

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

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



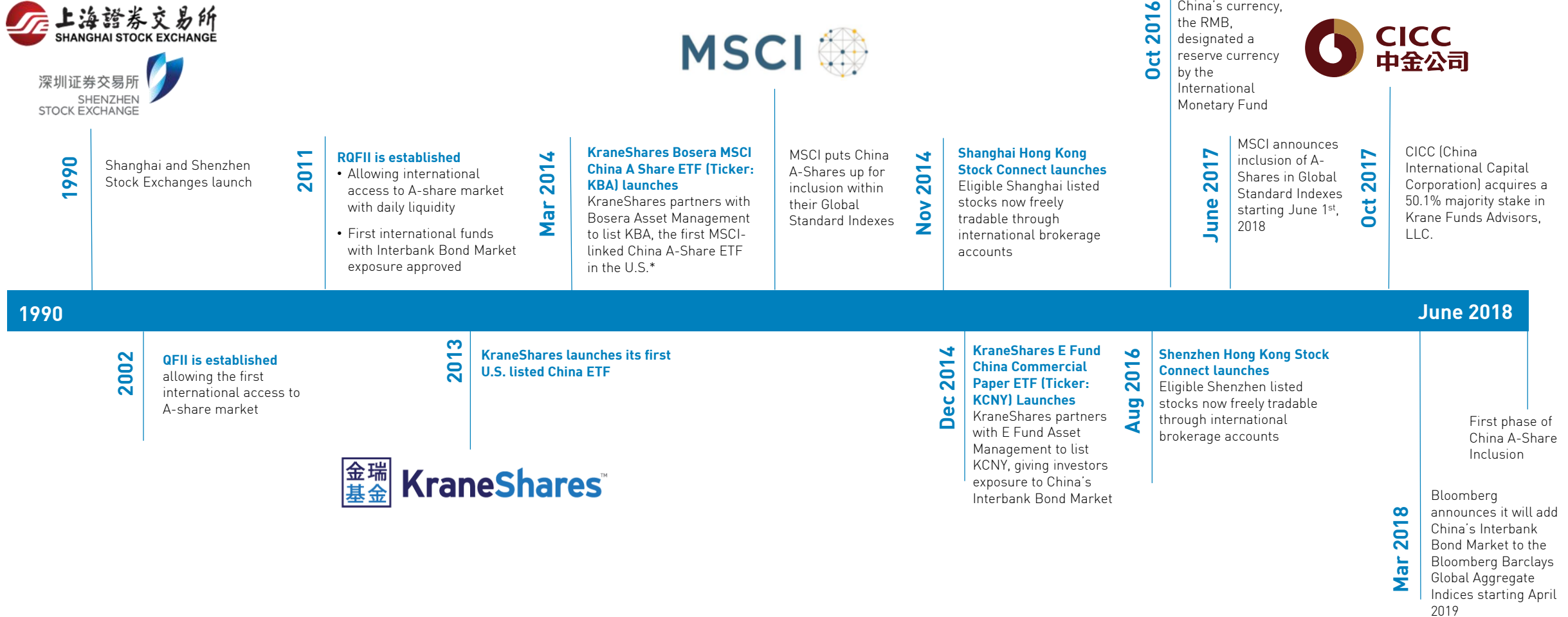
# Introduction to KraneShares

## 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).



# The Evolution of China's Capital Markets and KraneShares



 KBA**KraneShares Boser  
MSCI China A ETF**

### Investment Strategy:

KBA is benchmarked to the MSCI China A Inclusion Index which is designed to track the progressive partial inclusion of A shares in the MSCI Emerging Markets Index over time. The index is designed for global investors accessing the A shares market using the Stock Connect framework and is calculated using China A Stock Connect listings based on the offshore RMB exchange rate (CNH).

### KBA features:

- Access to the Shanghai and Shenzhen Stock Exchanges - which are traditionally not available to U.S. investors - via RQFII and Stock Connect Programs.
- KBA's holdings represent Mainland Chinese equities scheduled for inclusion into broad MSCI indexes.
- With \$1.6 trillion<sup>1</sup> 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, \$110 billion in AUM, one of the largest Chinese asset managers by assets.<sup>2</sup>

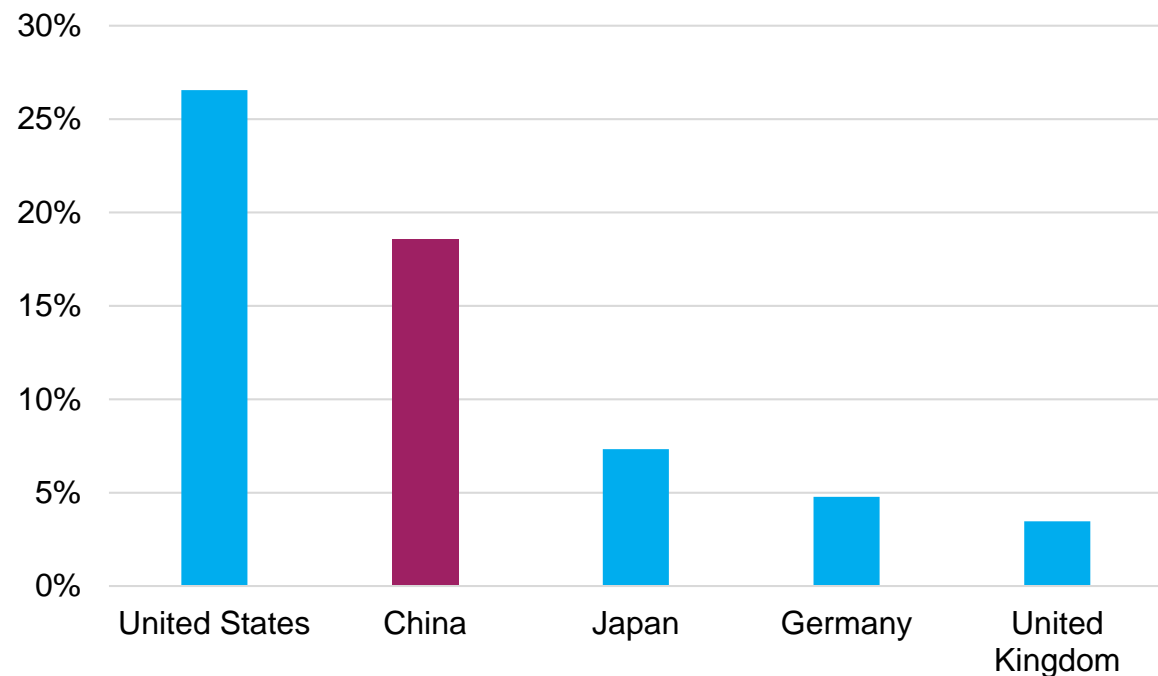
1. Data from MSCI as of June 30, 2017, as reported on September 30, 2017 by eVestment, Morningstar and Bloomberg

2. Boser data is from boser.com as of 9/30/2017, retrieved 3/31/2018

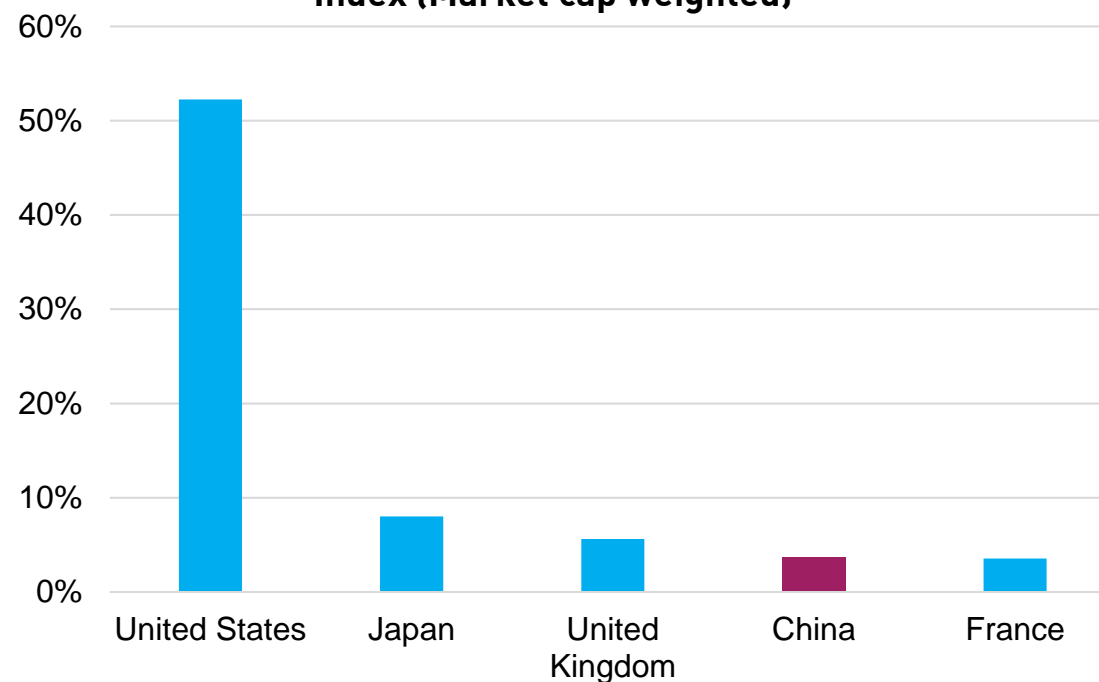
## China's capital markets are too big to ignore

China is the world's second largest economy and stock market, however, China A-shares are underrepresented in global capital markets

**Top 5 Country Weights in the MSCI All Country World Index (GDP Weighted)<sup>1</sup>**



**Top 5 Country Weights in MSCI All Country World Index (Market cap weighted)<sup>1</sup>**

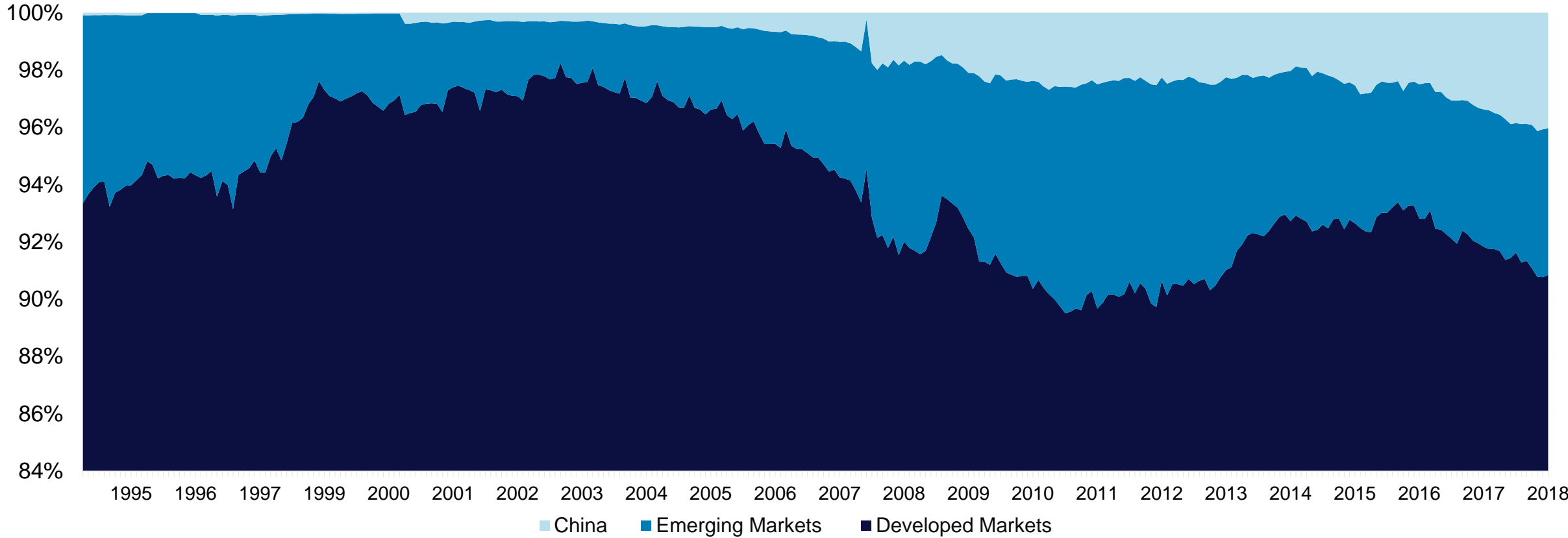


1.) Data from MSCI as of 3/31/2018. See page 19 for index definitions

## 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 3/31/2018. See page 19 for index definitions

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

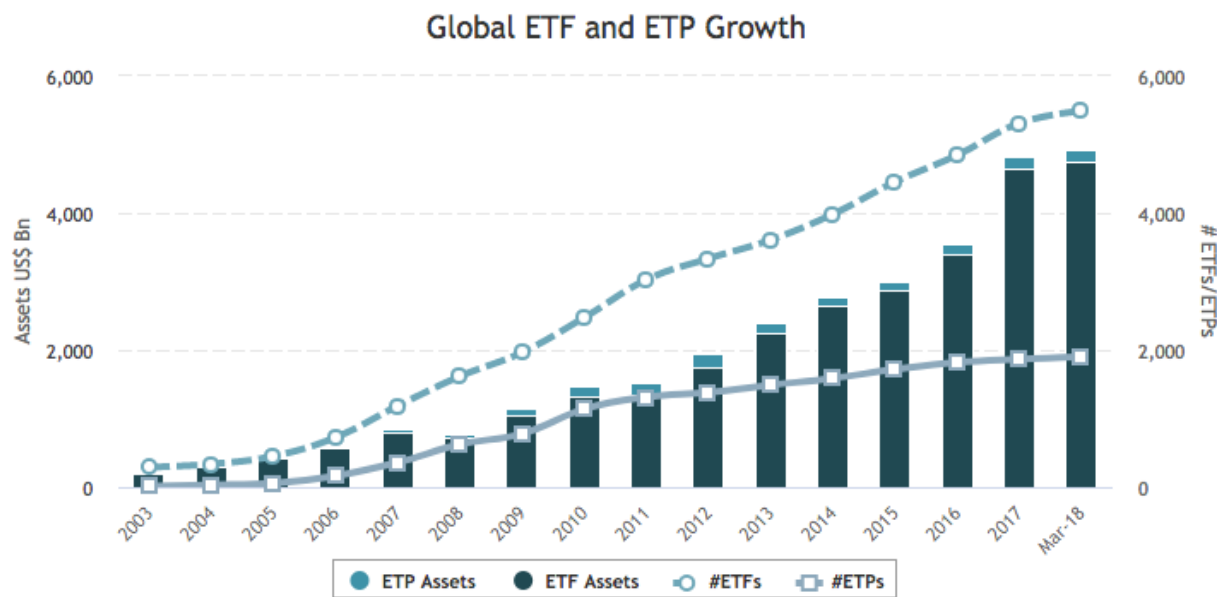


**\$110b AUM**

### 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)
- **\$110b** in assets under management; one of the top five asset managers by assets in Mainland China
- **186 open-end funds**

The global ETF industry has experienced tremendous growth in recent years. MSCI is the largest index provider to the global ETF industry in terms of number of products tracking their indexes<sup>2</sup>.



Source ETFGI as of 3/31/2018



- >\$12.4 trillion** in equity assets are estimated to be benchmarked to MSCI indexes<sup>1</sup>
- 99 of top 100** global investment managers are MSCI clients<sup>2</sup>
- 990+** ETFs are based on MSCI indexes, more than any other index provider<sup>3</sup>
- 94%** of US pension fund assets invested in global equities are benchmarked to MSCI<sup>4</sup>

<sup>1</sup> As of June 30, 2017, as reported on Sept 30, 2017 by eVestment, Morningstar and Bloomberg.

<sup>2</sup> Based on latest P&I AUM data and MSCI clients as of December 2017.

<sup>3</sup> As of December 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.

<sup>4</sup> 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.

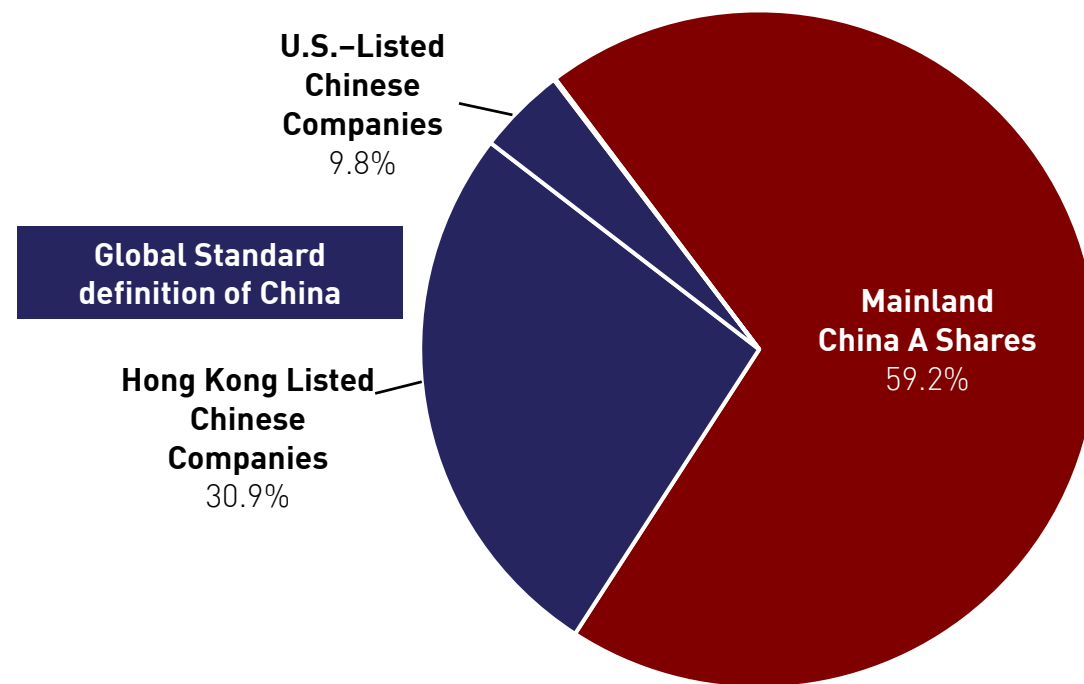
### MSCI's Current Global Standard Definition of China

**MSCI China Index** (Hong Kong and US only)  
152 Stocks

### MSCI's Definition of Entire Mainland A Share Market

**MSCI China A Index** (Shanghai and Shenzhen only)  
795 Stocks

**China Share Class Breakdown of MSCI All China Investable Market Index (IMI) (MSCI Dec 29, 2017)<sup>†</sup>**

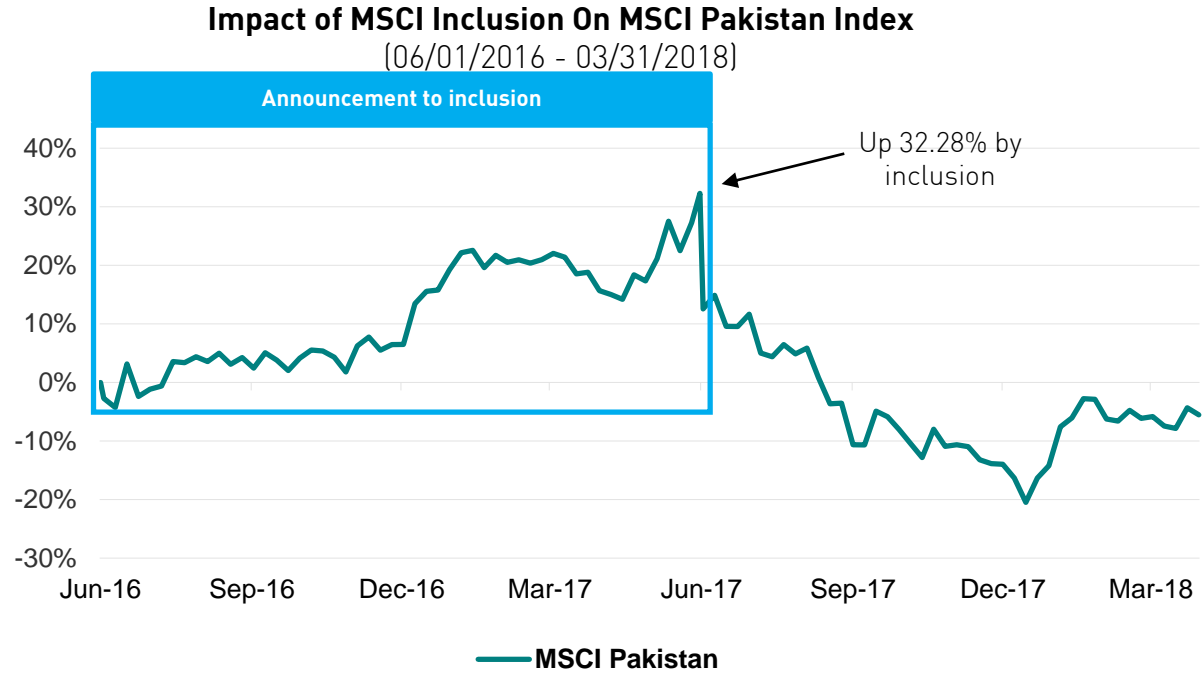
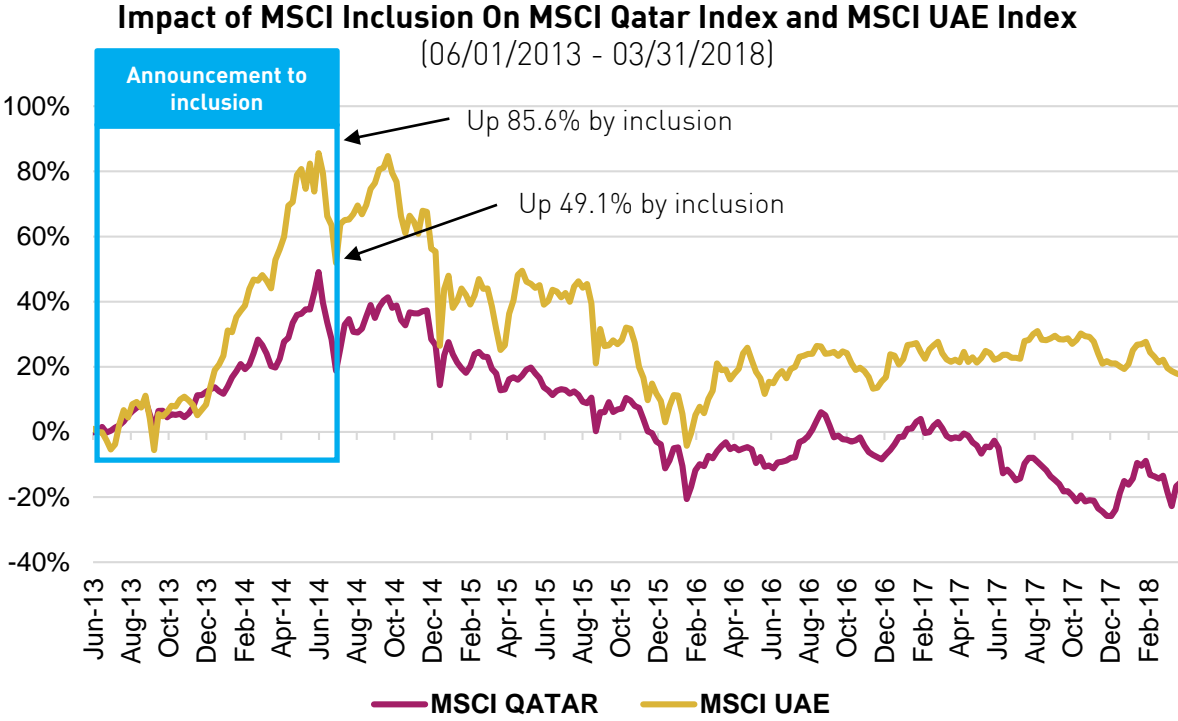


Source: MSCI Data as of Dec 29, 2017, Retrieved on Mar 31, 2018.

<sup>†</sup>Excluding Singapore listed (0.11%) and UK listed (0.04%)

# 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 Qatar and UAE indexes rose 49.1% and 85.6% 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).



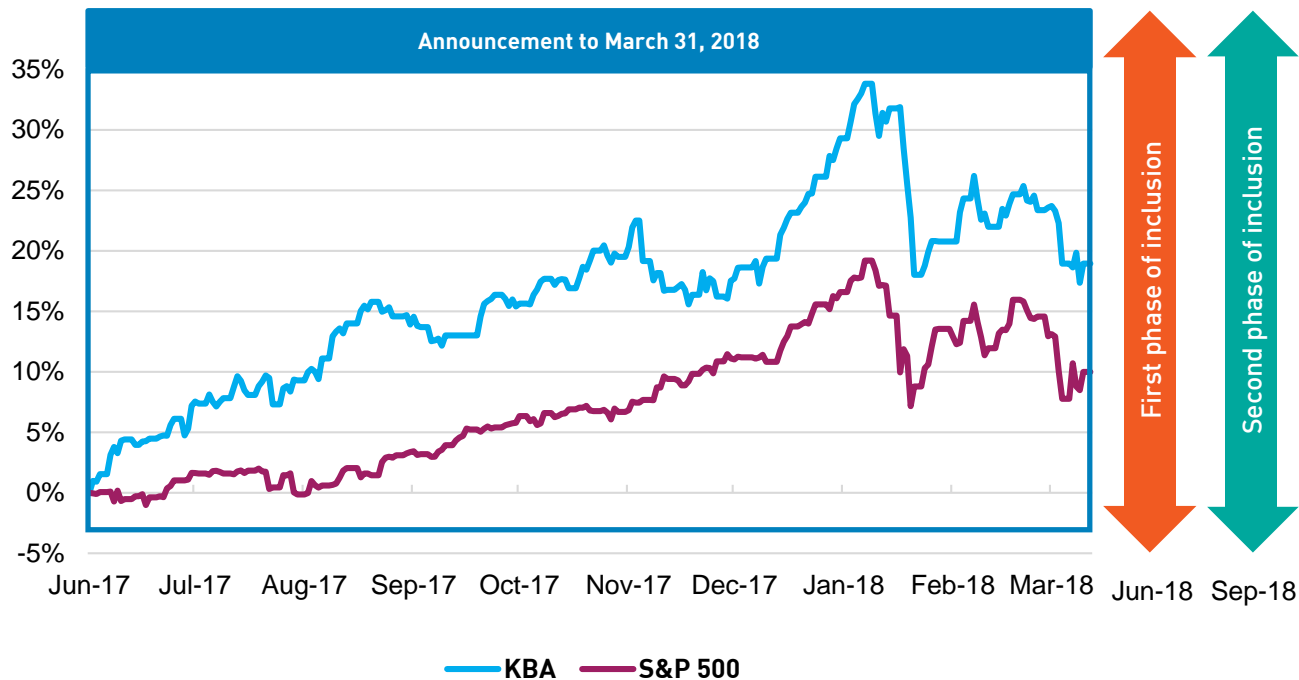
Source: Bloomberg as of 3/31/2018.

**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.**

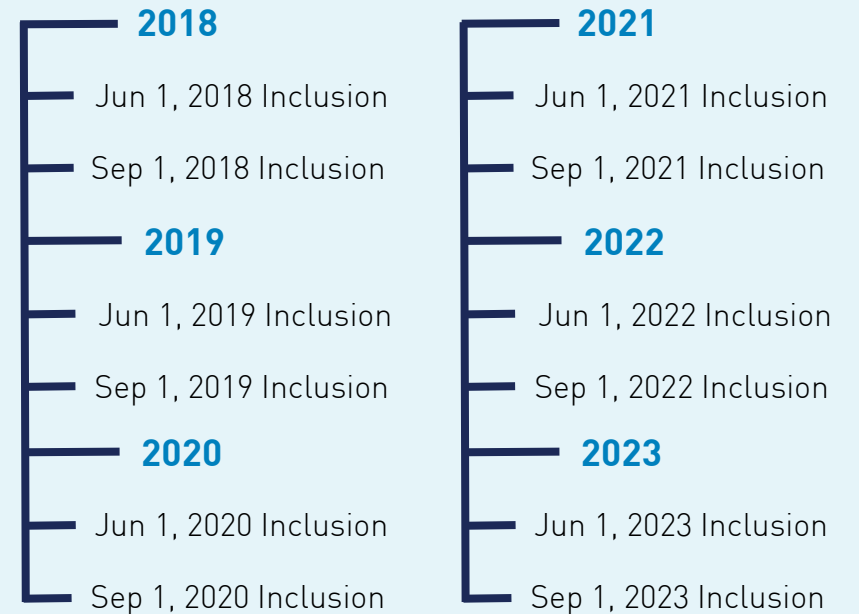
## KBA has outperformed the S&P 500 since MSCI's China A Share Inclusion Announcement

- From 6/20/2017 to 3/31/2018, KBA has returned 18.95%, outperforming the S&P 500 by 8.96%.
- We believe that full inclusion of China A Shares may take up to 5 years, with new phases of inclusion occurring twice a year.

**KBA vs S&P 500 Index since MSCI China A Share Inclusion Announcement**



## Potential China A-Shares Five Year Full Inclusion Schedule



Source: Bloomberg as of 3/31/2018, retrieved on 3/31/2018.

The MSCI China A Inclusion Index is the fund's primary benchmark. The S&P 500 is the fund's secondary benchmark. 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. See page 19 for performance data current to the most recent month end. Performance may not be sustainable and probably will not be repeated in the future.

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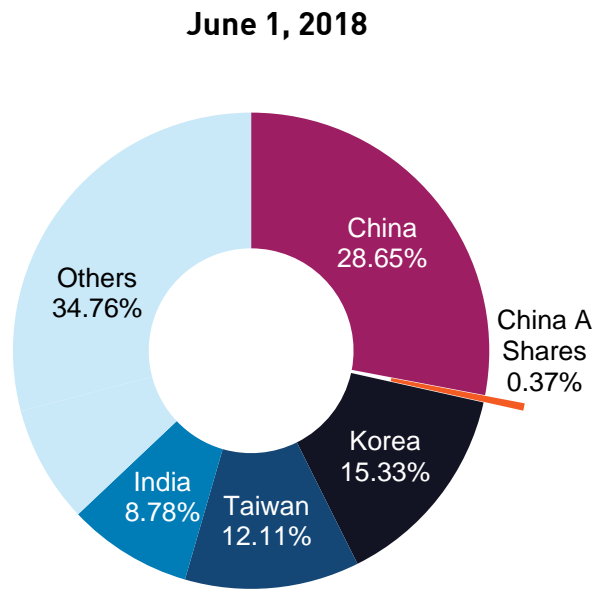
**Following MSCI’s announcement on June 20, 2017, China A Shares will be included into their Global Standard Indexes starting in June 2018. We believe full inclusion could take up to five years.**

According to MSCI as of 6/30/2017, **\$1.6 trillion** track the MSCI EM Index. **\$272b** are expected to be reallocated to China A Shares after full inclusion.

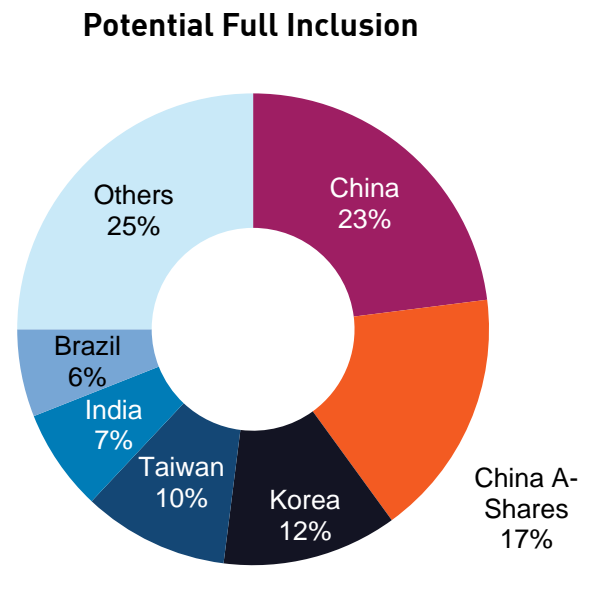
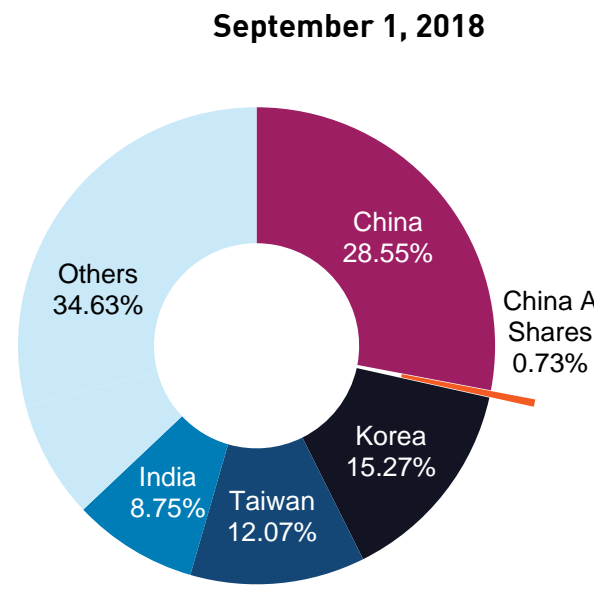
**MSCI Emerging Markets Index  
Initial Inclusion**

**MSCI Emerging Markets Index  
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.



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



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

## The MSCI China A-Share Inclusion stocks are the largest and most liquid stocks in the A-share market.

- There are currently 3,521 A-shares listed in Mainland China.
- MSCI's definition of inclusion stocks is 236 predominantly mega cap and large cap securities in the top decile of the Mainland market in terms of market capitalization and 30 day average trading volume

## China Mainland Market Capitalization and 30 day Average Trading Volume Decile Breakdown as of 3/31/2018

<b>95.2%</b> KBA Net Assets	<b>1</b>	Average Market Cap:	13.09B
		30 Day Average Daily Volume	16.63M
<b>4.7%</b> KBA Net Assets	<b>2</b>	Average Market Cap:	3.38B
		30 Day Average Daily Volume	11.46M
<b>0.10%</b> KBA Net Assets	<b>3</b>	Average Market Cap:	2.18B
		30 Day Average Daily Volume	8.65M
	<b>4</b>	Average Market Cap:	1.59B
		30 Day Average Daily Volume	6.40M
	<b>5</b>	Average Market Cap:	1.24B
		30 Day Average Daily Volume	6.88M
	<b>6</b>	Average Market Cap:	1.00B
		30 Day Average Daily Volume	5.24M
	<b>7</b>	Average Market Cap:	832.62M
		30 Day Average Daily Volume	4.45M
	<b>8</b>	Average Market Cap:	699.83M
		30 Day Average Daily Volume	3.98M
	<b>9</b>	Average Market Cap:	589.62M
		30 Day Average Daily Volume	3.75M
	<b>10</b>	Average Market Cap:	491.69M
		30 Day Average Daily Volume	2.79M

## 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	0.96	1.00					
EM	0.83	0.80	1.00				
USA	0.95	0.84	0.69	1.00			
China	0.74	0.71	0.87	0.63	1.00		
Frontier	0.48	0.50	0.43	0.42	0.42	1.00	
<b>China A</b>	0.23	0.23	0.39	0.18	0.53	0.20	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 Markets Index (Frontier) - Frontier Markets
- MSCI China A Index (China A) - Chinese companies listed on Shanghai and Shenzhen Stock Exchanges

Source: Table from Bloomberg, weekly correlation from Mar 31, 2008 to Mar 31, 2018

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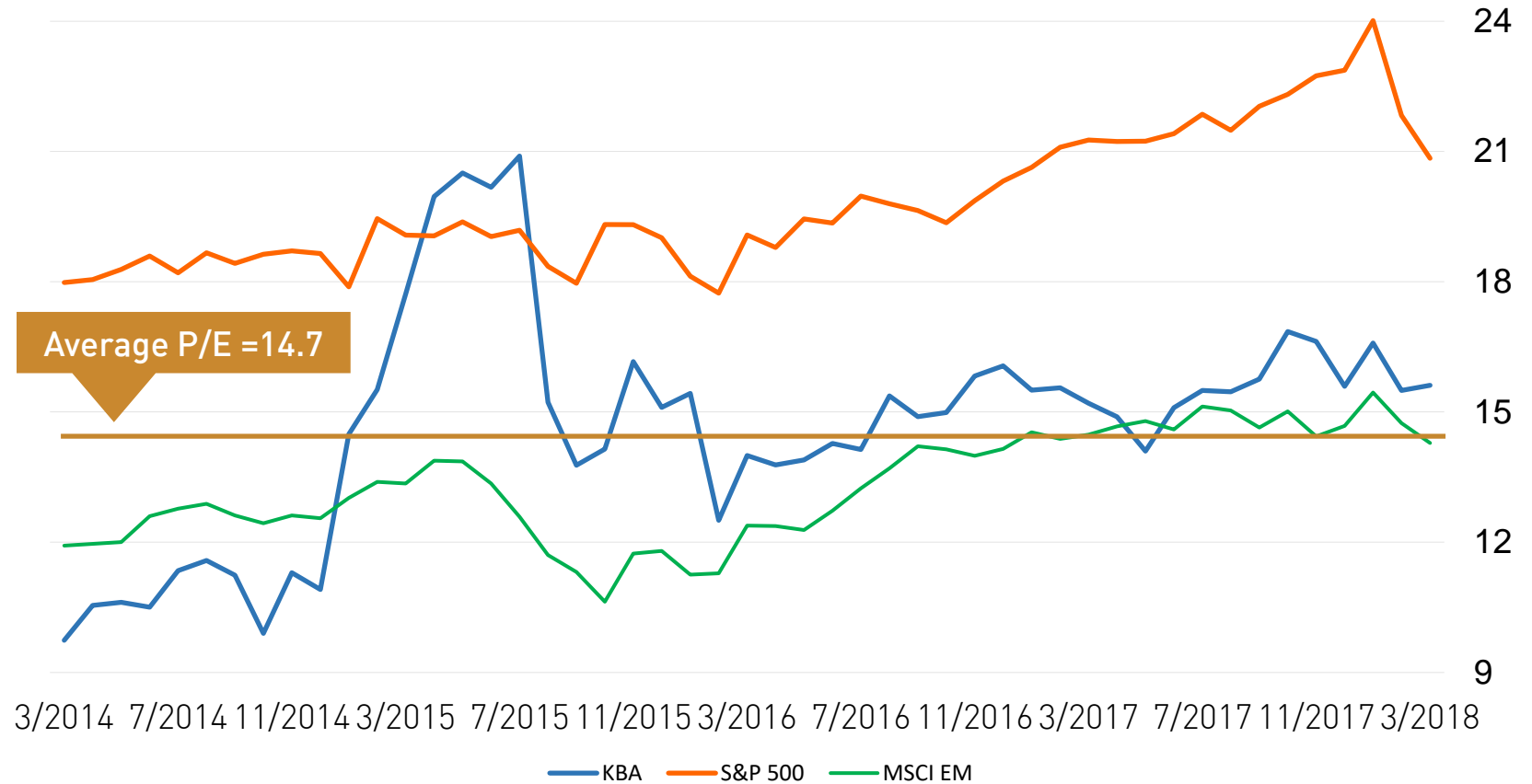
Past performance is no guarantee of future results.

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

KBA is currently close to its long run Price-Earnings (P/E)<sup>1</sup> average.

1. The 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.

Price/Earnings Ratio of KraneShares Boseru MSCI China A Share ETF vs. S&P 500 Index and MSCI Emerging Markets Index (3/31/2014 - 03/31/2018)

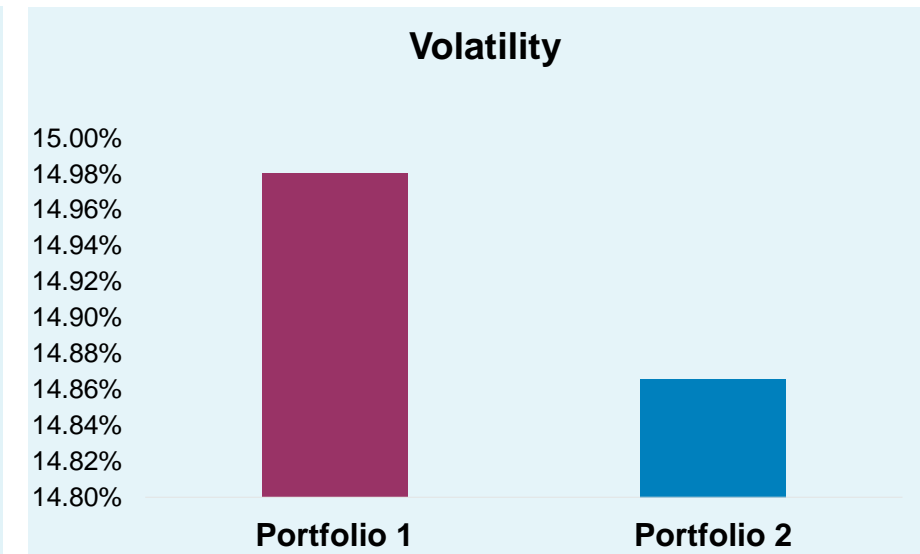
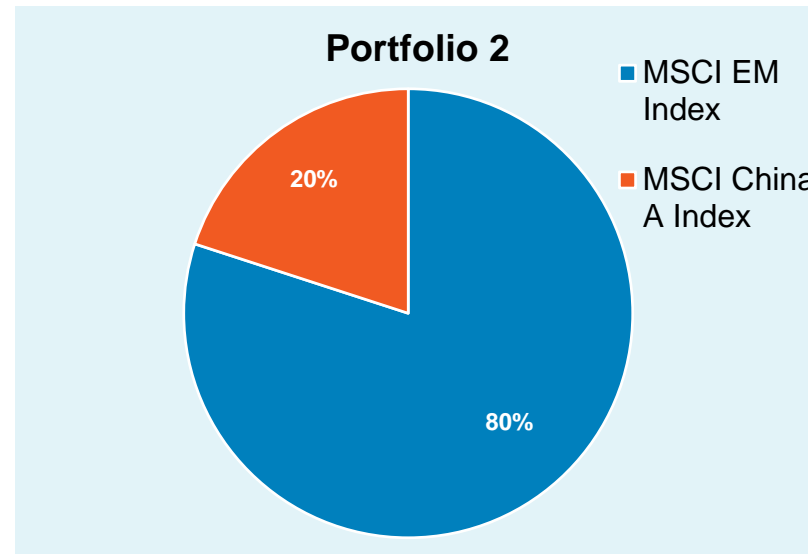
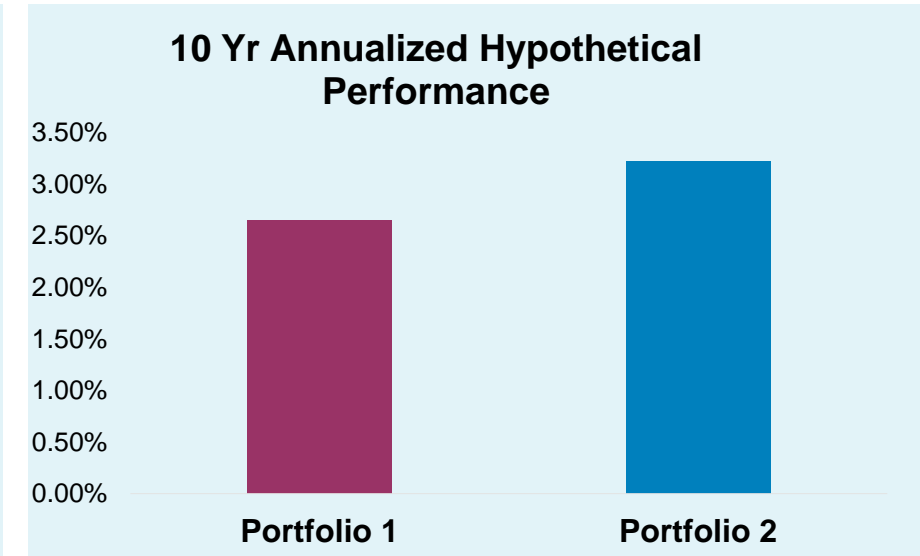
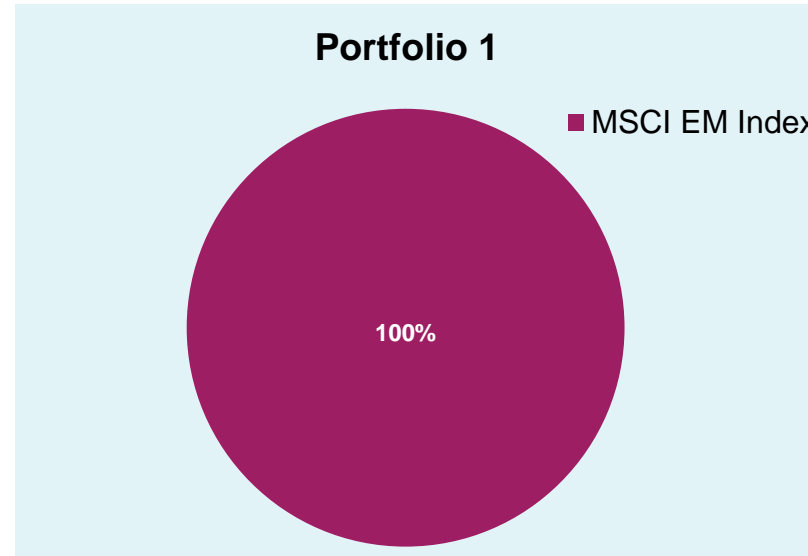


Source: Morningstar as of 3/31/2018

## 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 74 bps alpha annualized over 10 years with a nominal increase in volatility\* of 1 bps 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 3/31/2018

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## KraneShares Bosera MSCI China A ETF (ticker: KBA)

### Investment Strategy:

KBA is benchmarked to the MSCI China A Inclusion Index which is designed to track the progressive partial inclusion of A shares in the MSCI Emerging Markets Index over time. The index is designed for global investors accessing the A shares market using the Stock Connect framework and is calculated using China A Stock Connect listings based on the offshore RMB exchange rate (CNH).

### Key Fund Information

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

<b>Top Ten Holdings</b> as of 3/31/2018 (Excluding cash) The Fund's Holdings Are Subject to Change.	<b>%</b>
Kweichow Moutai Co Ltd-A	4.47%
Ping An Insurance Group Co-A	3.76%
China Merchants Bank-A	3.15%
Hangzhou Hikvision Digital-A	2.06%
Midea Group Co Ltd-A	1.83%
China Vanke Co Ltd -A	1.79%
Industrial Bank Co Ltd -A	1.76%
Shanghai Pudong Devel Bank-A	1.75%
Ind & Comm Bk Of China-A	1.64%
Saic Motor Corp Ltd-A	1.42%

### KBA Performance History as of 3/31/2018

	Cumulative %**			Average Annualized %		
	3 Mo	6 Mo	Since Inception 3/4/2014	1 Yr	3 Yr	Since Inception 3/4/2014
Fund NAV	-0.35%	5.22%	56.38%	22.68%	-4.35%	11.60%
Closing Price	1.42%	6.24%	58.76%	22.74%	-3.73%	12.02%
Index	-1.07%	2.07%	68.35%	17.99%	-3.50%	13.63%

†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, the MSCI China A International Index from October 23, 2014 through December 26, 2017 and the MSCI China A Inclusion Index going forward.

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

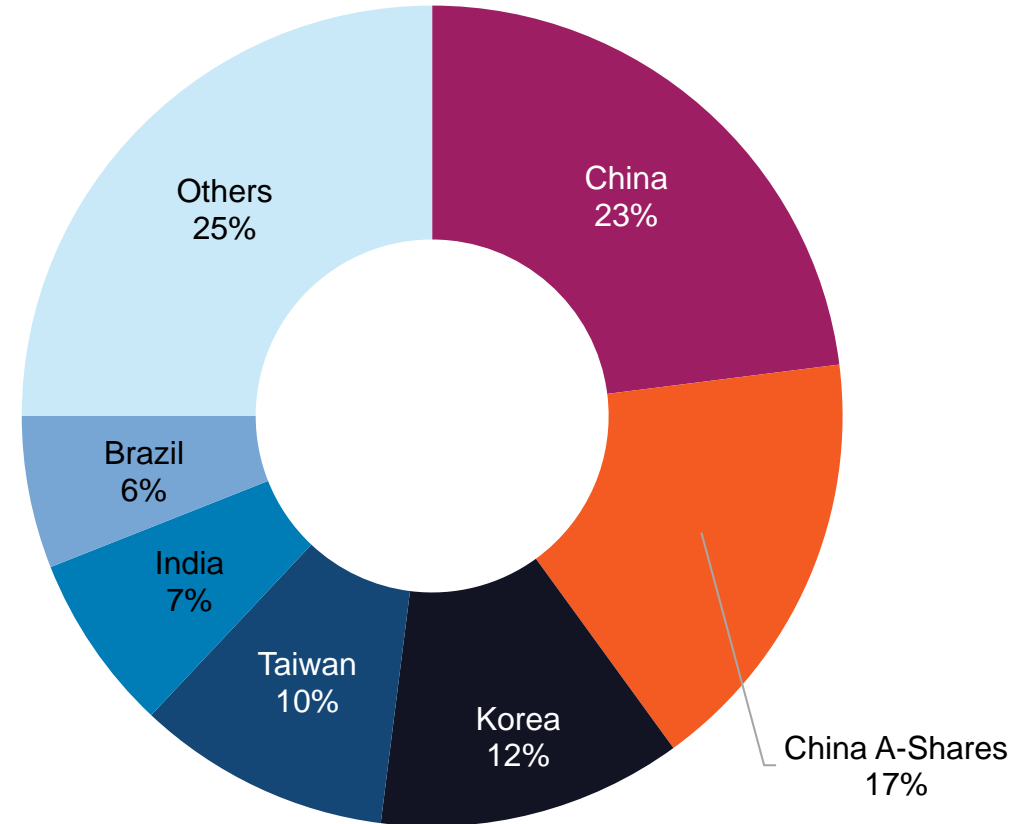
**The performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than their original cost and current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

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## Conclusion:

- On June 20<sup>th</sup> 2017, MSCI announced that China A Shares will be included into their Global Standard definition of China beginning June 1, 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.

MSCI Emerging Markets Index  
**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 ACWI GDP Weighted Index:** is based on the flagship MSCI ACWI Index, its parent index, and includes large and mid cap stocks across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries\*. The index uses a different weighting scheme than its cap weighted parent index, however. The weight of each country in the index is derived from its economic size (using GDP data) rather than the size of its equity market. Over time, GDP data tends to have more stability than equity market prices.

**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.

**S&P 500 Index:** is an American stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ

**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 Markets (FM) Index:** captures large and mid cap representation across 29 Frontier 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](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 (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.

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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