KraneShares Weekly

Major News and Events:

China to Increase Stimulus Measures

The Chinese government recently announced after its weekly meeting that it will speed up measures to cut taxes on small firms and increase the construction of railway lines. *"We will find innovative ways including fiscal and financial methods to steady economic growth,"* the cabinet said in a statement on the government's website.

The measures include an 18% increase in the total number of railway lines being built compared to last year. Most of those tracks will be laid in central and western regions of the country. Railway spending targets will increase to 800 billion yuan ($128 billion) up from the originally announced 630 billion yuan announced in late 2013.

To finance the railway investment, the government will sell 150 billion yuan worth of government bonds.

Tax provisions granted to small businesses will be extended into 2016.

"We must roll out policies that spur businesses' vitality, effectively increase demand and boost jobs," the government said in its statement.

Foreign Corporations to Have Greater Yuan Flexibility

Chinese regulators recently announced a move designed to improve cash flow from multinationals into and out of their economy.

The plan broadens a pilot program begun in 2012, which Reuters reported was urged by *"demand from international companies operating in China for more freedom to use their growing amounts of yuan to boost the efficiency of their management of capital."*

Changes made public on May 2 allow companies to transfer unlimited funds into and out of overseas accounts within a company, and for companies to open accounts in China and elsewhere simultaneously. The allowances are open to companies with foreign exchange market income over $100 million.

Corporate managers have argued the changes will mean increased efficiency and lower costs.

The further easing of rules to allow multinationals more leeway in China's capital markets could also move toward the goal of greater foreign investment in the markets.

Walt Disney Makes Further Investment Commitment to China

Walt Disney and its joint venture partner recently announced plans to increase investment in its upcoming resort and theme park, Shanghai Disney, by an additional $800 million according to Reuters.

The expansion comes with an eye on China's fast-growing entertainment and media market, which is expected to grow to $148 billion by 2015 from around $120 billion in 2013, according to PricewaterhouseCoopers' outlook for the global entertainment and media business 2011-2015.

The increased investment will be used primarily to fund additional attractions to increase capacity at the park, with most targeted to be completed for opening day in late 2015, Disney said in a statement.

The joint venture's total investment in the theme park, will now total $5.5 billion after the increased investment, a Disney spokesman confirmed.

Disney, which also operates a theme park in Hong Kong, signed an agreement in 2010 for its first theme park in mainland China. Financing of the additional investment will be proportionate to ownership and third-party debt is not expected to pay for the expansion, Disney said.

Alibaba Continues to Invest Ahead of IPO

Alibaba Group and private equity firm Yunfeng co-founded by its executive chairman Jack Ma recently agreed to buy a $1.22 billion stake in Youku Tudou Inc, as China's ecommerce giant intensifies its focus on the online video business.

Alibaba will hold about 16.5 percent of Youku while Yunfeng will have about 2 percent.

The deal gives Alibaba access to China's biggest online video operator and its customers as Ma bolsters services ahead of an IPO that may be larger than the $16 billion raised by Facebook Inc. in 2012. More than 500 million people in China access the Internet from mobile devices, and Youku Tudou is developing shows for the growing number of consumers in second-and third-tier cities and migrant workers from the interior according to Bloomberg.

"Alibaba needs a lot of traffic so they have been buying a lot from pretty much every single Chinese Internet company," Tian X. Hou, the founder of T.H. Capital LLC, said by phone. *"It doesn't matter where you are, a lot of people watch videos. That will be long-lasting traffic, so that is suitable for Alibaba's long-term interests."*

The deal continues to underscore the growing rivalry between China's two Internet giants - Alibaba and Tencent Holdings - as they attack each other's turf. Alibaba's Youku Tudou investment is the third major media acquisition by the company in less than two months and brings Alibaba's deal making spree to nearly $4.0 billion in the past six months.

Chinese Tourists to Increase Global Travel Dramatically

The staggering number of middle-class mainlanders forecast to soon catch the travel bug is forcing Beijing to expand its infrastructure, but the rest of the world seems unprepared for the numbers that will disembark according to the South China Morning Post.

"Chinese tourism development is still in the early stages. China will become a big economic and cultural power and will change the pattern of the global travel and tourism industry. It will have a huge impact on this industry," said Chen Feng, the chairman of Hainan-based airlines and

logistics conglomerate HNA Group. The primary beneficiaries will be the global hotel chains, airlines, and retail and leisure facility providers, but the full effects should trickle down across the wider economy.

By 2020, the number of individual Chinese going overseas will likely have doubled to 200 million from last year, CLSA analysts said.

This year, Chinese nationals will spend 635 billion yuan ($101 billion) overseas, a threefold increase since 2008. By 2024, this number will top 1.77 trillion yuan, according to the world tourism council.

According to the World Travel and Tourism Council, the global travel industry will average 4.3 per cent growth this year, and has historically outpaced global gross domestic product by 1 percentage point.

Local Broker Insight:*

CITIC Securities—

China's GDP growth hit 7.4% in 1Q. High financing costs restrain the real economy and weaken fiscal policy stimulus. Therefore, monetary policy should be coordinated and targeted adjustments should be the direction for monetary policy in the short term.

http://www.citics.com.hk/

Guosen Securities—

Guosen still maintains our annual strategy to seek out defensive stocks with low valuation, with specific attention given to real estate stocks.

http://www.guosen.com.hk/newmain/english/index.shtml

BOC International—

Prices of major steel products declined as of April 25, while iron ore imports largely decreased. Elimination of excess capacity is still difficult in the steel sector. We think domestic steel prices will bottom in 2Q.

http://www.bochk.com/

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Investing involves risk, including possible loss of principal. There can be no assurance that the Funds will achieve their 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.

The ability of the KraneShares Bosera MSCI China A ETF to achieve its investment objective is dependent on the continuous availability of A Shares and the ability to obtain, if necessary, additional A Shares quota. If the Fund is unable to obtain sufficient exposure due to the limited availability of A Share quota, the Fund could seek exposure to the component securities of the Underlying Index by investing in depositary receipts. The Fund may, in some cases, also invest in Hong Kong listed versions of the component securities and B Shares issued by the same companies that issue A Shares in the Underlying Index. The Fund may also use derivatives or invest in ETFs that provide comparable exposures. 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.

The Fund, 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.

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