

# Finding Quality Income:

An Overview of Opportunities Within  
China's Interbank Bond Market



## Introduction to KraneShares

### About KraneShares

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



 KCNY

## KraneShares E Fund China Commercial Paper ETF

### Investment Strategy:

The KraneShares E Fund China Commercial Paper ETF (NYSE: KCNY) seeks to track the CSI Diversified High Grade Commercial Paper Index. The Fund seeks to invest at least 80% of its total assets in a diversified basket of investment-grade<sup>1</sup> commercial paper denominated in on-shore renminbi issued by sovereign, quasi-sovereign and corporate issuers in the People's Republic of China and traded in the inter-bank bond market. Commercial paper in the Fund is investment-grade and has a remaining term to final maturity of no more than one year and no less than one month.

### KCNY features:

- Invests in money market securities (i.e. commercial paper) and attempts to preserve principal investment while providing attractive monthly distributions
- The average maturity of the securities held by the fund is less than six months
- Invests into commercial paper that has received an investment grade credit rating<sup>1</sup>

### China commercial paper may be appropriate for investors who have a(n)...

- allocation to investment products that only invest in money market securities
- investment goal with a short time horizon
- daily liquidity requirement

<sup>1</sup> Investment grade commercial paper is commercial paper that is issued by an issuer whose long-term bonds are rated AAA or equivalent by one or more Chinese credit rating agencies; or commercial paper that is issued by an issuer whose long-term bonds are rated AA+ or equivalent by one or more Chinese credit rating agencies and commercial paper is rated A-1 or equivalent by one or more Chinese credit rating agencies.

## E Fund Asset Management is the co-advisor to the KraneShares E Fund China Commercial Paper ETF (ticker: KCNY)



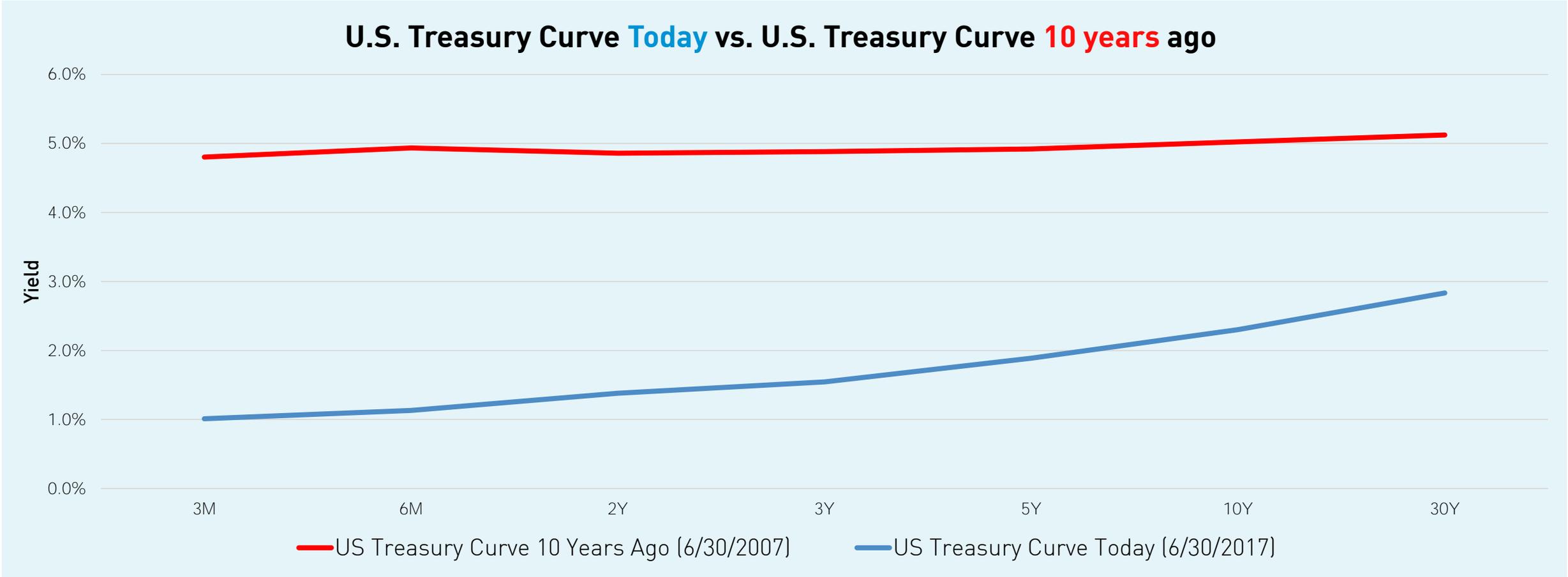
**\$162b AUM**

### E Fund Quick Facts

- **Located:** Headquartered in Guangzhou with offices in Beijing, Shanghai and Hong Kong
- **Established in 2001, was among the 1st** Chinese asset management companies approved to do business in Mainland China
- **\$162b** in assets under management; one of the top three asset managers by assets in Mainland China
- Serves more than **59m clients**
- Ranked in the **top 5** mutual fund managers in Mainland China in terms of AUM for the past **12 years**

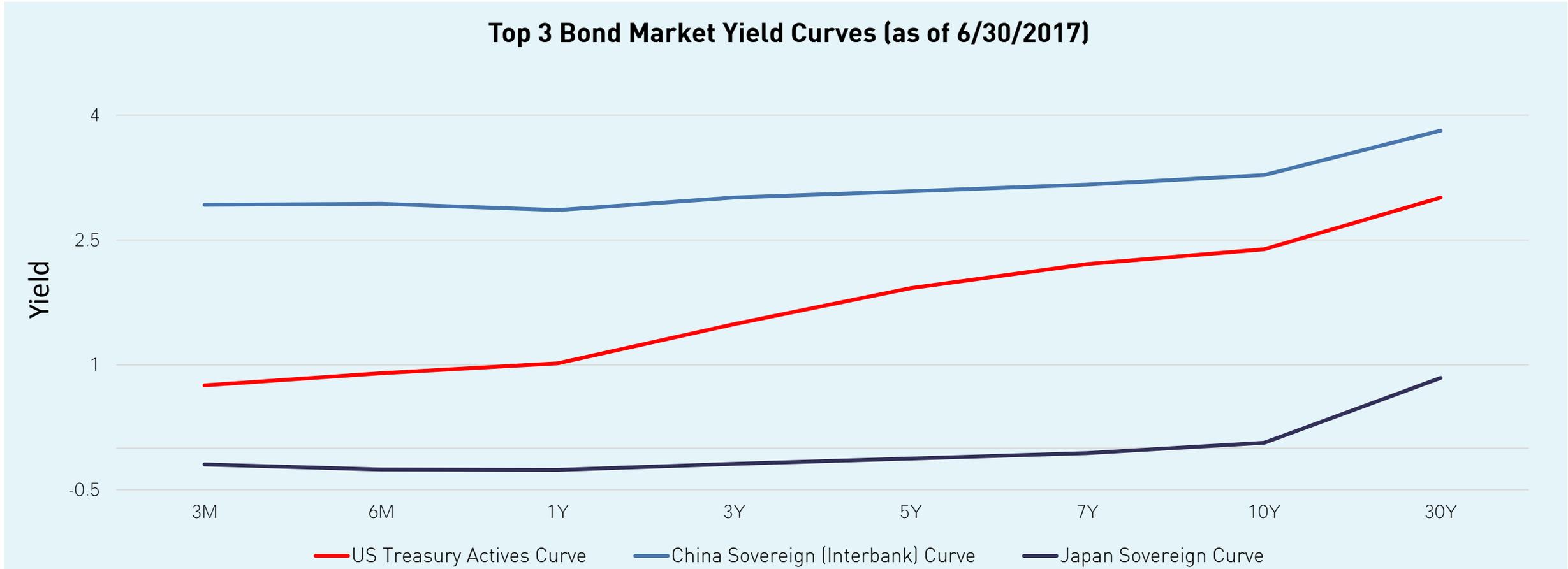
E Fund data from [efund.com](http://efund.com) as of 6/30/2017, retrieved 7/6/2017

## Yields in the United States have fallen in the last ten years



Source: Bloomberg, as of 6/30/2017. A yield curve is a line that plots a set point in time of bonds having equal credit quality but differing maturity dates.

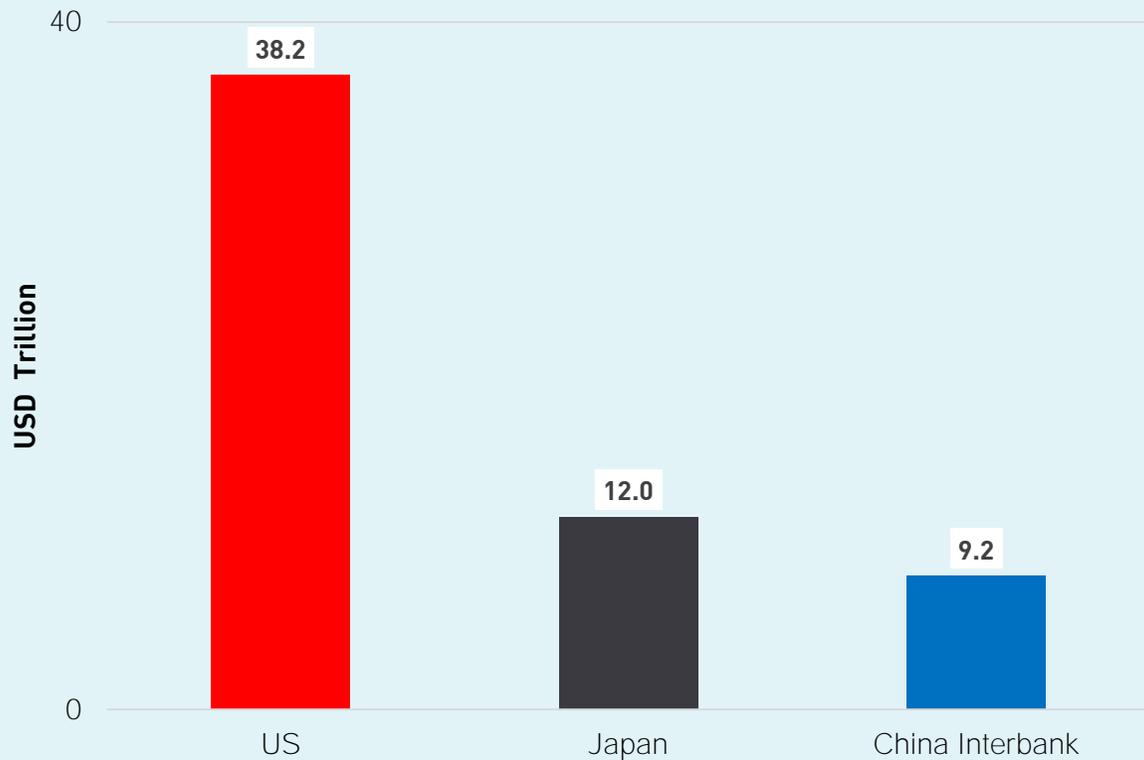
## China Interbank Bond Market yields are significantly higher than in the US & Japan



Data from Bloomberg as of 6/30/2017. A yield curve is a line that plots a set point in time of bonds having equal credit quality but differing maturity dates. For this example sovereign and treasury yield curves were chosen because they represent the highest credit quality yield curve for each respective nation.

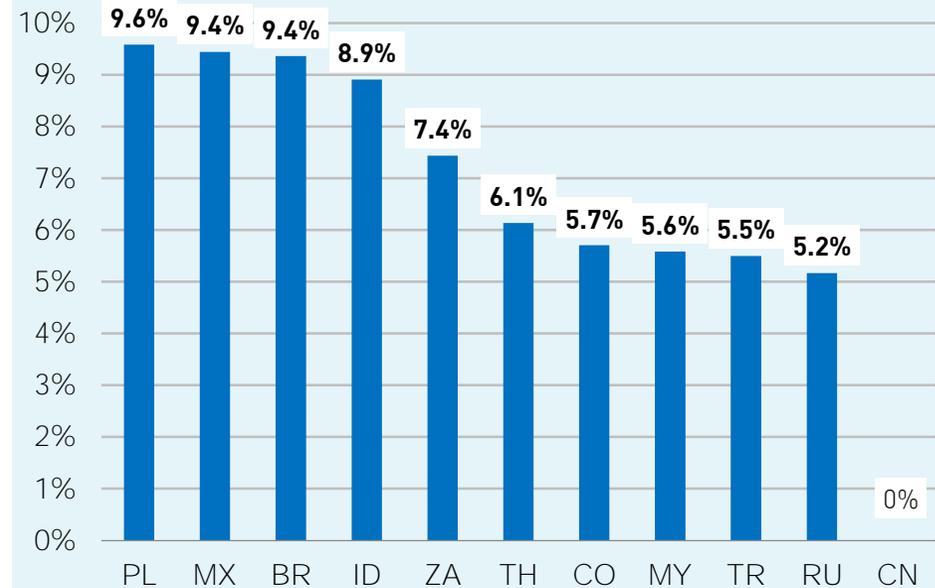
# China's Interbank bond market is the third largest in the world, yet it has virtually no foreign ownership

Top Three Bond Markets<sup>1</sup>



<sup>1</sup>Data from the Bank for International Settlements as of 12/31/2016 as reported on 6/30/2017 retrieved 7/6/2016

Top 10 country Weight in the J.P. Morgan Government Bond Index (Emerging Market Global Core)<sup>2</sup>

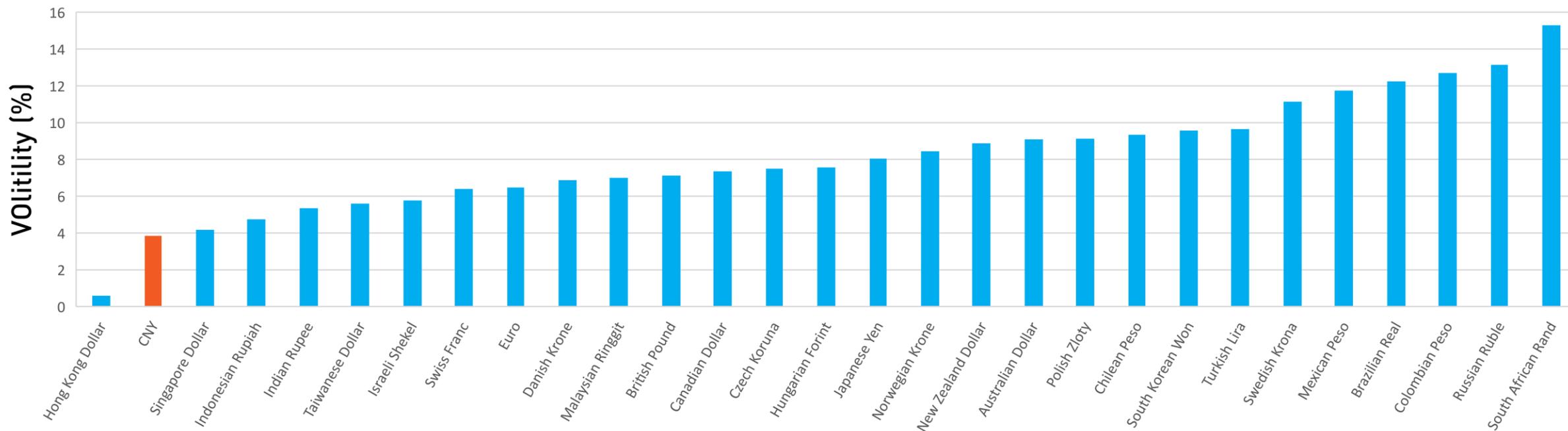


<b>MX</b>	Mexico
<b>PL</b>	Poland
<b>ID</b>	Indonesia
<b>BR</b>	Brazil
<b>ZA</b>	South Africa
<b>MY</b>	Malaysia
<b>CO</b>	Colombia
<b>TH</b>	Thailand
<b>TR</b>	Turkey
<b>RU</b>	Russia
<b>CN</b>	China (interbank)

<sup>2</sup>Based on the J.P. Morgan Government Bond Index (Emerging Market Global Core) – This index is designed to track a basket of bonds issued in local currencies by emerging market governments. Data as of 6/30/2017

## Chinese onshore Renminbi (CNY) has been among the least volatile currencies in the past year.

**Major Currencies Volatility\* vs. USD (6/30/2016 - 6/30/2017)**  
 (as of 6/30/2017)



Source: all data from Bloomberg as of 6/30/2017

\*Major Currencies defined by Bloomberg as of 3/31/2017. Volatility is the degree of variation of a trading price series over time as measured by the standard deviation of returns. Standard deviation: is a quantity calculated to indicate the extent of deviation for a group as a whole. A low standard deviation indicates that the data points tend to be close to the mean (also called the expected value) of the set, while a high standard deviation indicates that the data points are spread out over a wider range of values.

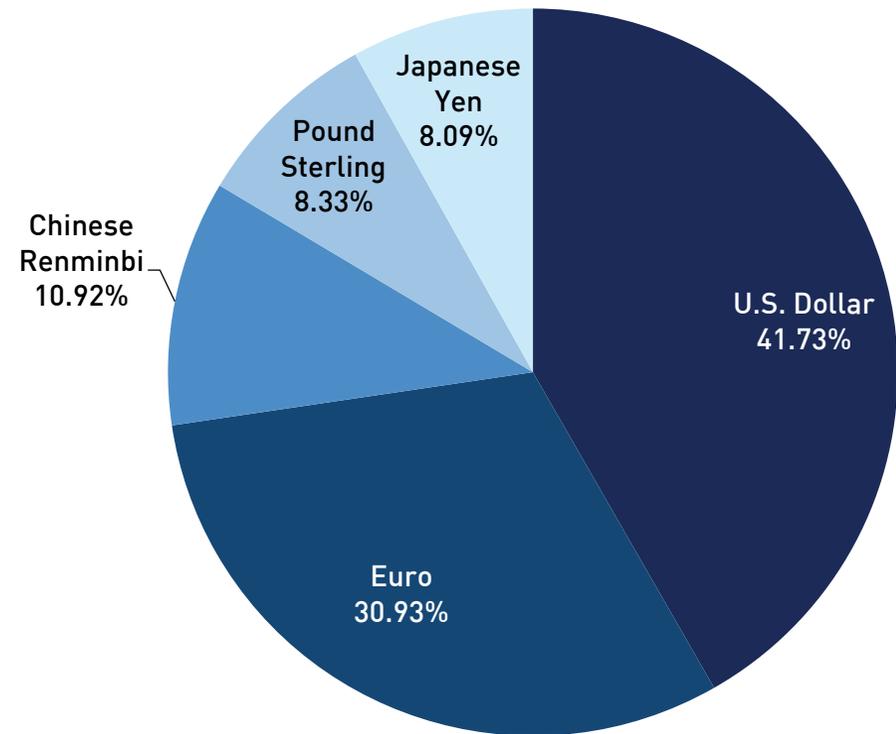
## SDR Overview

- The Special Drawing Rights (SDR) is a basket of reserve currencies established by the International Monetary Fund (IMF) to bolster reserves held by the central banks of its member countries.
- The SDR system was created by the IMF to provide stability in the event of any shortfall in preferred foreign exchange reserve assets, namely gold and the U.S. dollar.
- Currently there are five major world currencies included in the SDR – the Euro, Japanese Yen, British Pound Sterling, U.S. Dollar, and Renminbi.

### Why is the RMB's inclusion in the SDR a big deal?

- After its last rebalancing, the IMF required central banks to allocate \$285 billion<sup>1</sup> to SDR currencies
- With a 10.92%<sup>1</sup> allocation in SDR basket, SDR inclusion immediately triggered a \$31.12 billion inflow into the RMB.
- On 3/31/2017 the IMF added a line item for RMB to their official report on the Currency Composition of Official Foreign Exchange Reserves (COFER)
- The 6/30/2017 COFER report showed the RMB accounts for 0.93% of total allocated reserves, or \$82.63 billion dollars as of 3/31/2017<sup>2</sup>.
- We believe the RMB's weight within COFER will increase in coming years.

**SDR Basket Composition With RMB Included**  
Data from the IMF as of 10/1/2016<sup>1</sup>



1. <http://www.imf.org> as of 10/1/2016. SDR rebalance takes place every 5 years.

2. Data from the International Monetary Fund as of 3/31/2017, as reported on 6/30/2017, retrieved 7/12/2017

## KraneShares E Fund China Commercial Paper ETF (NYSE: KCMY)

### Investment Strategy

The KraneShares E Fund China Commercial Paper ETF (NYSE: KCMY) seeks to track the CSI Diversified High Grade Commercial Paper Index. The Fund seeks to invest at least 80% of its total assets in a diversified basket of investment-grade<sup>1</sup> commercial paper denominated in on-shore renminbi issued by sovereign, quasi-sovereign and corporate issuers in the People's Republic of China and traded in the inter-bank bond market. Commercial paper in the Fund is investment-grade and has a remaining term to final maturity of no more than one year and no less than one month.

### KCMY Performance History as of 6/30/2017

	Cumulative			Annualized Calendar QTR 6/30/2017	
	3 Mo	6 Mo	Since Inception 12/02/2014	1 Yr	Since Inception 12/02/2014
Fund NAV	2.16%	4.03%	-2.82%	0.39%	-1.10%
Closing Price	1.69%	3.88%	-3.84%	-0.15%	-1.51%
Index	2.71%	4.56%	-0.12%	1.64%	-0.05%

\* Fee waivers are contractual and in effect until 7/31/17.

**The performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than their original cost and current performance may be lower or higher than the performance quoted. For performance data current to the most recent month end, please visit [www.kraneshares.com](http://www.kraneshares.com)**

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

### Key Fund Information

Ticker	KCMY	
Primary Exchange	NYSE	
Index Name	CSI Diversified High Grade Commercial Paper Index	
Total Annual Fund Operating Expense	Gross: 0.69%	Net: 0.57%*
Inception Date	12/02/2014	
Distribution Frequency	Monthly	

Credit quality of underlying securities	Investment Grade <sup>1</sup>	<b>Top 10 Holdings as of 6/30/2017</b> (Holdings subject to Change) (Excl cash & cash equivalents)	
		%	
Effective Maturity	0.40 years	10.23	HAI DIAN STATE-OWNED CP
		7.34	AVIC INTERNATIONAL LEAS
30-day SEC Yield	3.31%	7.32	HUANENG LANCANG HYDRO
		7.32	GD POWER DEVELOPMENT CO
30-day SEC Unsubsidized Yield	3.19%	7.30	BEIJING CAPITAL AIRPORT
		4.88	E FUND MONEY MARKET FUND
		4.87	FORTUNE SGAM MONEY MKT
		4.40	PING AN INTL FIN LEASING
		4.40	GD HENGJIAN INVEST
		4.40	CHINA GUODIAN CORP

<sup>1</sup> For purposes of the Underlying Index, investment grade commercial paper is commercial paper that is issued by an issuer whose long-term bonds are rated AAA or equivalent by one or more Chinese credit rating agencies; or commercial paper that is issued by an issuer whose long-term bonds are rated AA+ or equivalent by one or more Chinese credit rating agencies and commercial paper is rated A-1 or equivalent by one or more Chinese credit rating agencies

## Important Notes

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

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

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

The KraneShares E Fund China Commercial Paper ETF is subject to interest rate risk, which is the chance that bonds will decline in value as interest rates rise. The components of the securities held by the Fund will be rated by Chinese credit rating agencies, which may use different criteria and methodology than U.S. entities or international credit rating agencies. The Fund may invest in high yield and unrated securities, whose prices are generally more sensitive to adverse economic changes and consequently more volatile. The Fund is subject to industry concentration risk and is non-diversified. Narrowly focused investments typically exhibit higher volatility.

Although the information provided in this document has been obtained from sources which Krane Funds Advisors, LLC believes to be reliable, it does not guarantee accuracy of such information and such information may be incomplete or condensed.

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