

MSCI China A-Share Inclusion: A Long Term Catalyst For The Mainland Chinese Equity Market

Overview of the KraneShares Boser
MSCI China A Share ETF (ticker: KBA)



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 up to date on global market trends and provide meaningful diversification.



 KBA**KraneShares Boser
MSCI China A ETF****Investment Strategy:**

KBA tracks the MSCI China A International Index: a free-float adjusted market capitalization weighted index that is designed to track the equity market performance of large-cap and mid-cap Chinese securities listed on the Shanghai and Shenzhen Stock Exchanges. The Index is based on the concept of the integrated MSCI China equity universe with Mainland Chinese securities included.

KBA features:

- Access to the Shanghai and Shenzhen Stock Exchanges - which are traditionally not available to U.S. investors - via the RQFII program.
- KBA's holdings represent Mainland Chinese equities scheduled for inclusion into broad MSCI indexes.
- With \$1.5 trillion¹ benchmarked to the MSCI Emerging Markets Index, full inclusion of Mainland Chinese equities could see significant flows into the securities KBA owns today.
- Co-managed by Boser Asset Management; headquartered in Shenzhen, \$96 billion in AUM, one of the largest Chinese asset managers by assets.²

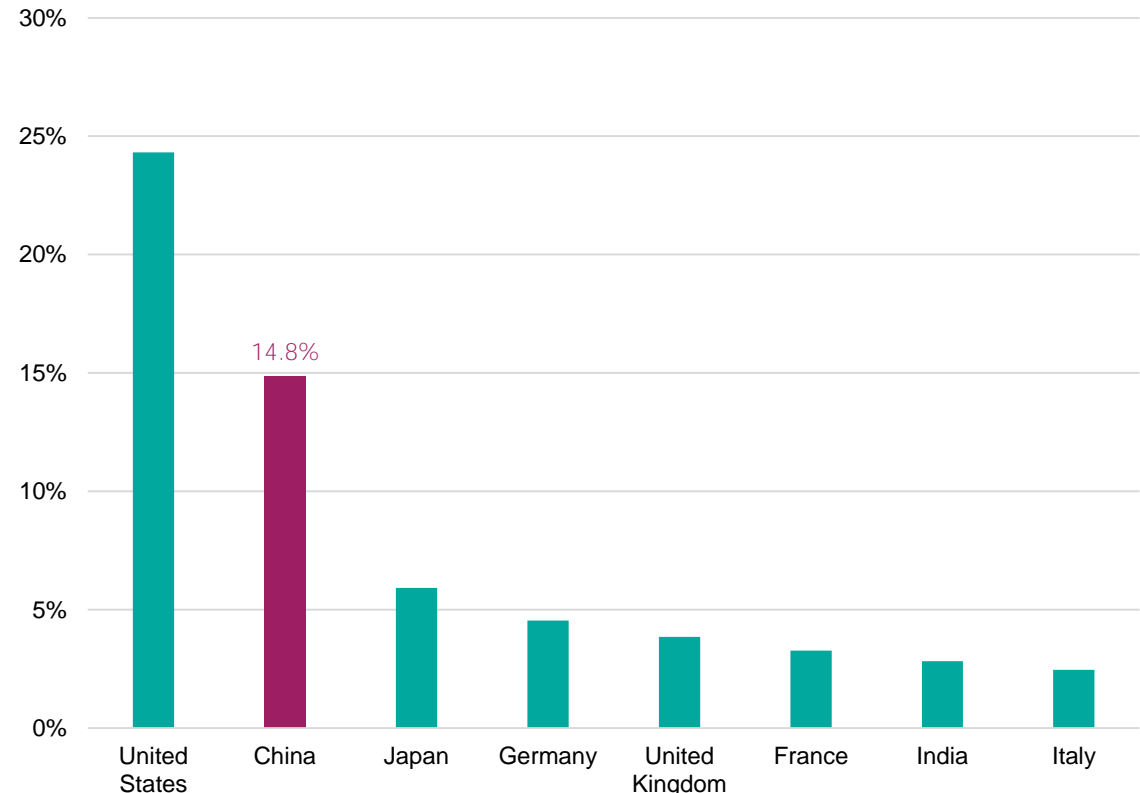
1. Data from MSCI as of 12/31/2016, as reported on 3/31/2017, retrieved 10/6/2017

2. Boser data is from boser.com as of 6/30/2017, retrieved 10/4/2017

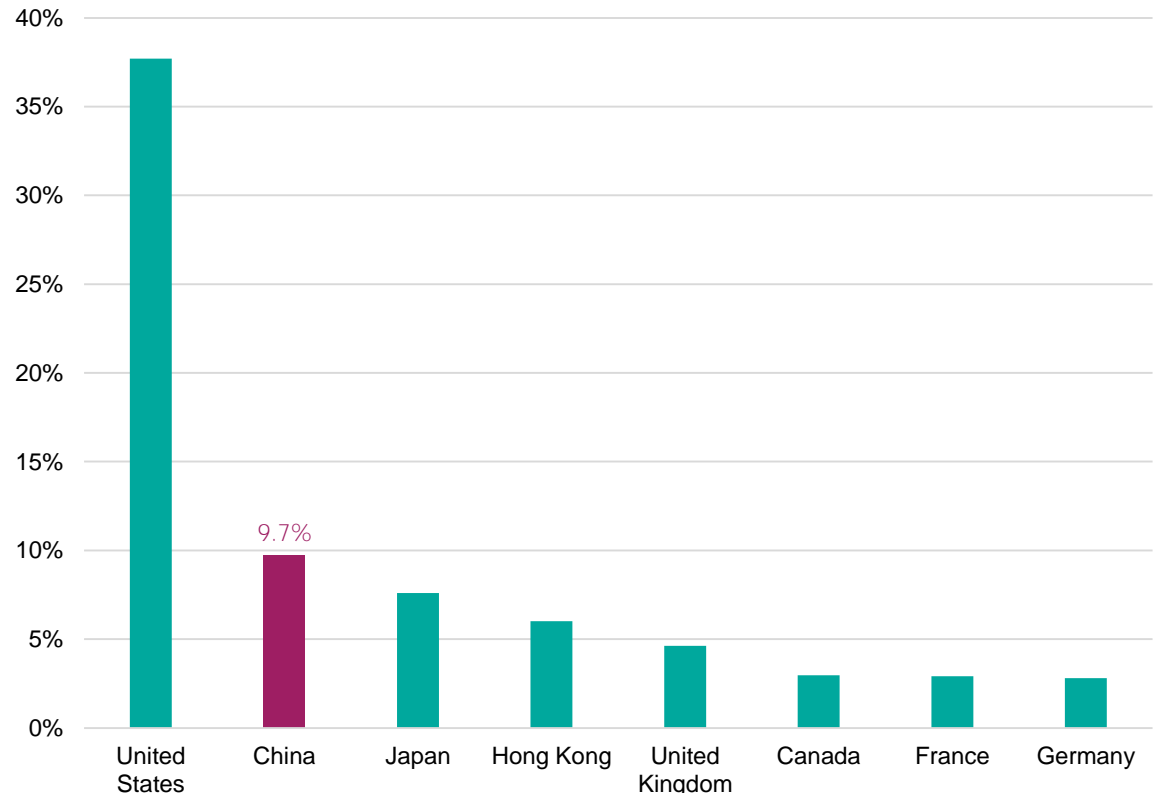
China A-share market is too big to ignore

As the world's second largest economy and stock market, investment in China A-shares still underrepresented in global capital markets

Share of World GDP



Share of Market Capitalization 2016

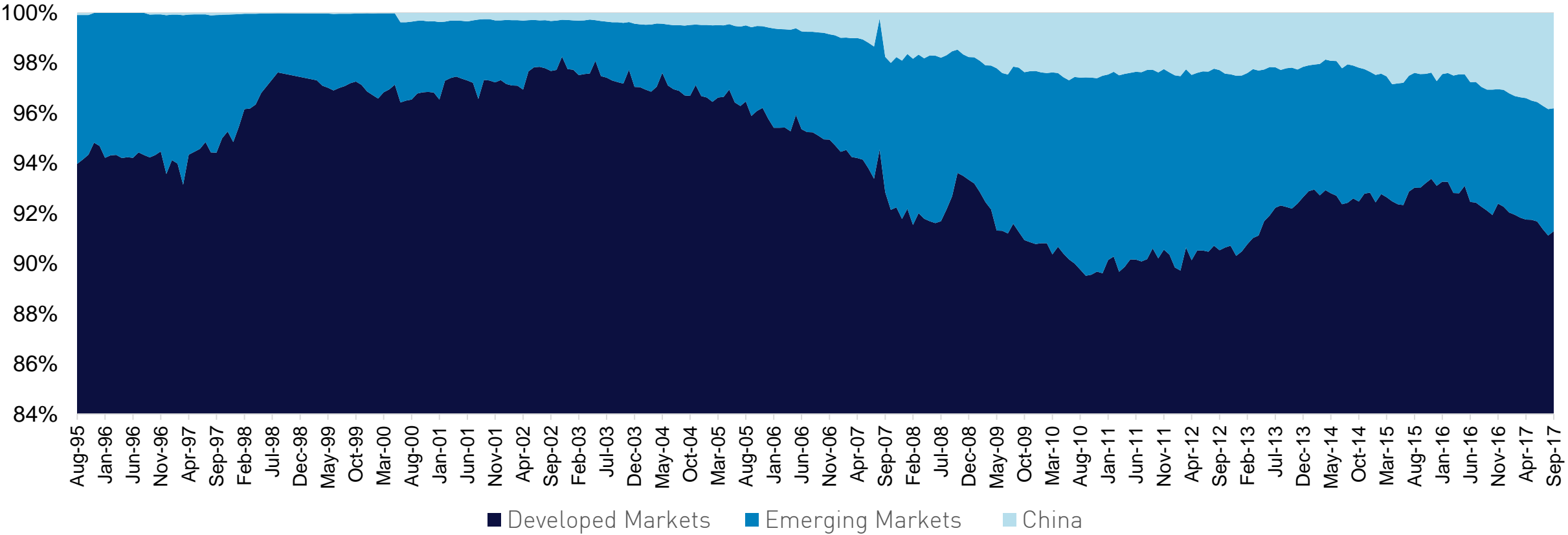


Data from the World Bank as of 12/31/2016 retrieved via Bloomberg as of 9/30/2017

Emerging Market Evolution

- China's weighting in the MSCI ACWI Index has grown since 2000, but is a small percentage overall
- We believe China will occupy a larger portion of both the MSCI ACWI Index and investors' portfolios in general as its markets continue to open up

Historical Developed and Emerging Market Allocations within the MSCI ACWI Index



Data from Morningstar as of 09/30/2017. See page 17 for index definitions

Bosera Asset Management is the co-advisor to the KraneShares Bosera MSCI China A ETF (ticker: KBA)



\$96b AUM

Bosera Quick Facts:

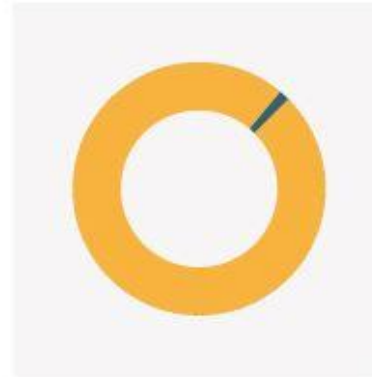
- **Location:** Headquartered in Shenzhen with offices in Beijing, Shanghai, Hong Kong, Shenyang, Chengdu and Zhengzhou
- **Established in 1998, Bosera was among the 1st** Chinese asset management companies approved to do business in Mainland China (est. 1998)
- **\$96b** in assets under management; one of the top five asset managers by assets in Mainland China
- **186 open-end funds**

The Index Matters

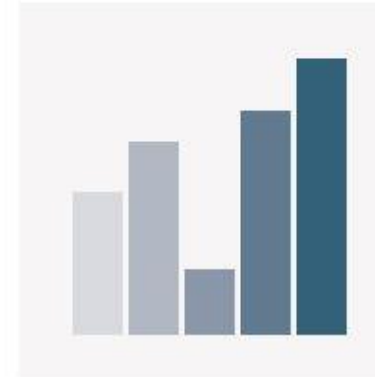
MSCI is a trusted index provider for the largest global investment managers



~USD 11 trillion
in assets are estimated to be benchmarked to MSCI indexes¹



99 of top 100
global investment managers are MSCI clients²



950+
ETFs are based on MSCI indexes, more than any other index provider³



94%
of US pension fund assets invested in global equities are benchmarked to MSCI⁴

¹ As of Dec 31, 2016, as reported on Mar 31, 2017 by eVestment, Morningstar and Bloomberg.

² Based on P&I AUM data and MSCI clients as of June 2017.

³ As of Mar, 2017; defined as each share class of an exchange traded fund, as identified by a separate Bloomberg ticker. Only primary listings, and not cross-listings, are counted.

⁴ As of Dec 2016, according to Intersec LLC.

MSCI's current Global Standard definition of China only represents a small portion of China's total market

The MSCI China Index was historically limited to Chinese companies listed on the Hong Kong Stock Exchange. Recently MSCI expanded this definition to include US-listed Chinese companies. This definition represents only a small percentage of Chinese stocks.

MSCI's Current Global Standard Definition of China

MSCI China Index (Hong Kong and US only)

149 Stocks

\$1.48 Trillion Free Float Market Capitalization*

MSCI's Definition of Entire Mainland A Share Market

MSCI China A Index (Shanghai and Shenzhen only)

879 Stocks

\$2.0 Trillion Free Float Market Capitalization*

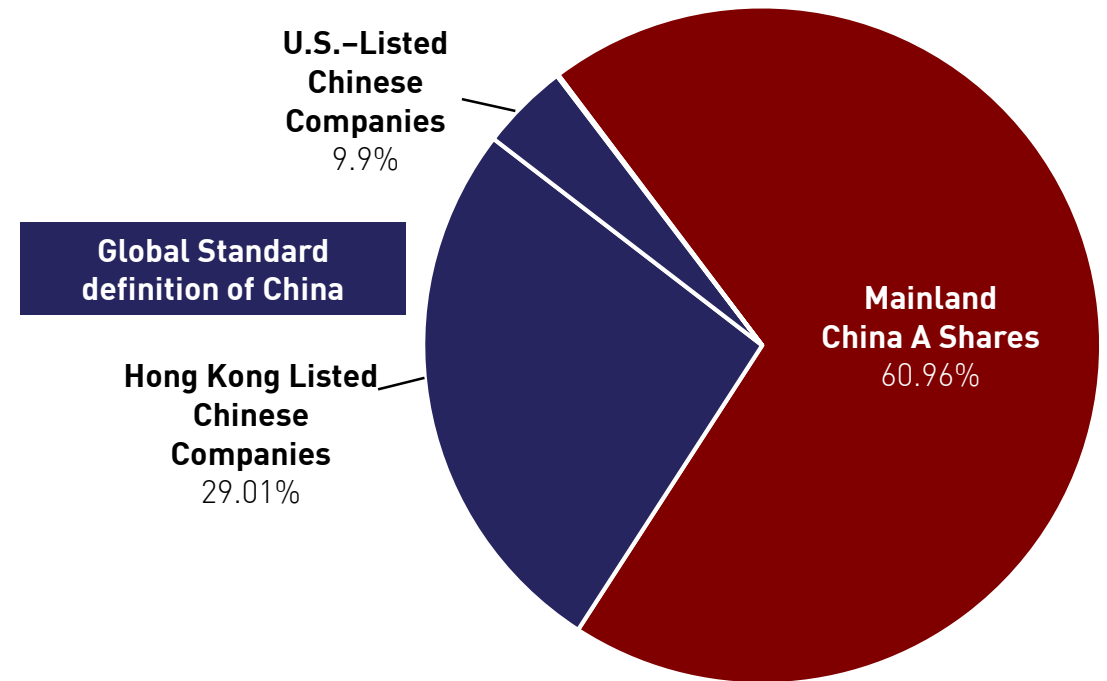
China A Share Slice for Full Inclusion into MSCI's Global Standard Definition of China

MSCI China A International Index (Shanghai and Shenzhen only)

460 Stocks

\$1.08 Trillion Free Float Market Capitalization*

China Share Class Breakdown of MSCI All China Investable Market Index (IMI) (MSCI Sep 30, 2017)[†]



[†]Excluding Singapore listed (0.11%) and UK listed (0.03%)

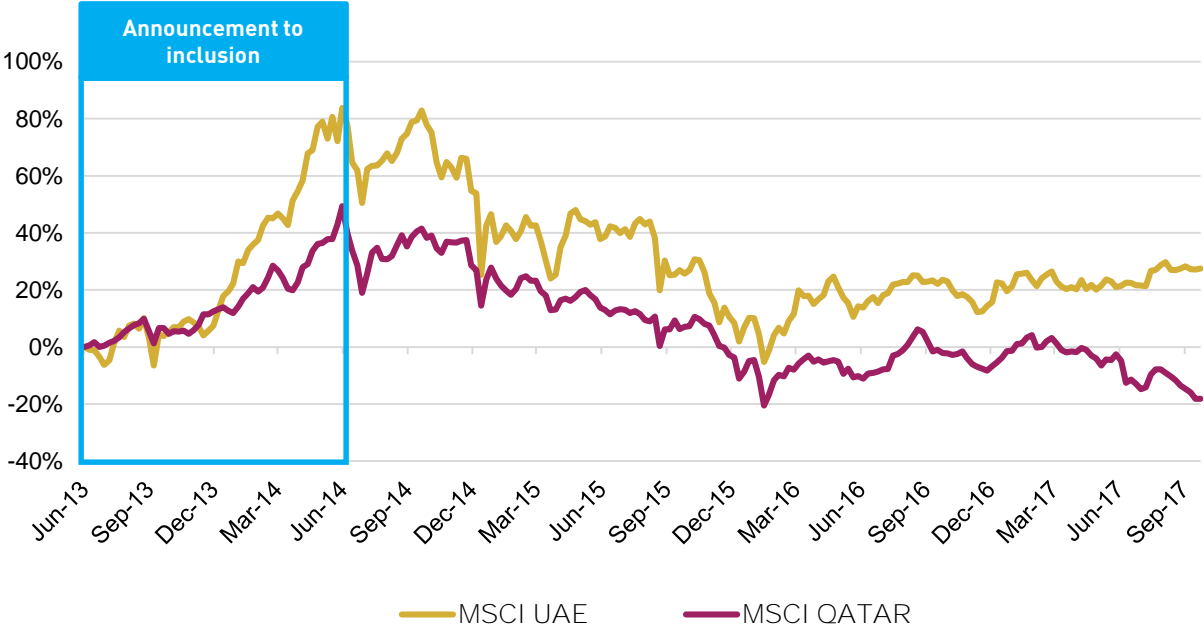
Source: MSCI Sep 29, 2017

***Free Float Market Capitalization:** Free-float methodology market capitalization is calculated by taking the equity's price and multiplying it by the number of shares readily available in the market. Instead of using all of the shares outstanding like the full-market capitalization method, the free-float method excludes locked-in shares such as those held by promoters and governments.

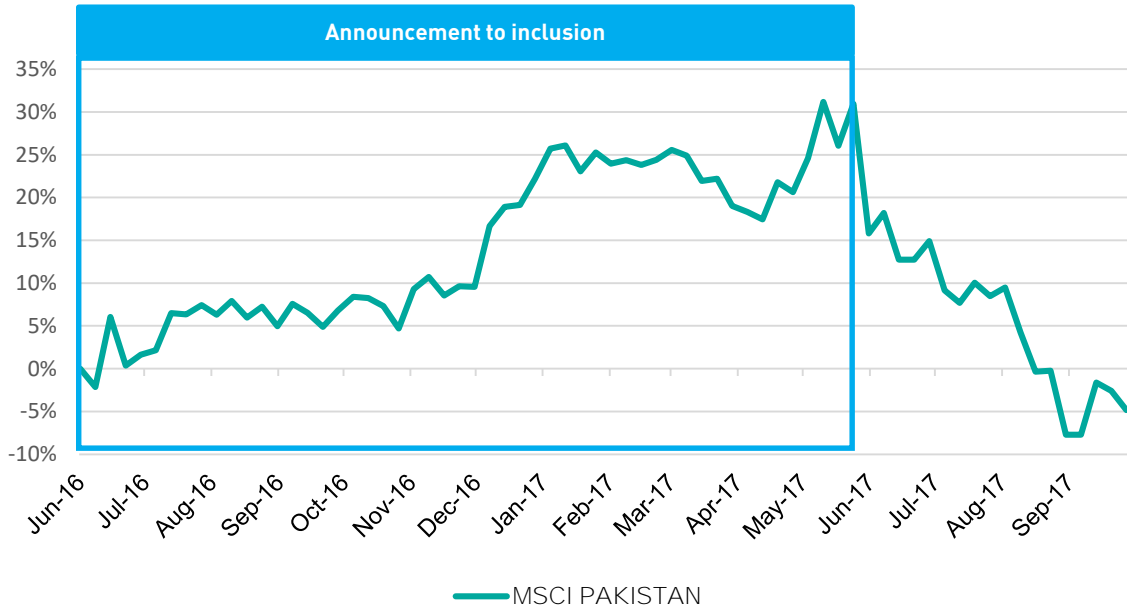
Changes to MSCI's Global Standard Index definitions can have a dramatic impact on the affected markets due to fund flows from asset managers that benchmark to MSCI indexes

Over the course of the year between announcement to inclusion (6/01/2013 – 6/01/2014), the MSCI UAE and Qatar indexes rose 85.6% and 49.1% respectively. When Pakistan was included this year, the index rose 32.28% during the period between announcement and inclusion (6/01/2016 – 6/01/2017).

Impact of MSCI Inclusion On MSCI UAE Index and MSCI QATAR Index
(6/01/2013 - 9/30/2017)



Impact of MSCI Inclusion On MSCI Pakistan Index
(6/01/2016 - 9/30/2017)



Source: Bloomberg as of 9/30/2017.

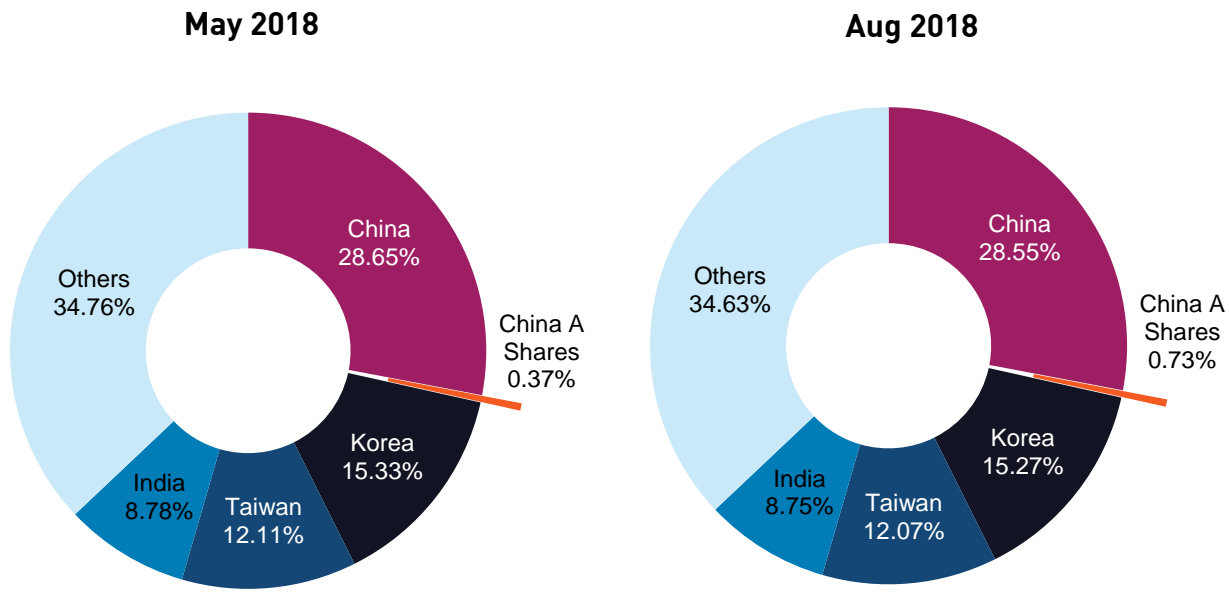
Index returns are for illustrative purposes only. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance is no guarantee of future results.

Following MSCI’s announcement on June 20, 2017, China A Shares will be included into their Global Standard Indexes starting in May 2018. We believe full inclusion could take up to five years.

According to MSCI as of 9/30/2016, **\$1.6 trillion** track the MSCI EM Index. **\$272b** are expected to be reallocated to China A Shares after full inclusion.

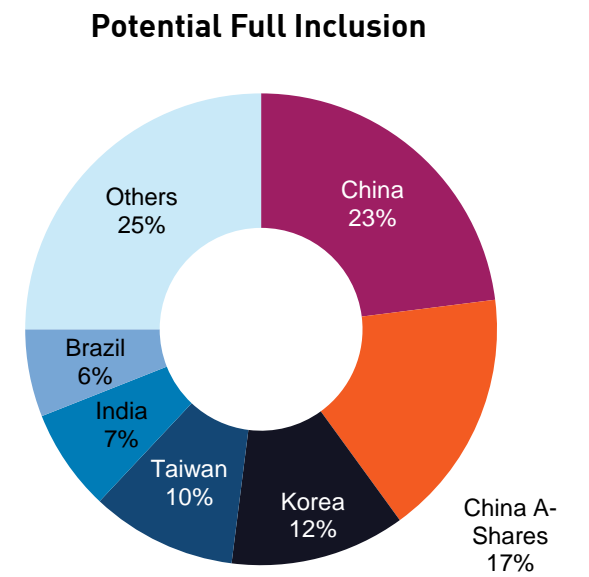
- The March 2017 MSCI “Consultation On China A-shares Potential Inclusion ” changed the initial proposed A-share inclusion weight
- The full proposed inclusion weight remains unchanged
- We believe multiple inclusions could provide a sustained catalyst for the outperformance of the Mainland market.

Initial Inclusion



Source: MSCI Research, as of 6/19/2017

Full Inclusion



Source: MSCI Research, as of 9/30/2016

Mainland China A-share equities exhibit low correlation to other global markets

As Emerging Markets (EM) have become more correlated with Developed Markets over the years, the diversification benefits of EM investing have largely diminished

- Frontier Markets, countries whose stocks are less mature than those in EM, still have relatively low correlations with the rest of the world
- Remarkably, China A-shares exhibit an even lower correlation to the MSCI All Country World Index than Frontier Markets

MSCI Indexes Correlation to MSCI China A Index

	ACWI	EAFE	EM	USA	China	Frontier	China A
ACWI	1.00						
EAFE	0.98	1.00					
EM	0.91	0.89	1.00				
USA	0.96	0.90	0.81	1.00			
China	0.77	0.75	0.88	0.67	1.00		
Frontier	0.83	0.81	0.86	0.75	0.70	1.00	
China A	0.45	0.41	0.54	0.40	0.68	0.41	1.00

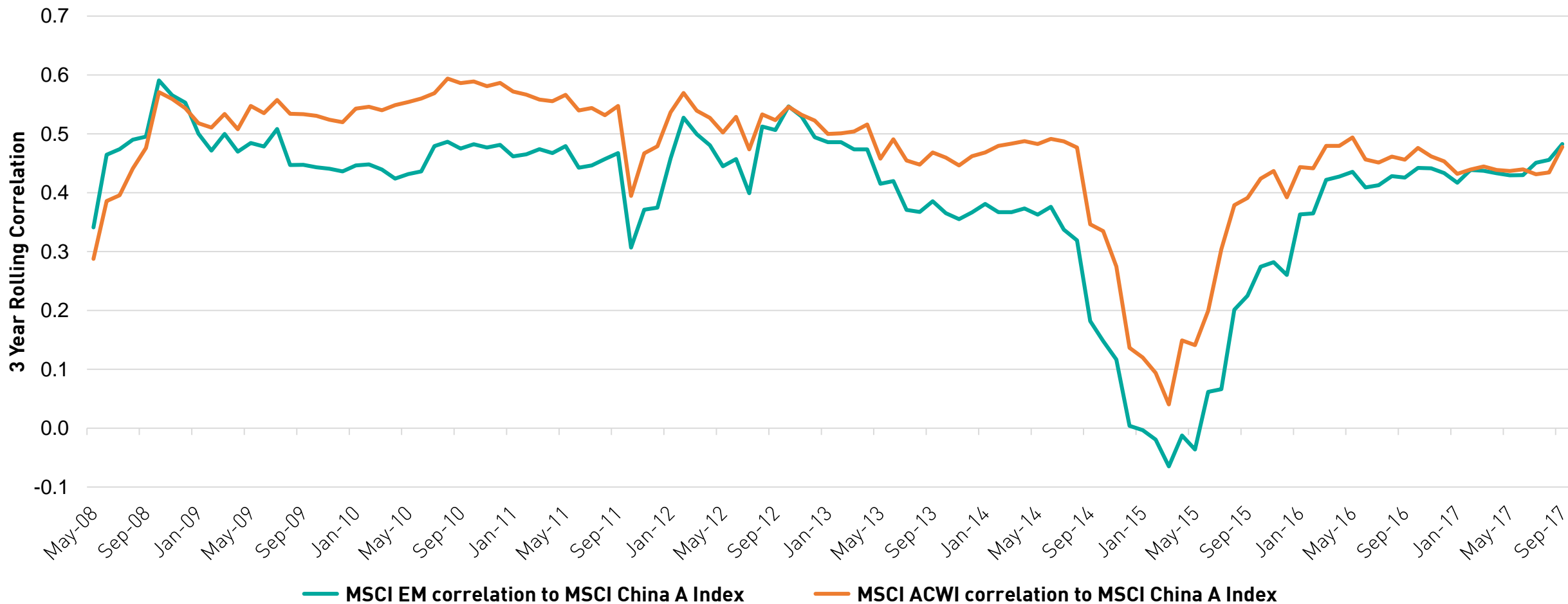
- MSCI ACWI Index (ACWI) - All Country World Index
- MSCI EAFE Index (EAFE) - Europe, Australasia and Far East
- MSCI Emerging Markets Index (EM) - Emerging Markets
- The MSCI USA Index (USA) - United States of America
- MSCI China Index (China) - Chinese companies listed in Hong Kong & USA
- MSCI Frontier Emerging Markets Index (Frontier) - Frontier Markets
- MSCI China A Index (China A) - Chinese companies listed on Shanghai and Shenzhen Stock Exchanges

Source: Table from Bloomberg, monthly average correlation from September 30, 2007 to September 30, 2017

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Past performance is no guarantee of future results.

MSCI China A Index 3 Year Rolling Correlation to MSCI Emerging Markets & ACWI Indexes (5/10/2008 – 9/30/2017)



Data from Bloomberg as of 9/30/2017

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Valuations in the Mainland Chinese equity markets are near their historic average

The MSCI China A International Index is currently close to its long run Price-Earnings (P/E)¹ average.

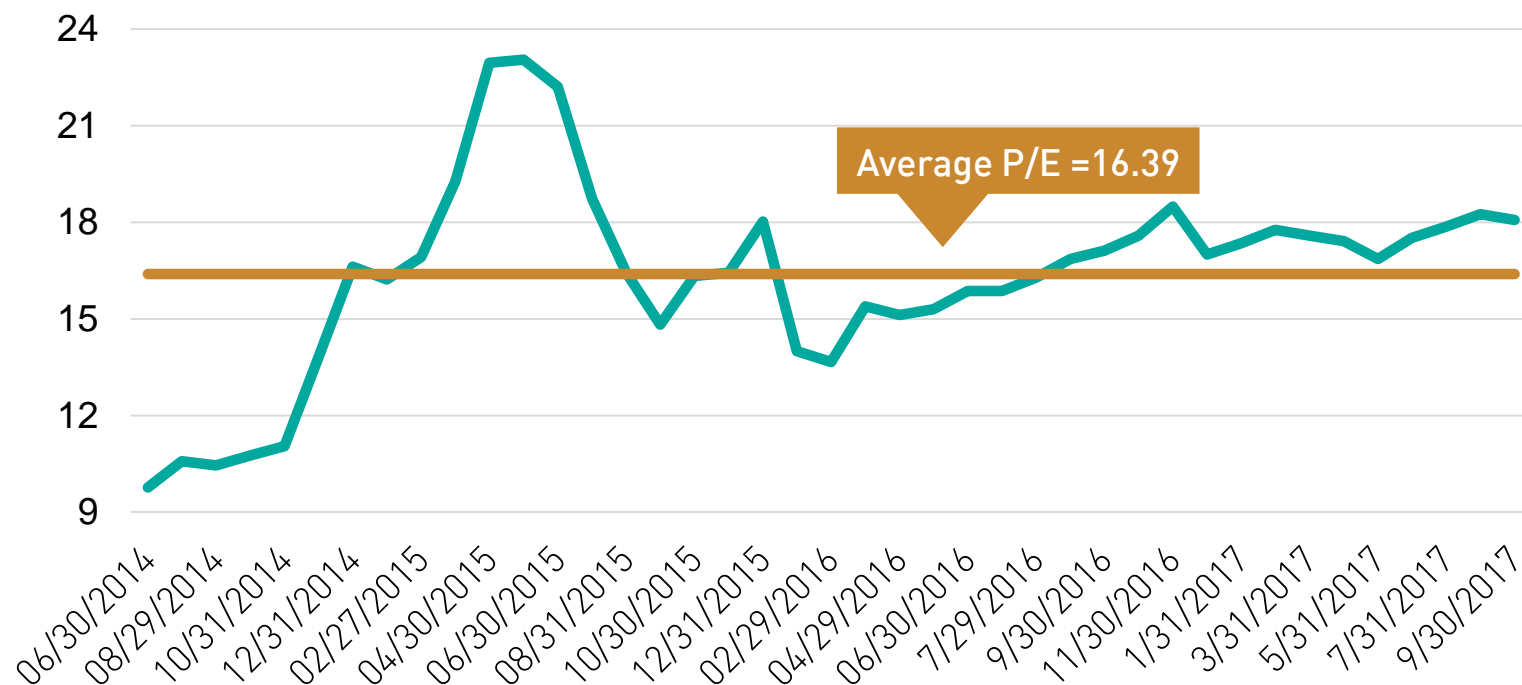
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See page 17 for index definitions

Price/Earnings Ratio of MSCI of China A International Index

(since index start date 06/30/2014 - 9/30/2017)



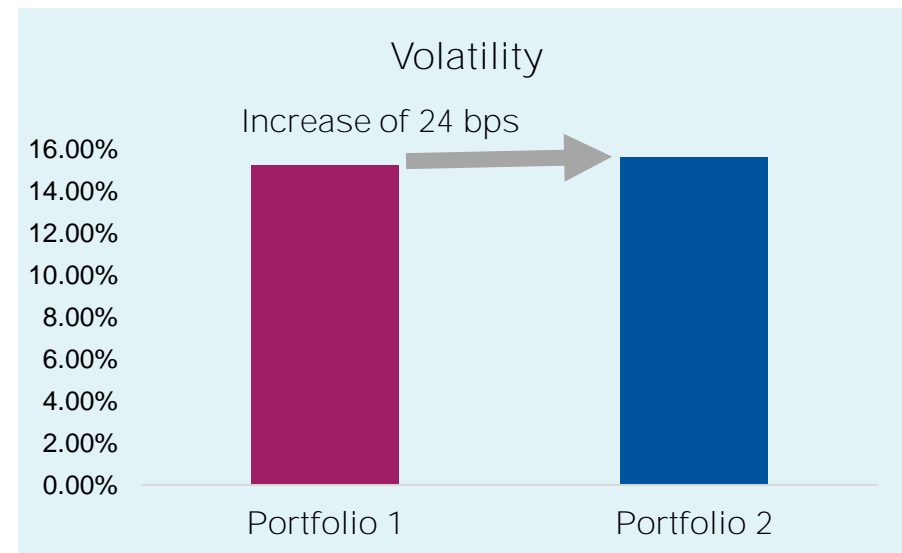
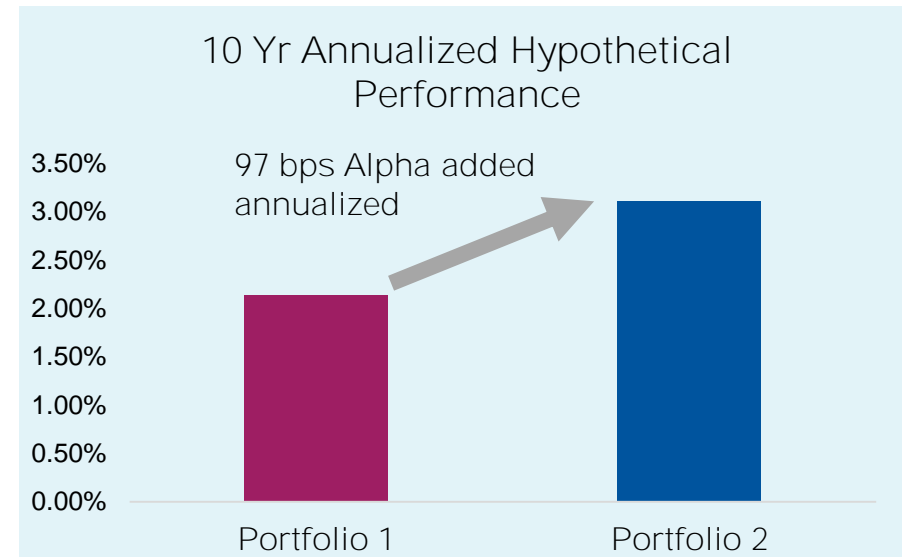
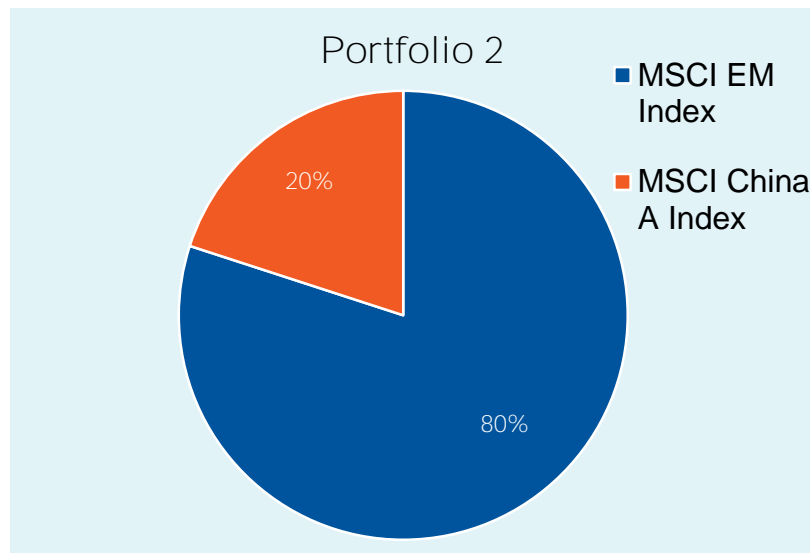
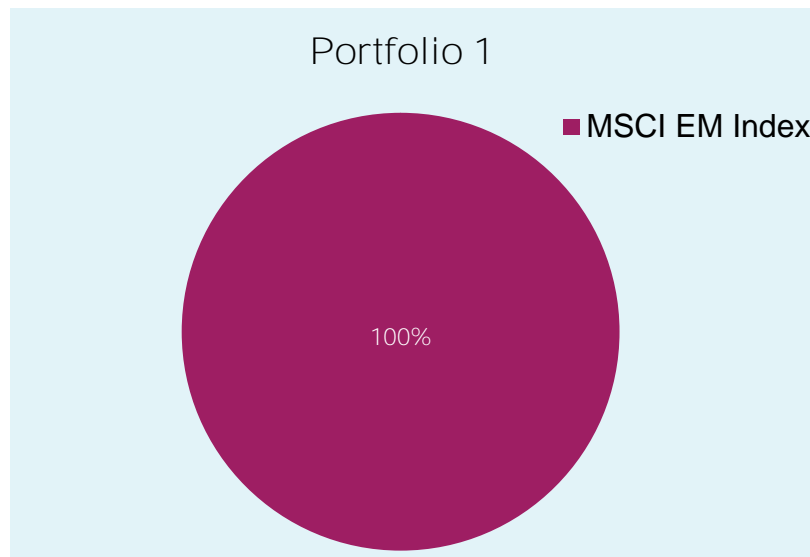
Source: MSCI as of 9/30/2017

¹The price-earnings ratio (P/E Ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings.

How China A shares can potentially benefit an Emerging Market portfolio

Adding an allocation of 20% of the MSCI China A Index to an MSCI Emerging Market portfolio could potentially add 97bps alpha annualized over 10 years with a nominal increase in volatility* of 24bps to achieve a better risk adjust return

***Volatility:** is a statistical measure of the dispersion of returns for a given security or market index. For this example volatility is measured by Standard Deviation: a measure of the dispersion of a set of data from its mean.



Data from Bloomberg as of 9/30/2017

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KraneShares Bosera MSCI China A ETF (ticker: KBA)

Investment Strategy:

KBA (the Fund) tracks the MSCI China A International Index (the Index): a free-float adjusted market capitalization weighted index that is designed to track the equity market performance of large-cap and mid-cap Chinese securities listed on the Shanghai and Shenzhen Stock Exchanges. The Index is based on the concept of the integrated MSCI China equity universe with mainland Chinese securities included. Bosera Asset Management is the subadvisor to the fund.

Key Fund Information

Ticker	KBA	
Index Name	MSCI China A International	
Primary Exchange	NYSE	
Total Annual Fund Operating Expense	Gross: 0.84%	Net: 0.64%*
Inception Date	3/04/2014	

Top Ten Holdings as of 9/30/2017 (Excluding cash) The Fund's Holdings Are Subject to Change.	%
KWEICHOW MOUTAI CO LTD-A	2.68
PING AN INSURANCE GROUP C	2.68
CHINA MERCHANTS BANK-A	2.18
INDUSTRIAL BANK CO LTD -A	1.83
SHANGHAI PUDONG DEVEL BAN	1.3
BANK OF COMMUNICATIONS CO	1.29
CHINA MINSHENG BANKING-A	1.22
SAIC MOTOR CORP LTD-A	1.17
CHINA STATE CONSTRUCTION	1.17
BANK OF CHINA LTD-A	1.12

KBA Performance History as of 9/30/2017

	Cumulative %**			Average Annualized %		
	3 Mo	6 Mo	Since Inception 3/4/2014	1 Yr	3 Yr	Since Inception 3/4/2014
Fund NAV	8.25%	16.56%	48.58%	17.33%	8.83%	11.72%
Closing Price	8.11%	15.52%	49.43%	16.29%	8.79%	11.90%
Index	8.05%	15.59%	65.24%	18.53%	12.69%	15.07%

†The Hybrid KBA Index (noted as "Index" above in the chart) consists of the MSCI China A Index from the inception of the Fund through October 23, 2014, and the MSCI China A International Index going forward.

*Fee waivers are contractual and in effect until 7/31/18.

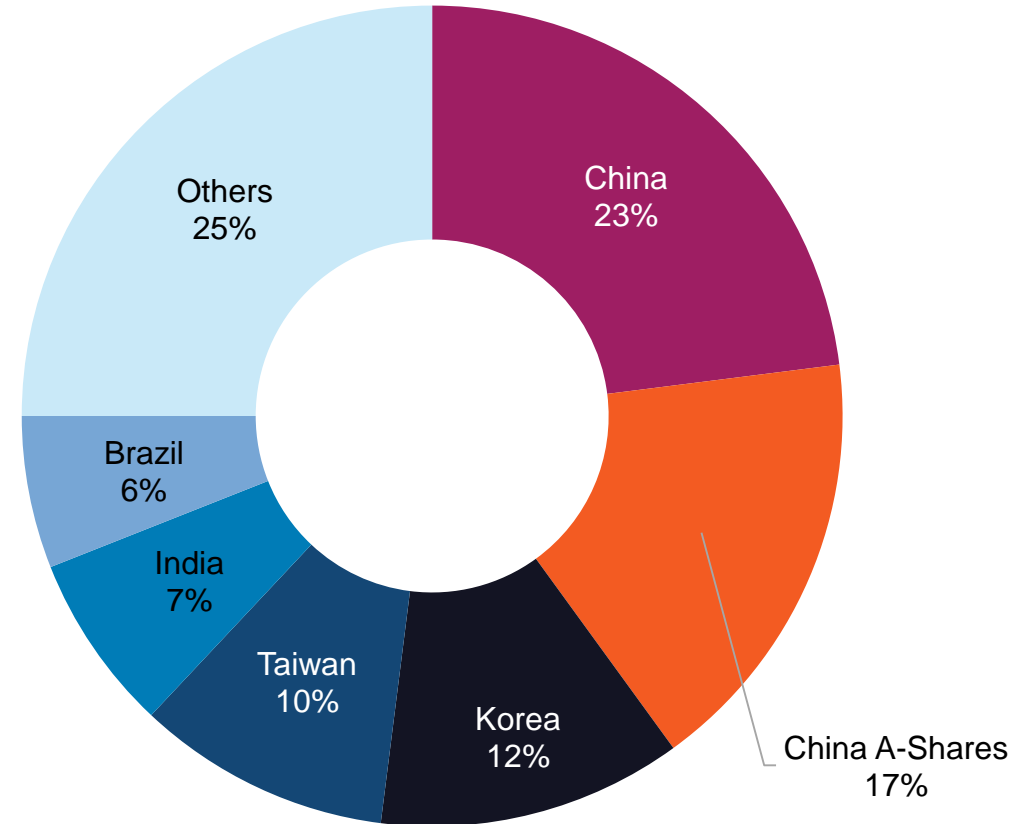
The performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than their original cost and current performance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

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.

Conclusion:

- On June 20th 2017, MSCI announced that China A Shares will be included into their Global Standard definition of China beginning May 31, 2018.
- Past inclusions have provided a positive catalyst for performance of local markets.
- We believe full inclusion could take up to five years, potentially providing a sustained catalyst for the outperformance of China's Mainland market.
- We will continue to work closely with MSCI to ensure KBA remains aligned with their plans for inclusion.

Potential Full Inclusion



Source: MSCI Research, as of 9/30/2016

Index Definitions:

MSCI China Index: The MSCI China Index captures large and mid cap representation across China H shares, B shares, Red chips and P chips.

MSCI All China Investable Market Index (IMI): captures large, mid and small cap representation across all China securities that are listed in China and Hong Kong, the US and in Singapore. The index includes: A shares, H shares, B shares, Red chips and P chips as well as China securities that are listed on the NYSE Euronext (New York), NASDAQ, New York AMEX and Singapore exchanges.

MSCI ACWI Index: captures large and mid cap representation across 23 Developed Markets (DM) and 23 Emerging Markets (EM) countries.

The MSCI EAFE Index: is an equity index which captures large and mid cap representation across Developed Markets countries around the world, excluding the US and Canada.

The MSCI Emerging Markets Index: captures large and mid cap representation across 23 Emerging Markets (EM) countries.

The MSCI USA Index: The MSCI USA Index is designed to measure the performance of the large and mid cap segments of the US market.

The MSCI Frontier Emerging Markets (FEM) Index: captures large and mid cap representation across 27 Frontier Emerging Markets countries.

The MSCI China A Index: captures large and mid cap representation across China securities listed on the Shanghai and Shenzhen exchanges.

The MSCI China A International Index: is a free-float adjusted market capitalization weighted index that is designed to track the equity market performance of large-cap and mid-cap Chinese securities listed on the Shanghai and Shenzhen Stock Exchanges. The Index is based on the concept of the integrated MSCI China equity universe with mainland Chinese securities included.

The MSCI United Arab Emirates (UAE) Index: designed to measure the performance of the large and mid cap segments of the UAE market.

The MSCI Qatar Index: designed to measure the performance of the large and mid cap segments of the Qatari market.

The MSCI Pakistan Index: designed to measure the performance of the large and mid cap segments of the Pakistan market. With 16 constituents, the index covers approximately 85% of the Pakistan equity universe.

The MSCI World Materials Index: is designed to capture the large and mid cap segments across 23 Developed Markets (DM) countries*. All securities in the index are classified in the Materials sector as per the Global Industry Classification Standard (GICS®).

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. Read the prospectus carefully before investing.

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

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 decline in value. Fluctuations in currency of foreign countries may have an adverse effect to domestic currency values. Emerging markets involve heightened risk related to the same factors as well as increase volatility and lower trading volume.

The ability of the KraneShares Boserá MSCI China A ETF to achieve its investment objective is dependent on the continuous availability of A Shares and the ability to obtain, if necessary, additional A Shares quota. If the Fund is unable to obtain sufficient exposure due to the limited availability of A Share quota, the Fund could seek exposure to the component securities of the Underlying Index by investing in other types of securities. The Fund may invest in derivatives, which are often more volatile than other investments and may magnify the Fund's gains or losses.

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