

## **KRANESHARES TRUST**

**KraneShares CSI New China ETF  
KraneShares CSI China Internet ETF  
(each, a “Fund” and together, the “Funds”)**

**Supplement dated December 18, 2014 to the  
Prospectuses and Summary Prospectuses dated August 1, 2014, as supplemented from time  
to time (each, a “Prospectus” and together, the “Prospectuses”)**

**This supplement provides new and additional information beyond that contained in the  
Prospectuses and should be read in conjunction with the Prospectuses.**

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### **Portfolio Manager Change**

Effective November 12, 2014, Ms. Denise M. Krisko of Index Management Solutions, LLC (the “Sub-Adviser”) no longer serves as the portfolio manager of the Funds and all references to Ms. Krisko in the Funds’ Prospectuses are deleted in their entirety. Messrs. Justin V. Lowry and Sean P. Reichert, also of the Sub-Adviser, currently serve as the portfolio managers of the Funds with day-to-day responsibility for trading the Funds’ portfolio securities.

As a result of the portfolio managers changes discussed above, the changes below apply to the Prospectuses.

- The information under the heading “Management - Portfolio Manager” in the Fund Summary section of each Prospectus is deleted in its entirety and replaced with the following:

#### **Portfolio Managers**

Justin V. Lowry and Sean P. Reichert, Portfolio Managers of the Sub-Adviser, have had primary responsibility for trading the Fund’s portfolio securities since November 2014.

- The information under the heading “Management - Portfolio Manager” in each Prospectus is deleted in its entirety and replaced with the following:

#### **Portfolio Managers**

Justin V. Lowry is a portfolio manager with the Sub-Adviser. Mr. Lowry has been with the Sub-Adviser since its founding in 2009 and has six years of experience in the investment management industry, currently managing and trading over \$2 billion in total assets. Mr. Lowry has also worked to create and develop customized indexes that have been developed into exchange-traded products. Mr. Lowry graduated with a B.S. in Business Management from St. Joseph’s University.

Sean P. Reichert is a portfolio manager with the Sub-Adviser. Mr. Reichert has been with the Sub-Adviser since its founding in 2009. Prior to joining the Sub-Adviser, Mr. Reichert worked as an investment consultant for VTL Associates, the parent company of the Sub-Adviser, where he focused on creating asset allocation models for institutional investors. He also worked in the Public Finance department at Janney Montgomery Scott, a regional investment bank. Mr. Reichert graduated with a B.S. in Economics with a concentration in Finance from The Wharton School of The University of Pennsylvania. He is currently a Level II Chartered Financial Analyst (“CFA”) candidate.

Additional information about the Portfolio Managers’ compensation, other accounts managed by the Portfolio Managers, and the Portfolio Managers’ ownership of Fund shares is available in the SAI.

Each Fund will continue to be managed in accordance with its stated investment objective and principal investment strategies.

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**PLEASE RETAIN THIS SUPPLEMENT FOR FUTURE REFERENCE.**

KRS-SK-007-0100



# KroneShares

**KroneShares Trust**

**Prospectus**

**August 1, 2014**

**KRANESHARES CSI CHINA INTERNET ETF (KWEB)**

Fund shares are not individually redeemable. Fund shares are listed on NASDAQ Stock Market LLC.

Neither the Securities and Exchange Commission nor any state securities commissions has approved or disapproved of these securities or passed upon the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offense.

KRS-PS-002-0200



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## KraneShares CSI China Internet ETF

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### Investment Objective

The KraneShares CSI China Internet ETF (the “Fund”) seeks to provide investment results that, before fees and expenses, correspond generally to the price and yield performance of a specific foreign equity securities benchmark.

### Fees and Expenses of the Fund

The following table describes the fees and expenses you may pay if you buy and hold shares of the Fund.

<b>Shareholder Fees</b> (fees paid directly from your investment) . . . . .	None
<b>Annual Fund Operating Expenses</b> (expenses that you pay each year as a percentage of the value of your investment)	
Management Fees . . . . .	0.68%
Distribution and/or Service (12b-1) Fees* . . . . .	0.00%
Other Expenses . . . . .	0.00%
<b>Total Annual Fund Operating Expenses</b> . . . . .	<b>0.68%</b>

\* Pursuant to a Distribution Plan, the Fund may bear a Rule 12b-1 fee not to exceed 0.25% per year of the Fund’s average daily net assets. However, no such fee is currently paid by the Fund, and the Board of Trustees has not currently approved the commencement of any payments under the Distribution Plan.

### Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then sell all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund’s operating expenses remain the same. This Example does not reflect any brokerage commissions that you may pay on purchases and sales of Fund shares. Although your actual costs may be higher or lower, based on these assumptions your cost would be:

1 Year	3 Years	5 Years	10 Years
\$69	\$218	\$379	\$847

### Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or “turns over” its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in Annual Fund Operating Expenses or in the Example, affect the Fund’s performance. For the fiscal period July 31, 2013 to March 31, 2014, the Fund’s portfolio turnover rate was 8% of the average value of its portfolio. This rate excludes the value of portfolio securities received or delivered as a result of in kind creations or redemptions of the Fund’s shares.

### Principal Investment Strategies

The Fund will invest at least 80% of its total assets in equity securities of its current benchmark, the CSI Overseas China Internet Index (the “Underlying Index”), or in depositary receipts representing securities of the Underlying Index. The Underlying Index is designed to measure the performance of



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the investable universe of publicly traded China-based companies whose primary business or businesses are in the Internet and Internet-related sectors (“China Internet Companies”), as defined by the index sponsor, China Securities Index Co., Ltd. (“CSI”). The Underlying Index is generally comprised of 20 – 30 securities. A China-based company is a company that meets at least one of the following criteria: (i) is incorporated in mainland China; (ii) has its headquarters in mainland China or (iii) derives at least 50% of its revenue from goods produced or sold, or services performed, in mainland China. China Internet Companies include, but are not limited to, companies that develop and market Internet software and/or provide Internet services; manufacture home entertainment software and educational software for home use; provide retail or commercial services primarily through the Internet; and develop and market mobile Internet software and/or provide mobile Internet services. Under normal circumstances, the Fund invests at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in securities of China Internet Companies.

The Fund employs a “passive management” investment strategy in seeking to achieve its investment objective. The Fund generally will use a replication methodology, meaning it will invest in all of the securities comprising the Underlying Index in proportion to the weightings in the Underlying Index. However, the Fund may utilize a representative sampling methodology under various circumstances where it may not be possible or practicable to purchase all of the securities in the Underlying Index. Representative sampling is an indexing strategy that generally involves investing in a representative sample of securities that has an investment profile similar to the Underlying Index and some, but not all of the component securities of the Underlying Index.

The Fund will concentrate its investments (*i.e.*, hold 25% or more of its total assets) in a particular industry or group of industries to approximately the same extent that the Underlying Index is so concentrated. The Fund is non-diversified and, therefore, may invest a greater percentage of its assets in a particular issuer in comparison to a diversified fund.

### Principal Risks

As with all exchange traded funds (“ETFs”), a shareholder of the Fund is subject to the risk that his or her investment could lose money. In addition to this risk, the Fund is subject to a number of additional risks that may affect the value of its shares, including:

**Capital Controls Risk.** Economic conditions and political events may lead to intervention by the Chinese and/or Hong Kong governments and the imposition of “capital controls.” Capital controls may impact the ability of the Fund to buy, sell or otherwise transfer securities or currency, adversely affect the trading market and price for shares of the Fund, and cause the Fund to decline in value.

**Currency Risk.** The Fund’s NAV is determined on the basis of U.S. dollars, therefore, the Fund may lose value if the local currency of a foreign market depreciates against the U.S. dollar, even if the local currency value of the Fund’s holdings goes up.

**Depository Receipt Risk.** The Fund may hold the securities of non-U.S. companies in the form of American Depositary Receipts (“ADRs”). The underlying securities of the ADRs in the Fund’s portfolio are subject to fluctuations in foreign currency exchange rates that may affect the value of the Fund’s portfolio. In addition, the value of the securities underlying the ADRs may change materially when the U.S. markets are not open for trading. Investments in the underlying foreign securities also involve political and economic risks distinct from those associated with investing in the securities of U.S. issuers.



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**Emerging Markets Risk.** The Fund's investments will expose the Fund's portfolio to the risks of investing in emerging markets. Investments in emerging markets are subject to greater risk of loss than investments in developed markets. This is due to, among other things, greater market volatility, lower trading volume, political and economic instability, greater risk of market shutdown and more governmental limitations on foreign investments than typically found in developed markets.

**Foreign Securities Risk.** The Fund invests a significant portion of its assets directly in securities of Chinese issuers based outside of the U.S., or in depositary receipts that represent such securities. Investments in securities of non-U.S. issuers involve certain risks that may not be present with investments in securities of U.S. issuers, such as risk of loss due to foreign currency fluctuations or to political or economic instability. There may be less information publicly available about a non-U.S. issuer than a U.S. issuer. Non-U.S. issuers may also be subject to different accounting, auditing, financial reporting and investor protection standards than U.S. issuers. Specifically, issuers in China are subject to less stringent requirements regarding accounting, auditing, financial reporting and record keeping than are issuers in more developed markets, and therefore, all material information may not be available or reliable.

Additionally, the securities markets in China have a limited operating history and are not as developed as those in the U.S. A small number of issuers may represent a large portion of the China market as a whole, and prices for securities of these issuers may be very sensitive to adverse political, economic, or regulatory developments in China and other Asian countries, and may experience significant losses in such conditions. The value of Chinese currencies may also vary significantly relative to the U.S. dollar, affecting the Fund's investments.

Income from securities of non-U.S. issuers, including, in the case of Chinese issuers, gain on the sale of such securities, may be subject to foreign taxes. Even if the Fund qualifies to pass these taxes through to shareholders, your ability to claim a credit for such taxes may be limited, particularly in the case of taxes on capital gains.

**Geographic Concentration Risk.** The Fund's investments are concentrated in China and Hong Kong, and therefore the Fund will be susceptible to adverse market, political, regulatory, and geographic events affecting those regions.

*China.* The Chinese economy is generally considered an emerging market and can be significantly affected by economic and political conditions and policy in China and surrounding Asian countries. In addition, the Chinese economy is export-driven and highly reliant on trade. A downturn in the economies of China's primary trading partners could slow or eliminate the growth of the Chinese economy and adversely impact the Fund's investments. The Chinese government strictly regulates the payment of foreign currency denominated obligations and sets monetary policy, and may introduce new laws and regulations that have an adverse effect on the Fund. Although China has begun the process of privatizing certain sectors of its economy, privatized entities may lose money and/or be re-nationalized. Accordingly, an investment in the Fund involves a risk of total loss. In the Chinese securities markets, a small number of issuers may represent a large portion of the entire market. The Chinese securities markets are characterized by relatively frequent trading halts and low trading volume, resulting in substantially less liquidity and greater price volatility.

*Hong Kong.* The economy of Hong Kong has few natural resources and any fluctuation or shortage in the commodity markets could have a significant adverse effect on the Hong Kong economy. Hong Kong is also heavily dependent on international trade and finance. Additionally,



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the continuation of current political, economic, legal and social policies of Hong Kong is dependent on and subject to the control of the Chinese government.

**Industry Concentration Risk.** To the extent the Fund's assets are concentrated in a particular industry or group of industries (because the Underlying Index is concentrated in that industry or group of industries), the Fund will be susceptible to loss due to adverse occurrences affecting that industry or group of industries to a greater extent than if the Fund's assets were invested in a wider variety of industries.

**Internet Companies Sector Risk.** 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 the companies in the Underlying Index and therefore the performance of the Fund.

**Large-Capitalization Risk.** Returns on investments in securities of large companies could trail the returns on investments in securities of smaller and mid-sized companies.

**Management Risk.** Because the Fund may not fully replicate the Underlying Index and may hold less than the total number of securities in the Underlying Index, the Fund is subject to management risk. This is the risk that the Sub-Adviser's security selection process, which is subject to a number of constraints, may not produce the intended results.

**Market Risk.** Due to market conditions, the value of the Fund's investments may fluctuate significantly from day to day. This volatility may cause the value of your investment in the Fund to decrease.

**Non-Diversification Risk.** The Fund is non-diversified, meaning that, as compared to a diversified fund, it can invest a greater percentage of its assets in securities issued by or representing a small number of issuers. As a result, the performance of these issuers can have a substantial impact on the Fund's performance.

**Passive Investment Risk.** The Fund is not actively managed and therefore may not sell a security held by the Fund due to current or projected underperformance of the security, industry or sector, unless that security is removed from the Underlying Index.

**Privatization Risk.** China has begun a process of privatizing certain entities and industries. Privatized entities may lose money or be re-nationalized.

**Reliance on Trading Partners Risk.** The Chinese economy is heavily dependent upon trading with key partners, such as the United States, Japan and countries in the European Union. Any reduction in this trading may cause an adverse impact on the Chinese economy and, thus, the value of the Fund's investments.

**Shares of the Fund May Trade at Prices Other Than NAV.** Although it is expected that the market price of the shares of the Fund will approximate the Fund's NAV, there may be times when the market price of the shares is more than the NAV intra-day (i.e., premium) or less than the NAV intra-day (i.e., discount). This risk is heightened in times of market volatility or periods of steep market declines.





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**Small- and Mid-Capitalization Risk.** The small- and mid-capitalization companies in which the Fund may invest may be more vulnerable to adverse business or economic events than larger, more established companies, and may underperform other segments of the market or the equity market as a whole.

**Tax Risk.** In order to qualify for the favorable tax treatment generally available to regulated investment companies, the Fund must satisfy certain diversification and distribution requirements. Given the concentration of the Underlying Index in a relatively small number of securities, it may not be possible for the Fund to fully implement a replication strategy or a sampling strategy while satisfying the diversification requirements. The Fund's efforts to satisfy the diversification requirements may cause the Fund's return to deviate from that of the Underlying Index, and the Fund's efforts to replicate the Underlying Index may cause it inadvertently to fail to satisfy the diversification requirements. If the Fund were to fail to qualify as a regulated investment company, it would be taxed in the same manner as an ordinary corporation, and distributions to its shareholders would not be deductible by the Fund in computing its taxable income. Capital controls and currency controls may affect the Fund's ability to meet the applicable distribution requirements. If the Fund fails to satisfy the distribution requirement necessary to qualify for treatment as a regulated investment company for any taxable year, the Fund would be treated as a corporation subject to U.S. federal income tax, thereby subjecting any income earned by the Fund to tax at the corporate level. If the Fund fails to satisfy a separate distribution requirement, it will be subject to a Fund-level excise tax. These Fund-level taxes will apply in addition to taxes payable at the shareholder level on distributions.

**Telecommunications Companies Risk.** Telecommunications companies are subject to extensive government regulation. Telecommunications companies may also be significantly affected by intense competition, including competition with alternative technologies such as wireless communications, product compatibility, consumer preferences, rapid obsolescence and research and development of new products. Such factors may have an adverse impact on the companies in the Underlying Index and therefore the performance of the Fund.

**Tracking Error Risk.** The Fund's return may not match or achieve a high degree of correlation with the return of the Underlying Index. To the extent the Fund utilizes a representative sampling approach, and/or invests in securities that are not contained in the Underlying Index, it may experience tracking error to a greater extent than if the Fund sought to replicate the Underlying Index.

**Trading Risk.** Secondary market trading in Fund shares may be halted by The NASDAQ Stock Market LLC (the "Exchange") because of market conditions or other reasons. If a trading halt occurs, a shareholder may temporarily be unable to purchase or sell shares of the Fund. In addition, although the Fund's shares are listed on the Exchange, there can be no assurance that an active trading market for shares will develop or be maintained.

### Performance Information

The Fund commenced operations on July 31, 2013 and therefore has not yet completed a full calendar year of performance. Once the Fund has completed a full calendar year of operations, a bar chart and table will be included that will provide some indication of the risks of investing in the Fund by showing the variability of the Fund's return based on net assets and comparing the variability of the Fund's return to a broad measure of market performance.



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### **Management**

#### **Investment Adviser and Sub-Adviser**

Krane Funds Advisors, LLC (the “Adviser”) serves as the investment adviser to the Fund. Index Management Solutions, LLC (the “Sub-Adviser”) serves as the investment sub-adviser to the Fund.

#### **Portfolio Manager**

Denise M. Krisko, CFA, Chief Investment Officer of the Sub-Adviser, has had responsibility for trading the Fund’s portfolio securities since the Fund’s inception.

#### **Purchase and Sale of Fund Shares**

Shares may be purchased and redeemed from the Fund only in “Creation Units” of 50,000 shares, or multiples thereof. As a practical matter, only institutions and large investors, such as market makers or other large broker-dealers, purchase or redeem Creation Units. Most investors will buy and sell shares of the Fund on the Exchange. Individual shares can be bought and sold throughout the trading day like other publicly traded securities through a broker-dealer on the Exchange. These transactions do not involve the Fund. The price of an individual Fund share is based on market prices, which may be different from its NAV. As a result, the Fund’s shares may trade at a price greater than the NAV (at a premium) or less than the NAV (at a discount). Most investors will incur customary brokerage commissions and charges when buying or selling shares of the Fund through a broker-dealer.

#### **Tax Information**

The Fund’s distributions are generally taxable as ordinary income, qualified dividend income or capital gains (or a combination).

#### **Payments to Broker-Dealers and Other Financial Intermediaries**

If you purchase the Fund’s shares through a broker-dealer or other financial intermediary (such as a bank), the Fund and its related companies may pay the intermediary for the sale of the Fund’s shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your sales person to recommend the Fund over another investment. Ask your sales person or visit your financial intermediary’s website for more information.



## Additional Information About the Fund

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### **Additional Investment Objective, Principal Investment Strategies, Underlying Index, and Principal Risks Information**

**Investment Objective.** The Fund's investment objective is non-fundamental. As a result, the Fund may change its investment objective without shareholder approval.

**Principal Investment Strategies.** The Fund, using an "indexing" investment approach, seeks to provide investment results that, before fees and expenses, correspond generally to the price and yield performance of its Underlying Index. A number of factors may affect the Fund's ability to achieve a high correlation with its Underlying Index, including the degree to which the Fund utilizes a representative sampling methodology. There can be no guarantee that the Fund will achieve a high degree of correlation with the Underlying Index.

The Fund will invest at least 80% of its total assets in equity securities of its Underlying Index. Under normal circumstances, the Fund will also invest at least 80% of its net assets, plus any borrowings for investment purposes, in securities of China Internet Companies. The Fund may change either or both of its 80% investment policies and Underlying Index without shareholder approval. In the event the Fund changes its investment policy to invest at least 80% of its net assets, plus any borrowings for investment purposes, in securities of China Internet Companies, it will provide shareholders 60 days' prior notice of such change.

In managing the Fund, the Adviser uses a "passive" investment strategy meaning that the Adviser does not attempt to select securities based on their individual potential to outperform the Underlying Index or the market, generally. The Adviser's primary objective is to correspond to the performance of the Underlying Index as closely as possible on a daily basis. The Adviser does not engage in temporary defensive investing, keeping the Fund's assets fully invested in all market environments. As a result, the Fund may be more vulnerable to adverse market movements than a fund that engages in temporary defensive investing strategies.

**Principal Risks of Investing in the Fund.** The following section provides additional information regarding the principal risks summarized under "Principal Risks" in the Fund's Summary section.

**Capital Controls Risk.** Economic conditions, such as volatile currency exchange rates and interest rates, political events and other conditions may, without prior warning, lead to intervention by the Chinese and/or Hong Kong governments and the imposition of "capital controls." Capital controls include the prohibition of, or restrictions on, the ability to transfer currency, securities or other assets. Levies may be placed on profits repatriated by foreign entities (such as the Fund). Capital controls may impact the ability of the Fund to buy, sell or otherwise transfer securities or currency, adversely affect the trading market and price for shares of the Fund, and cause the Fund to decline in value.

**Costs of Buying or Selling Shares.** Investors buying or selling the Fund's shares in the secondary market will pay brokerage commissions or other charges imposed by brokers as determined by that broker. Brokerage commissions are often a fixed amount and may be a significant proportional cost for investors seeking to buy or sell relatively small amounts of shares. In addition, secondary market investors will also incur the cost of the difference between the price that an investor is willing to pay for shares (the "bid" price) and the price at which an investor is willing to sell shares (the "ask" price). This difference in bid and ask prices is often referred to as the "spread" or "bid/ask spread." The bid/ask spread varies over time for shares based on trading volume and market liquidity, and is generally lower if the Fund's shares have more trading volume and market liquidity and higher if the Fund's shares have little trading volume and market liquidity. Further, increased market volatility may cause increased bid/ask spreads. Due to the costs of buying or selling shares, including bid/ask



## Additional Information About the Fund

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spreads, frequent trading of shares may significantly reduce investment results and an investment in shares may not be advisable for investors who anticipate regularly making small investments.

**Currency Risk.** Indirect and direct exposure to foreign currencies subjects the Fund to the risk that currencies will decline in value relative to the U.S. dollar. Currency rates in foreign countries may fluctuate significantly over short periods of time for a number of reasons, including changes in interest rates and the imposition of currency controls or other political developments in the U.S. or abroad.

**Depository Receipts.** The Fund may invest in depository receipts. Depository receipts include American Depositary Receipts (“ADRs”). ADRs are U.S. dollar-denominated receipts representing shares of foreign-based corporations. ADRs are issued by U.S. banks or trust companies, and entitle the holder to all dividends and capital gains that are paid out on the underlying foreign shares. Investment in ADRs may be less liquid than the underlying shares in their primary trading market.

Depository receipts may be sponsored or unsponsored. Sponsored depository receipts are established jointly by a depository and the underlying issuer, whereas unsponsored depository receipts may be established by a depository without participation by the underlying issuer. Holders of an unsponsored depository receipt generally bear all the costs associated with establishing the unsponsored depository receipt. In addition, the issuers of the securities underlying unsponsored depository receipts are not obligated to disclose material information in the United States and, therefore, there may be less information available regarding such issuers and there may not be a correlation between such information and the market value of the depository receipts.

Depository receipts may be unregistered and unlisted. The Fund’s investments may also include ADRs that are not purchased in the public markets and are restricted securities that can be offered and sold only to “qualified institutional buyers” under Rule 144A of the Securities Act of 1933, as amended. The Adviser will determine the liquidity of such investments pursuant to guidelines established by the Fund’s Board of Trustees. If a particular investment in such ADRs is deemed illiquid, that investment will be included within the Fund’s limitation on investment in illiquid securities. Moreover, if adverse market conditions were to develop during the period between the Fund’s decision to sell these types of ADRs and the point at which the Fund is permitted or able to sell such security, the Fund might obtain a price less favorable than the price that prevailed when it decided to sell.

**Emerging Markets Risk.** The Fund invests a significant portion of its assets in securities and instruments that are traded in developing or emerging markets or that provide exposure to China. These investments can involve additional risks relating to political, economic, or regulatory conditions not associated with investments in U.S. securities and instruments. For example, developing and emerging markets may be subject to (i) greater market volatility, (ii) lower trading volume and liquidity, (iii) greater social, political and economic uncertainty, (iv) governmental controls on foreign investments and limitations on repatriation of invested capital, (v) lower disclosure, corporate governance, auditing and financial reporting standards, (vi) fewer protections of property rights, (vii) restrictions on the transfer of securities or currency, and (viii) settlement and trading practices that differ from U.S. markets. Each of these factors may impact the ability of the Fund to buy, sell or otherwise transfer securities, adversely affect the trading market and price for Fund shares, and cause the Fund to decline in value.



## Additional Information About the Fund

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**Foreign Securities Risk.** The Fund invests in foreign securities, including non-U.S. dollar-denominated securities traded outside of the United States and U.S. dollar-denominated securities of foreign issuers traded in the United States. Investment in foreign securities may involve higher costs than investment in U.S. securities, including higher transaction and custody costs as well as the imposition of additional taxes by foreign governments. Foreign investments may also involve risks associated with the level of currency exchange rates, less complete financial information about the issuers, less market liquidity, more market volatility and political instability. Future political and economic developments, the possible imposition of withholding taxes on dividend income, the possible seizure or nationalization of foreign holdings, the possible establishment of exchange controls or freezes on the convertibility of currency, or the adoption of other governmental restrictions might adversely affect an investment in foreign securities. Additionally, foreign issuers may be subject to less stringent regulation, and to different accounting, auditing and recordkeeping requirements.

Income from securities of non-U.S. issuers, including, in the case of Chinese issuers, gain on the sale of such securities, may be subject to foreign taxes. Even if the Fund qualifies to pass these taxes through to shareholders, your ability to claim a credit for such taxes may be limited, particularly in the case of taxes on capital gains.

**Geographic Concentration Risk.** The Fund is less diversified across countries or geographic regions and generally riskier than more geographically diversified funds. Risks associated with investment in Chinese issuers may negatively affect the Fund. The economy of China differs, often unfavorably, from the U.S. economy in such respects as structure, general development, government involvement, wealth distribution, rate of inflation, growth rate, allocation of resources and capital reinvestment, among others. Under China's political and economic system, the central government has historically exercised substantial control over virtually every sector of the Chinese economy through administrative regulation and/or state ownership. Since 1978, the Chinese government has been, and is expected to continue, reforming its economic policies, which has resulted in less direct central and local government control over the business and production activities of Chinese enterprises and companies. Notwithstanding the economic reforms instituted by the Chinese government and the Chinese Communist Party, actions of the Chinese central and local government authorities continue to have a substantial effect on economic conditions in China, which could affect the securities in which the Fund invests. In the past, the Chinese government has from time to time taken actions that influence the prices at which certain goods may be sold, encourage companies to invest or concentrate in particular industries, induce mergers between companies in certain industries and induce private companies to publicly offer their securities to increase or continue the rate of economic growth, control the rate of inflation or otherwise regulate economic expansion. It may do so in the future as well. Such actions and a variety of other centrally planned or determined activities by the Chinese government could have a significant adverse effect on economic conditions in China, the economic prospects for, and the market prices and liquidity of, the securities of Chinese issuers and the payments of dividends and interest by Chinese issuers. In addition, expropriation, including nationalization, confiscatory taxation, political, economic or social instability or other developments could adversely affect and significantly diminish the values of the Chinese issuers in which the Fund invests.

The government of China maintains strict currency controls in order to achieve economic, trade and political objectives and regularly intervenes in the currency market. The Chinese government places strict regulation on the yuan, RMB, and Hong Kong dollar and manages the yuan, RMB, and Hong Kong dollar so that they have historically traded in a tight range relative to the U.S. dollar. The Chinese government has been under pressure to manage the currency in a less restrictive fashion so

## Additional Information About the Fund

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that it is less correlated to the U.S. dollar. It is expected that such action would increase the value of the yuan, RMB and the Hong Kong dollar relative to the U.S. dollar. Of course, there can be no guarantee that this will occur, or that the yuan, RMB, and the Hong Kong dollar will move in relation to the U.S. dollar as expected. The Chinese government also plays a major role in the country's economic policies regarding foreign investments. Foreign investors are subject to the risk of loss from expropriation or nationalization of their investment assets and property, governmental restrictions on foreign investments and the repatriation of capital invested. In addition, the rapid growth rate of the Chinese economy over the past several years may not continue. These and other factors could have a negative impact on the Chinese economy as a whole.

**Industry Concentration Risk.** The Fund may concentrate its investments in a limited number of issuers conducting business in the same industry or group of related industries. Market conditions, interest rates, and economic, regulatory, or financial developments could significantly affect a single industry or a group of related industries, and the securities of companies in that industry or group of industries could react similarly to these or other developments.

**Internet Sector Risk.** From time to time, the Fund may invest a significant percentage of its assets in issuers in a single industry or the same group of industries within the Internet sector. To the extent the Fund's investments have significant exposure to a particular issuer, industry or group of industries, the Fund may be more vulnerable to adverse events affecting such issuer, industry or group of industries than if the Fund's investments were more broadly diversified. While the Fund's industry exposure is expected to vary over time based on the composition of the Underlying Index, the Fund anticipates that the companies in which it invests may be subject to legislative or regulatory changes, adverse market conditions and/or increased competition affecting the Internet sector. The prices of the securities of Internet Companies may fluctuate widely due to competitive pressures, increased sensitivity to short product cycles and aggressive pricing, problems related to bringing their products to market and rapid obsolescence of products.

**Management Risk.** Because the Fund may not fully replicate its Underlying Index and may hold less than the total number of securities in its Underlying Index, the Fund is subject to management risk. This is the risk that the Sub-Adviser's security selection process, which is subject to a number of constraints, may not produce the intended results.

**Market Capitalization Risk.** The Fund's Underlying Index may be composed primarily of, or have significant exposure to, securities in a particular capitalization range, for example, large-, mid- or small-cap securities. As a result, the Fund may be subject to the risk that the pre-dominate capitalization range represented in its Underlying Index may underperform other segments of the equity market or the equity market as a whole. In addition, in comparison to securities of companies with larger capitalizations, securities of small and medium-capitalization companies may experience more price volatility, greater spreads between their bid and ask prices, significantly lower trading volumes, and cyclical or static growth prospects. Small and medium-capitalization companies often have limited product lines, markets or financial resources, and may therefore be more vulnerable to adverse developments than larger capitalization companies. These securities may or may not pay dividends. The Fund considers large capitalization companies to be those with market capitalizations of \$10 billion or more; mid-capitalization companies, \$2 billion or more; and small capitalization companies, less than \$2 billion.

**Market Risk.** An investment in the Fund involves risks similar to those of investing in any fund of equity securities, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in securities prices. The values of

### Additional Information About the Fund

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equity securities could decline generally or could underperform other investments. Different types of equity securities tend to go through cycles of out-performance and under-performance in comparison to the general securities markets. In addition, securities may decline in value due to factors affecting a specific issuer, market or securities markets generally.

Turbulence in the financial markets and reduced liquidity in equity, credit and fixed-income markets may negatively affect issuers worldwide, which could have an adverse effect on the Fund. Following the financial crisis that began in 2007, the Federal Reserve has attempted to stabilize the U.S. economy and support the U.S. economic recovery by keeping the federal funds rate at or near zero percent. In addition, the Federal Reserve has purchased large quantities of securities issued or guaranteed by the U.S. Government or its agencies or instrumentalities on the open market, a strategy known as quantitative easing. As the Federal Reserve tapers or reduces quantitative easing, and if the Federal Reserve raises the federal funds rate, there is a risk that interest rates will rise, which may make investments in emerging markets less attractive. These policy changes may expose markets to heightened volatility and may reduce liquidity for certain Fund investments, causing the value of the Fund's investments and share price to decline. To the extent that the Fund experiences high redemptions because of these governmental policy changes, the Fund may experience increased portfolio turnover, which will increase the costs that the Fund incurs and will lower the Fund's performance.

**Non-Diversification Risk.** Although the Fund intends to invest in a variety of securities and instruments, the Fund will be considered to be non-diversified, which means that it may invest more of its assets in the securities of a single issuer or a smaller number of issuers than if it was a diversified fund. As a result, the Fund may be more exposed to the risks associated with and developments affecting an individual issuer or a smaller number of issuers than a fund that invests more widely. This may increase the Fund's volatility and cause the performance of a relatively smaller number of issuers to have a greater impact on the Fund's performance.

**Passive Investment Risk.** The Fund is not actively managed. Therefore, unless a specific security is removed from the Fund's Underlying Index, the Fund generally would not sell a security because the security's issuer was in financial trouble. If a specific security is removed from the Fund's Underlying Index, the Fund may be forced to sell such security at an inopportune time or for a price other than the security's current market value. An investment in the Fund involves risks similar to those of investing in any equity securities traded on an exchange, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in security prices. It is anticipated that the value of Fund shares will decline, more or less, in correspondence with any decline in value of the Fund's Underlying Index. The Fund's Underlying Index may not contain the appropriate mix of securities for any particular economic cycle, and the timing of movements from one type of security to another in seeking to replicate the Underlying Index could have a negative effect on the Fund. Unlike with an actively managed fund, the Sub-Adviser does not use techniques or defensive strategies designed to lessen the effects of market volatility or to reduce the impact of periods of market decline. This means that, based on market and economic conditions, the Fund's performance could be lower than other types of mutual funds that may actively shift their portfolio assets to take advantage of market opportunities or to lessen the impact of a market decline.

**Privatization Risk.** China has begun a process of privatization of certain entities and industries. In some instances, investors in newly privatized entities have suffered losses due to the inability of the newly privatized entities to adjust quickly to a competitive environment or changing regulatory and



## Additional Information About the Fund

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legal standards, or in some cases, due to re-nationalization of such privatized entities. There is no assurance that such losses will not recur. Currently, privatization has mainly occurred within the energy and natural resources sectors. There is no assurance that privatization will not continue in these sectors for the foreseeable future, or that privatization will occur in other industries or sectors.

**Shares of the Fund May Trade at Prices Other Than NAV.** The NAV of the Fund's shares will generally fluctuate with changes in the market value of the Fund's securities holdings. The market prices of shares will generally fluctuate in accordance with changes in the Fund's NAV and supply and demand of shares on the Exchange. It cannot be predicted whether Fund shares will trade below, at or above their NAV. Price differences may be due, in large part, to the fact that supply and demand forces at work in the secondary trading market for shares will be closely related to, but not identical to, the same forces influencing the prices of the securities of the Underlying Index trading individually or in the aggregate at any point in time. The market prices of Fund shares may deviate significantly from the NAV of the shares during periods of market volatility. However, given that shares can be created and redeemed in Creation Units (unlike shares of many closed-end funds, which frequently trade at appreciable discounts from, and sometimes at premiums to, their NAV), the Adviser believes that large discounts or premiums to the NAV of Shares should not be sustained. While the creation/redemption feature is designed to make it likely that Fund shares normally will trade close to the Fund's NAV, disruptions to creations and redemptions may result in trading prices that differ significantly from such Fund's NAV. If an investor purchases Fund shares at a time when the market price is at a premium to the NAV of the shares or sells at a time when the market price is at a discount to the NAV of the shares, then the investor may sustain losses.

**Tax Risk.** In order to qualify for the favorable tax treatment generally available to regulated investment companies, the Fund must satisfy certain diversification requirements. In particular, the Fund generally may not acquire a security if, as a result of the acquisition, more than 50% of the value of the Fund's assets would be invested in (a) issuers in which the Fund has, in each case, invested more than 5% of the Fund's assets and (b) issuers more than 10% of whose outstanding voting securities are owned by the Fund. Given the concentration of the Underlying Index in a relatively small number of securities, it may not be possible for the Fund to fully implement a replication strategy or a sampling strategy while satisfying these diversification requirements. The Fund's efforts to satisfy the diversification requirements may cause the Fund's return to deviate from that of the Underlying Index, and the Fund's efforts to replicate the Underlying Index may cause it inadvertently to fail to satisfy the diversification requirements. If the Fund were to fail to qualify as a regulated investment company, it would be taxed in the same manner as an ordinary corporation, and distributions to its shareholders would not be deductible by the Fund in computing its taxable income.

In order to qualify for the favorable tax treatment generally available to regulated investment companies and avoid Fund-level taxes, the Fund must also satisfy certain distribution requirements. Capital controls and currency controls may affect the Fund's ability to meet the applicable distribution requirements. If the Fund fails to satisfy the distribution requirement necessary to qualify for treatment as a regulated investment company for any taxable year, the Fund would be treated as a corporation subject to U.S. federal income tax, thereby subjecting any income earned by the Fund to tax at the corporate level. If the Fund fails to satisfy a separate distribution requirement, it will be subject to a Fund-level excise tax. These Fund-level taxes will apply in addition to taxes payable at the shareholder level on distributions.



## Additional Information About the Fund

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**Telecommunications Sector Risk.** From time to time, the Fund may invest in issuers in a single industry or the same group of industries within the Telecommunications sector. To the extent the Fund's investments have significant exposure to a particular issuer, industry or group of industries, the Fund may be more vulnerable to adverse events affecting such issuer, industry or group of industries than if the Fund's investments were more broadly diversified. While the Fund's industry exposure is expected to vary over time based on the composition of the Underlying Index, the Fund anticipates that it may be subject to legislative or regulatory changes, adverse market conditions and/or increased competition affecting the Telecommunications sector. The Telecommunications sector is subject to extensive government regulation. The costs of complying with governmental regulations, delays or failure to receive required regulatory approvals or the enactment of new adverse regulatory requirements may adversely affect the business of the telecommunications companies. The Telecommunications sector may also be significantly affected by intense competition, including competition with alternative technologies such as wireless communications, product compatibility, consumer preferences, rapid obsolescence and research and development of new products. Technological innovations may make the products and services of telecommunications companies obsolete. Other risks include uncertainties resulting from such companies' diversification into new domestic and international businesses, as well as agreements by any such companies linking future rate increases to inflation or other factors not directly related to the actual operating profits of the enterprise.

**Tracking Error Risk.** Tracking error refers to the risk that the Sub-Adviser may not be able to cause the Fund's performance to match or correlate to that of its Underlying Index, either on a daily or aggregate basis. There are a number of factors that may contribute to the Fund's tracking error, such as Fund expenses, imperfect correlation between the Fund's investments and those of its Underlying Index, regulatory policies, and high portfolio turnover rate. In addition, mathematical compounding may prevent the Fund from correlating with the monthly, quarterly, annual or other period performance of its benchmark. Tracking error may cause the Fund's performance to be less than expected.

**Trading Risk.** Although Fund shares are listed for trading on the Exchange, there can be no assurance that an active trading market for such shares will develop or be maintained. Trading in Fund shares may be halted due to market conditions or for reasons that, in the view of the Exchange, make trading in shares inadvisable. In addition, trading in shares is subject to trading halts caused by extraordinary market volatility pursuant to Exchange "circuit breaker" rules. There can be no assurance that the requirements of the Exchange necessary to maintain the listing of the Fund will continue to be met or will remain unchanged or that the Fund will trade with any volume, or at all.

### Additional Investment Strategies

*Investments in China.* In addition to investing in H-Shares, Red Chips and P-Chip Companies included in the Fund's Underlying Index, the Fund also may invest in B-Shares and A-Shares to the extent such securities are included as components of the Fund's Underlying Index. While the Fund does not presently anticipate doing so, the Fund also may invest up to 20% of its assets in securities and financial instruments not included as components of the Fund's Underlying Index if the Adviser and Sub-Adviser believe that such investments will enable the Fund to achieve its investment objective. Should the Adviser or Sub-Adviser become eligible or otherwise be permitted to invest directly in A-Shares, the Fund reserves the right to invest in A-Shares in a manner consistent with the Fund's investment objective and investment strategy and to the extent permitted by applicable law.

### Additional Information About the Fund

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*B-Shares.* B-Shares are shares of companies listed on the Shanghai or Shenzhen Stock Exchange and are quoted and traded in foreign currencies (currently Hong Kong Dollars and U.S. Dollars) and are generally the only class of shares listed on the Shanghai and Shenzhen Stock Exchanges available to foreign investors other than Qualified Foreign Institutional Investors (“QFIIs”) and Renminbi Qualified Foreign Institutional Investors (“RQFIIs”). The market for B-Shares in China is relatively illiquid so that market opportunities will be limited as compared to other major international stock markets.

*A-Shares.* A-Shares are issued by companies incorporated in mainland China and that are traded on Chinese exchanges. Investments in A-Shares are made available to domestic Chinese investors and certain foreign investors, mainly those who have been approved as a QFII or a RQFII. Investments by other foreign investors in A-Shares are generally prohibited. Investments in A-Shares are also subject to various restrictions.

### Additional Information About the Underlying Index

Additional information regarding the Fund’s Underlying Index is provided below. Upon consultation with the Adviser, the Sub-Adviser may sell securities that are represented in the Underlying Index or purchase securities not yet represented in the Underlying Index in anticipation of their removal from or addition to the Underlying Index. There also may be instances in which the Sub-Adviser may choose to overweight securities in the Underlying Index or purchase or sell securities not included in the Underlying Index which the Sub-Adviser believes are appropriate to substitute for certain securities in the Underlying Index or utilize various combinations of other available investment techniques in seeking to track the Underlying Index.

#### The CSI Overseas China Internet Index

The Underlying Index is designed to measure the performance of the investable universe of publicly traded China-based companies in the Internet and Internet-related sectors. The Underlying Index is comprised of companies whose primary business or businesses involve internet software and services, internet retail services, internet commercial services, internet home entertainment software and mobile internet. Securities included in the Underlying Index will generally be common stock issued by eligible companies. To be eligible for inclusion in the Underlying Index, securities must be tradeable to foreign investors without restrictions, such as securities of companies that are incorporated in China and are listed on the Hong Kong Exchange (“H-Shares”), securities of companies with main business operations in China that are listed on the Hong Kong Exchange (“Red Chips”) and securities of companies with controlling private Chinese shareholders that are incorporated and traded outside mainland China on the Hong Kong Stock Exchange (“P-Chip Companies”). Securities may also be listed on U.S. exchanges and other foreign exchanges, subject to the Underlying Index’s other selection criteria. Eligible securities are screened according to liquidity and listing requirements. Component securities are market capitalization weighted and individual component weightings are capped on a semi-annual basis according to the Underlying Index methodology, with no individual component exceeding 10%. The Underlying Index is generally comprised of 20 to 30 securities. The Underlying Index was created and is maintained by CSI to be tracked by exchange-traded funds, other investment companies, and other types of investment products and investors. CSI is independent of the Fund, the Adviser and the Sub-Adviser. CSI determines the components and the relative weightings of the component securities in the Underlying Index.

The Fund may invest up to 20% of its total assets in cash, cash equivalents, such as money market instruments, or other types of investments that are not included in the Underlying Index, including in



**KroneShares**

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### **Additional Information About the Fund**

other investment companies and certain derivatives, to the extent the Adviser and Sub-Adviser believe that such investments will enable the Fund to achieve its investment objective.

#### **Portfolio Holdings Information**

A description of the Fund's policies and procedures with respect to the disclosure of the Fund's portfolio securities is available in the Fund's Statement of Additional Information (the "SAI"). The Fund's portfolio holdings can be found on the Fund's website at [www.kraneshares.com](http://www.kraneshares.com).



## Management

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### Investment Adviser

The Adviser is located at 1350 Avenue of the Americas, 2nd Floor, New York, New York 10019 and serves as investment adviser of the Fund. The Adviser has served as the investment adviser of the Fund since the Fund's inception.

The Adviser is responsible for the day-to-day management of the Fund, and continuously reviews, supervises, and administers the Fund's investment program. The Adviser is also responsible for arranging transfer agency, custody, fund administration and accounting, and other non-distribution related services necessary for the Fund to operate. The Adviser administers the Fund's business affairs, provides office facilities and equipment and certain clerical, bookkeeping and administrative services, and permits its officers and employees to serve as officers or Trustees of the KraneShares Trust (the "Trust"). The Board of Trustees of the Trust supervises the Adviser and establishes policies that the Adviser must follow in its day-to-day management activities. Pursuant to an investment advisory agreement between the Trust and the Adviser, the Fund pays the Adviser a fee, which is calculated daily and paid monthly, at an annual rate of 0.68% based on a percentage of the average daily net assets of the Fund.

The Adviser bears all of its own costs associated with providing these advisory services. As part of its agreement with the Trust, the Adviser has contractually agreed to pay all operating expenses of the Fund, including the cost of index licensing fees, transfer agency, custody, fund administration, legal, audit and other services, except interest expense, taxes, Acquired Fund Fees and Expenses, if any, brokerage commissions and other expenses connected with execution of portfolio transactions, expenses of the Independent Trustees (including any Trustees' counsel fees), extraordinary expenses, distribution fees and expenses paid by the Trust under any distribution plan adopted pursuant to Rule 12b-1 under the 1940 Act, if any, and the advisory fee payable to the Adviser.

For the fiscal period July 23, 2013 to March 31, 2014, the Adviser received 0.68% of the Fund's average daily net assets in advisory fees.

A discussion regarding the basis for the Board's approval of the Fund's investment advisory agreement is included in the Fund's Semi-Annual Report to Shareholders dated September 30, 2013.

Krane has received "manager of managers" exemptive relief from the SEC that permits Krane, subject to the approval of the Board of Trustees, to appoint an unaffiliated sub-adviser or co-adviser or to change the terms of an advisory agreement with an unaffiliated sub-adviser or co-adviser for the Fund without first obtaining shareholder approval. The exemptive order permits the Fund to add or to change unaffiliated sub-advisers or co-advisers or to change the fees paid to such parties from time to time without the expense and delays associated with obtaining shareholder approval of the change. However, any increase in the aggregate advisory fee paid by the Fund remains subject to shareholder approval. In addition, Krane continues to have ultimate responsibility subject to oversight by the Board of Trustees to oversee the sub-advisers or co-advisers and recommend their hiring, termination, and replacement. The order permits the Fund to disclose sub-advisers' or co-advisers' fees only in the aggregate in its registration statement. The Fund will notify shareholders of any change in the identity of a sub-adviser or co-adviser or the addition of a co-adviser to the Fund. Approval by the Fund's shareholders is required before any authority granted under the exemptive order can be exercised.



## Management

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### **Investment Sub-Adviser**

The Sub-Adviser is a wholly-owned subsidiary of VTL Associates, LLC and is located at One Commerce Square, 2005 Market Street, Suite 2020, Philadelphia, Pennsylvania 19103. The Sub-Adviser is responsible for trading portfolio securities on behalf of the Fund, including selecting broker-dealers to execute purchase and sale transactions as instructed by the Adviser or in connection with any rebalancing or reconstitution of the Underlying Index, subject to the supervision of the Adviser and the Board of Trustees. For the services it provides to the Fund, the Adviser pays the Sub-Adviser a fee, which is calculated daily and paid monthly, at an annual rate of 0.05% on the Fund's daily average net assets up to \$50 million; 0.04% on the Fund's daily average net assets on the next \$50 million; and 0.03% on the Fund's daily average net assets in excess of \$100 million.

A discussion regarding the basis for the Board's approval of the Fund's investment sub-advisory agreement is included in the Fund's Semi-Annual Report to Shareholders dated September 30, 2013.

### **Portfolio Manager**

Ms. Denise Krisko is responsible for trading portfolio securities on behalf of the Fund. Ms. Krisko became the Chief Investment Officer of the Sub-Adviser in 2009 and has over eighteen years of investment experience. Previously, she was a Managing Director and Co-Head of the Equity Index Management and Head of East Coast Equity Index Strategies for Mellon Capital Management. She was also a Managing Director of The Bank of New York and Head of Equity Index Strategies for BNY Investment Advisors since August of 2005. Ms. Krisko attained the Chartered Financial Analyst ("CFA") designation. She graduated with a B.S. from Pennsylvania State University and obtained her M.B.A. from Villanova University.

Additional information about Ms. Krisko's compensation, other accounts managed by Ms. Krisko, and Ms. Krisko's ownership of securities in the Fund is available in the SAI.

## Shareholder Information

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### Calculating NAV

The Fund calculates its NAV by:

- Taking the current market value of its total assets
- Subtracting any liabilities
- Dividing that amount by the total number of shares owned by the shareholders

The Fund calculates NAV as of the regularly scheduled close of normal trading on each day that the Exchange is open for business (a “Business Day”) (normally, 4:00 p.m., Eastern time). Any assets or liabilities denominated in currencies other than the U.S. dollar are converted into U.S. dollars at the current market rates on the date of valuation as quoted by one or more sources.

The values of the Fund’s portfolio securities are based on the securities’ closing prices on their local principal markets, where available. In the absence of a last reported sales price, or if no sales were reported, and for other assets for which market quotes are not readily available, values may be based on quotes obtained from a quotation reporting system, established market makers or by an outside independent pricing service. Fixed income securities are normally valued on the basis of quotes from brokers or dealers, established market makers or an outside independent pricing service using data reflecting the earlier closing of the principal markets for those securities.

If reliable market valuations are not readily available or are not deemed to reflect current market values, the security will be fair valued by the Adviser in accordance with the Trust’s valuation policies and procedures approved by the Board of Trustees. Securities that may be valued using “fair value” pricing may include, but are not limited to, securities for which there are no current market quotations or whose issuer is in default or bankruptcy, securities subject to corporate actions (such as mergers or reorganizations), securities subject to non-U.S. investment limits or currency controls, and securities affected by “significant events” occurring after the close of the market on which the securities principally trade. An example of a significant event is an event occurring after the close of the market in which a security trades but before the Fund’s next NAV calculation time that may materially affect the value of the Fund’s investment (*e.g.*, government action, natural disaster, or significant market fluctuation). In addition, the Fund expects that it will fair value certain of the foreign securities held by the Fund each day the Fund calculates its NAV.

Fair value pricing involves subjective judgments and it is possible that a fair value determination for a security is materially different than the value that could be realized upon the sale of the security or that another fund that uses market quotations or its own fair value procedures to price the same securities. In addition, fair value pricing could result in a difference between the prices used to calculate the Fund’s NAV and the prices used by the Fund’s Underlying Index. This may adversely affect the Fund’s ability to track its Underlying Index.

Trading in securities on many foreign exchanges is normally completed before the close of business on each Business Day. In addition, securities trading in a particular country or countries may not take place on each Business Day or may take place on days that are not Business Days. Changes in valuations on certain securities may occur at times or on days on which the Fund’s NAV is not calculated and on which the Fund does not effect sales, redemptions and exchanges of its shares.

### Buying and Selling Fund Shares

Shares of the Fund may be purchased or redeemed directly from the Fund only in Creation Units or multiples thereof. Only a broker-dealer (“Authorized Participant”) that enters into an Authorized



## Shareholder Information

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Participant Agreement with the Fund's distributor, SEI Investments Distribution Co. (the "Distributor"), may engage in creation and redemption transactions directly with the Fund.

Once created, shares are listed on the Exchange and trade in the secondary market. When you buy or sell the Fund's shares in the secondary market, you will pay or receive the market price. Shares can be bought and sold throughout the trading day like other publicly traded securities. Most investors will buy and sell shares through a broker and, thus, will incur customary brokerage commissions and charges when buying or selling shares.

The secondary markets are closed on weekends and also are generally closed on the following holidays: New Year's Day, Martin Luther King, Jr. Day, Presidents' Day, Good Friday, Memorial Day (observed), Independence Day, Labor Day, Columbus Day, Veterans' Day, Thanksgiving Day, and Christmas Day.

### Share Trading Prices

The trading prices of the Fund's shares listed on the Exchange may differ from the Fund's daily NAV and can be affected by market forces of supply and demand, economic conditions and other factors. The Exchange intends to disseminate the approximate value of the portfolio underlying a share of the Fund every fifteen seconds. This approximate value should not be viewed as a "real-time" update of the NAV of the Fund because the approximate value may not be calculated in the same manner as the NAV, which is computed once a day. The Fund is not involved in, or responsible for, the calculation or dissemination of such values and makes no warranty as to their accuracy.

### Active Investors and Market Timing

The Trust's Board of Trustees has determined not to adopt policies and procedures designed to prevent or monitor for frequent purchases and redemptions of the Fund's shares because the Fund sells and redeems its shares at NAV only in Creation Units pursuant to the terms of an Authorized Participant Agreement between the Authorized Participant and the Distributor principally in exchange for a basket of securities that mirrors the composition of the Fund's portfolio and a specified amount of cash. The Fund also imposes a transaction fee on such Creation Unit transactions that is designed to offset the Fund's transfer and other transaction costs associated with the issuance and redemption of the Creation Unit shares. The Fund reserves the right to reject any purchase order at any time. The Fund also reserves the right to impose restrictions on disruptive, excessive, or short-term trading and may reject purchase or redemption orders in such instances.

### Investments by Registered Investment Companies

Section 12(d)(1) of the 1940 Act restricts investments by investment companies in the securities of other investment companies, including shares of the Fund. Registered investment companies are permitted to invest in the Fund beyond the limits set forth in Section 12(d)(1) subject to certain terms and conditions set forth in a U.S. Securities and Exchange Commission (the "SEC") exemptive order issued to the Trust, including that such investment companies enter into an agreement with the Fund.

### Distribution Plan

The Fund has adopted a Distribution Plan (the "Plan") that allows the Fund to pay distribution fees to the Distributor and other firms that provide distribution services ("Service Providers"). If a Service Provider provides distribution services, the Fund will pay distribution fees to the Distributor at an annual rate not to exceed 0.25% of average daily net assets, pursuant to Rule 12b-1 under the 1940 Act. The Distributor will, in turn, pay the Service Provider out of its fees.



## Shareholder Information

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The Board of Trustees has determined that no payments pursuant to the Plan will be made through at least July 31, 2015. Thereafter, 12b-1 fees may only be imposed after approval by the Board of Trustees. Any forgone 12b-1 fees during the next 12 months will not be recoverable during any subsequent period. Because any distribution fees would be paid out of the Fund's assets on an on-going basis, if payments are made in the future, the distribution fees will increase the cost of your investment and may cost you more than paying other types of sales charges.

### **Dividends and Distributions**

The Fund pays out dividends to shareholders at least semi-annually. The Fund distributes its net capital gains, if any, to shareholders annually. The Fund may make distributions on a more frequent basis. The Fund reserves the right to declare special distributions if, in its reasonable discretion, such action is necessary or advisable to preserve the eligibility of the Fund for treatment as a regulated investment company under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), or to avoid imposition of income or excise taxes on undistributed income.





## Additional Tax Information

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The following is a summary of some important tax issues that affect the Fund and its shareholders. The summary is based on current tax laws, which may be changed by legislative, judicial or administrative action. You should not consider this summary to be a detailed explanation of the tax treatment of the Fund, or the tax consequences of an investment in the Fund. **More information about taxes is located in the SAI. You are urged to consult your tax adviser regarding specific questions as to federal, state and local income taxes.**

### Tax Status of the Fund

The Fund is treated as a separate entity for federal tax purposes, and intends to qualify for the special tax treatment afforded to regulated investment companies. As long as the Fund qualifies for treatment as a regulated investment company, it pays no federal income tax on the earnings it distributes to shareholders.

### Tax Status of Distributions

The Fund will distribute substantially all of its net investment taxable income, semi-annually, and net capital gain, annually.

The income dividends you receive from the Fund will be taxed as either ordinary income or qualified dividend income. For non-corporate shareholders, dividends that are reported as qualified dividend income are generally taxable at reduced maximum tax rates to the extent that the Fund receives qualified dividend income and subject to certain limitations.

Distributions of the Fund's short-term capital gains are generally taxable as ordinary income. Any distributions of net capital gain (the excess of the Fund's net long-term capital gains over its net short-term capital losses) are taxable as long-term capital gains regardless of how long you have owned your shares. Long-term capital gains are taxable at reduced maximum tax rates.

The Fund may invest in complex securities. These investments may be subject to numerous special and complex rules. These rules could affect whether gains and losses recognized by the Fund are treated as ordinary income or capital gain, accelerate the recognition of income to the Fund and/or defer the Fund's ability to recognize losses. In turn, these rules may affect the amount, timing or character of distributions you receive from the Fund.

Dividends and distributions are generally taxable to you whether you receive them in cash or in additional shares. Corporate shareholders may be entitled to a dividends-received deduction for the portion of dividends they receive that is attributable to dividends received by the Fund from U.S. corporations, subject to certain limitations.

Distributions paid in January but declared by the Fund in October, November or December of the previous year may be taxable to you in the previous year. Your broker will inform you of the amount of your ordinary income dividends, qualified dividend income, and capital gains distributions shortly after the close of each calendar year.

If you lend your Fund shares pursuant to securities lending arrangements, you may lose the ability to treat the Fund's dividends (paid while the shares are held by the borrower) as qualified dividend income. Consult your financial intermediary or tax adviser.

Some foreign governments levy withholding taxes against dividend and interest income. Although in some countries a portion of these withholding taxes is recoverable, the non-recovered portion will reduce the income received from the securities in the Fund. If more than 50% of the total assets of the Fund at the close of a year consist of non-U.S. stocks or securities, then the Fund may elect, for



## Additional Tax Information

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U.S. federal income tax purposes, to treat certain non-U.S. income taxes (including withholding taxes) paid by the Fund as paid by its shareholders. The Fund will provide you with the information necessary to reflect foreign taxes paid on your income tax return if it makes this election.

If you hold your shares in a tax-qualified retirement account, you generally will not be subject to federal taxation on income received with respect to the shares (including Fund dividends and distributions, and any gain on the sale of shares), until you begin receiving payments from your retirement account. You should consult your tax adviser regarding the tax rules that apply to your retirement account.

### **Tax Status of Share Transactions**

Any capital gain or loss upon a sale of the Fund's shares is generally treated as a long-term gain or loss if the shares have been held for more than one year and as a short-term gain or loss if held for one year or less. Any capital loss on the sale of the Fund's shares held for six months or less is treated as a long-term capital loss to the extent that any capital gain distributions were paid with respect to such shares.

### **Medicare Contribution Tax**

U.S. individuals with income exceeding \$200,000 (\$250,000 if married and filing jointly) are subject to a 3.8% Medicare contribution tax on all or a portion of their "net investment income," including interest, dividends, and certain capital gains (including capital gains realized on the sale or exchange of shares of the Fund). This 3.8% tax also applies to all or a portion of the undistributed net investment income of certain shareholders that are estates and trusts.

### **Back-Up Withholding**

The Fund will be required in certain cases to withhold at applicable withholding rates and remit to the United States Treasury the amount withheld on amounts payable to any shareholder who (1) has provided the Fund either an incorrect tax identification number or no number at all, (2) is subject to back-up withholding by the Internal Revenue Service for failure to properly report payments of interest or dividends, (3) has failed to certify to the Fund that such shareholder is not subject to back-up withholding, or (4) has not certified that such shareholder is a U.S. person (including a U.S. resident alien).

### **Non-U.S. Investors**

If you are not a citizen or permanent resident of the United States or if you are a non-U.S. entity, the Fund's ordinary income dividends (which include distributions of net short-term capital gains) will generally be subject to a 30% U.S. withholding tax, unless a lower treaty rate applies, provided that withholding tax will generally not apply to any gain or income realized by a non-U.S. shareholder in respect of any distributions of long-term capital gains or upon the sale or other disposition of shares of the Fund. You also may potentially be subject to U.S. estate taxes.

A 30% withholding tax will generally be imposed on dividends paid by the Fund after June 30, 2014 (or, in certain cases, later dates), and redemption proceeds and certain capital gain dividends paid by the Fund after December 31, 2016, to (i) foreign financial institutions including non-U.S. investment funds unless they agree to collect and disclose to the Internal Revenue Service information regarding their direct and indirect U.S. account holders and (ii) certain other foreign entities, unless they certify certain information regarding their direct and indirect U.S. owners. A non-U.S. shareholder may be exempt from the withholding described in this paragraph under an intergovernmental agreement



## Additional Tax Information

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between the U.S. and a foreign government, provided that the shareholder and the applicable foreign government comply with the terms of such agreement.

### State Tax Considerations

In addition to federal taxes, distributions by the Fund and ownership of the Fund's shares may be subject to state and local taxes. You should consult your tax adviser regarding how state and local tax laws affect your investment in the Fund's shares.

### Chinese Tax Disclosure

Although China's enactment of the Enterprise Income Tax Law, effective January 1, 2008, provided a 10% withholding tax upon non-residents with respect to capital gains, significant uncertainties remain. Such uncertainties may result in capital gains imposed upon the Fund relative to companies headquartered, managed or listed in China. While the application and enforcement of this law with respect to the Fund remains subject to clarification, to the extent that such taxes are imposed on any capital gains of the Fund relative to companies headquartered, managed or listed in China, the Fund's NAV or returns may be adversely impacted. Moreover, even if the Fund qualifies and elects to pass through foreign taxes to its shareholders, as described above, your ability to claim a credit for such taxes may be limited. See the SAI for further information.

### Taxes on Creations and Redemptions of Creation Units

A person who purchases a Creation Unit by exchanging securities in-kind generally will recognize a gain or loss equal to the difference between (i) the sum of the market value of the Creation Units at the time of the exchange and any net amount of cash received by the Authorized Participant in the exchange and (ii) the sum of the purchaser's aggregate basis in the securities surrendered and any net amount of cash paid for the Creation Units. A person who redeems Creation Units and receives securities in-kind from the Fund will generally recognize a gain or loss equal to the difference between the redeemer's basis in the Creation Units, and the aggregate market value of the securities received and any net cash received. The Internal Revenue Service, however, may assert that a loss realized upon an in-kind exchange of securities for Creation Units or an exchange of Creation Units for securities cannot be deducted currently under the rules governing "wash sales," or on the basis that there has been no significant change in economic position. Persons effecting in-kind creations or redemptions should consult their own tax adviser with respect to these matters.

The Fund has the right to reject an order for Creation Units if the purchaser (or a group of purchasers) would, upon obtaining the shares so ordered, own 80% or more of the outstanding shares of the Fund and if, pursuant to section 351 of the Internal Revenue Code, the Fund would have a basis in the deposit securities different from the market value of such securities on the date of deposit. The Fund also has the right to require information necessary to determine beneficial share ownership for purposes of the 80% determinations.

### Premium/Discount Information

Information showing the number of days the market price of the Fund's shares was greater than the Fund's NAV per share (*i.e.*, at a premium) and the number of days it was less than the Fund's NAV per share (*i.e.*, at a discount) for various time periods is available by visiting the Fund's website at [www.kraneshares.com](http://www.kraneshares.com).

### More Information

For more information on how to buy and sell shares of the Fund, call 1.855.857.2638 or visit [www.kraneshares.com](http://www.kraneshares.com).



### Index Provider Information

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CSI, the Index Provider, is not affiliated with the Trust, the Adviser, the Sub-Adviser, the Fund's administrator, custodian, transfer agent or Distributor, or any of their respective affiliates. The Adviser has entered into a license agreement with the Index Provider pursuant to which the Adviser pays a fee to use the Underlying Index. The Adviser is sub-licensing rights to the Underlying Index to the Fund at no charge. The CSI Overseas China Internet Index is a licensed trademark of CSI (the "Index Trademark"). The Adviser is licensed to use the Index Trademark for the purpose of promoting and marketing the Fund.

The Fund is neither sponsored nor promoted, distributed or in any other manner supported by CSI. The Underlying Index is compiled and calculated by CSI. CSI will apply all necessary means to ensure the accuracy of the Underlying Index. However, neither CSI nor the Shanghai Stock Exchange nor the Shenzhen Stock Exchange shall be liable (whether in negligence or otherwise) to any person for any error in the Underlying Index and neither CSI nor the Shanghai Stock Exchange nor the Shenzhen Stock Exchange shall be under any obligation to advise any person of any error therein. All copyrights in the Underlying Index values and constituent lists vest in CSI. Neither the publication of the Underlying Index by CSI nor the granting of a license of rights relating to the Underlying Index or to the Index Trademark for the utilization in connection with the Fund, represents a recommendation by CSI for a capital investment or contains in any manner a warranty or opinion by CSI with respect to the attractiveness of an investment in the Fund.

The Adviser, the Sub-Adviser and the Fund make no representation or warranty, express or implied, to the owners of shares of the Fund or any members of the public regarding the advisability of investing in securities generally or in the Fund particularly.

**More information about the Index Provider is located in the SAI.**



## Financial Highlights

The table that follows presents the financial highlights for the Fund. The table is intended to help you understand the Fund's financial performance. Certain information reflects financial results for a single Fund share. The total returns in the table represent the rate that an investor would have earned or lost, on an investment in the Fund (assuming reinvestment of all dividends and distributions). This information has been derived from the financial statements audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, whose report, along with the Fund's financial statements, are included in the Fund's Annual Report, which is available upon request.

### Selected Per Share Data & Ratios For the Period Ended March 31, 2014 For a Share Outstanding Throughout the Period

KraneShares CSI China Internet ETF	2014 <sup>(1)</sup>
Net Asset Value, Beginning of Period (\$)	25.00
Net Investment Loss (\$)*	(0.02)
Net Realized and Unrealized Gain on Investments (\$)	11.05
Total from Operations (\$)	11.03
Distribution from Net Investment Income (\$)	(0.06)
Distribution from Capital Gains (\$)	(0.04)
Total from Distributions (\$)	(0.10)
Net Asset Value, End of Period (\$)	35.93
Total Return (%)**	44.18
Net Assets End of Period (\$) (000)	77,243
Ratio of Expenses to Average Net Assets (%)	0.68†
Ratio of Net Investment Income to Average Net Assets (%)	(0.09)†
Portfolio Turnover (%)	8††

\* Per share data calculated using average shares method.

\*\* Total return is based on the change in net asset value of a share during the year or period and assumes reinvestment of dividends and distributions at net asset value. Total return is for the period indicated and periods of less than one year have not been annualized. The return shown does not reflect the deduction of taxes that a shareholder would pay on Fund distributions or the redemption of Fund shares.

† Annualized.

†† Portfolio turnover rate is for the period indicated and periods of less than one year have not been annualized. Excludes effect of in-kind transfers.

(1) Commenced operations on July 31, 2013.

Amounts designated as “—” are \$0 or have been rounded to \$0.



### Additional Information

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*Additional and more detailed information about the Fund is included in the SAI dated August 1, 2014. The SAI has been filed with the SEC and is incorporated by reference into this Prospectus and, therefore, legally forms a part of this Prospectus. The SEC maintains the EDGAR database on its website ("<http://www.sec.gov>") that contains the SAI, material incorporated by reference, and other information regarding registrants that file electronically with the SEC. You may also review and copy documents at the SEC Public Reference room in Washington, D.C. (for information on the operation of the Public Reference Room, call 202.551.8090). You may request documents from the SEC by mail, upon payment of a duplication fee, by writing to: U.S. Securities and Exchange Commission, Public Reference Section, Washington, D.C. 20549-1520 or by emailing the SEC at the following address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov).*

*You may obtain a copy of the SAI or the Annual or Semi-Annual Reports or make inquiries, without charge by calling 1.855.857.2638, visiting [www.kraneshares.com](http://www.kraneshares.com), or writing the Trust at 1350 Avenue of the Americas, 2nd Floor, New York, New York 10019. Additional information about the Fund's investments will be available in the Annual and Semi-Annual Reports. Also, in the Fund's Annual Report, you will find a discussion of the market conditions and investment strategies that significantly affected each of the Fund's performance during their last fiscal year.*

***No one has been authorized to give any information or to make any representations not contained in this Prospectus or in the Fund's SAI in connection with the offering of Fund shares. Do not rely on any such information or representations as having been authorized by the Fund, the Adviser or the Sub-Adviser. This Prospectus does not constitute an offering by the Fund in any jurisdiction where such an offering is not lawful.***

The Trust's Investment Company Act file number is 811-22698.