

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

Overview of the KraneShares Boserá
MSCI China A-Share ETF (ticker: 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).



**KBA****KraneShares Boser
MSCI China A-Share
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 the exact Mainland Chinese equities included within broad MSCI indexes.
- With over \$1.9 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, over \$110 billion in AUM, one of the largest Chinese asset managers by assets.²

1. As of December 31, 2017, as reported on March 31, 2018 by eVestment, Morningstar and Bloomberg.

2. Boser data is from boser.com as of 3/31/2018, retrieved on 6/30/2018.

The Evolution of China's Capital Markets and KraneShares



1990
Shanghai and Shenzhen Stock Exchanges launch

2011
RQFII is established

- Allowing international access to A-share market with daily liquidity
- First international funds with Interbank Bond Market exposure approved

Mar 2014
KraneShares Boserá MSCI China A-Share ETF (Ticker: KBA) launches
 KraneShares partners with Boserá Asset Management to list KBA, the first MSCI-linked China A-Share ETF in the U.S.*



MSCI puts China A-Shares up for inclusion within their Global Standard Indexes

Nov 2014
Shanghai Hong Kong Stock Connect launches
 Eligible Shanghai listed stocks now freely tradable through international brokerage accounts

Oct 2016
China's currency, the RMB, designated a reserve currency by the International Monetary Fund



Jun 2017
MSCI announces inclusion of A-Shares in Global Standard Indexes starting June 1st, 2018

Oct 2017
CICC (China International Capital Corporation) acquires a 50.1% majority stake in Krane Funds Advisors, LLC.

1990 **Jun 2018** **Sep 2018**

2002
QFII is established allowing the first international access to A-share market

2013
KraneShares launches its first U.S. listed China ETF



Dec 2014
KraneShares E Fund China Commercial Paper ETF (Ticker: KCFNY) Launches
 KraneShares partners with E Fund Asset Management to list KCFNY, giving investors exposure to China's Interbank Bond Market

Aug 2016
Shenzhen Hong Kong Stock Connect launches
 Eligible Shenzhen listed stocks now freely tradable through international brokerage accounts

Mar 2018
Bloomberg announces it will add China's Interbank Bond Market to the Bloomberg Barclays Global Aggregate Indices starting April 2019

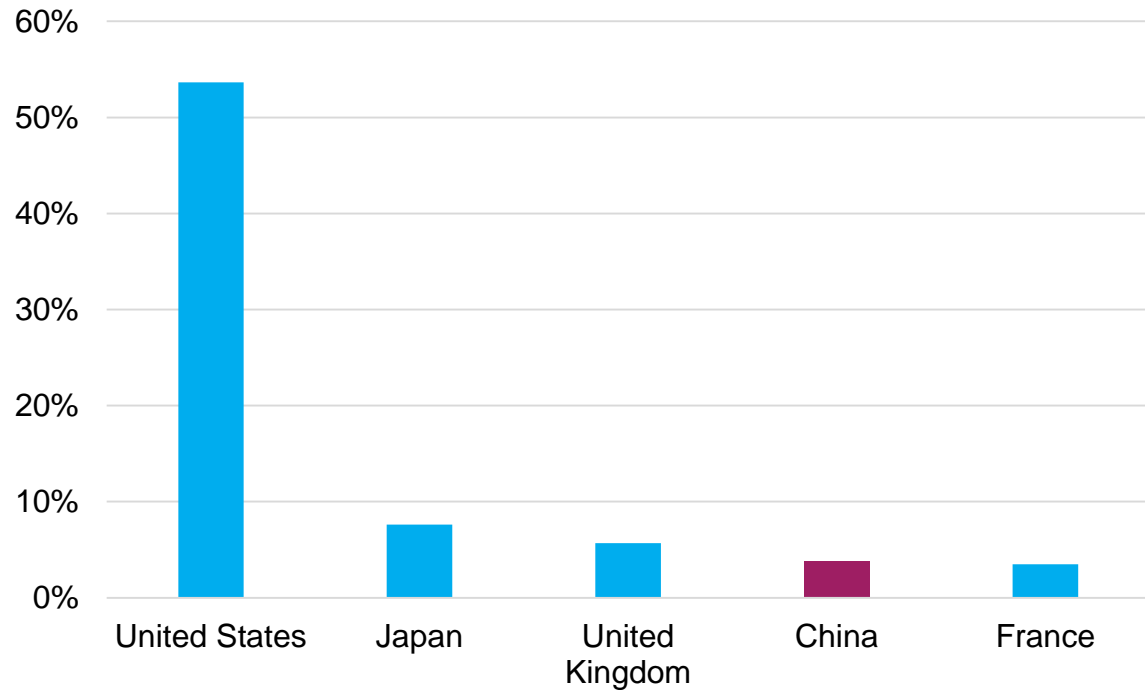
First phase of China A-Share Inclusion

Second phase of China A-Share Inclusion

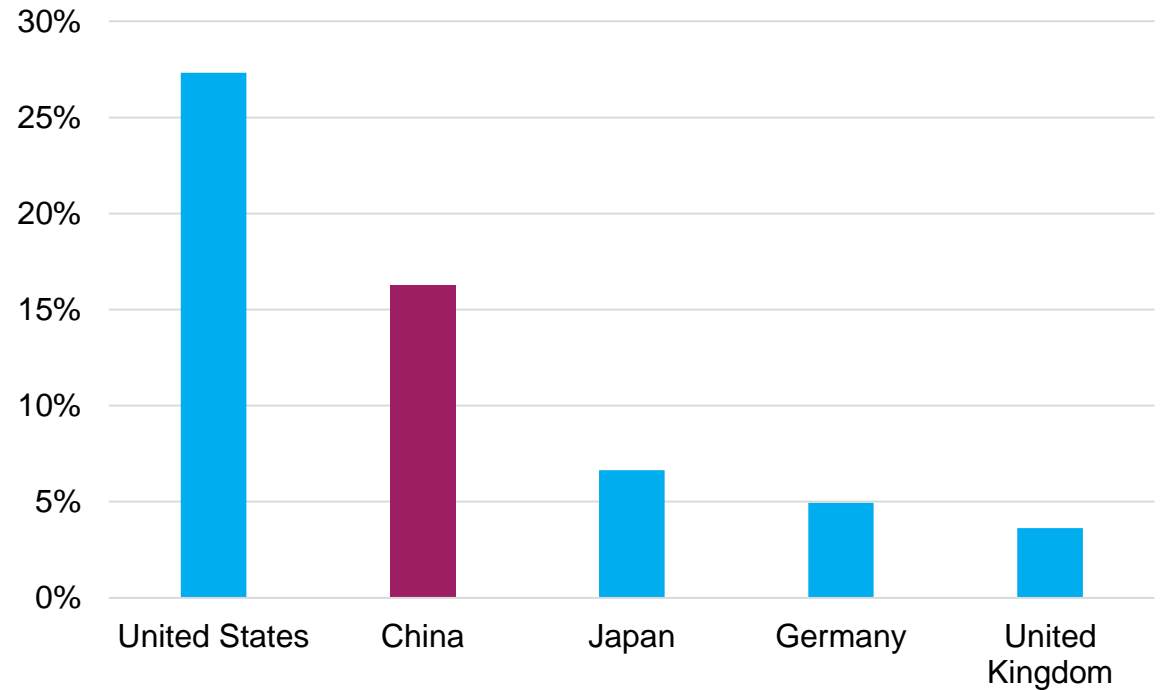
China A-Share market is too big to ignore

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

Top 5 Country Weights in MSCI All Country World Index (Market cap weighted)¹



Top 5 Country Weights in the MSCI All Country World Index (GDP Weighted)¹

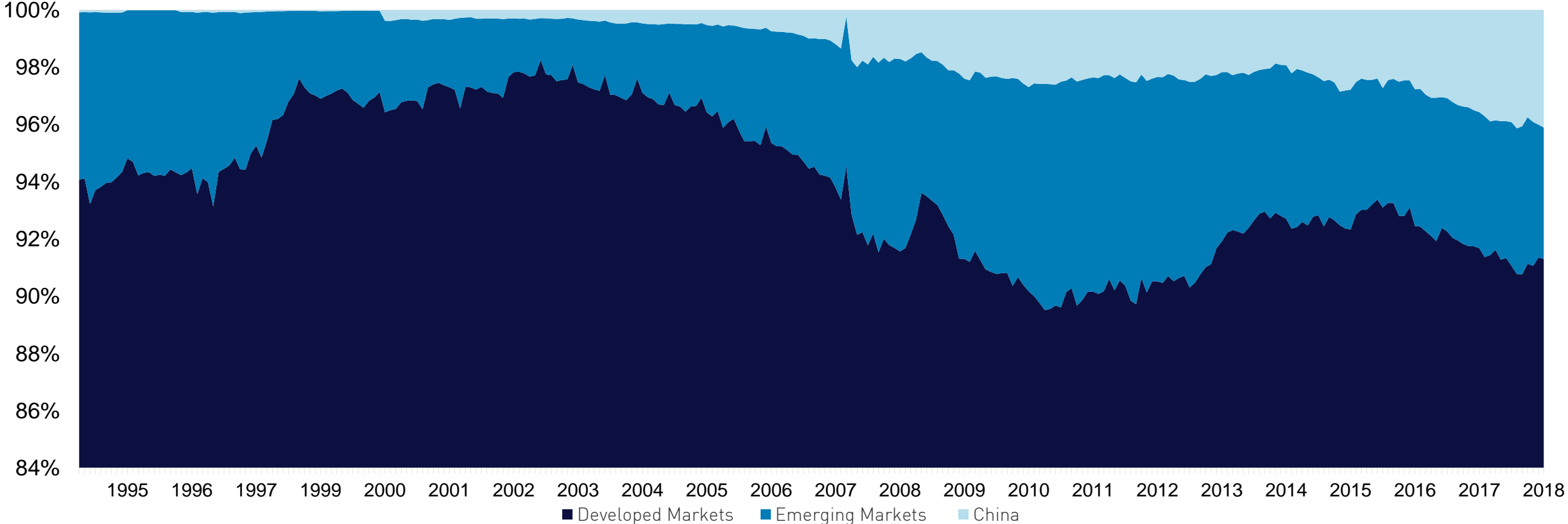


1. Data from MSCI as of 6/30/2018. See page 18 for index definitions

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 6/30/2018. See page 17 for index definitions

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



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

The Index Matters

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



>\$13.9 trillion
in equity assets are
estimated to be
benchmarked to
MSCI indexes¹



99 of top 100
global investment
managers are
MSCI clients²



1030+
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 December 31, 2017, as reported on March 31, 2018 by eVestment, Morningstar and Bloomberg.

² Based on latest P&I AUM data and MSCI clients as of March 2018

³ As of March 2018; 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.

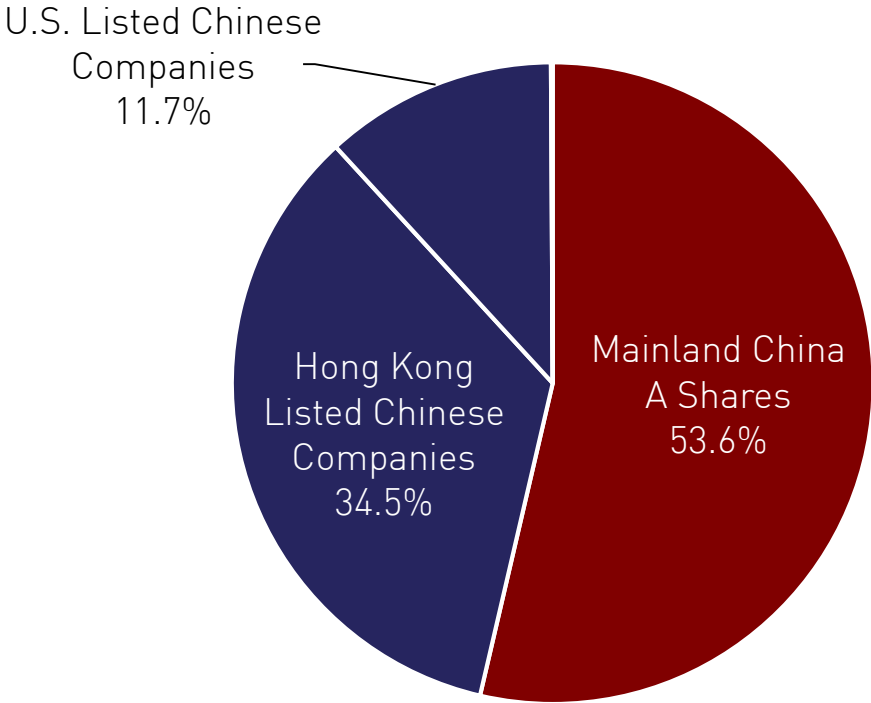
MSCI's Current Global Standard Definition of China

MSCI China Index
 Hong Kong and US = 97.5%
 China A-Shares = 2.5%
 447 Stocks

MSCI's Definition of Entire Mainland A-Share Market

MSCI China A Onshore IMI Index
 Shanghai and Shenzhen only
 2,055 Stocks

China A-Share class breakdown of MSCI All China Investable Market Index (IMI)*



Source: MSCI Data as of 6/29/2018, Retrieved on 6/30/2018.

*Excluding Singapore listed (0.09%)
 Source: MSCI as of 6/29/2018.

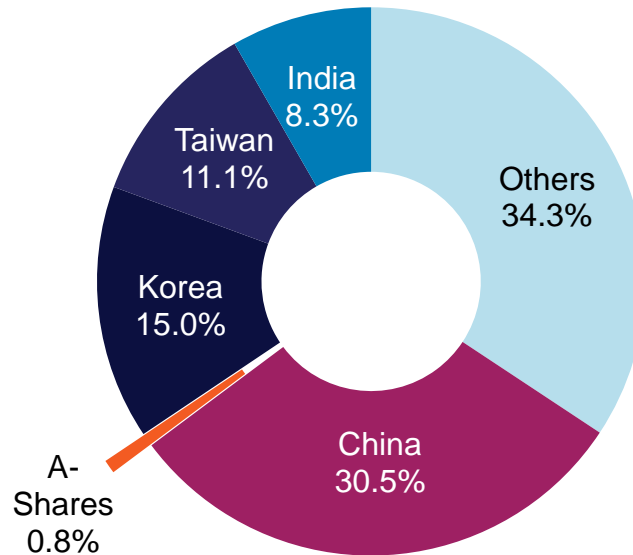
In June 2018 China A-Shares were included into MSCI's Global Standard Indexes for the first time. We believe full inclusion could take up to five years.

\$1.9 trillion track the MSCI EM Index. **\$307b** are expected to be reallocated to China A-Shares after full inclusion.

- On June 1, 2018 MSCI included the first half of the initial 5% weight for China A-Shares within the MSCI Emerging Markets Index. The remaining balance balance will be added in September 2018.
- The full proposed inclusion weight is projected to reach 16.2% of the Emerging Markets Index.
- We believe multiple inclusions could provide a sustained catalyst for the outperformance of the Mainland market.

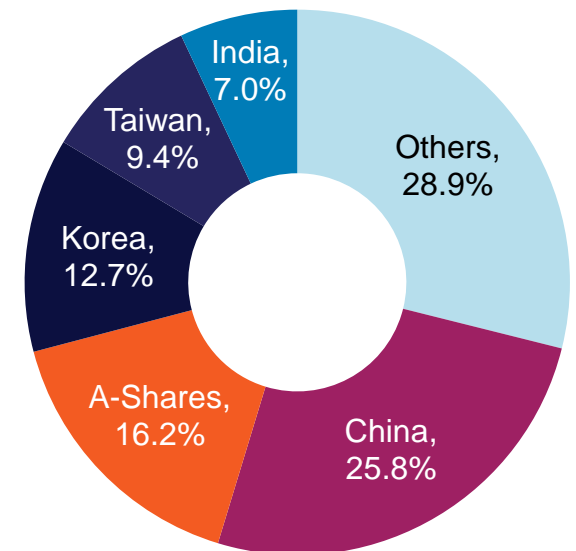
MSCI EM Index With 5% China A-Shares

FIRST PHASE TO BE COMPLETED SEP 1, 2018



MSCI EM Index With 100% China A-Shares

POTENTIAL FULL INCLUSION



Source: MSCI Research. Based off of data used for MSCI's May 2018 Semi-Annual Index Review.

While the exact timeline for full inclusion has not been released, MSCI received positive feedback from their clients after the June 1, 2018 inclusion and are enthusiastic about subsequent phases of inclusion.

“We don't want to do a large number of small inclusions, but a small number of large inclusions. We want to do bigger jumps...”

MSCI CEO Henry Fernandez at Shanghai Stock Exchange press conference
May 31, 2018

“MSCI notes the successful effective implementation of the first inclusion phase of China A-Shares in the MSCI Emerging Markets Index. Feedback gathered from international institutional investors since June 1, 2018, highlight that the implementation was smooth and no major concerns were raised.”

MSCI June 20, 2018 “RESULTS OF MSCI 2018 MARKET CLASSIFICATION REVIEW” Press release



China Mainland Market Capitalization and 30 day Average Trading Volume Decile Breakdown as of 6/29/2018

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

- There are currently 3,540 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

		Average Market Cap	30 Day Average Daily Volume
96% KBA Net Assets	1	11.5B	21.19M
4% KBA Net Assets	2	2.70B	12.62M
	3	1.78B	10.4M
	4	1.25B	7.7M
	5	961M	7.3M
	6	773M	6.2M
	7	644M	5.5M
	8	537M	5.3M
	9	457M	4.7M
	10	385M	4M

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	0.85	0.69	1.00			
China	0.75	0.72	0.86	0.65	1.00		
Frontier	0.49	0.50	0.43	0.42	0.43	1.00	
China A	0.23	0.22	0.37	0.19	0.50	0.21	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 June 30, 2008 to June 30, 2018

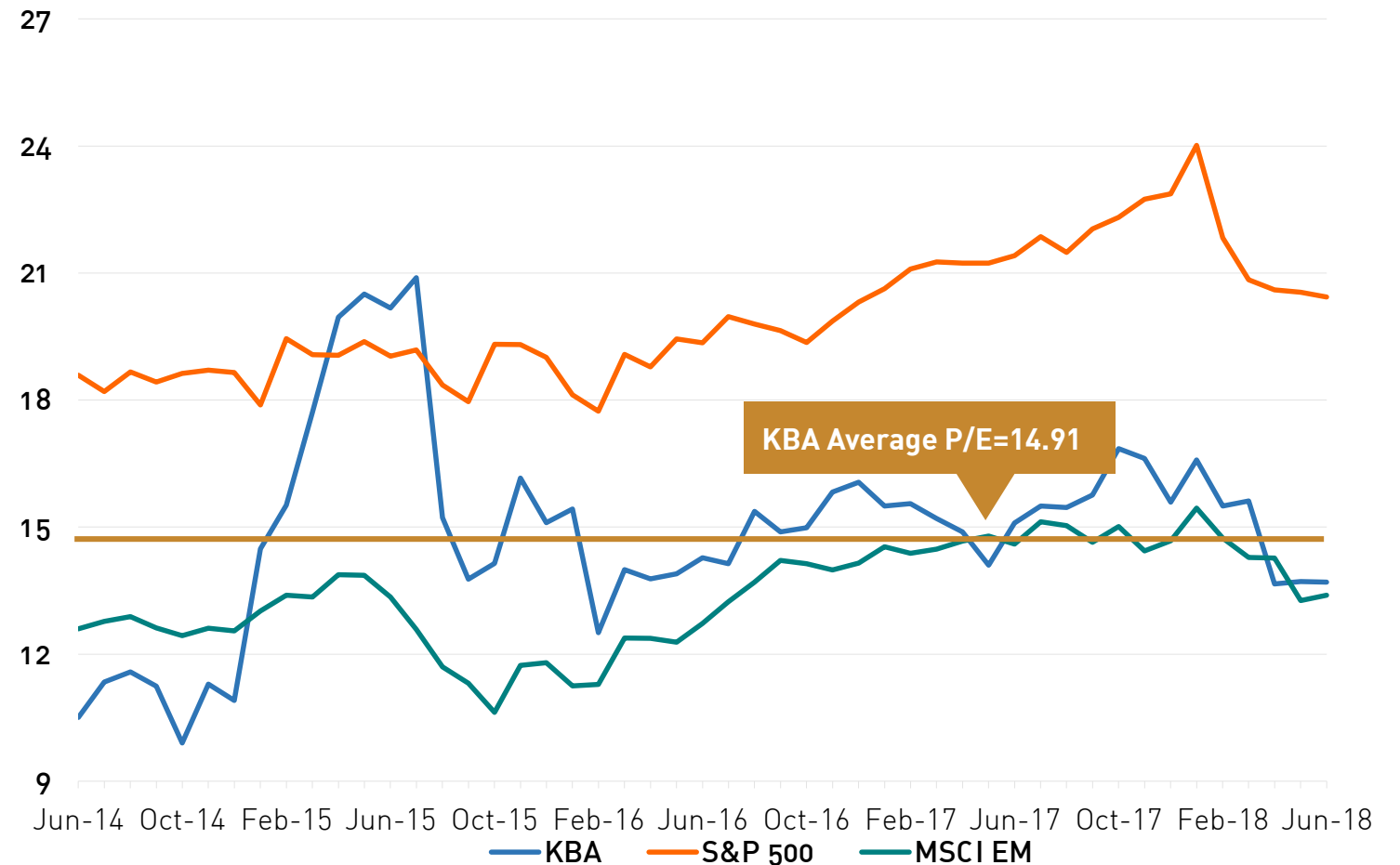
Index returns are for illustrative purposes only. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. See page 18 for index definitions.

Past performance is no guarantee of future results.

Valuations in the Mainland Chinese equity market are below their historic average

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

Price/Earnings Ratio of KraneShares Bosera MSCI China A-Share ETF
(since index start date 6/30/2014 - 06/30/2018)



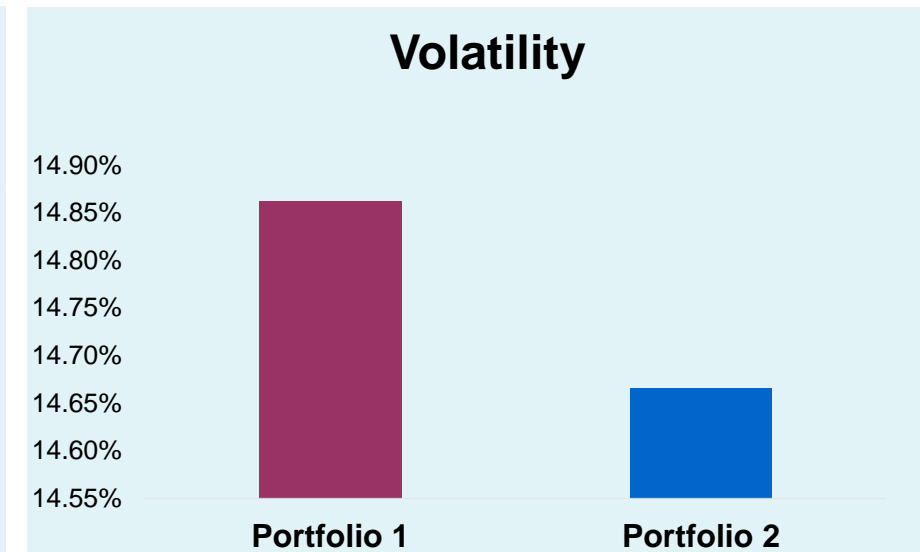
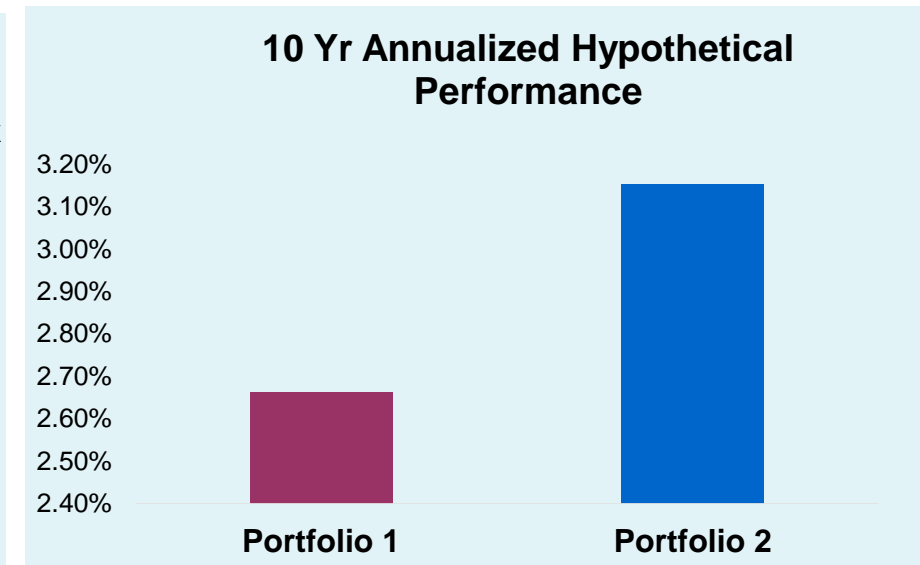
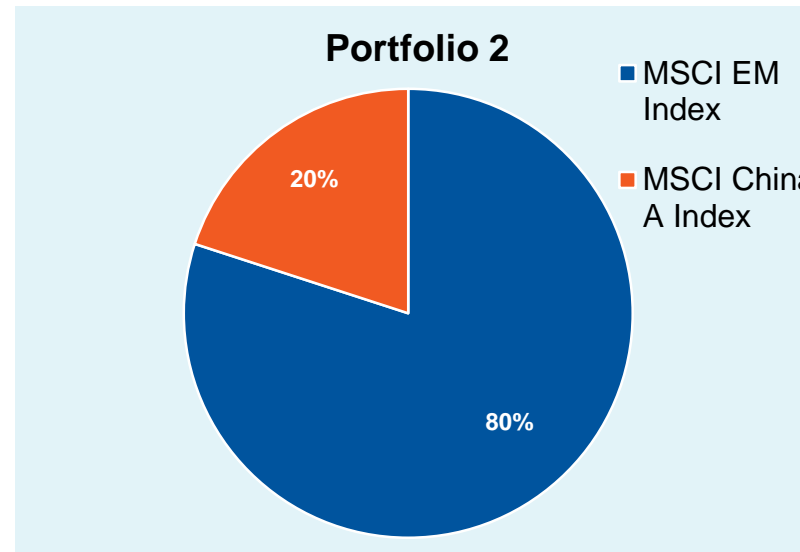
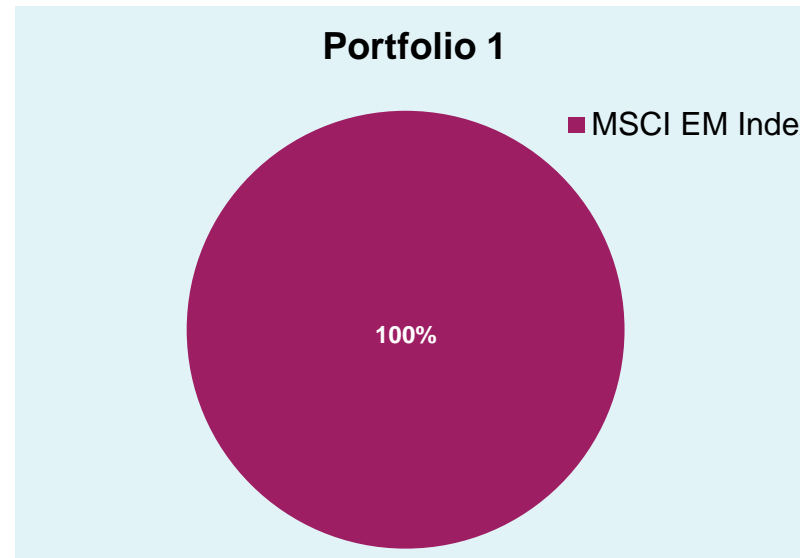
Source: Morningstar as of 6/30/2018

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 49 bps alpha annualized over 10 years with 19 bps decrease in volatility* 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 6/30/2018

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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	

Top Ten Holdings as of 6/30/2018 (Excluding cash) The Fund's Holdings Are Subject to Change.	%
KWEICHOW MOUTAI CO LTD-A	3.54
PING AN INSURANCE GROUP C	2.42
CHINA MERCHANTS BANK-A	2.05
KWEICHOW MOUTAI CO LTD-A	1.83
PING AN INSURANCE GROUP C	1.33
HANGZHOU HIKVISION DIGITA	1.25
MIDEA GROUP CO LTD-A	1.21
CHINA MERCHANTS BANK-A	1.13
SAIC MOTOR CORP LTD-A	1.12
INDUSTRIAL BANK CO LTD -A	1.08

KBA Performance History as of 6/30/2018

	Cumulative %**			Average Annualized %		
	3 Mo	6 Mo	Since Inception 3/4/2014	1 Yr	3 Yr	Since Inception 3/4/2014
Fund NAV	-12.82%	-13.13%	36.33%	-0.68%	-11.71%	7.43%
Closing Price	-14.44%	-13.22%	35.84%	-1.72%	-11.68%	7.34%
Index	-14.73%	-15.64%	43.55%	-5.95%	-11.82%	8.72%

†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.

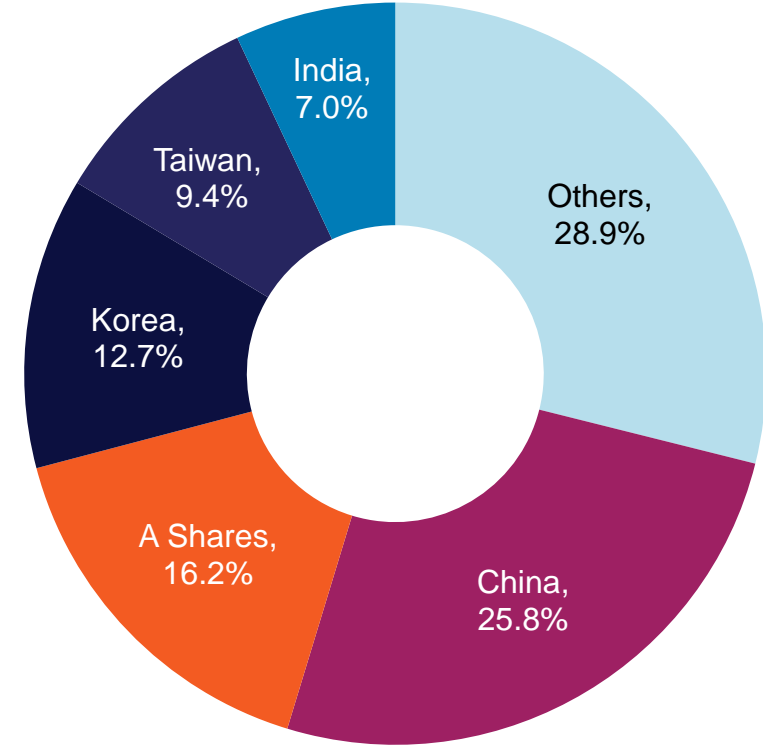
The performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than their original cost and current performance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

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 1, 2018, MSCI commenced the multi-year process of including China A-shares into their Global Standard Indexes.
- This rebalance has triggered what may be one of the largest asset transfers in recent history, causing hundreds of billions of dollars to be reallocated to the exact securities KBA holds today.
- We believe full inclusion could take up to five years, potentially providing a sustained catalyst for the performance of China's Mainland market.

Potential Full Inclusion of China A-Shares Within the MSCI Emerging Markets Index



Source: MSCI Research
Based off of data used for MSCI's May 2018 Semi-Annual Index Review.

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.

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.

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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