KraneShares

KEMQ

3/31/2018

The Emerging Market Consumer Internet & E-Commerce Opportunity

An Overview of the KraneShares
Emerging Markets Consumer Technology ETF
(Ticker: KEMQ)

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Introduction to KraneShares

About KraneShares

Krane Funds Advisors, LLC is the investment manager for KraneShares ETFs. Our suite of China focused ETFs provides investors with solutions to capture China's importance as an essential element of a well-designed investment portfolio. We strive to provide innovative, first to market strategies that have been developed based on our strong partnerships and our deep knowledge of investing. We help investors stay up to date on global market trends and aim to provide meaningful diversification. Krane Funds Advisors, LLC is majority owned by China International Capital Corporation (CICC).

KEMQ

KraneShares Emerging Markets Consumer Technology ETF

Investment Strategy:

KEMQ seeks to track the Solactive Emerging Markets Consumer Technology Index. The Index selects companies from 26 eligible countries within emerging markets whose primary business or businesses are internet retail, internet software/services, purchase, payment processing, or software for internet and E-Commerce transactions.

Emerging Markets Consumer Technology Highlights:

- Internet adoption is expanding rapidly within emerging markets at the same time that domestic consumption and retail sales are steadily increasing and frequently taking place online.
- According to a seminal study from the The Organization for Economic Co-operation and Development (OECD), emerging middle class consumption could reach 52% of total global consumption by the year 2030[1].
- We believe the growth of internet adoption within emerging markets is a long term secular theme that may continue to play out over the course of decades.

KEMQ features:

- Access to emerging market internet companies that provide similar services as Google, Facebook, PayPal, Amazon, etc.
- Exposure to companies that stand to benefit from increasing domestic consumption by emerging markets' growing middle class
- Exposure to emerging market companies facilitating mobile E-Commerce sales

1. Homi Kharas "The Emerging Middle Class In Developing Countries" OECD Development Center, January 2010

Through our experience investing in the Chinese markets we identified three core themes:

- Internet adoption is expanding rapidly within China
- Domestic consumption and retail sales are steadily increasing and frequently taking place online
- The China E-Commerce sector has consistently outperformed the broader Chinese markets

Value of Monthly China Retail Sales Index
(12/31/2008 - 12/31/2017)

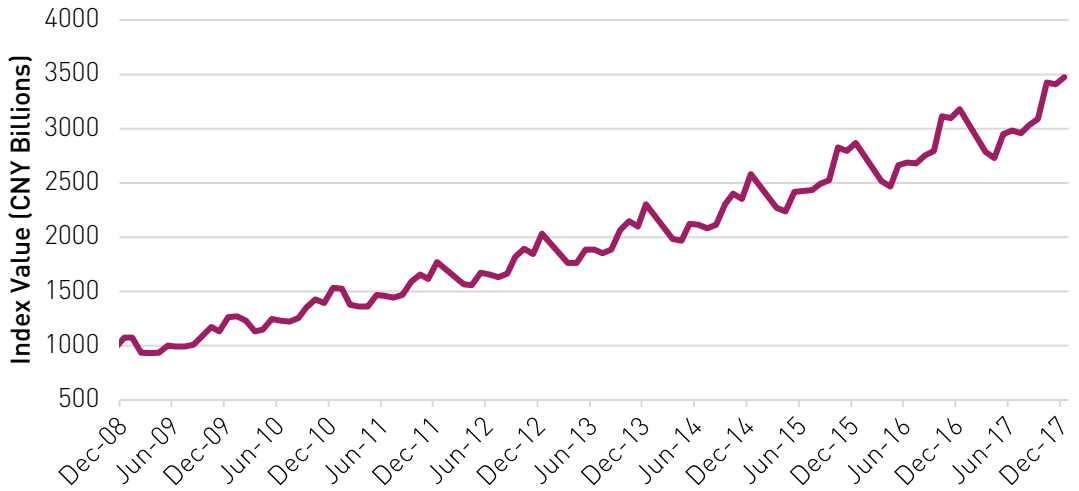
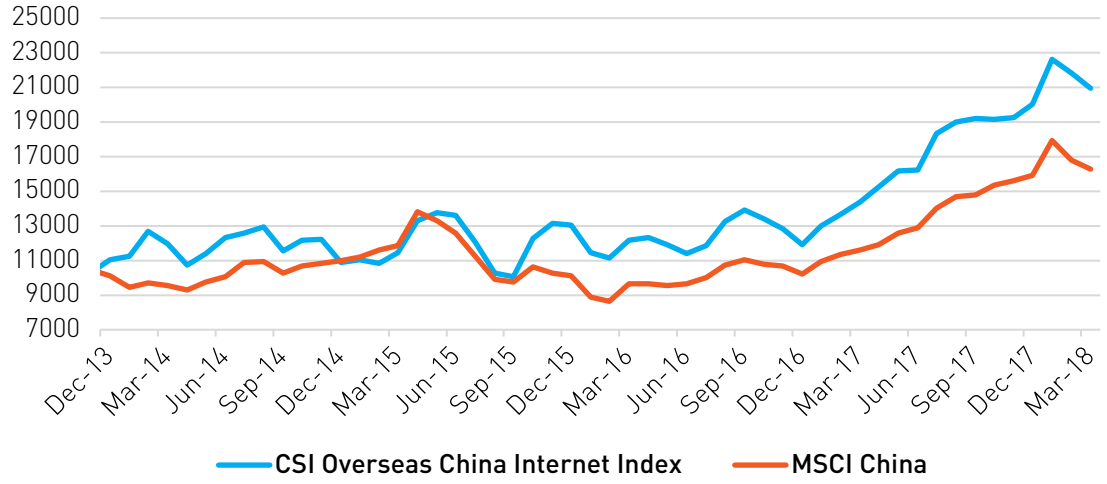


Chart data from Bloomberg as of 12/31/2017, retrieved 3/31/2018.

China Retail Sales Index: Retail sales (also referred to as retail trade) tracks the resale of new and used goods to the general public, for personal or household consumption. This concept is based on the value of goods sold.

China Internet sector vs. Broad China markets
Growth of 10,000 unit (12/31/2013 – 3/30/2018)



Source: Bloomberg, as of 3/30/2017

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. See page 18 for definitions

Through our trips to China we saw the proliferation of E-Commerce firsthand.

Over 40 billion packages were delivered in China in 2017, an increase of 28% from the previous year[1].

JD.com warehouse employees prepare same-day delivery

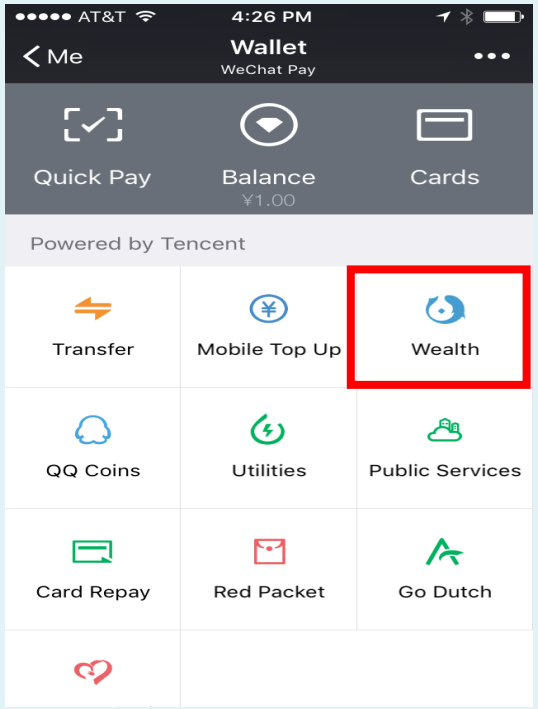
Unlike competitor Alibaba, JD.com owns its own logistics network and has a fleet of delivery vehicles around China

[1]www.xinhua.net "China's express delivery firms see rapid growth in 2017", 1/13/2018

We saw that money and the internet have become virtually inseparable.

Apps like Tencent's WeChat and Alibaba's Alipay allow users to do everything from buy a coffee, hail a cab, to make investments in wealth management products, all from a smart phone.

WeChat users can invest in mutual funds through the same app they use for social media.



We learned about Tencent and one of the company's early investors, the South African internet conglomerate, Naspers.

Tencent has grown to be one of the largest companies in the world, and the largest company in emerging markets, with a market cap of $496 billion[1].

NASPERS

As of 3/23/2018 Naspers owned 31.16% of Tencent[1]

Tencent 腾讯

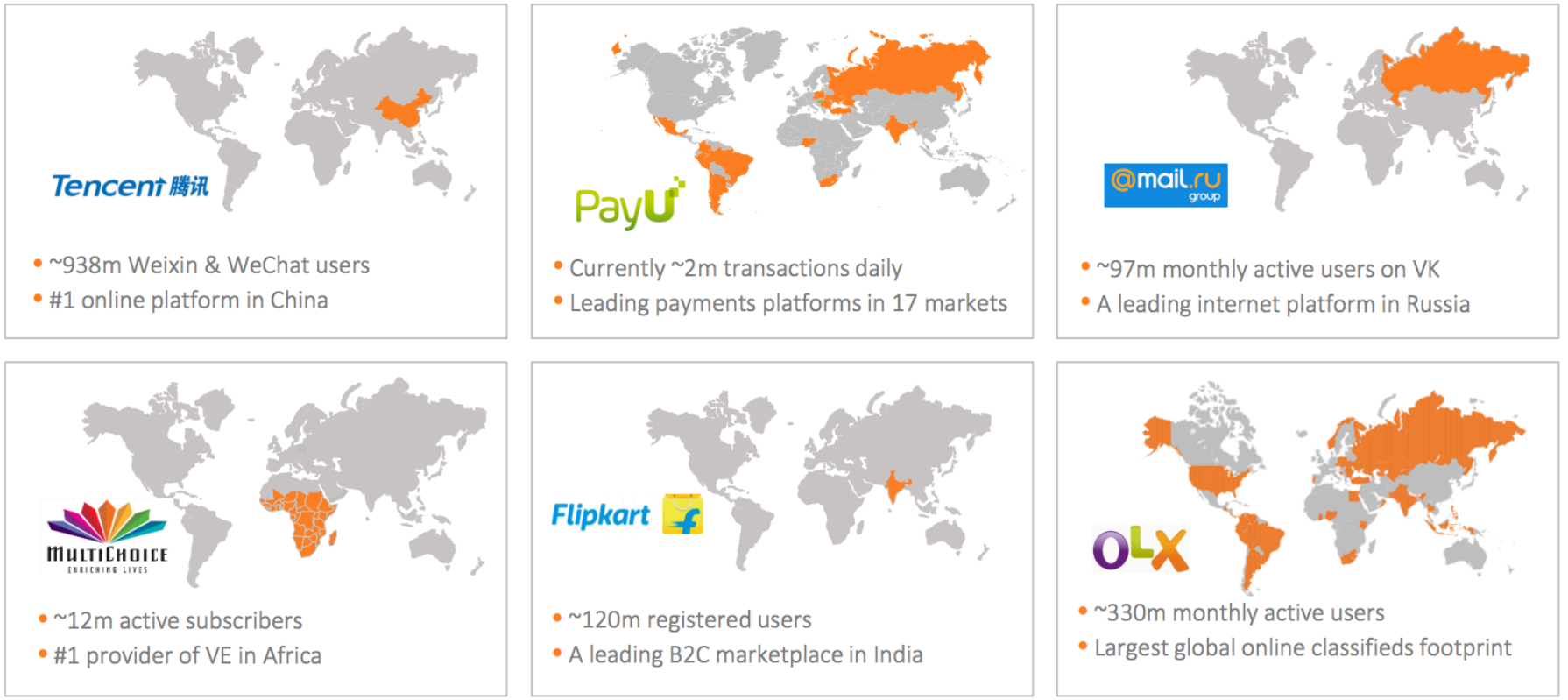
As of 12/31/2017, Tencent has 989 million monthly users[2]

1. Data from Bloomberg as of 3/23/2018.
2. Tencent Holdings Limited, "Tencent Announces 2017 Fourth Quarter and Annual Results", 3/21/2018. Retrieved on 3/31/2018.

Naspers is a global internet and entertainment group that has grown into one of the largest technology investors in the world. The company's investments span the globe and are organized into six business areas: Classifieds, Payments, B2C E-Commerce, Ventures, Video Entertainment, and Media[1].

- Naspers was founded in South Africa in 1915 as a publisher and printer of magazines.
- Naspers has become one of the world's leading technology investors.
- Naspers has a stake in significant publicly traded companies like Tencent and Mail.ru and private investments such as Indian E-Commerce company Flipkart.

Naspers has invested in technology companies across the developing world



1. "Financial results presentation for the year ended 31 March 2017" Naspers.

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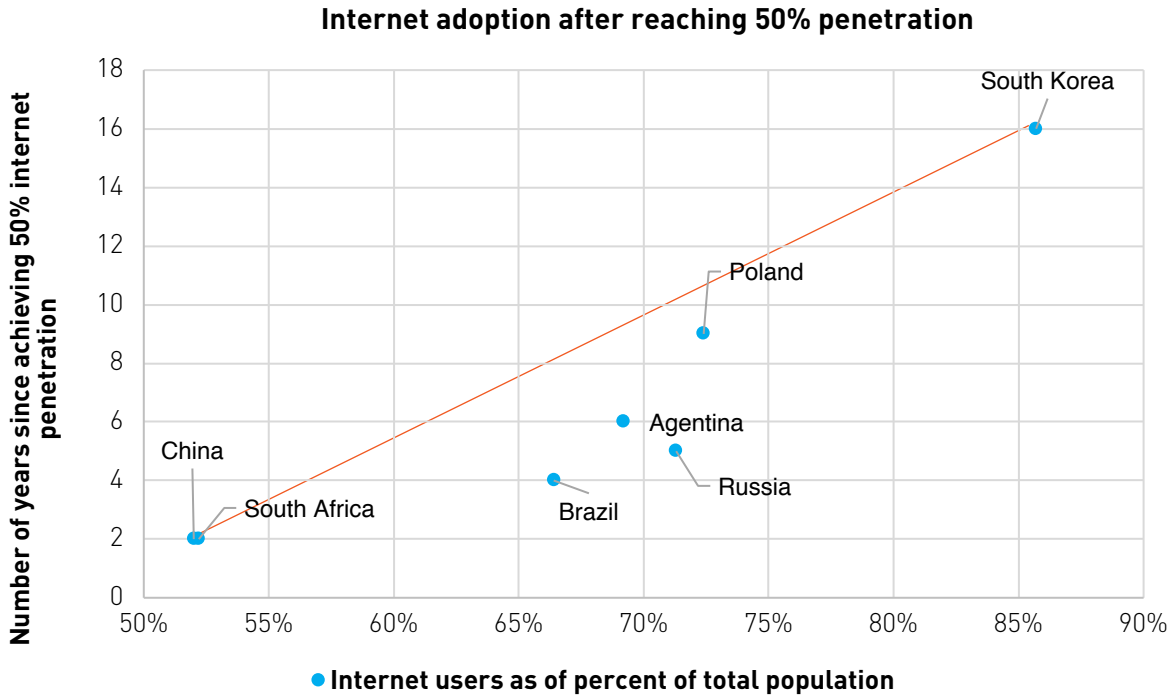
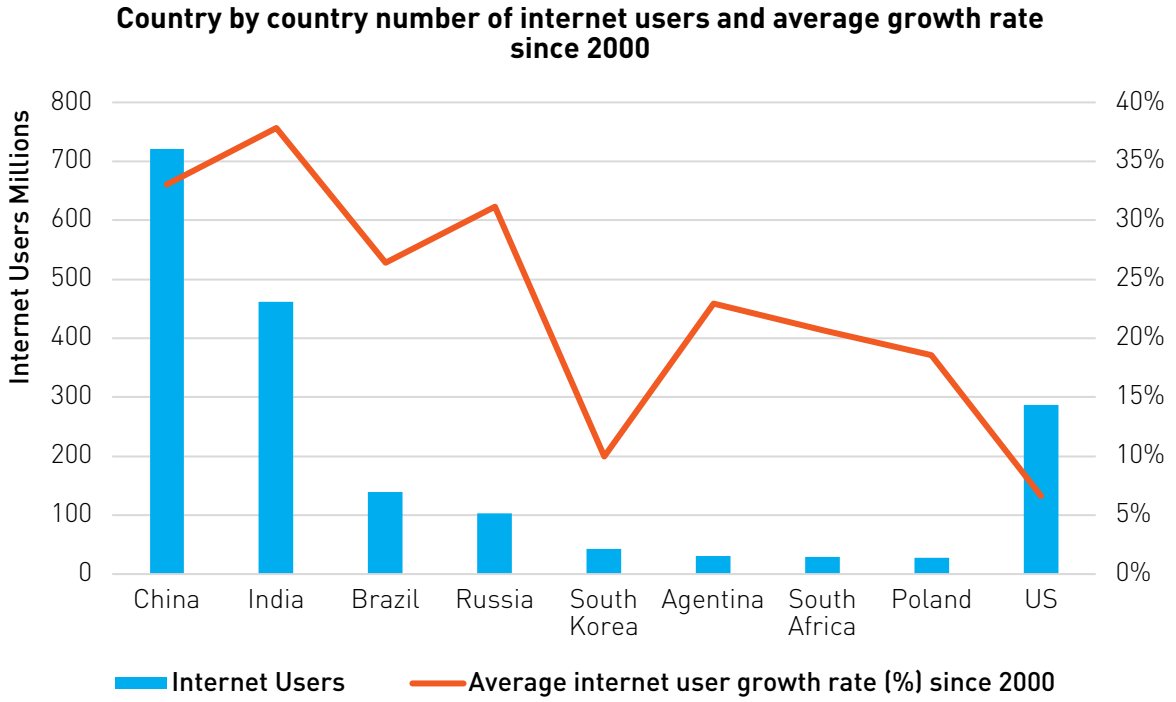
As Nasper's success underscores: the rise of consumer technology goes beyond China to broader emerging markets as more and more of the developing world gets internet access for the first time.

Internet penetration rates vary across emerging markets creating distinct growth profiles for each country



Within major emerging market countries internet usage has grown by an average of 25% a year



Data from internet live stats as of 12/31/2016, retrieved on 3/31/2018.

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For the majority of the developing world, smart phones provide the first point of internet access, leapfrogging traditional computers.

Mobile-cellular telephone subscriptions			
	2000	**2016**	**Growth multiple**
India	3,577,095	1,127,809,000	315x
Russia	3,263,200	231,393,994	71x
China	85,260,000.00	1,364,934,000	16x
Brazil	23,188,171	244,066,759	11x
Argentina	6,487,950	64,033,692	10x
Malaysia	5,121,748	43,912,600.00	9x
South Africa	8,339,000	76,653,421.00	9x
Poland	6,747,000	55,878,845	8x
South Korea	26,816,398	61,295,538	2x

Percent of population that own a smart phone	
Country	**Total %**
India	17
Russia	45
China	58
Brazil	41
Argentina	48
Malaysia	65
South Africa	37
Poland	41
South Korea	88

Source: International Telecommunications Union' statistics database. As of 12/31/2016
ITU is the United Nations specialized agency for information and communication technologies. Data includes pay-as-you-go and contract renewals

JACOB POUSHTER "Smartphone Ownership and Internet Usage Continues to Climb in Emerging Economies" Pew Research Center. 02/22/2016

Emerging markets represent a huge consumer market opportunity

- In order to fairly compare the consumption power of different economies we use purchasing power parity (PPP)
- In terms of PPP the top 25 economies by GDP represent 80% of the global economy[1]
- 58% of these economies (or 16 out of 25 numerically) are considered emerging markets[1]
- According to the World Bank, emerging markets represent a population of 4.5 billion people who spend $5 trillion a Year[2]

World Bank 2016 GDP, by PPP

	Ranking	Economy	(million of international dollars)
CHN	1	China	21,417,150
USA	2	United States	18,569,100
IND	3	India	8,702,900
JPN	4	Japan	5,266,444
DEU	5	Germany	4,028,362
RUS	6	Russian Federation	3,397,368
BRA	7	Brazil	3,141,333
IDN	8	Indonesia	3,032,090
GBR	9	United Kingdom	2,796,732
FRA	10	France	2,773,932
ITA	11	Italy	2,312,559
MEX	12	Mexico	2,278,072
TUR	13	Turkey	1,927,693
KOR	14	Korea, Rep.	1,832,073
SAU	15	Saudi Arabia	1,756,793
ESP	16	Spain	1,686,373
CAN	17	Canada	1,597,517
IRN	18	Iran, Islamic Rep.	1,352,814
THA	19	Thailand	1,164,928
AUS	20	Australia	1,128,908
NGA	21	Nigeria	1,091,228
EGY	22	Egypt, Arab Rep.	1,065,179
POL	23	Poland	1,055,354
PAK	24	Pakistan	1,014,181
ARG	25	Argentina	874,071

1. Table: World Bank https://data.worldbank.org/data-catalog/GDP-PPP-based-table
2. "The World Bank's Global Consumption Database" The World Bank, retrieved 3/31/2018
3. See page 18 for definitions

According to a seminal study from the The Organization for Economic Co-operation and Development (OECD) middle class consumption could reach 52% of total global consumption by the year 2030, up from 14% in 2009.

Middle Class Consumption – Top 10 Countries (billions of 2005 PPP$ and global share)

	2009			2020			2030		
1	**United States**	4,377	21%	**China**	4,468	13%	**India**	12,777	23%
2	**Japan**	1,800	8%	**United States**	4,270	12%	**China**	9,985	18%
3	**Germany**	1,219	6%	**India**	3,733	11%	**United States**	3,969	7%
4	**France**	927	4%	**Japan**	2,203	6%	**Indonesia**	2,474	4%
5	**United Kingdom**	889	4%	**Germany**	1,361	4%	**Japan**	2,286	4%
6	**Russia**	870	4%	**Russia**	1,189	3%	**Russia**	1,448	3%
7	**China**	859	4%	**France**	1,077	3%	**Germany**	1,335	2%
8	**Italy**	740	3%	**Indonesia**	1,020	3%	**Mexico**	1,239	2%
9	**Mexico**	715	3%	**Mexico**	992	3%	**Brazil**	1,225	2%
10	**Brazil**	623	3%	**United Kingdom**	976	3%	**France**	1,119	2%
	Emerging market total		**14%**	**Emerging market total**		**33%**	**Emerging market total**		**52%**

Homi Kharas "The Emerging Middle Class In Developing Countries" OECD Development Center, January 2010

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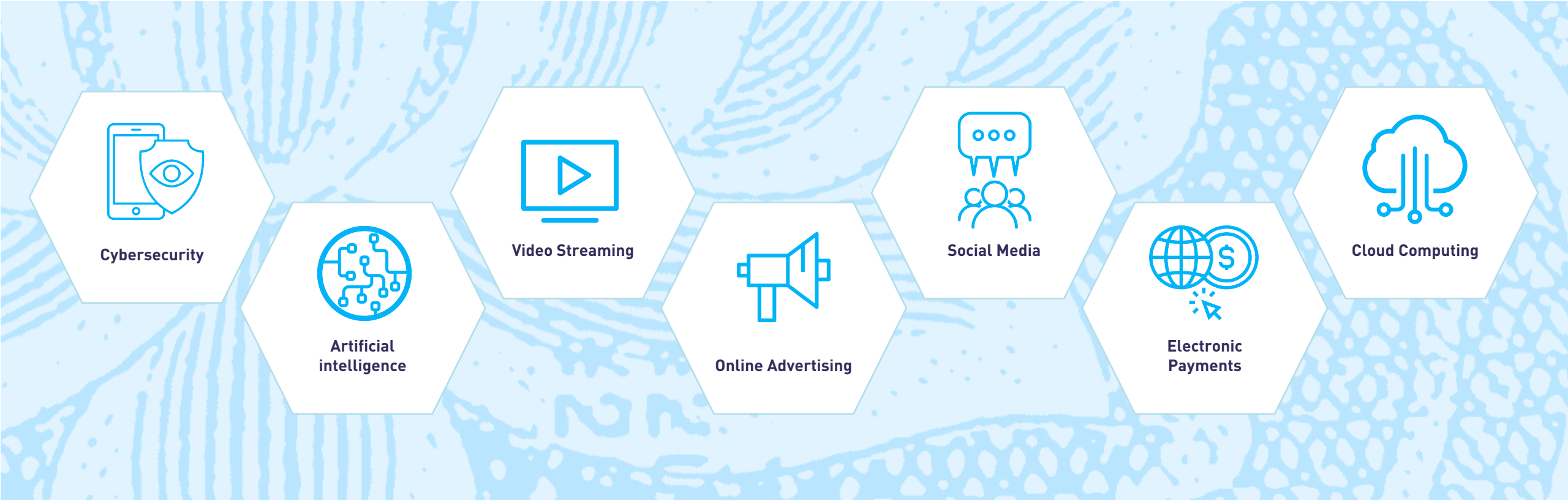
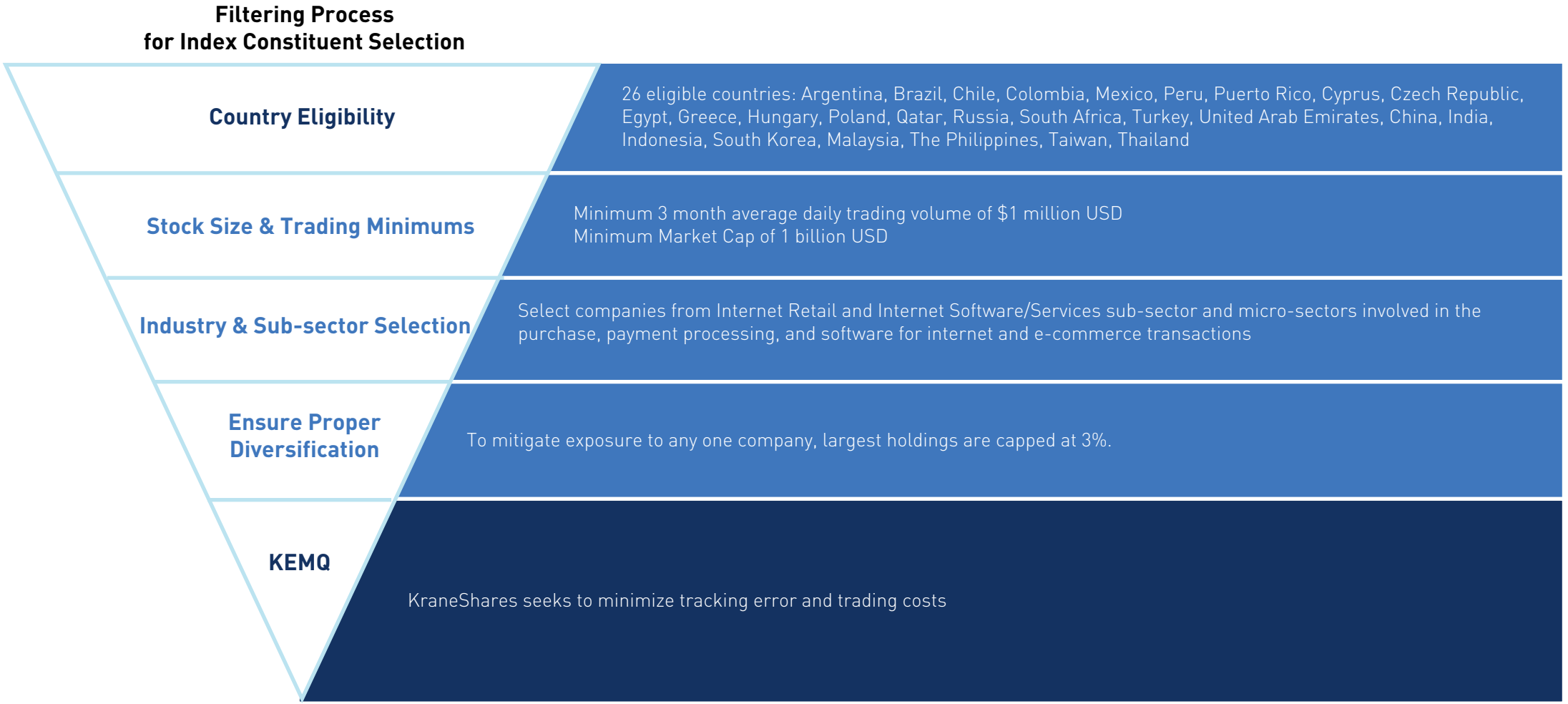
Emerging markets consumer technology consists of an ecosystem of services



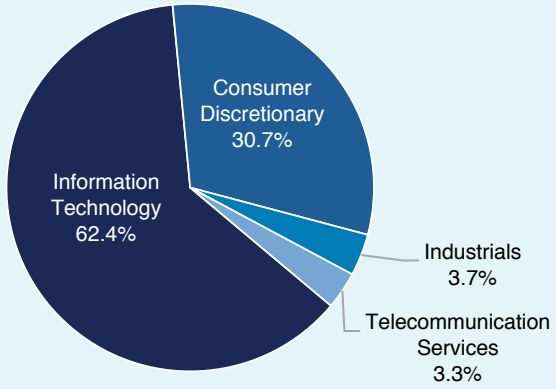
In order to deliver a precise representation of the emerging markets consumer technology opportunity we worked with Solactive to develop the Solactive Emerging Markets Consumer Technology Index



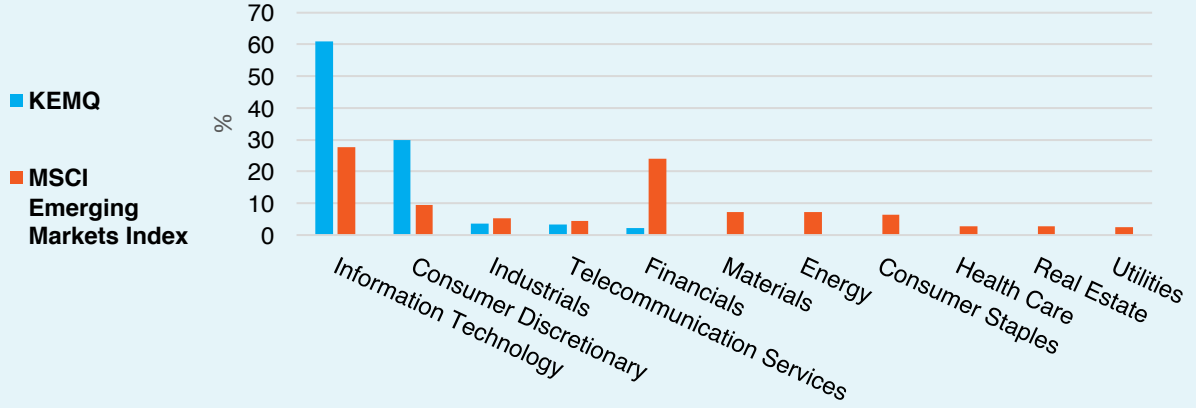
Diversification does not ensure a profit or guarantee against a loss.

Our index filtering process results in a very different sector and country breakdown than traditional emerging markets

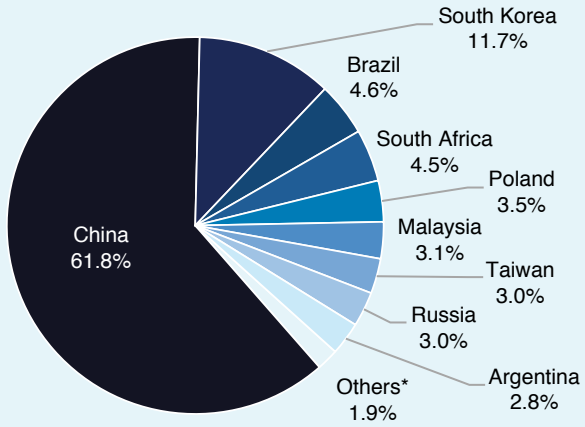
KEMQ Sector Breakdown



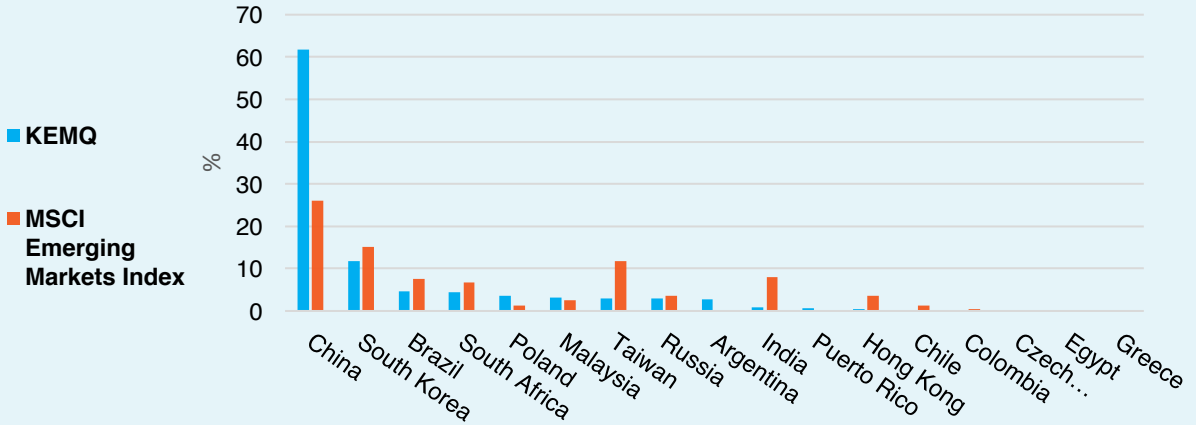
KEMQ vs MSCI Emerging Markets Index Sector Breakdown



KEMQ Country Breakdown



KEMQ vs MSCI Emerging Markets Index Country Breakdown



Data from Bloomberg and Solactive as of 3/31/2018. See page 18 for index definitions

The KraneShares Emerging Markets Consumer Technology ETF (Ticker: KEMQ) tracks a variety of companies throughout key emerging market countries

Top countries and weight within Index		Top constituent in country	Weight	Company Logo	Company description
China	61.84%	VIPSHOP	4.68%		Vipshop is a leading online discount retailer for brands in China. The Company offers high quality and popular branded products to consumers throughout China at a significant discount from retail prices. As compared to conventional on-line marketplaces or large-scale multi-category online retailers, Vipshop has successfully created a third e-commerce model and proven that it can provide tremendous scale and profitability. By providing special offers and deep discounts on branded products, the Company has pioneered the online discount retail model in China and become the expert and leader trusted by its customers and brand partners alike. Since its founding in August 2008, the Company has rapidly built a sizeable and growing base of customers and brand partners.
South Korea	11.71%	NAVER CORP	4.17%		NAVER Corporation provides Internet site with web portal services, such as search engine, online game, and content development. The Company also offers online marketing service through banner advertisement and e-commerce services. The company owns the popular Line app, which is used primarily used in Japan and South Korea but also present in over 230 countries worldwide. Line offers services similar to WhatsApp and WeChat
Brazil	4.59%	CIELO SA	1.90%		Cielo is Brazil's largest credit and debit card payment processor with more than 1.3 million active merchants and covers more than 99% of the country's municipalities. Cielo (which translates as 'sky') also offers pre-paid phone cards, cash cards, and electronic vouchers. Aside from its card activity, the company also rents credit card machines to merchants and processes non-payments like healthcare authorizations. Other healthcare products include insurance and pharmacy cards and medical bill processing.
South Africa	4.48%	NASPERS LTD	3.70%		As a holding company, Naspers mainly grows through acquisitions and equity stakes in companies in emerging markets. It also plans to focus on investment in technology; the company has worked to upgrade and improve its subscriber and user platforms by investing in e-commerce transaction platforms and instant-messaging communication. The company also sees growth opportunity in the market for digital cable subscribers. With limited broadband infrastructure and almost no cable access in Africa, Naspers is able to provide cable, satellite and other pay-TV services such as mobile TV.
Poland	3.53%	CYFROWY POLSAT SA	2.61%		Cyfrowy Polsat, S.A. offers broadcast satellite subscription television services and mobile telephony in Eastern and Central Europe. The Company distributes signal decoders and offers a variety of television and radio channels.
Malaysia	3.14%	TELEKOM MALAYSIA BHD	2.30%		Telekom Malaysia Berhad establishes, provides, and maintains telecommunication and related services. Through its subsidiaries, the Company provides payphone network, mobile telecommunication, public telephone, and leasing of optical fiber telecommunication system services. Telekom also manages and operates Kuala Lumpur Tower and provides intelligent security services
Taiwan	3.01%	WPG HOLDINGS LTD	2.42%		WPG Holdings Ltd. distributes electronic components such as central processing units, memory integrated chips (ICs), application specific standard product (ASSP) ICs, logic and linear ICs, and discrete ICs. The Company distributes for Intel, Texas Instrument, Philips, Hynix, Vishay and other IC manufacturers.
Argentina	2.84%	MERCADOLIBRE INC	2.84%		MercadoLibre Inc. operates an online trading site for the Latin American markets. The Company's website allows businesses and individuals to list items and conduct sales and purchases online in either a fixed-price or auction format. MercadoLibre offers classified advertisements for motor vehicles, vessels, aircraft, real estate and services, and offers online payment services.
Russia	2.99%	MAIL.RU GROUP	2.99%		Mail.Ru Group Ltd. offers Internet access services in Russia. The Company also operates social networking websites, instant messaging networks, an email service, and an online games company.

Data is for informational purposes only and does not represent the ETF. Sector and country weightings from Solactive as of 3/31/2018. Company descriptions from Bloomberg as of 3/31/2018. See page 17 for top 10 holdings.

KraneShares Emerging Markets Consumer Technology ETF (NYSE: KEMQ)

Investment Strategy:

KEMQ seeks to track the Solactive Emerging Markets Consumer Technology Index. The Index selects companies from 26 eligible countries within emerging markets whose primary business or businesses are internet retail, internet software/services, purchase, payment processing, or software for internet and E-Commerce transactions.

Fund Details	As of 3/31/2018	
Primary Exchange	NYSE	
Cusip	500767702	
Total Annual Fund Operating Expense	Gross: 0.80%	Net: 0.79%*
Inception Date	10/12/2017	
Distribution Frequency	Semiannually	
Index Name	Solactive Emerging Markets Consumer Technology Index	
Index Ticker	Bloomberg: SOLEMCT	
Number of Holdings (ex Cash)	51	

Top Ten Holdings as of 3/31/2018 The Fund's Holdings Are Subject to Change.	**% of Fund**
VIPSHOP HOLDINGS LTD - ADR	4.68%
NAVER CORP	4.17%
TENCENT HOLDINGS LTD	4.16%
NASPERS LTD-N SHS	3.70%
51JOB INC-ADR	3.60%
ALIBABA GROUP HOLDING-SP ADR	3.39%
AUTOHOME INC-ADR	3.34%
JD.COM INC-ADR	3.27%
ZTE CORP-H	3.22%
BAIDU INC - SPON ADR	3.02%

KEMQ Performance History as of 3/31/2018

	Cumulative %			Average Annualized %		
	3 Mo	6 Mo	Since Inception	1 Yr	3 Yr	Since Inception
Fund NAV	4.05%	–	5.92%	–	–	5.92%
Closing Price	4.82%	–	6.96%	–	–	6.96%
Index	5.29%	–	8.02%	–	–	8.02%

*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.

Index Definitions:

CSI Overseas China Internet Index: Represents the Chinese internet companies listed in overseas markets (New York and Hong Kong), in order to measure the performance of the Chinese internet companies listed outside mainland China.

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

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

Term Definitions:

Purchasing Power Parity (PPP): is an economic theory that compares different countries' currencies through a market "basket of goods" approach. According to this concept, two currencies are in equilibrium or at par when a market basket of goods (taking into account the exchange rate) is priced the same in both countries.

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).

Narrowly focused investments typically exhibit higher volatility. The ability of the Emerging Markets Consumer Technology Index ETF to achieve its investment objective is dependent, in part, on the continuous availability of A Shares and the ability to obtain, if necessary, additional A Shares quota. The fund may invest in derivatives, which are often more volatile than other investments and may magnify the Fund's gains or losses. The Fund may engage in securities lending. The Fund is non-diversified.

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.

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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