	3.10	1.33
<b>Industrials</b>	4.73	6.11	6.85
<b>Materials</b>	0.90	1.20	0.60
<b>Energy</b>	0.00	6.78	12.66
<b>Telecom</b>	0.00	8.82	11.90

**KEY**

**Sectors highlighted in Current Five Year Plan**

 Overweight

\* Clean energy companies, such as Beijing Jingneng Clean Energy, are classified as utilities, which results in KFYP’s overweight.

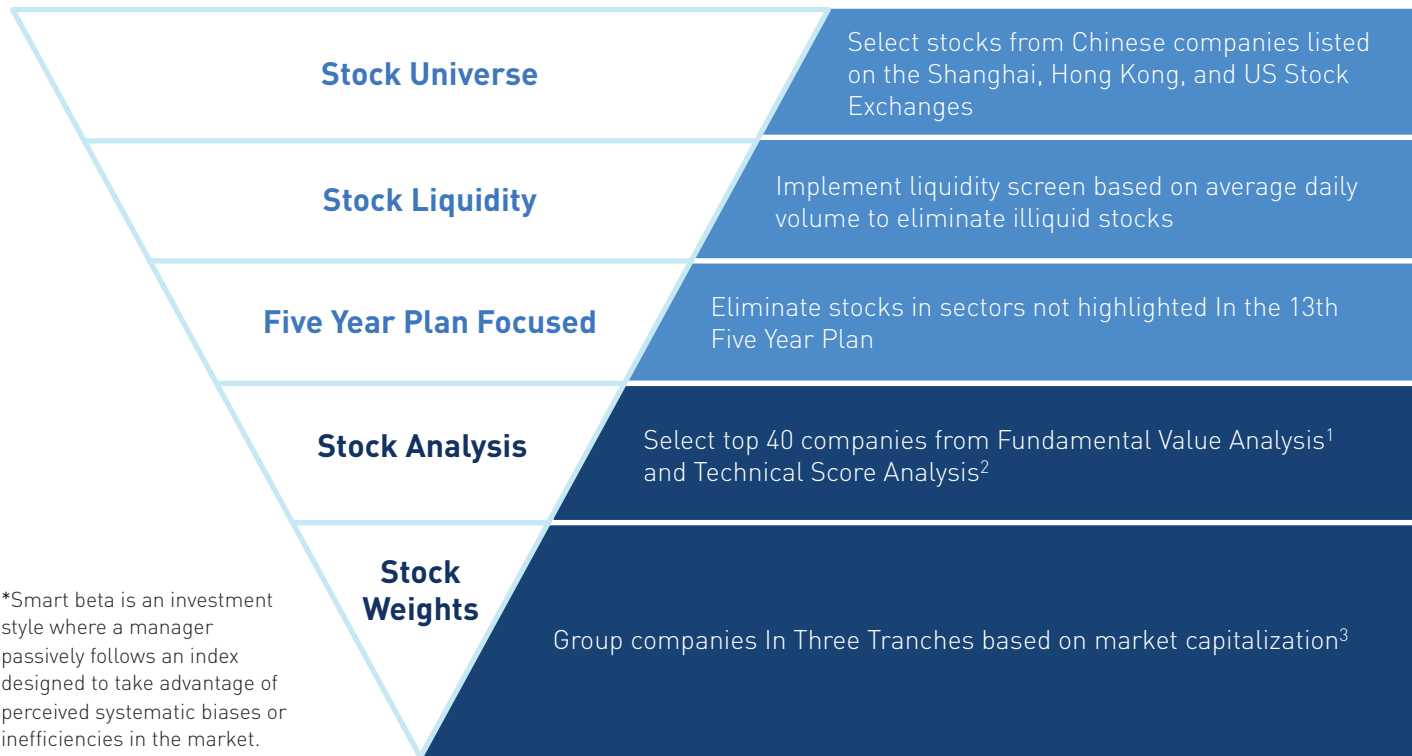
Data from Bloomberg as of 6/30/2016. Sector weights are subject to change



## **Overview of the KraneShares Zacks New China ETF (ticker: KFYP)**

Our smart-beta\* approach eliminates companies not highlighted in China’s 13<sup>th</sup> Five Year Plan and screens for positive attributes among stocks in favored sectors across five major exchanges where Chinese companies list.

**Smart Beta Filtering Process for Holdings Selection**



General Narrowing Process

Specific Narrowing Process

1. Fundamental Value Analysis: Rank by Price to Cash Flow & Free Cash Flow
2. Technical Score Analysis: Rank by 3 month momentum & 6 month volatility
3. Three Tranches: Top third of Companies at a 3.75% Weight, Second Tranche at 2.5% and Third Tranche at 1.25%

\*Smart beta is an investment style where a manager passively follows an index designed to take advantage of perceived systematic biases or inefficiencies in the market.



## Index Construction

- The primary business of a constituent must operate in a targeted industry of China's 13th Five-Year Plan
- Eligible constituents are stocks listed on the Hong Kong Stock Exchange, Shanghai-Hong Kong Stock Connect as well as common stocks and American Depositary Receipts listed on major U.S. exchanges
- The 3-month average daily trading volume must be greater than U.S. \$1 million and the per share price must be greater than U.S. \$0.10
- Sectors expected to benefit from the Plan are evaluated and then stocks within each sector are ranked according to specific investment factors, including price, cash flow, free cash flow, momentum and volatility
- At rebalance, the top 10 largest capitalization stocks will each represent approximately 3.75%, the middle 20 capitalization stocks will each represent approximately 2.5%, and the smallest 10 capitalization stocks will each represent approximately 1.25%
- At rebalance, no sector will represent more than 40% of the Index
- The Index is rebalanced once a year

Index Characteristics (as of 6/30/2016)	
<b>Number of positions</b>	40
<b>Largest Market Capitalization</b>	\$213,508.11 billion
<b>Smallest Market Capitalization</b>	\$174.52 million
<b>Weighted Average Market Capitalization</b>	\$19,763.99 billion

## KraneShares Zacks New China ETF\* (ticker: KFYP)

KFYP tracks the Zacks New China Index which takes a smart-beta approach to provide exposure to companies listed in Mainland China, Hong Kong, and the United States whose primary business or businesses are important in the current Five-Year Plan of the central Chinese government.

The sectors expected to benefit from the Plan are evaluated and the stocks within each sector are subsequently ranked based on various investment factors, including price, cash flow, free cash flow, momentum and volatility. Based on the foregoing, the top 40 stocks are included in the fund's holdings.

\*Formerly the KraneShares CSI New China ETF

Fund Details	As of 6/30/2016
Ticker	KFYP
Index Name	Zacks New China Index
Primary Exchange	NYSE
Total Annual Fund Operating Expenses	0.71%
Inception Date	7/22/2013
Distribution Frequency	Semiannually

Top Ten Holdings as of 6/30/2016 The Fund's Holdings are Subject to Change.	Ticker	%
NETEASE.COM INC ADR	NETS	4.41
AAC TECHNOLOGIES HOLDINGS	2018HK	4.10
TENCENT HOLDINGS LTD	700HK	4.02
SINOPHARM GROUP CO-H	1099HK	3.90
INNER MONGOLIA YILI INDUS	600887CH	3.76
WANT WANT CHINA HOLDINGS	151HK	3.72
CHINA PACIFIC INSURANCE G	2601HK	3.72
JIANGSU HENGRUI MEDICINE	600276HK	3.70
PING AN INSURANCE GROUP C	2318HK	3.70
SAIC MOTOR CORP LTD-A	600104CH	3.50

## KFYP Performance History as of 6/30/2016

	Cumulative**			Annualized Calendar QTR 6/30/2016	
	3 Mo	6 Mo	Since Inception 7/22/2013	Preceding 12mos.	Since Inception 7/22/2013
Fund NAV	-0.36%	-4.20%	24.31%	-13.15%	7.68%
Closing Price	-4.09%	-9.80%	14.69%	-19.18%	4.77%
Index†	-1.72%	-6.23%	28.78%	-13.49%	8.80%

†The Hybrid KFYP Index (noted as "Index" above in the chart) consists of the CSI China Overseas Five Year Plan Index from the inception of the Fund through June 1, 2016, and the Zacks New China Index after June 1, 2016, and the hybrid of both indices on June 1, 2016.

\*\*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. For performance data current to the most recent month end, please call +(1) 855 8KRANE8 or visit our website at [www.kraneshares.com/kfyp](http://www.kraneshares.com/kfyp).

Index returns are for illustrative purposes only. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot directly invest in an index.



## Conclusion

## KraneShares Zacks New China ETF provides unique policy driven exposures utilizing a smart-beta methodology

- Proprietary multi-factor smart-beta methodology screens for companies with strong risk/reward characteristics
- Selection universe based on China's 13<sup>th</sup> Five Year Plan and focuses on strategic sectors and industries stated in the plan
- The first ETF globally to directly hold Chinese companies listed on the Shanghai, Hong Kong and US Exchanges<sup>1</sup>
- Focuses on domestic consumption with a specific emphasis on internet and technology integration with manufacturing
- Oriented toward the needs & desires of China's growing middle class & 400 million millennials<sup>2</sup>
- Provides a vehicle to “co-invest” with the Chinese government

1. Source Bloomberg as of 6/30/2016

2. kovacevic.com as of 12/31/2015



The ceiling of the 10,000-seat auditorium in China's Great Hall of the People.

## Index Definitions:

**MSCI China Index:** The MSCI China Index captures large and mid cap representation across China H shares, B shares, Red chips and P chips. With 143 constituents, the index covers about 84% of this China equity universe.

**FTSE China 50:** is a real-time tradable index comprising 50 of the largest and most liquid Chinese stocks (H Shares, Red Chips and P Chips) listed and trading on the Stock Exchange of Hong Kong (SEHK).

**MSCI All China Investable Market Index (IMI):** captures large, mid and small cap representation across all China securities that are listed in China and Hong Kong, the US and in Singapore. The index includes: A shares, H shares, B shares, Red chips and P chips as well as China securities that are listed on the NYSE Euronext (New York), NASDAQ, New York AMEX and Singapore exchanges. With 2,580 constituents, the index is comprehensive, covering the global large, mid and small cap China equity opportunity set.

**MSCI ACWI Index:** captures large and mid cap representation across 23 Developed Markets (DM) and 23 Emerging Markets (EM) countries\*. With 2,481 constituents, the index covers approximately 85% of the global investable equity opportunity set.

**The MSCI EAFE Index:** is an equity index which captures large and mid cap representation across Developed Markets countries around the world, excluding the US and Canada. With 930 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country (Start Date: Mar 31, 1986)

**The MSCI Emerging Markets Index:** captures large and mid cap representation across 23 Emerging Markets (EM) countries\*. With 834 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

**The MSCI Frontier Emerging Markets (FEM) Index:** captures large and mid cap representation across 27 Frontier Emerging Markets countries\*. The index includes 155 constituents, covering about 85% of the free float-adjusted market capitalization in each country.

**The MSCI China A Index:** captures large and mid cap representation across China securities listed on the Shanghai and Shenzhen exchanges. (Start Date: May 10, 2005)

## Important Notes

The information contained herein has been prepared solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell any securities, or to participate in a trading strategy, to or from any person in any jurisdiction. Any such offer or solicitation can only be made pursuant to a fund prospectus and otherwise in accordance with applicable laws. Any representation to the contrary is not permitted.

ETF shares are not redeemable with the issuing fund other than in large Creation Unit aggregations. Instead, investors must buy or sell ETF Shares in the secondary market with the assistance of a broker-dealer. In doing so, the investor may incur brokerage commissions and may pay more than net asset value when buying and receive less than net asset value when selling. The NAV of the Fund's shares is calculated each day the national securities exchanges are open for trading as of the close of regular trading on the New York Stock Exchange ("NYSE"), normally 4:00 p.m. Eastern time (the "NAV Calculation Time"). Shares are bought and sold at market price (closing price) not NAV. Market price returns are based on the midpoint of the bid/ask spread at 4:00 p.m. Eastern Time (when NAV is normally determined).

An active secondary market for the Fund's shares may not exist. Although the Fund's shares will be listed on an exchange, subject to notice of issuance, it is possible that an active trading market may not develop or be maintained. There is no guarantee that distributions will be paid.

Investing involves risk, including possible loss of principal. There can be no assurance that a Fund will achieve its stated objectives. The Funds focus their investments primarily with Chinese issuers and issuers with economic ties to China. The Funds are subject to political, social or economic instability within China which may cause decline in value. Fluctuations in currency of foreign countries may have an adverse effect to domestic currency values. Emerging markets involve heightened risk related to the same factors as well as increase volatility and lower trading volume. Current and future holdings are subject to risk.

Narrowly focused investments 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. Diversification may not protect against market risk.

## Important Notes (continued)

Although Krane Funds Advisors LLC and its affiliates (“Krane”) shall obtain data from sources that Krane considers reliable, all data contained herein is provided “as is” and Krane makes no representation or warranty of any kind, either express or implied, with respect to such data, the timeliness thereof, the results to be obtained by the use thereof or any other matter. Krane expressly disclaims any and all implied warranties, including without limitation, warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose.

Forward-looking statements (including Krane’s opinions, expectations, beliefs, plans, objectives, assumptions, or projections regarding future events or future results) contained in this presentation are based on a variety of estimates and assumptions by Krane. These statements generally are identified by words such as “believes,” “expects,” “predicts,” “intends,” “projects,” “plans,” “estimates,” “aims,” “foresees,” “anticipates,” “targets,” “should,” “likely,” and similar expressions. These also include statements about the future, including what “will” happen, which reflect Krane’s current beliefs. These estimates and assumptions are inherently uncertain and are subject to numerous business, industry, market, regulatory, geo-political, competitive, and financial risks that are outside of Krane’s control. The inclusion of forward-looking statements herein should not be regarded as an indication that Krane considers forward-looking statements to be a reliable prediction of future events and forward-looking statements should not be relied upon as such. Neither Krane nor any of its representatives has made or makes any representation to any person regarding forward-looking statements and neither of them intends to update or otherwise revise such forward-looking statements to reflect circumstances existing after the date when made or to reflect the occurrence of future events, even in the event that any or all of the assumptions underlying such forward-looking statements are later shown to be in error. Any investment strategies discussed herein are as of the date of the writing of this presentation and may be changed, modified, or exited at any time without notice.

**Carefully consider the Funds’ investment objectives, risk factors, charges and expenses before investing. This and additional information can be found in the Funds’ prospectus, which may be obtained by visiting [www.kraneshares.com](http://www.kraneshares.com) or by calling 1-855-8KRANE8.**

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# Questions?

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