

# An Overview of Current Trends in Emerging Markets

& an introduction to the  
KraneShares FTSE Emerging Markets Plus ETF  
(Ticker : KEMP)





## 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.





## KraneShares FTSE Emerging Market Plus ETF

### Investment Strategy:

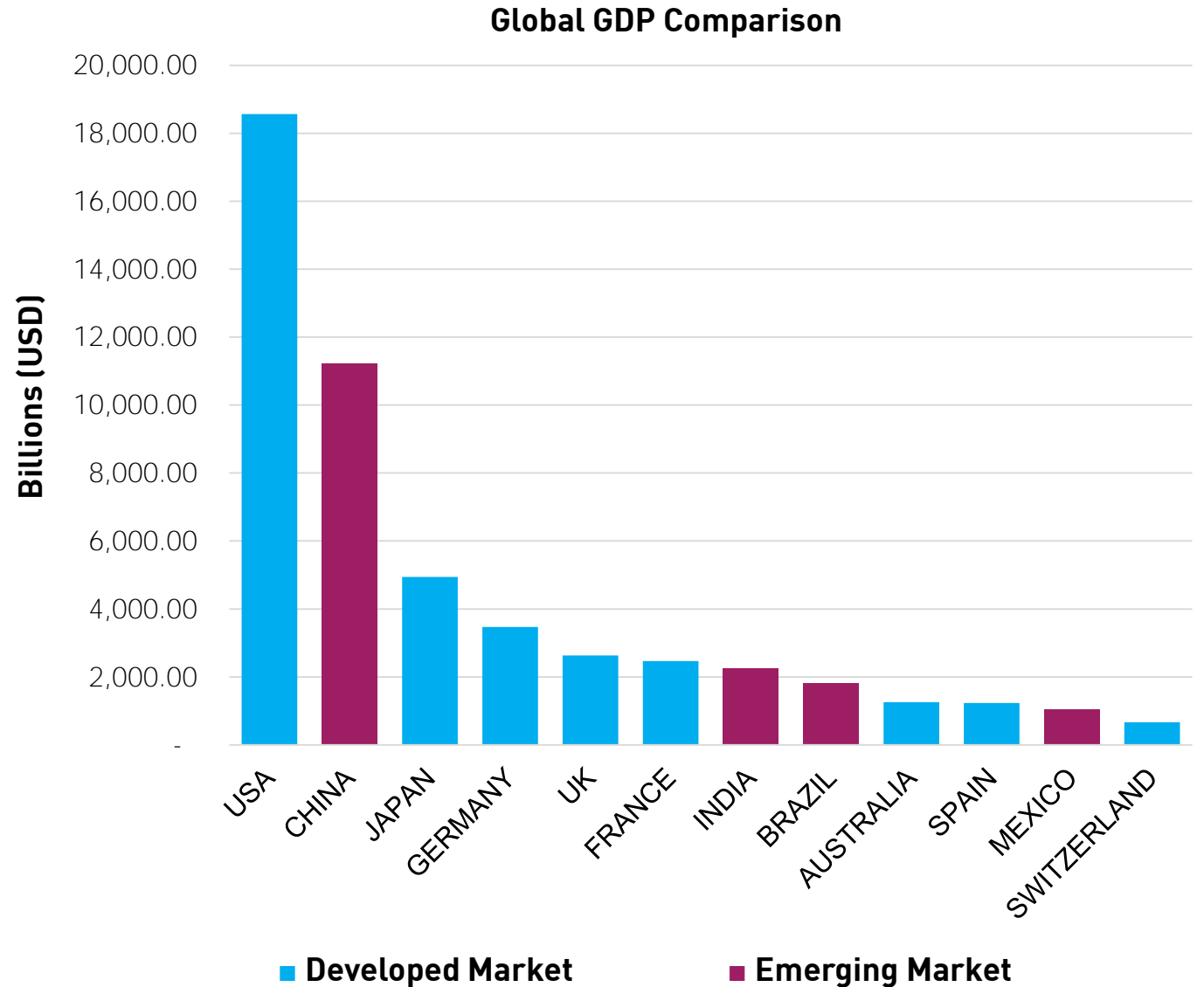
The KraneShares FTSE Emerging Markets Plus ETF (BATS:KEMP) is a gross domestic product ("GDP") weighted fund which includes China A shares and China N shares. Country allocations are based on five year purchase power parity GDP forecasts by the International Monetary Fund. China A shares are China equities listed on either the Shanghai or Shenzhen stock exchanges. China N shares are China equities listed on either the New York or NASDAQ stock exchanges.

### KEMP features:

- Significant overweight to India and China
- A country's weight within a market capitalization weighted index may diverge significantly from that country's share of global GDP.
- Developed Markets often trade at a multiple to their respective GDPs while emerging markets often trade at a fraction.
- Weighting by GDP, as opposed to market capitalization, increases exposure to larger economies.
- KEMP's China investment universe includes Mainland China (A-shares), U.S.-listed Chinese companies (N-shares), and Chinese companies listed in Hong Kong (H-shares).
- KEMP includes China N-shares which comprise some of the largest internet and E-Commerce companies in China. These companies choose to list in the United States to attract a greater international investor base.

### Emerging markets too big to ignore

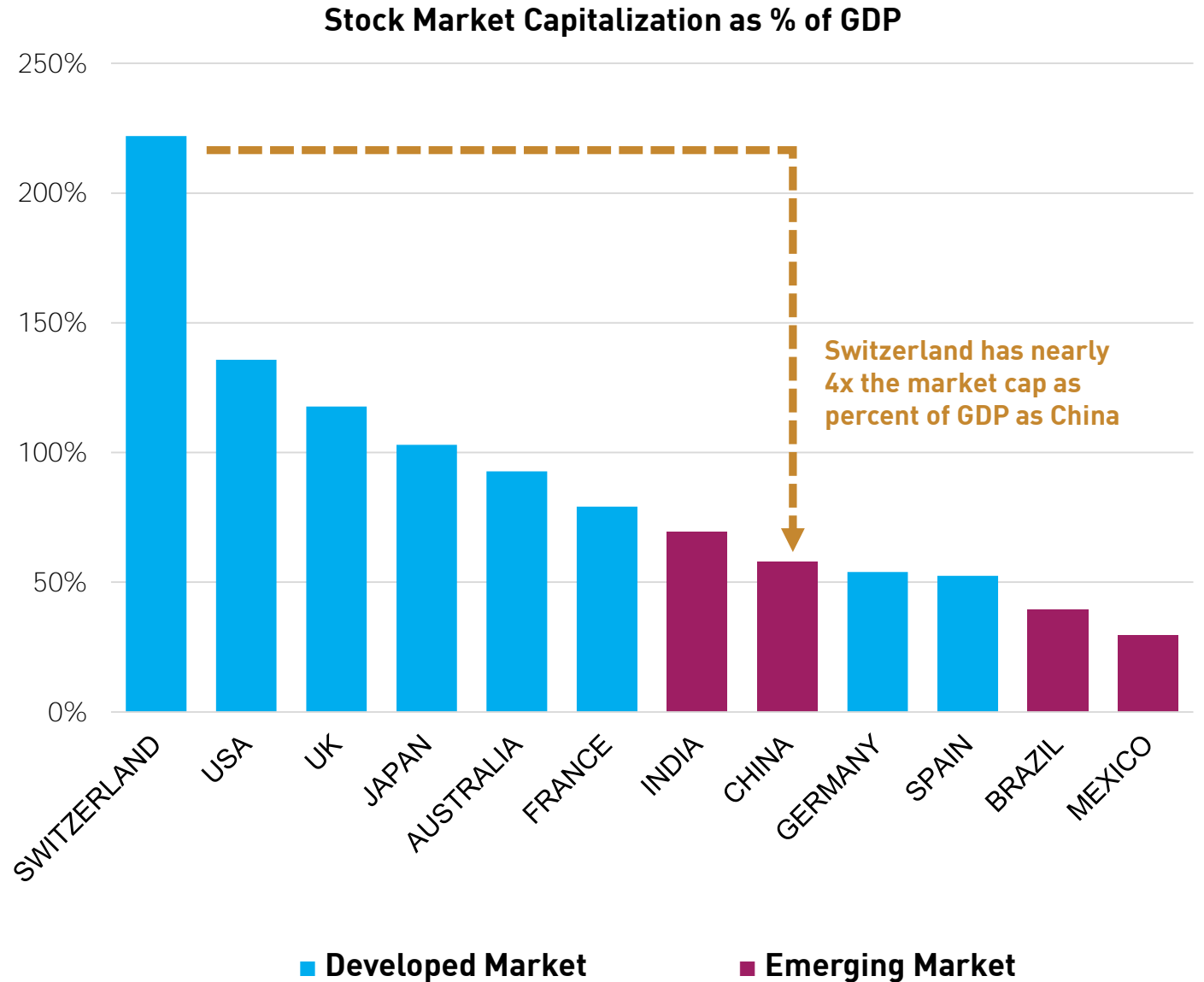
In terms of GDP, many emerging market countries rival the economic importance of their developed market counterparts.



Data from Bloomberg as of 3/31/2017

**We believe there are two main flaws with a market capitalization approach to investing in broad-based international markets:**

1. International companies with large market caps can inflate exposure to their country of listing.
  - Examples: Naspers in South Africa, Samsung in South Korea
2. Countries with newly established stock exchanges tend to have smaller total market capitalizations – not necessarily smaller economies.
  - Examples: China & India



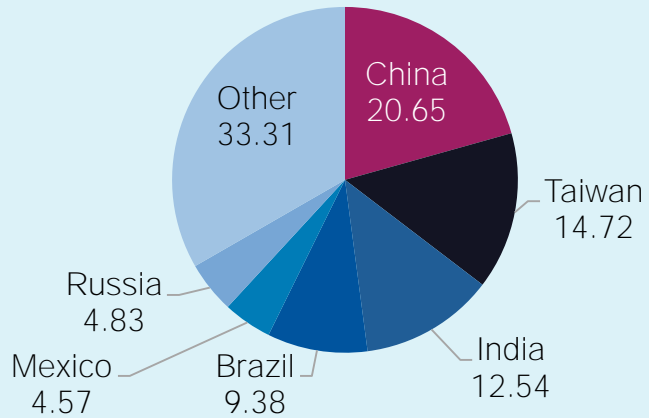
Data from Bloomberg as of 3/31/2017

**A GDP weighted approach to emerging markets results in a much different country weighting than a market cap weighted approach. Notable increases: China and India; notable decreases: Taiwan and Brazil.**

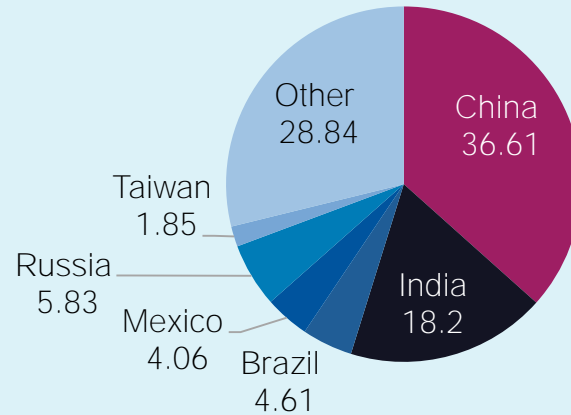
Country	FTSE Emerging Incl China Overseas Non-R/QFII GDP Weighted Index (KEMP's benchmark)		FTSE Emerging Index		Difference
	Weight	Rank	Weight	Rank	Weight
China	36.61%	1	25.48%	1	+11.13%
India	18.20%	2	12.53%	3	+5.67%
Russia	5.83%	3	4.83%	6	+0.99%
Indonesia	5.81%	4	2.81%	10	+3.00%
Brazil	4.61%	5	9.37%	4	-4.76%
Mexico	4.06%	6	4.56%	7	-0.50%
Turkey	2.79%	7	1.26%	14	+1.53%
Thailand	1.98%	8	3.71%	8	-1.73%
Egypt	1.89%	9	0.20%	22	+1.69%
Taiwan	1.85%	10	14.70%	2	-12.85%
Sum	83.63%		79.45%		+4.18%
Other	16.37%		20.55%		-4.18%

**KEMP is the first broad emerging market ETF to include stocks listed on the Shanghai & Shenzhen<sup>1</sup> Stock Exchanges and U.S.-Listed Chinese companies, providing a more sophisticated & robust exposure to China.**

**FTSE Emerging Index: Country Allocation**



**KEMP Country Allocation**



## A Shares

Mainland Chinese stocks listed on the Shanghai and Shenzhen Stock Exchanges (the fourth and seventh largest exchanges globally)<sup>3</sup>

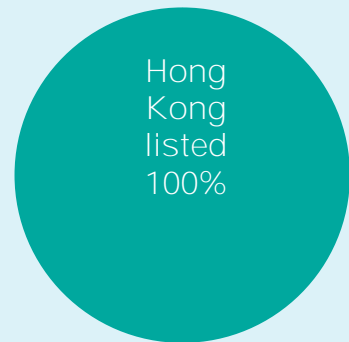
## N Shares

U.S.-listed Chinese stocks, typically technology focused, notable examples: Alibaba, Baidu & JD.com<sup>2</sup>

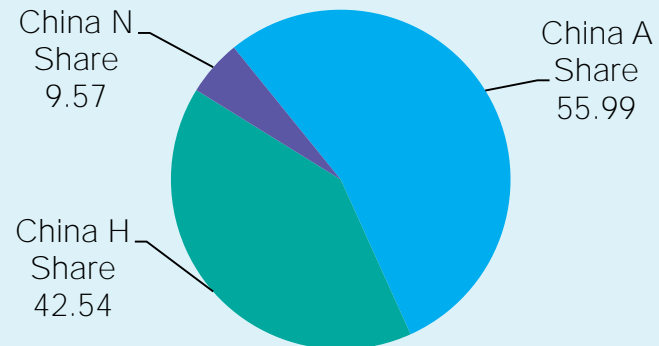
## H Shares

Hong Kong listed Chinese companies. H shares comprise the traditional definition of China still used by the FTSE Emerging Index. H shares are heavily weighted to banks and insurance companies

**FTSE Emerging Index: China Universe**



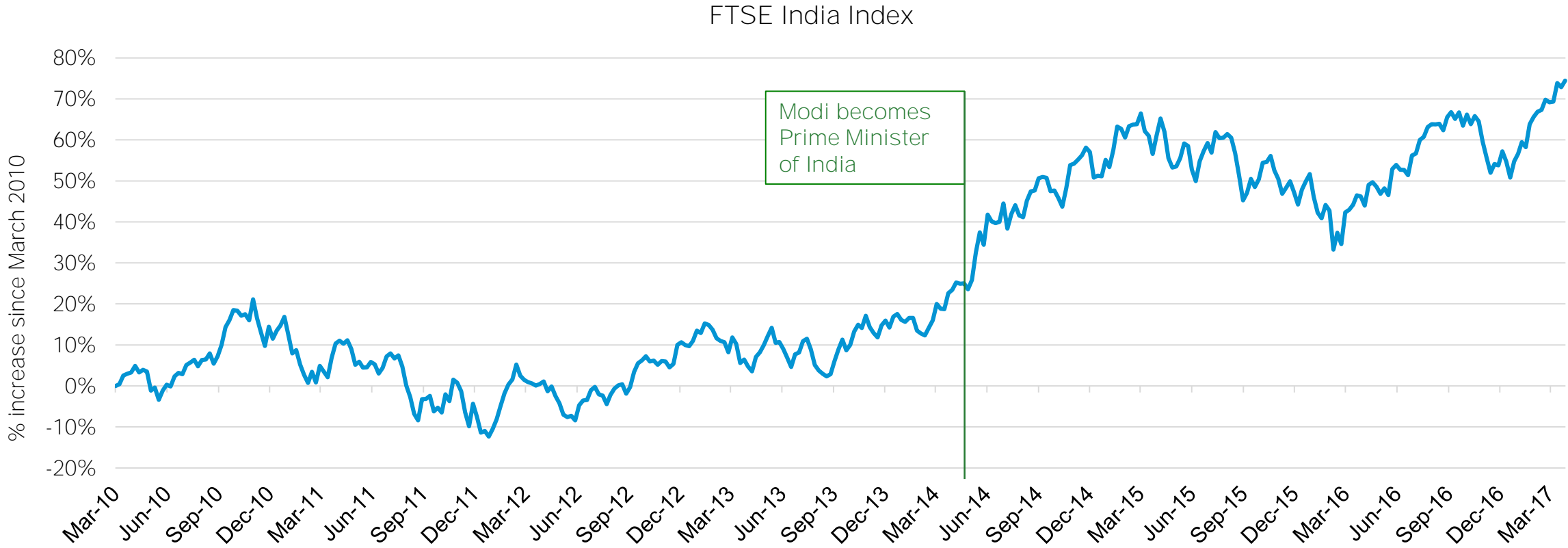
**KEMP China Investment Universe**



1. Todd Shriber, (Feb 7, 2015), "Finally, an Emerging Markets ETF Including China A-Shares", ETF Trends  
 2. Percent of KEMP net assets of holdings mentioned above as of 3/31/2017: Alibaba: 1.81%, Baidu: 1.33%. The Fund's holdings are subject to change. JD.com is not included in KEMP as of 3/31/2017.  
 3. Data from the World Federation of Exchanges as of 3/31/2017

**Indian prime minister Narendra Modi has been a catalyst for major financial development in India.**

Since Modi came to office in May 2014, the FTSE India Index has exhibited accelerated growth. KEMP has a +5.65% overweight to India vs. the FTSE Emerging Index as of 3/31/2017.



**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.**

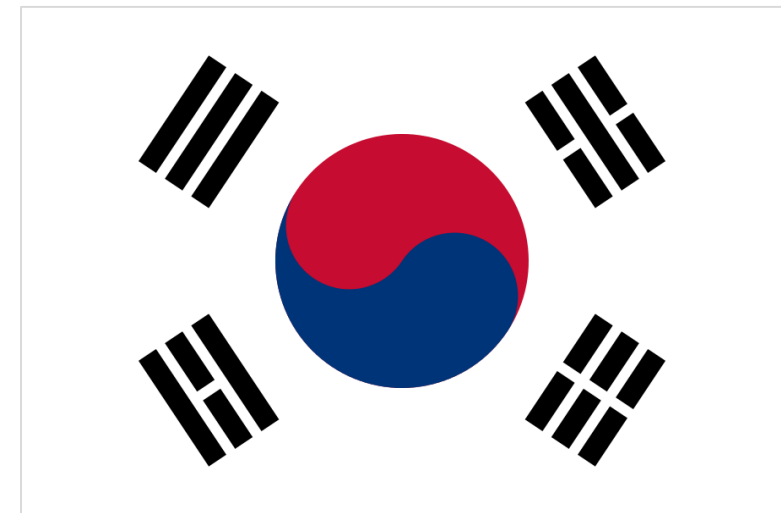
Source: Bloomberg as of March 31, 2017. See page 11 for index definitions.



**FTSE Index Methodology characterizes Korea as a Developed Markets thus eliminating from it from KEMP. We believe Korea's economy is highly dependent on China, as evidenced by the amount of total trade with China in 2016. We believe removing Korea removes a duplicative exposure to China.**

South Korea Top 10 Trading Partners	2016 Total Trade (\$M)
China	246,158.7
United States	113,321.7
Japan	72,479.7
Vietnam	44,983.2
Hong Kong	32,004.67
Germany	26,016.89
Australia	23,866.72
Saudi Arabia	21,502.37
Singapore	21,122.24
Mexico	17,944.03

### EM or not EM?



## KraneShares FTSE Emerging Markets Plus ETF

### Investment Strategy:

The KraneShares FTSE Emerging Markets Plus ETF (BATS:KEMP) is a gross domestic product ("GDP") weighted fund that includes China A Shares and China N Shares. Country allocations are based on five year purchase power parity GDP forecasts by the International Monetary Fund. China A Shares are Chinese equities listed on the Shanghai or Shenzhen stock exchanges. China N Shares are China equities listed on the New York or NASDAQ stock exchanges.

### Key Fund Information

Ticker	KEMP	
Index Name	FTSE Emerging incl China Overseas non-R/QFII GDP Weighted Index	
Primary Exchange	BATS	
Total Annual Fund Operating Expense	Gross: 1.11%	Net: 0.91%*
Inception Date	02/12/2015	

Top Ten Holdings as of 03/31/2017 (excluding cash) The Fund's Holdings Are Subject to Change.	Ticker	%
KRANESH BOSERA MSCI CHINA	KBA	14.5
HDFC BANK LTD-ADR	HDB	5.02
TENCENT HOLDINGS LTD	700 HK	3.26
INFOSYS TECHNOLOGIES ADR	INFY	2.84
ICICI BANK LTD-SPON ADR	IBN	2.49
CHINA CONSTRUCTION BANK-H	939 HK	2.05
ALIBABA GROUP HOLDING-SP	BABA	1.81
VEDANTA LTD-ADR	VEDL	1.46
CHINA MOBILE LTD	941 HK	1.45
TATA MOTORS LTD-SPON ADR	TTM	1.43

### KEMP Performance History as of 03/31/2017

	Cumulative**			Annualized Calendar QTR (03/31/2017)	
	3 Mo	6 Mo	Since Inception 02/12/2015	Preceding 12mos.	Since Inception 02/12/2015
Fund NAV	8.44%	4.13%	-2.28%	10.84%	-1.07%
Closing Price	9.02%	3.96%	-1.31%	10.64%	-0.62%
Index	9.03%	5.39%	3.48%	14.02%	1.59%

\*KraneShares has contractually agreed to reduce its management fee in an amount equal to any Acquired Fund Fees and Expenses incurred by the Fund from its investments in the KraneShares Bosera MSCI China A Share. This expense limitation may be reduced at any time. In the absence of current fee waivers, performance would be reduced.

\*\*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.

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.

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

## Index Definitions:

**FTSE Emerging Index:** FTSE Emerging Markets indices are part of the FTSE Global Equity Index Series (GEIS). The series includes large and mid cap securities from advanced and secondary emerging markets, classified in accordance with FTSE's transparent Country Classification Review Process. The FTSE Emerging Index provides investors with a comprehensive means of measuring the performance of the most liquid companies in the emerging markets.

**FTSE Emerging Markets incl China Overseas Inclusion GDP Weighted Index:** Designed to reflect the performance of the constituent companies in an index where country weightings are proportionate to each country's forecast GDP. The index constituents correspond to the underlying universe of the FTSE Emerging Index, FTSE China A Index, FTSE China N Share Index and the FTSE China S Chip Index. The index has been created to prepare market participants for the inclusion of China A-shares in FTSE's standard indices.

**FTSE India Index:** The FTSE India is a free float market capitalization weighted index, designed to measure the performance of the Indian market.

## Important Notes

**Carefully consider the Funds' investment objectives, risk factors, charges and expenses before investing. This and additional information can be found in the Funds' full and summary prospectus, which may be obtained by visiting [www.kraneshares.com](http://www.kraneshares.com). Read the prospectus carefully before investing.**

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 stockbroker. In doing so, the investor may incur brokerage commissions and may pay more than net asset value (NAV) 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 not NAV. Closing price returns are based on the midpoint of the bid/ask spread at 4:00 P.M. Eastern Time (when NAV is normally determined) and do not represent the returns an investor would receive if shares were traded at other times.

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. 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 a decline in value. Fluctuations in currency of foreign countries may have an adverse effect on domestic currency values. Emerging markets involve heightened risk related to the same factors as well as increased volatility and lower trading volume. Current and future holdings are subject to risk.

The ability of the KraneShares FTSE Emerging Markets Plus ETF to achieve its investment objective is dependent, in part, on the continuous availability of A Shares through the Fund's investment in the KraneShares Boserá MSCI China A Share ETF and that fund's continued access to the China A Shares market. If such access is lost or becomes inadequate to meet its investment needs, it may have a material adverse effect on the ability of the Fund to achieve its investment objective because shares of the KraneShares Boserá MSCI China A Share ETF may no longer be available for investment by the Fund, may trade at a premium to NAV, or may no longer be a suitable investment for the Fund.

The KraneShares FTSE Emerging Markets Plus ETF and KraneShares Boserá MSCI China A Share ETF may be concentrated in the financial services sector. Those companies may be adversely impacted by many factors, including, government regulations, economic conditions, credit rating downgrades, changes in interest rates, and decreased liquidity in credit markets. This sector has experienced significant losses in the recent past, and the impact of more stringent capital requirements and of recent or future regulation on any individual financial company or on the sector as a whole cannot be predicted. These ETFs may also invest in derivatives. Investments in derivatives, including swap contracts and index futures in particular, may pose risks in addition to those associated with investing directly in securities or other investments, including illiquidity of the derivatives, imperfect correlations with underlying investments, lack of availability and counterparty risk. The use of swap agreements entails certain risks, which may be different from, and possibly greater than, the risks associated with investing directly in the underlying asset.



### Important Notes (continued)

KEMP invests in variable-interest entities (VIEs), which are investments in foreign-domiciled American Depositary Receipts (ADRs). Rather than owning Chinese-domiciled entities, the VIEs have contractual arrangements designed to provide the economic benefits related to certain Chinese-domiciled companies. The structure of VIEs presents some unique risks that should be considered.

VIE structures do not give investors ownership in the operating company, as stock does. With a VIE, an investor has no direct claim on the core, restricted business assets of the VIE operating company. As a result, investors may not exert as much influence over the subject company as they could if they were owners of common stock. Often, the voting rights in the VIE operating company, especially in matters of corporate governance, are controlled by the principals who established the VIE operating company.

In addition, there is no guarantee as to the enforceability of the VIE structure, as it has never received explicit approval from the Chinese government and is recognized as a structure put in place principally to work around Chinese restrictions on foreign investment.

The KraneShares FTSE Emerging Markets Plus ETF (ticker : KEMP) is not in any way sponsored, endorsed, sold or promoted by FTSE International Limited (“FTSE”) or the London Stock Exchange Group companies (“LSEG”) (together the “Licensor Parties”) and none of the Licensor Parties make any claim, prediction, warranty or representation whatsoever, expressly or impliedly, either as to (i) the results to be obtained from the use of the FTSE Emerging incl China Overseas non-R/QFII GDP Weighted Index (the “Index”) upon which the KraneShares FTSE Emerging Markets Plus ETF is based, (ii) the figure at which the Index is said to stand at any particular time on any particular day or otherwise, or (iii) the suitability of the Index for the purpose to which it is being put in connection with the KraneShares FTSE Emerging Markets Plus ETF . None of the Licensor Parties have provided or will provide any financial or investment advice or recommendation in relation to the Index to Krane Funds Advisors or to its clients. The Index is calculated by FTSE or its agent. None of the Licensor Parties shall be (a) liable (whether in negligence or otherwise) to any person for any error in the Index or (b) under any obligation to advise any person of any error therein.

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