



KraneShares Weekly

Major News and Events:

Environmental Initiatives Continue in China

In another step to help improve the country's air quality, China has announced plans to take more than 5 million older vehicles off the roads this year. In Beijing alone, 330,000 cars are set to be decommissioned, according to a new policy document released by China's State Council.

Vehicle emissions in Beijing contributed to about 31 percent of the city's hazardous airborne particles, with 22.4 percent originating from coal burning plants, according to the document.

Beijing plans to limit the total number of cars on the road to 5.6 million this year. Last year it cut the number of new license plates by 37 percent to 150,000 a year and is also paying for another 200,000 aging vehicles to be upgraded.

The document did not say how the plan would be implemented, but Beijing's municipal government has previously offered subsidies of between \$400 to \$2,300 to drivers who trade in old cars voluntarily.

The policy document also set new targets for the closure of coal-fired heating systems as well as the installation of equipment to reduce sulfur dioxide and nitrogen oxide emissions at power stations, steel mills and cement plants.

The document further states China is aiming to cut carbon emissions per unit of economic growth by more than 4 percent this year and more than 3.5 percent in 2015 as it tries to meet a binding 17-percent target laid out in the country's Five Year Plan.

China's Middle Class Develops a Greater Taste for Foreign Goods

As China's middle class grows and gains exposure to foods and goods from other nations, the country's consumers are demanding access to more choices and many western shippers and suppliers are the beneficiaries. Aside from the presence of global brands such as KFC



and McDonald's, imports have grown for healthier more upscale foods and products, boosting business for shippers from as far away as Norway and France.

Finnair, Finland's biggest airline, expects it could double shipments of salmon to China and Japan to 600 tons a week by 2020, from 300 tons currently according to Bloomberg.

"Demand for European goods is growing in Asia and for some categories fast air cargo is the only viable option," Mikko Ervasti, an analyst at Evli Bank, recently commented.

In absolute terms, China already has the world's largest middle class, defined by the World Bank as consuming between \$10 and \$100 a day. About 11 percent of China's population falls in that category, yet there is still plenty of room for growth as it still lags well behind Brazil and South Korea at similar stages of economic development.

McKinsey forecasts China's urban middle class could grow to more than 75 percent of the population by 2022, compared with 4 percent in 2000, according to a June 2013 report. By that time urban consumers will earn between 60,000 yuan and 229,000 yuan (\$9,600 to \$37,000) a year, the report said.

China Internet Fosters Free Speech

In an open recognition of free speech, China news agency Xinhua has cited a government report that China's internet has become a forum for free speech in the country. According to Xinhua, Chinese netizens post and forward 250 million microblog messages and over 20 billion WeChat and other instant messages every day.

In a report issued by the China State Council Information Office, the internet has become one of the most important channels for the public to express its opinion. *"Chinese people enjoy extensive freedom of speech,"* the report said. *"Within the range allowed by the Constitution and other laws, the public can discuss political issues freely."*

The public can express opinions through internet forums, blogs, personal webpages, social networks, online literature, online videos



and other Internet platforms, according to the report.

The report quoted statistics from seven websites including Sina and Tencent as saying that, among the 20 topics that received the most attention online in 2013, the top 12 received over 2 million posts each, and the top one over 45 million posts.

By the end of 2013, China's internet users reached 618 million and Internet coverage rate rose to 45.8 percent. The country now has about 120 million Internet forums or bulletin board system (BBS) users, 437 million blog and personal webpage users and 278 million social network users.

Many local government websites in China have mailboxes to receive letters from the public, while the central discipline inspection agency, Supreme People's Court and Supreme People's Protectorate have opened tip-off websites. While censorship restrictions still have a long way to go in China, the recognition of the allowance of free speech to such an extensive audience and user base is a an important indicator of the dramatic effects the internet is having on the opening up of China.

Baidu Expands in Google's Backyard

Baidu, considered the Google of China, has announced the opening of a new R&D center in Silicon Valley, becoming the latest Chinese Internet company to grow operations in Google's backyard.

Baidu said its Silicon Valley move is part of a broader initiative to set up a pure research division, which will have offices in both California and its hometown of Beijing. The new division will be headed by Andrew Ng a computer science professor at Stanford University and a leader in the field of artificial intelligence.

The move is considered an expansion of Baidu's existing facilities. The hiring of a big-name leader so closely associated with Stanford could also indicate that Baidu intends to move the center of its R&D operations to Silicon Valley, with a focus on improving its search capabilities.

Other China internet companies with a significant Silicon Valley presence are Tencent and retailing giant Suning. Tencent has a game development center in Silicon Valley, and made headlines last



year when it announced it would also open a US office for its popular WeChat mobile messaging service as it explored the market. Suning also announced it was opening a Silicon Valley office, as it seeks to transform itself from a traditional retailer into an Internet company.

Baidu's establishment of a new R&D center is considered to demonstrate a new push to improve its search technology, in a potential prelude to a more aggressive global expansion in the coming years.

Local Broker Insight:*

Galaxy Securities—

The domestic real estate market has been weak, with falling transaction volume that is spreading from third- and fourth-tier cities to first- and second-tier cities. However, we expect in the mid-to-long term, a rising urbanization ratio and urban upgrades will translate into positive news for companies such as appliance makers and other consumer manufacturers.

Any weakness in consumption is expected to stabilize after Q2. We believe imports and exports have momentum and are on course for a gradual recovery. The economy has stabilized and commodity prices have eased. Property curbs have been relaxed and moderately loose monetary policy has been maintained as part of the effort to stabilize economic growth.

<http://www.chinastock.com.cn/en/aboutus/corporateInformation.jsp>

Guotai Junan Securities—

The improved performance of HSBC Flash PMI new orders and new export orders indicates that stable growth is beginning to drive demand. The government's stable growth policy has been consistent in 2Q. We forecast a number of reform policies will be introduced in May through October, as expectations gradually improve.

<http://www.gtja.com/portal/channel/indexen.jhtml>



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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 Boserera 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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