



KraneShares™

Q4 China Roundup:

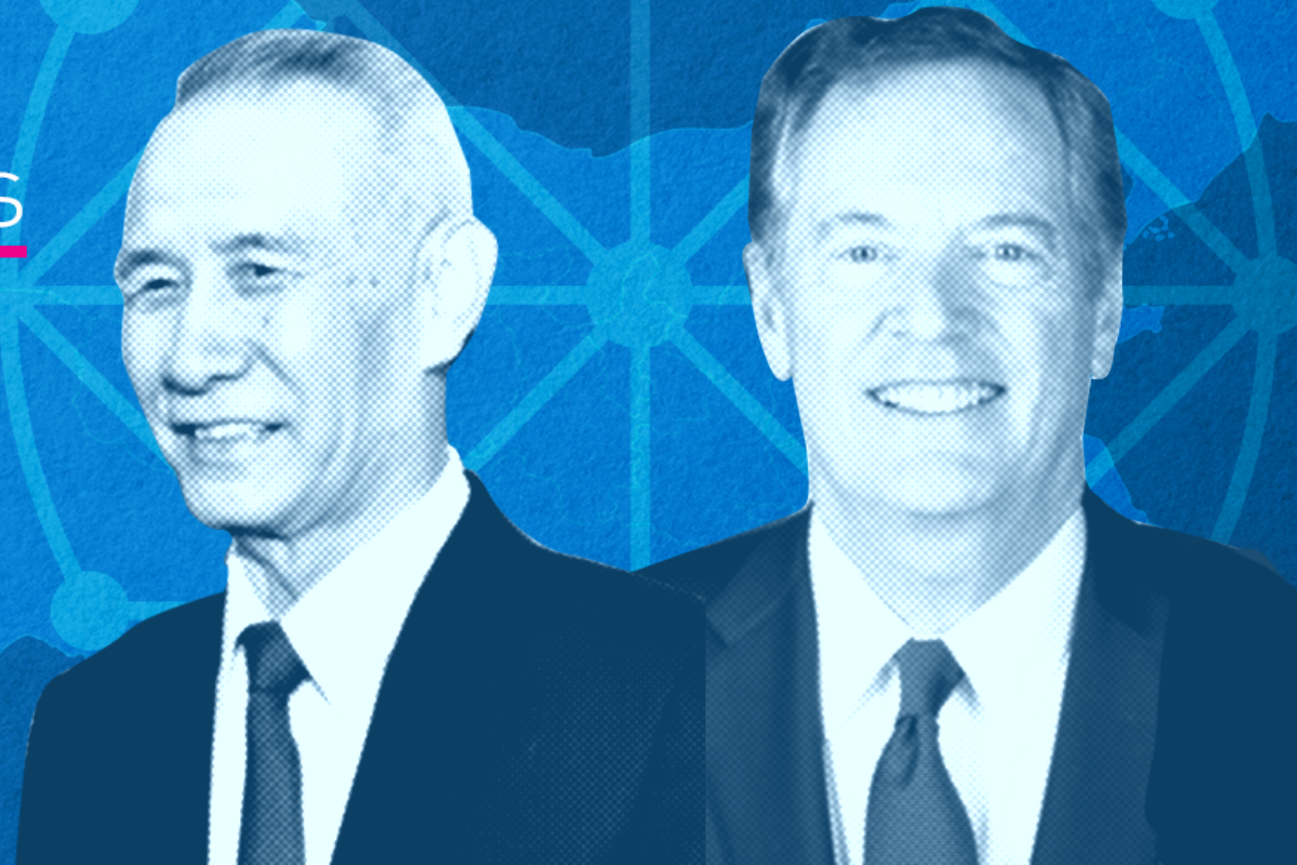
The Phase One Trade Deal, MSCI's Next A-Share Inclusion and Expectations for Growth in China



Kevin Liu
Executive Director



Brendan Ahern
Chief Investment Officer



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 current on global market trends and aim to provide meaningful diversification. Krane Funds Advisors, LLC is majority owned by China International Capital Corporation (CICC).



About the Speakers



Kevin Liu
**Executive
Director**

Kevin Liu joined China International Capital Corporation (CICC) in 2011 and holds the title of Executive Director as a Strategist in the Research Department. From a top-down strategy approach by incorporating macro (growth and policy) and micro variables (corporate earnings and valuations etc.), his main responsibility is to provide investors with investment strategies, as well as cross-market/asset/sector allocation recommendations. His focuses include Chinese equities as well as general global markets. Mr. Liu ranked the second in Portfolio Strategy of the 2017 II All-China and Mainland China Best Analysts Ranking. Prior to CICC, Mr. Liu worked as a Quantitative Strategist with UBS Hong Kong. He obtained his master degrees from both Cornell University and Tsinghua University.



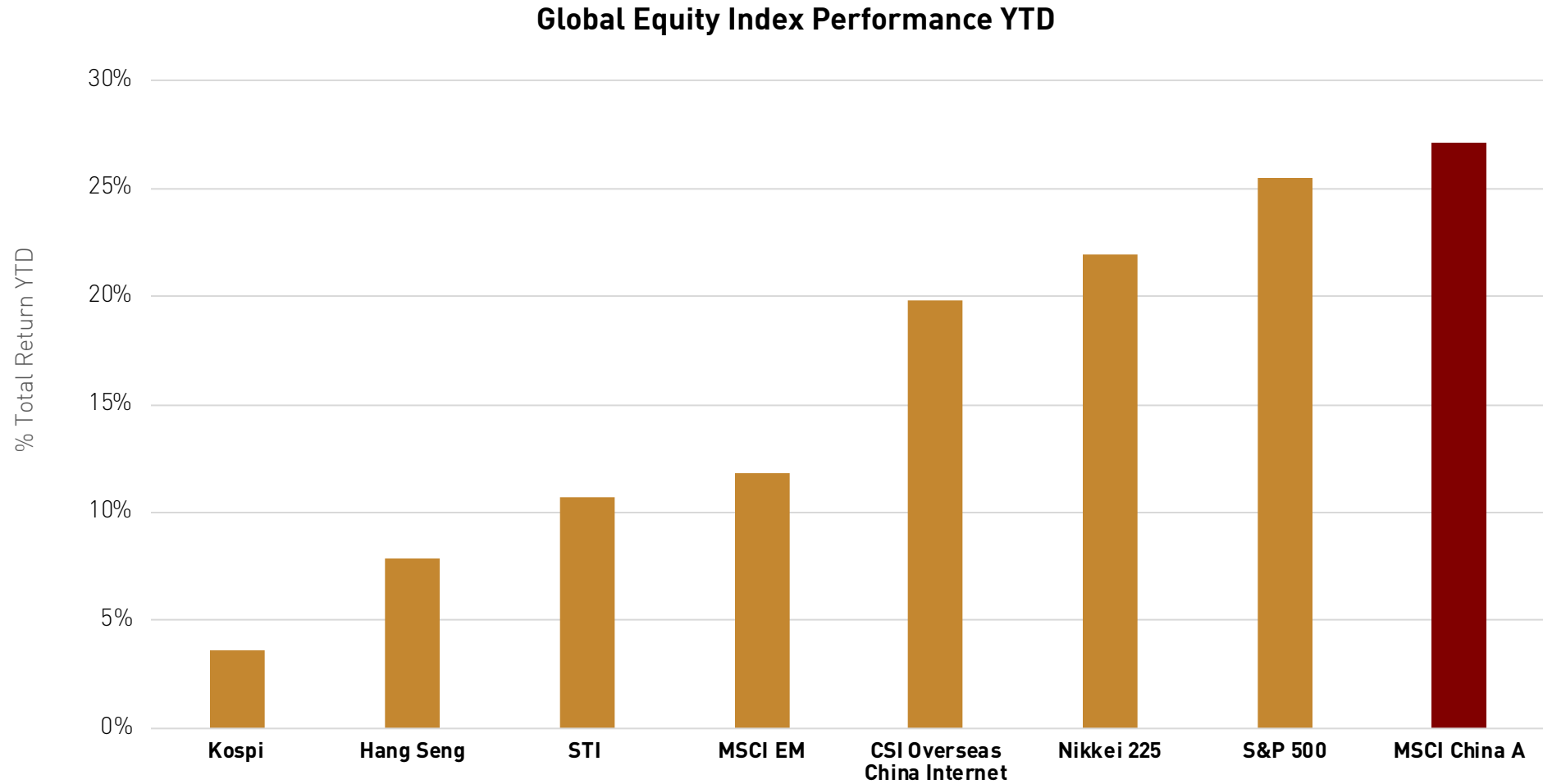
Brendan Ahern
**Chief
Investment
Officer**

Brendan Ahern joined KraneShares in June 2012 to head the firm's efforts in becoming the leading provider of China-focused exchange traded funds (ETFs) and Chinese investment education for US clients. Since early 2001, Brendan worked for one of the largest global ETF providers where he was an original member of the business development team. His "from the ground up" experience at a global ETF provider allowed him to become intimately acquainted with all aspects of the business. His expertise spans product development, marketing, branding, business strategy, operations, portfolio management, trading, and client execution.

**For questions during the presentation please email:
info@kraneshares.com**

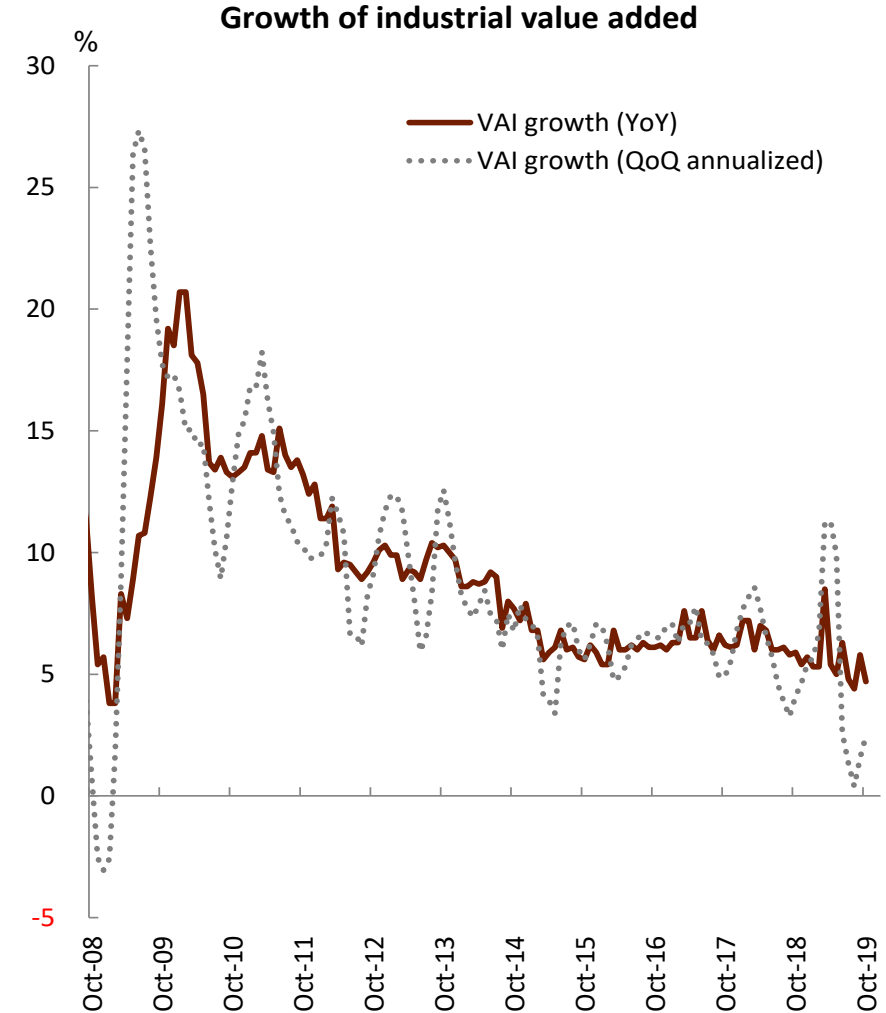
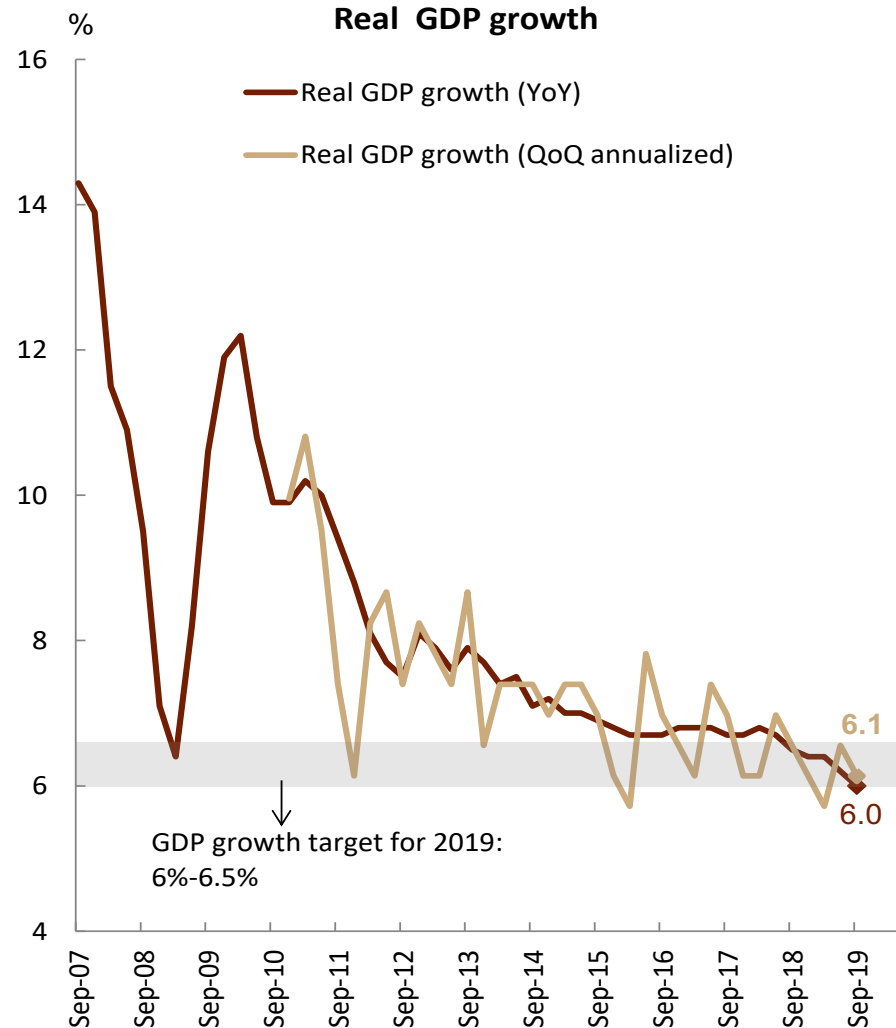
Part I: Current market and macro condition

How China performed YTD? Ranking the top globally

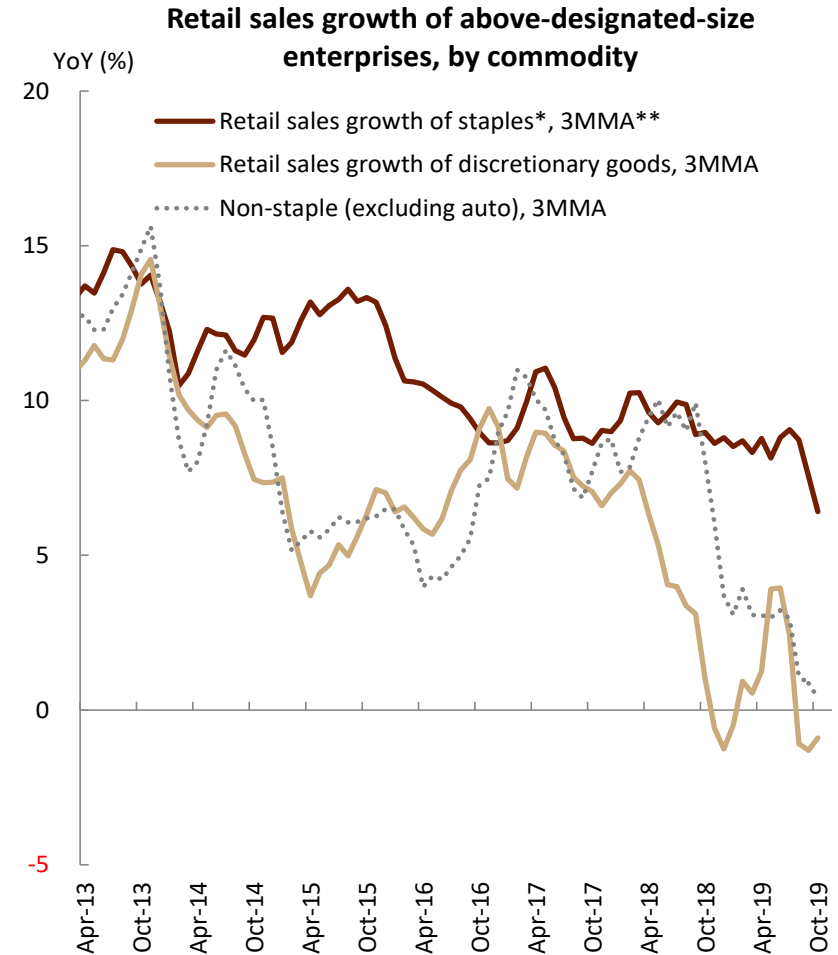
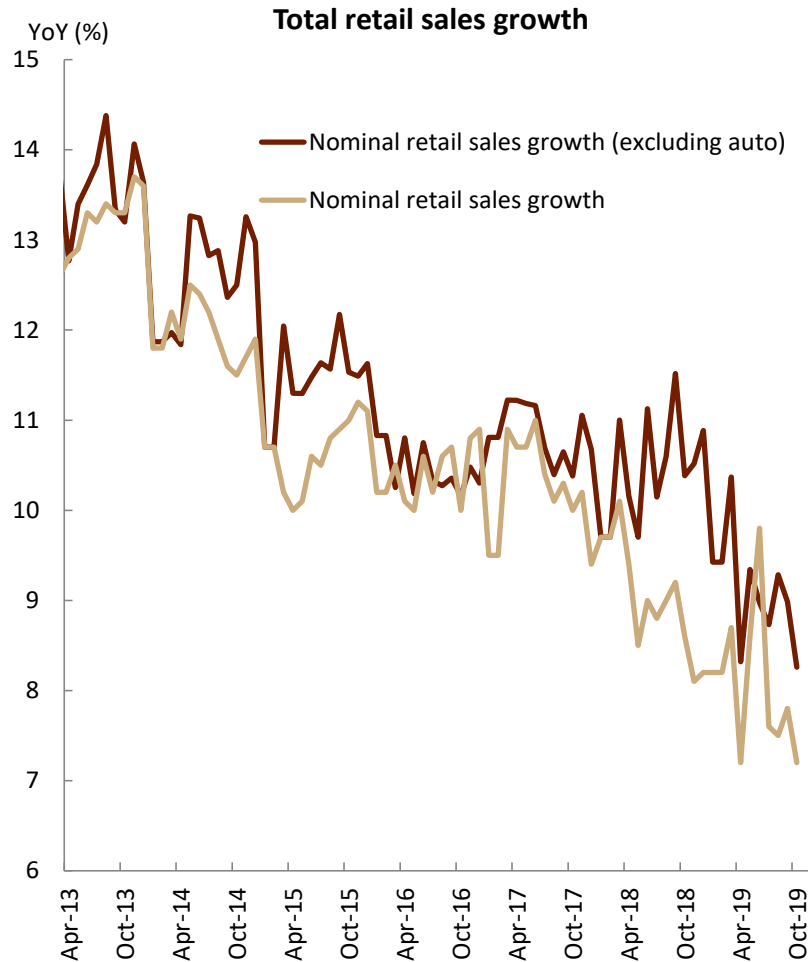


Source: Bloomberg, as of November, 2019

Overall growth: largely stable despite high volatility for monthly path

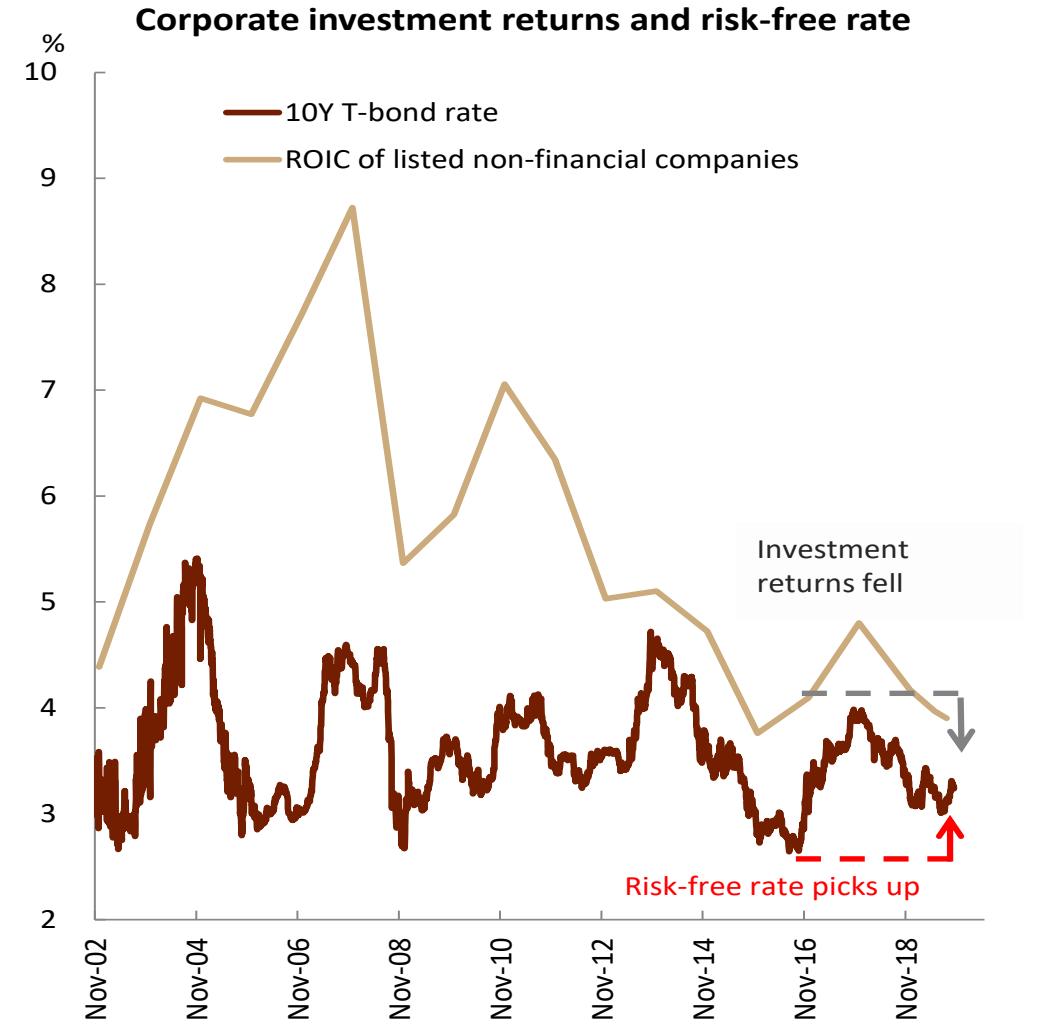
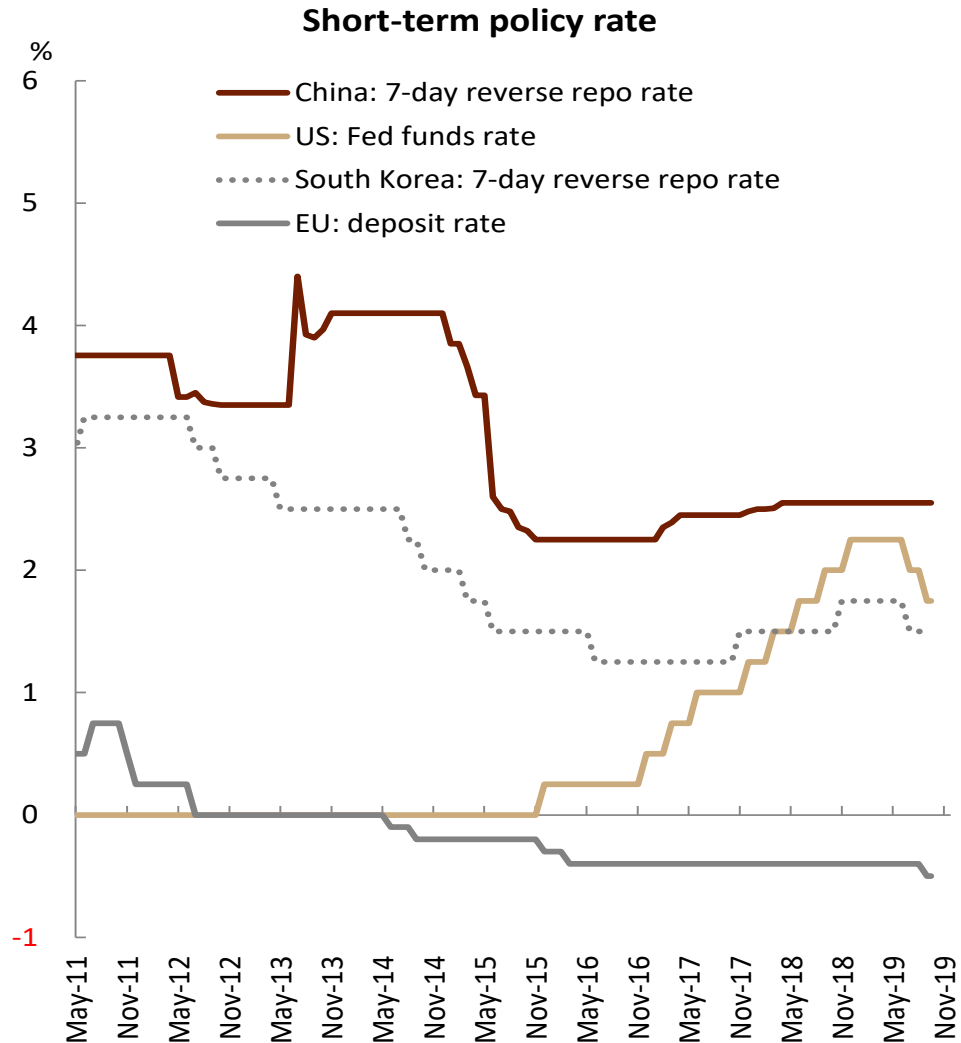


Retail sales: non-housing related discretionary consumption stayed relatively resilient YTD

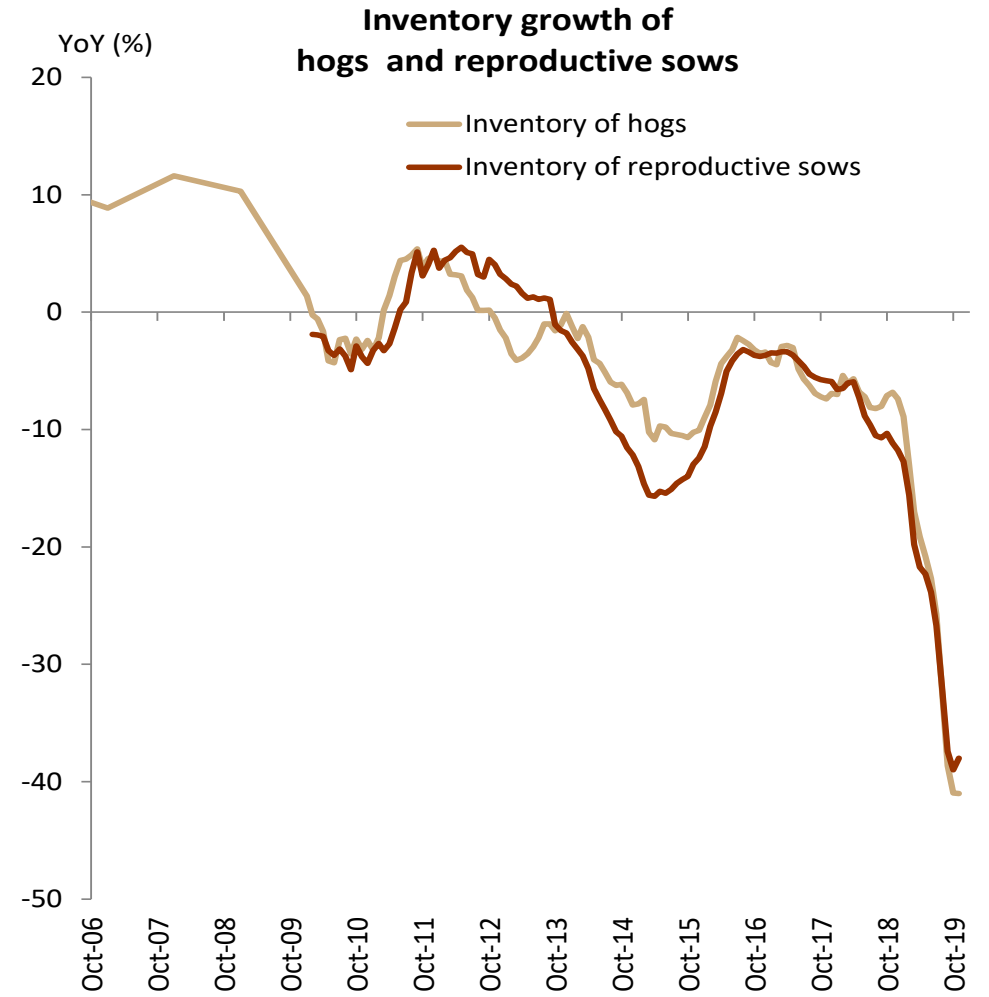
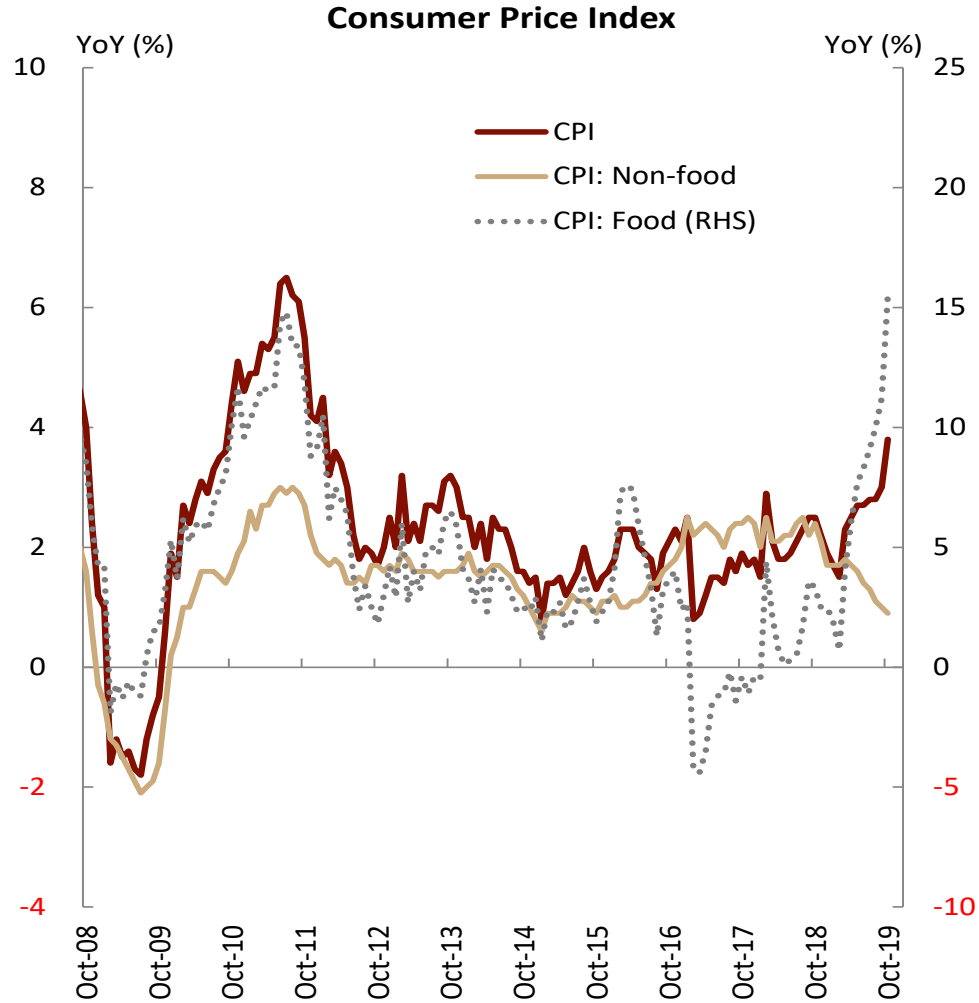


Source: CEIC, CICC Research

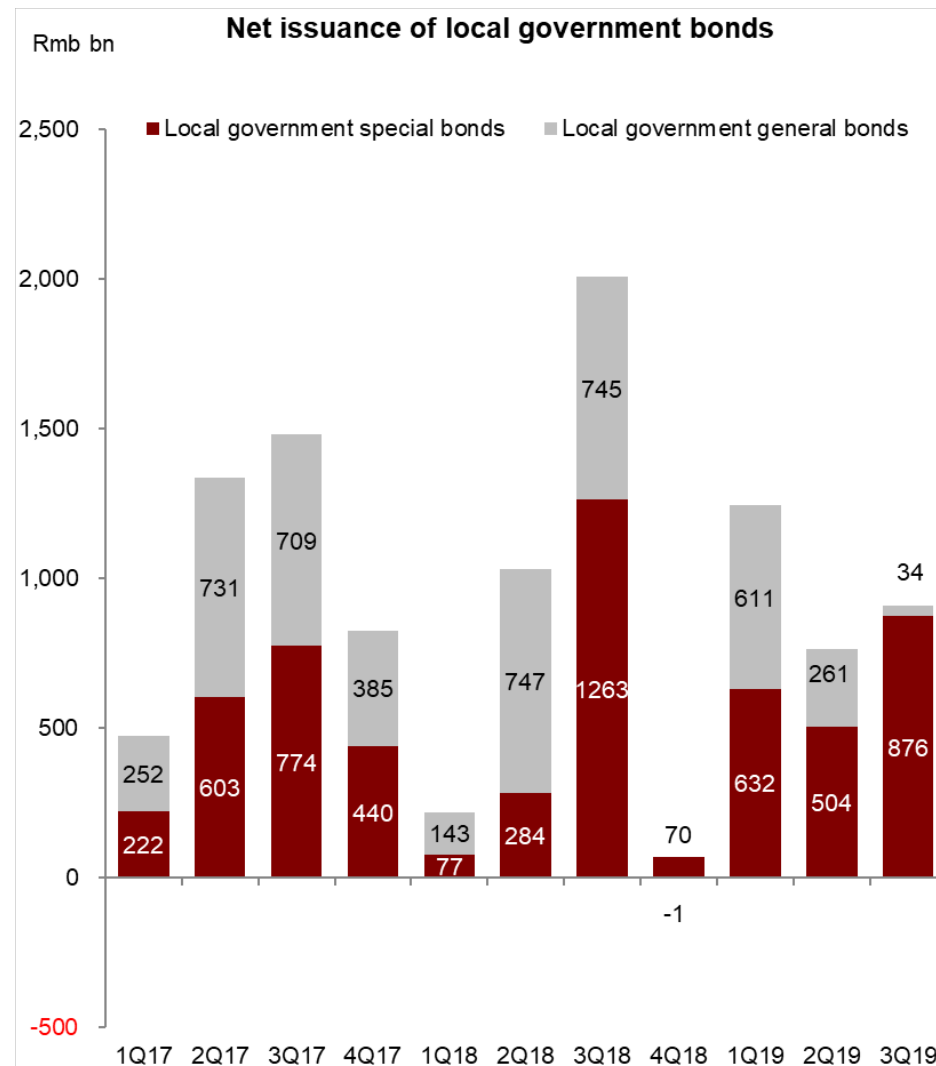
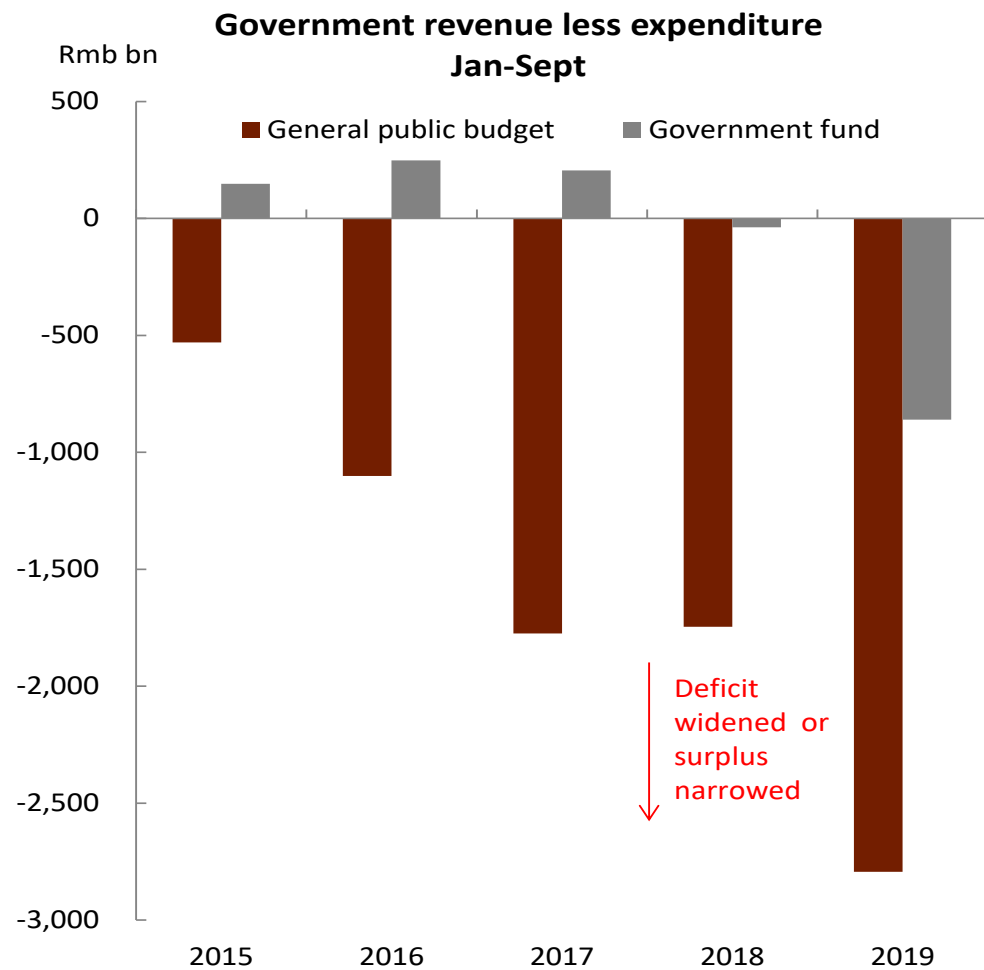
Monetary: “behind the curve”; with more room and necessity for further policy supports



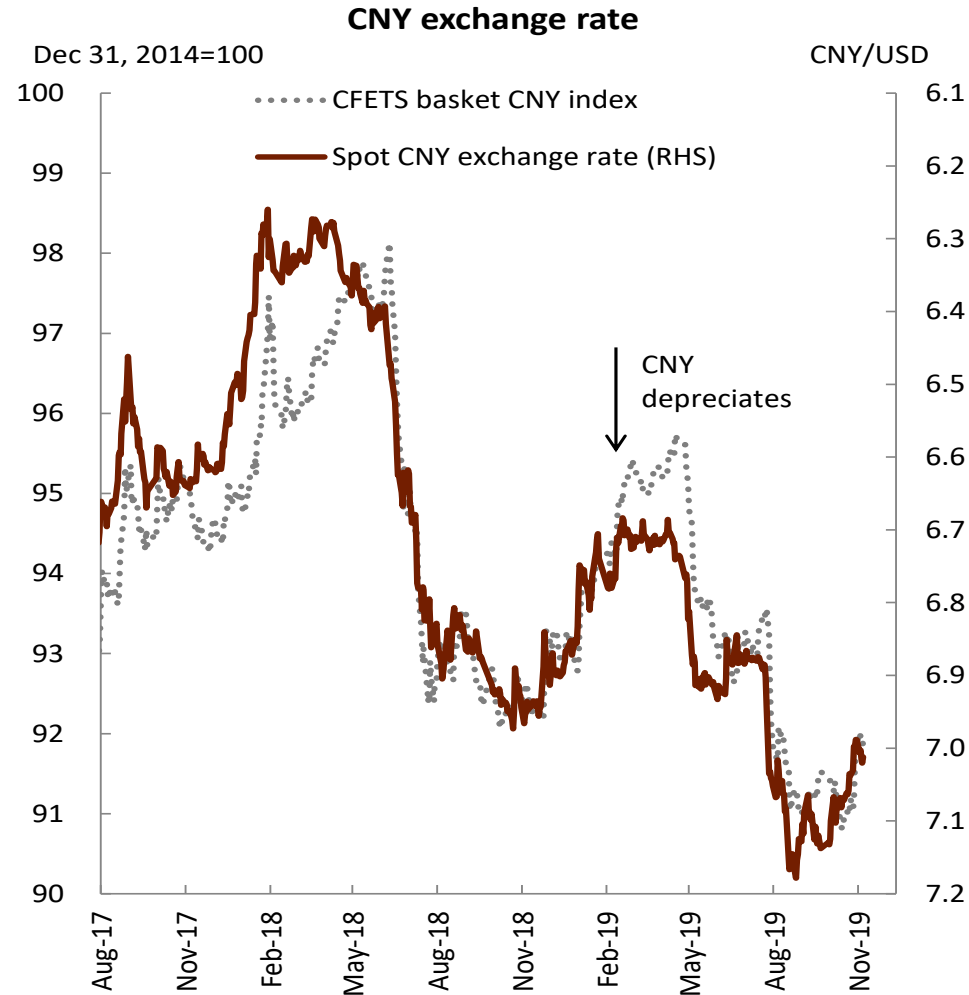
Monetary: surging CPI due to abnormally high pork price might cause policy hesitation



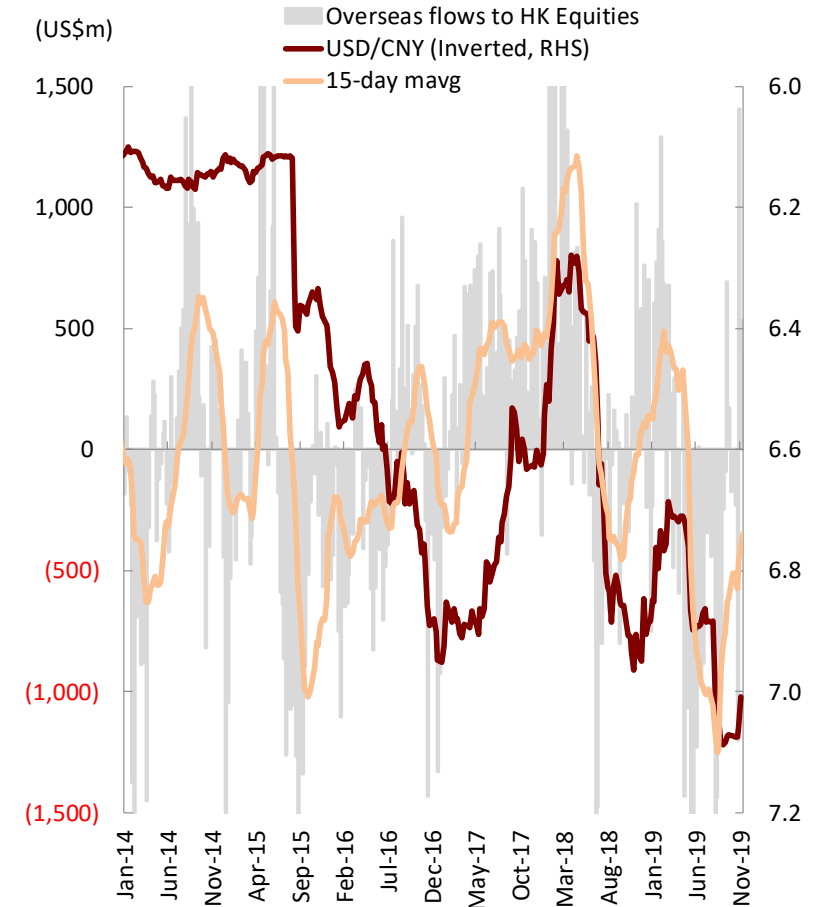
Fiscal: deficit and local gov't bond issuance expanded, to lend supports for moderate recovery in infrastructure inv't



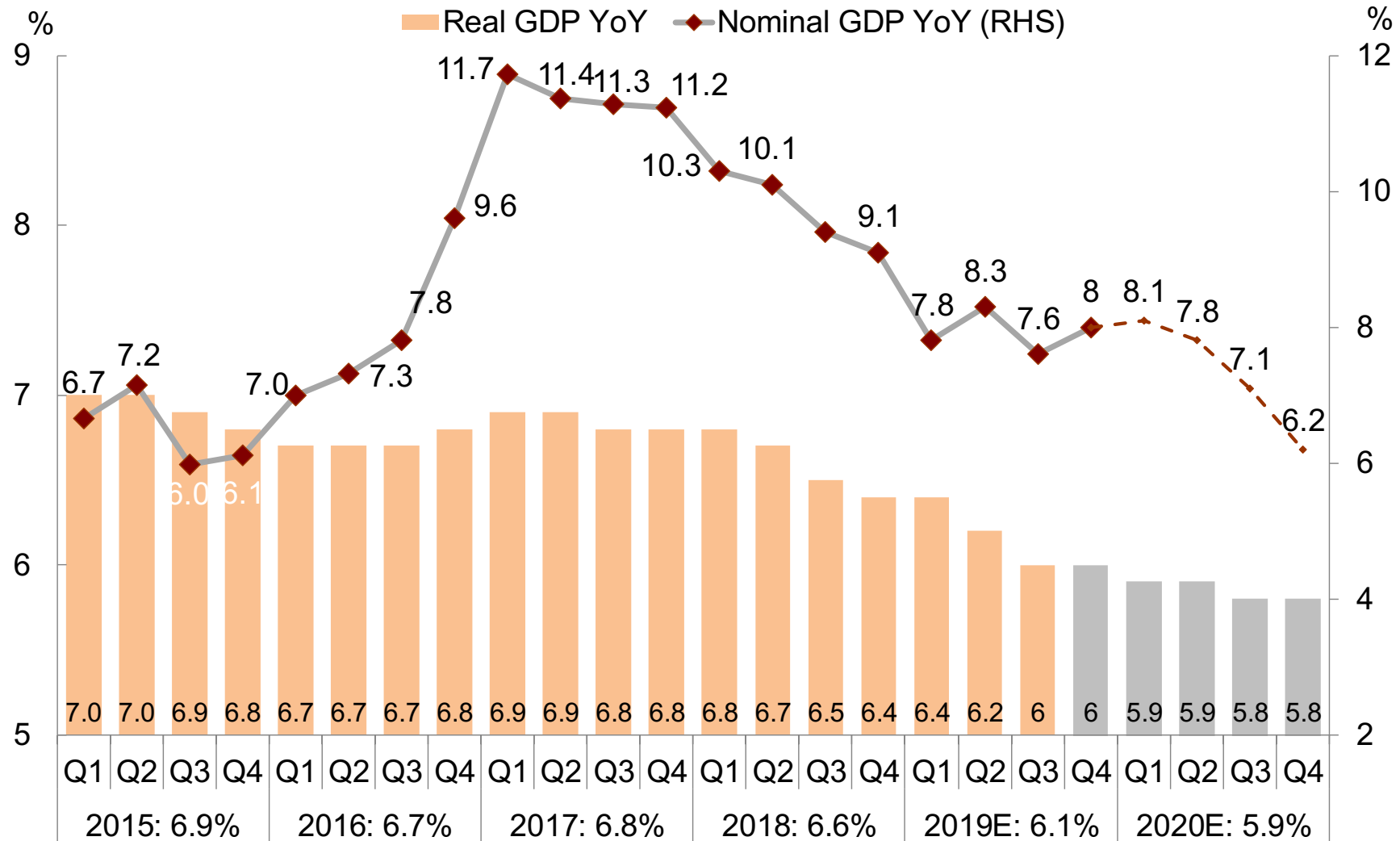
RMB: Renminbi stabilizes after August depreciation



Overseas flows to HK is tightly correlated with RMB



Growth forecast: China's real GDP is expected to grow 6.1% YoY in 2019 and 5.9% YoY in 2020



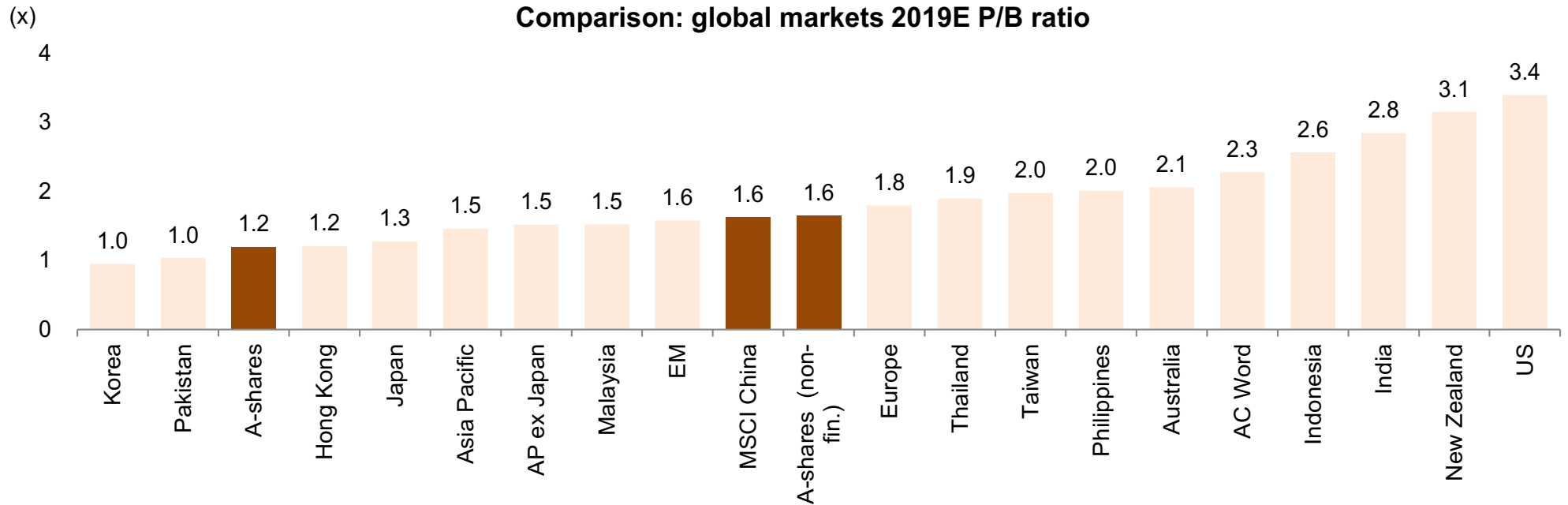
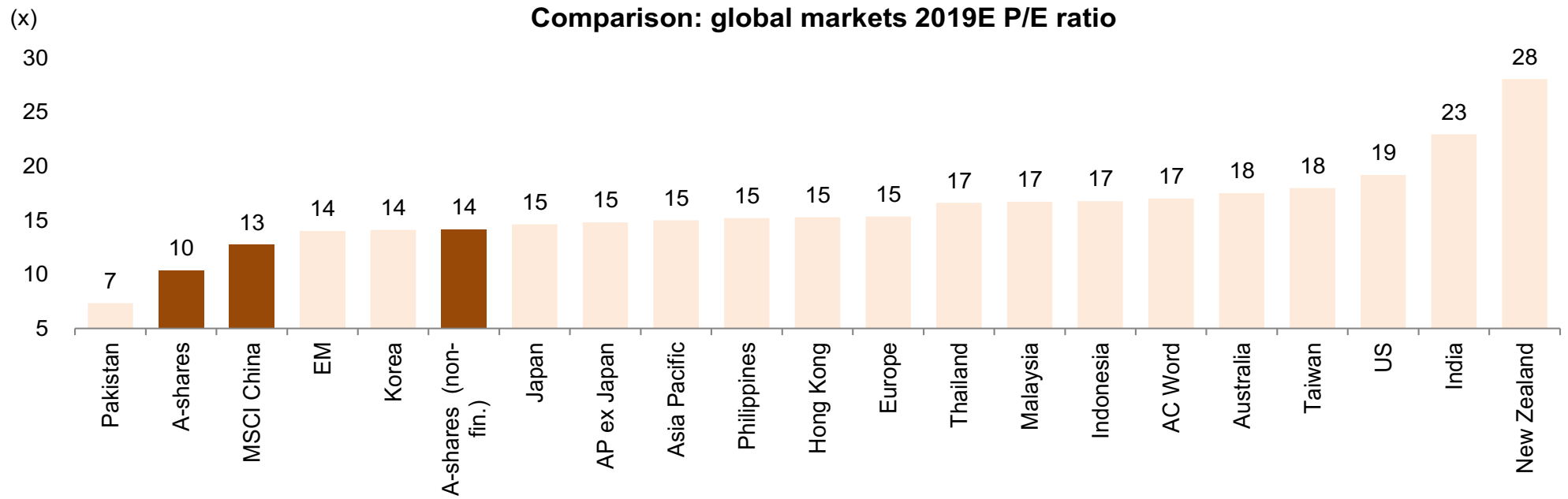
Earnings forecast: 2020 earnings is expected to grow ~6% for both A and H-shares

Year	A-share					Offshore China				
	Financials	Non-Financials			Overall	Financials	Non-Financials			Overall
	Earnings growth %	Revenue growth %	Net margin %	Earnings growth %	Earnings growth %	Earnings growth %	Revenue growth %	Net margin %	Earnings growth %	Earnings growth %
2018A	1.7	13.7	4.4	-4.8	-1.6	3.0	18.0	6.2	20.0	11.0
2019E	11.2	8.4	5.1	5.2	8.4	7.5	5.6	6.1	4.5	6.0
2020E	6.5	6.5	5.1	5.5	5.9	4.8	5.2	6.1	5.5	5.2
2021E	7.8	6.0	5.2	8.9	8.4	7.1	5.1	6.4	10.8	8.9

Estimates based on the following forecasts by our macro team:

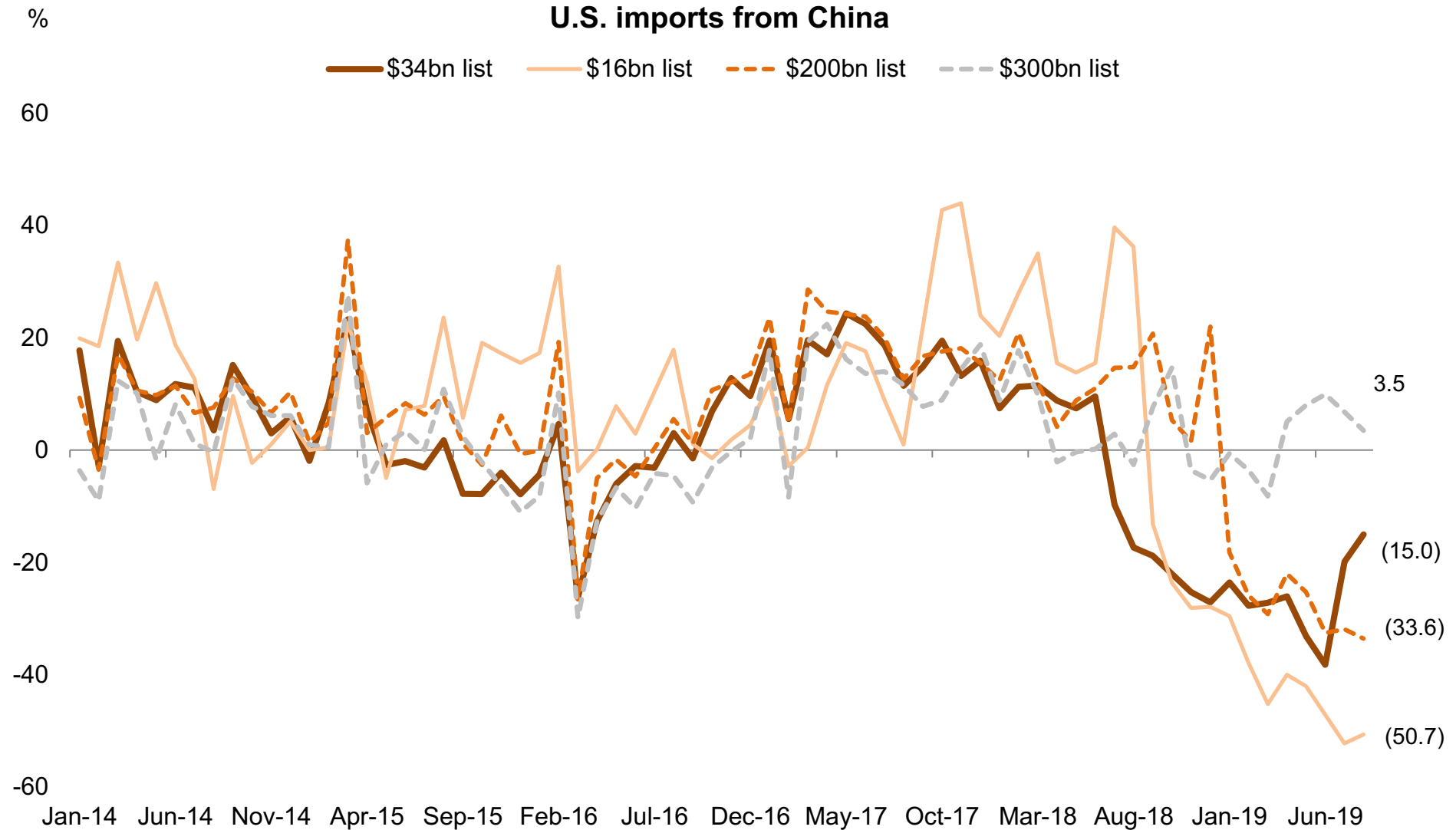
- According to the 2020 outlook of our macro team, real GDP growth in 2020 and 2021 is estimated to decelerate to 5.9% and 5.8%. Meanwhile, nominal GDP growth will likely moderate to 7.3% and 6.9%.
- CPI may reach 3.8% in 2020 but will fall back down to around 1.2% in 2021.
- With respect to monetary policy, LPR may receive a 40bp but in 2H20 and another 30bp cut in 1H21. Regarding fiscal policy, it is estimated that aggregate central and local government budget deficit will expand by 1ppt.
- In addition, US-China trade tension is expected to ease further, restoring exports growth momentum. The yuan may fluctuate within a narrow range against the dollar.

**Competitive
advantage:
low
valuations
globally**



Part II: Challenges and policy responses

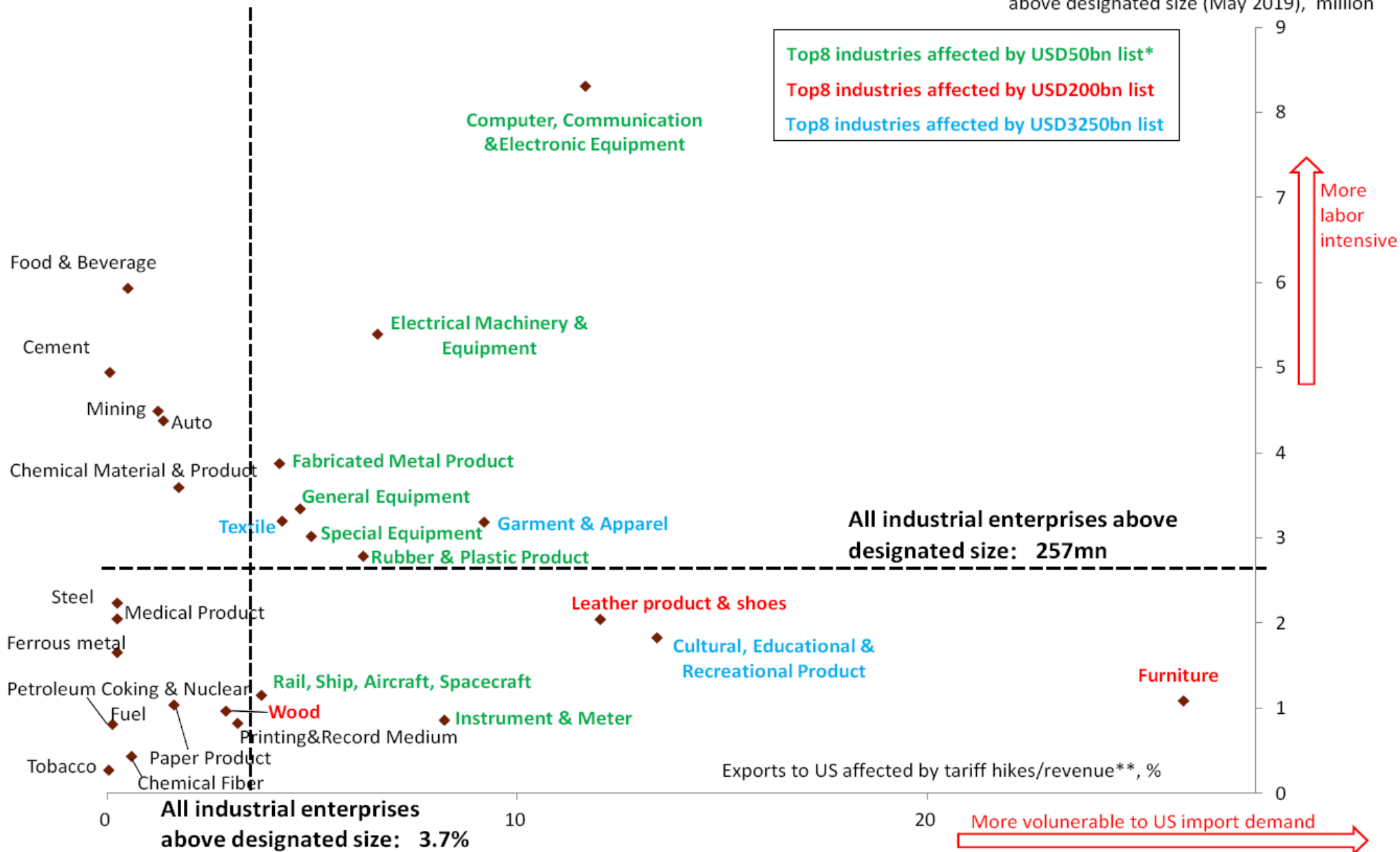
External: trade frictions might still pose external demand shocks in the near term



Assuming blanket tariff hike on Chinese exports to the US

No. of employees in industrial enterprise above designated size (May 2019), million

Sectors more affected by tariffs initially are mostly labor intensive

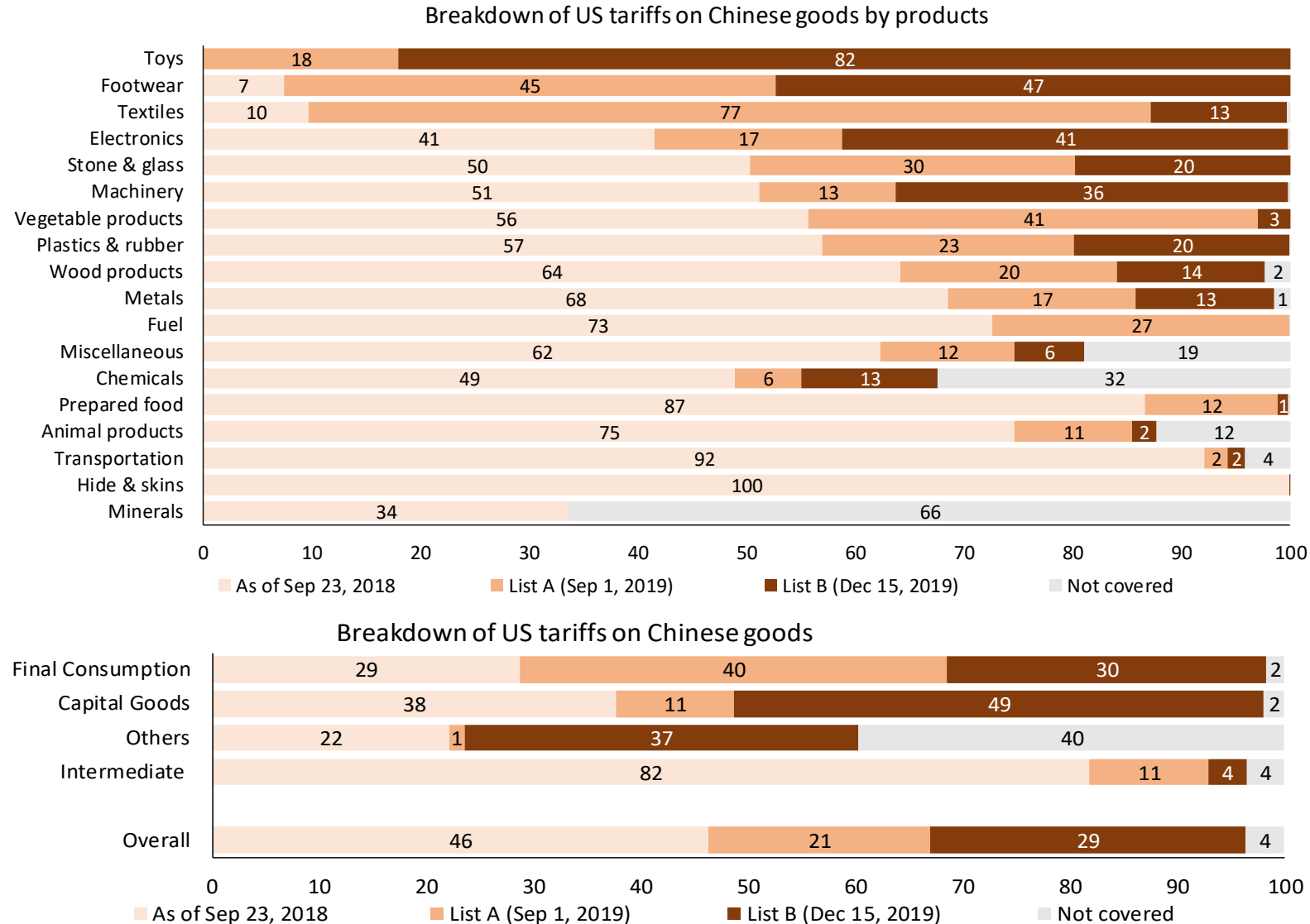


A-shares' earnings growth could thereby be 4.2ppt lower due to the tariffs in base case

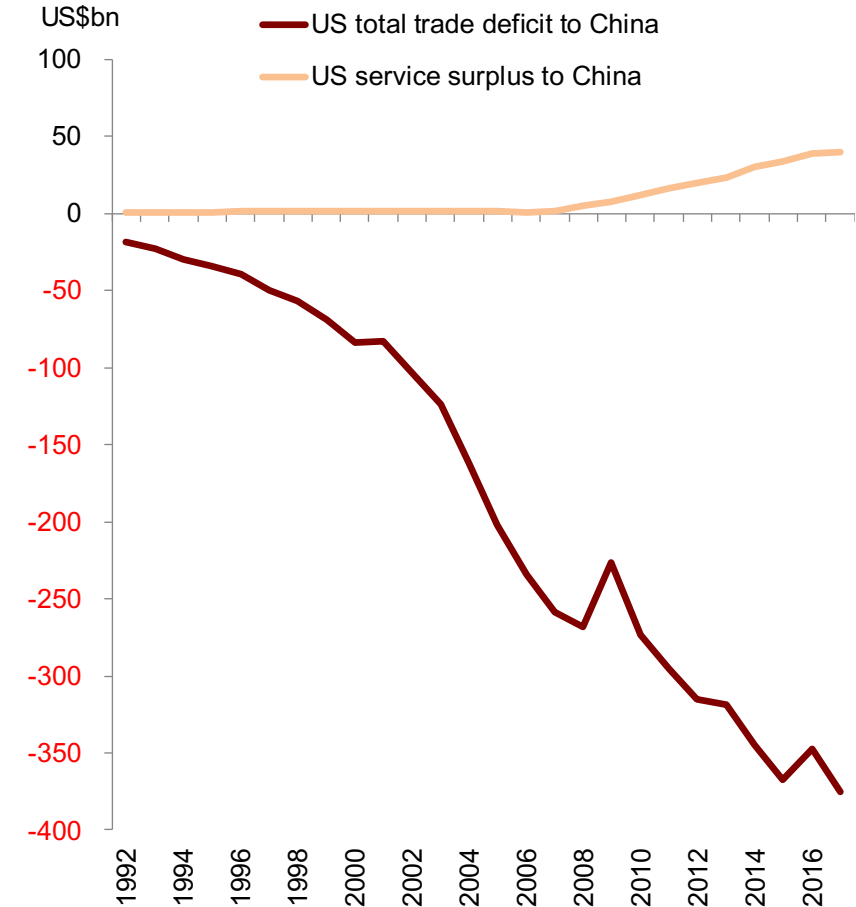
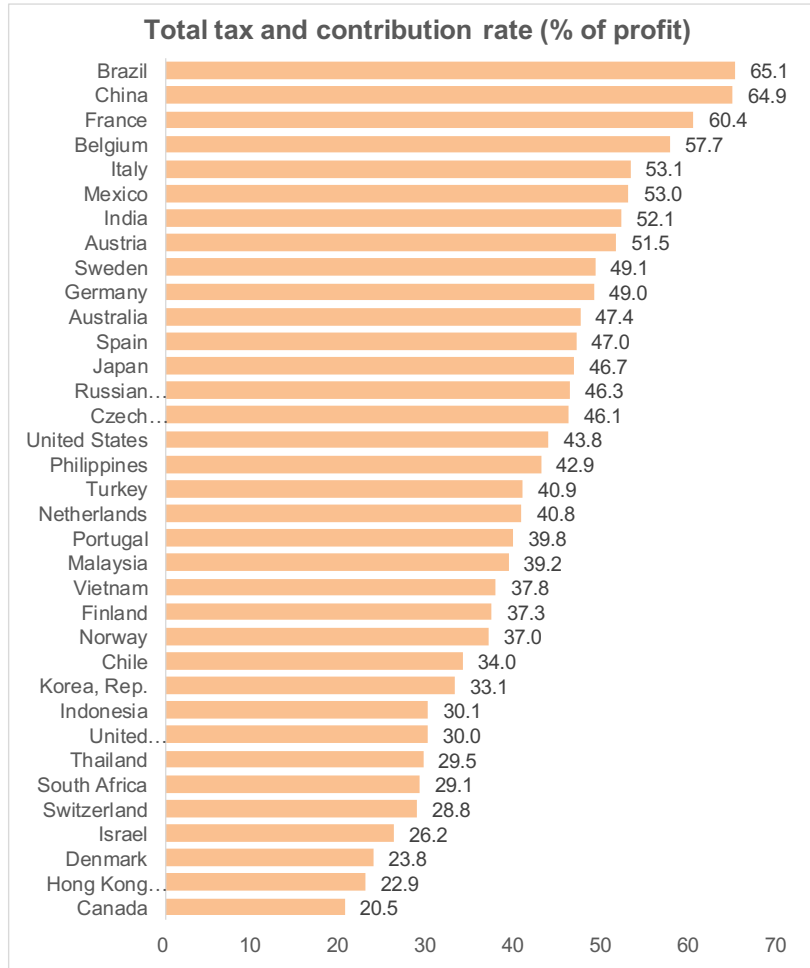
Scenario analysis on US-China trade friction	Impact on export growth	Impact on GDP growth	Impact on non financial listcos revenue growth	Impact on net margin of non financials listcos	Impact on earnings growth of non financial listcos over next 12 months
A-share non financials					
Bull	-2.2%	-0.2%	-0.5%	-0.1%	-2.3%
Base	-4.0%	-0.4%	-0.9%	-0.1%	-4.2%
Bear	-6.2%	-0.6%	-1.4%	-0.2%	-6.6%
Offshore Chinese non financials					
Bull	-2.2%	-0.2%	-0.5%	-0.1%	-2.8%
Base	-4.0%	-0.4%	-0.9%	-0.3%	-5.1%
Bear	-6.2%	-0.6%	-1.5%	-0.4%	-8.1%
Assumption 1: US\$50bn/US\$200bn/Remainders imports to tariff has elasticity of 2/1.5/1 respectively					
Assumption 2: A-share/offshore Chinese non-financials revenue to nominal GDP growth has elasticity of 2.31/2.44					
Assumption 3: A-share/offshore Chinese non-financials net margin to export growth has elasticity of 0.03/0.07					

Source: Factset, Wind, CICC Research

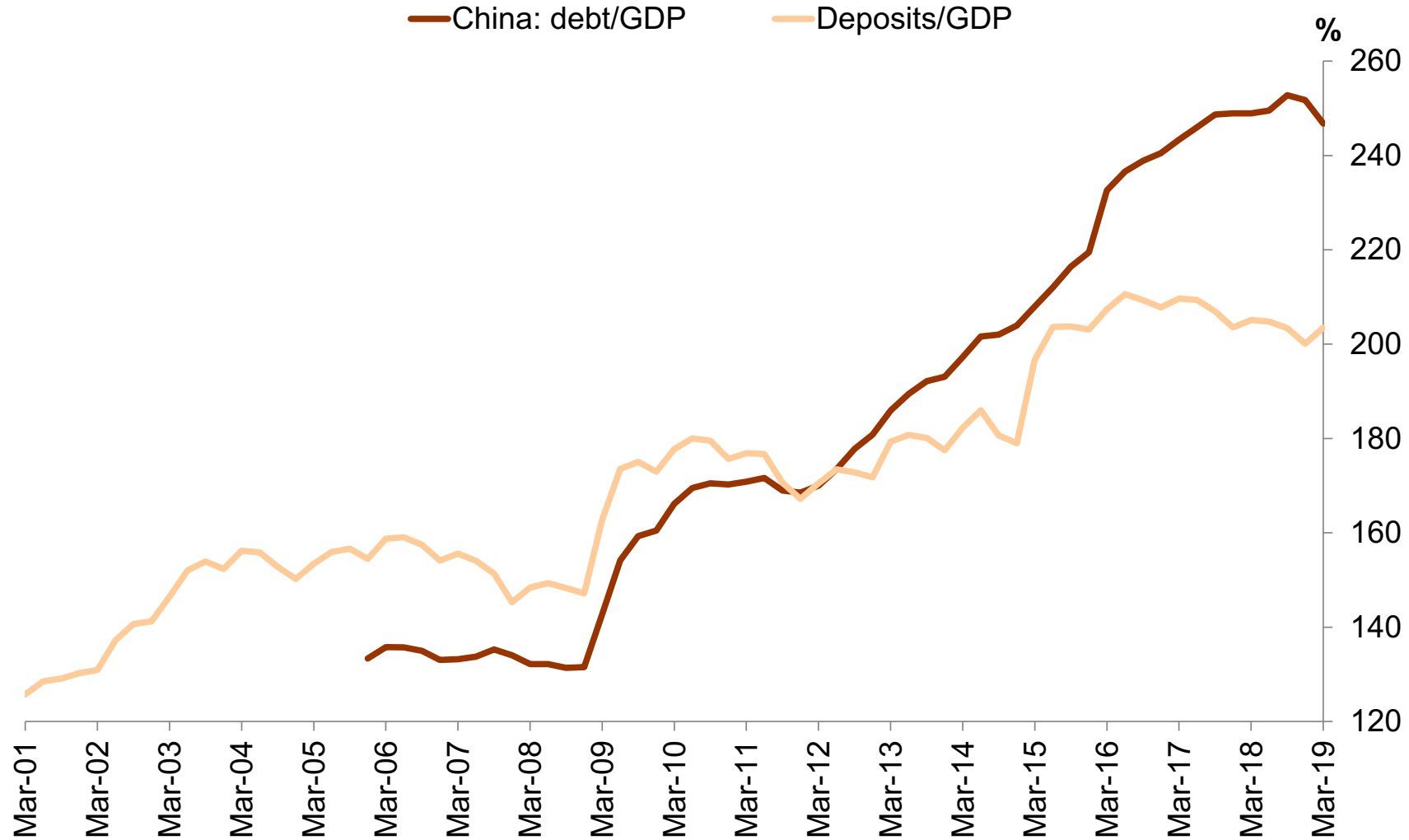
Further escalation could also hurt the US by passing through higher cost and domestic inflation



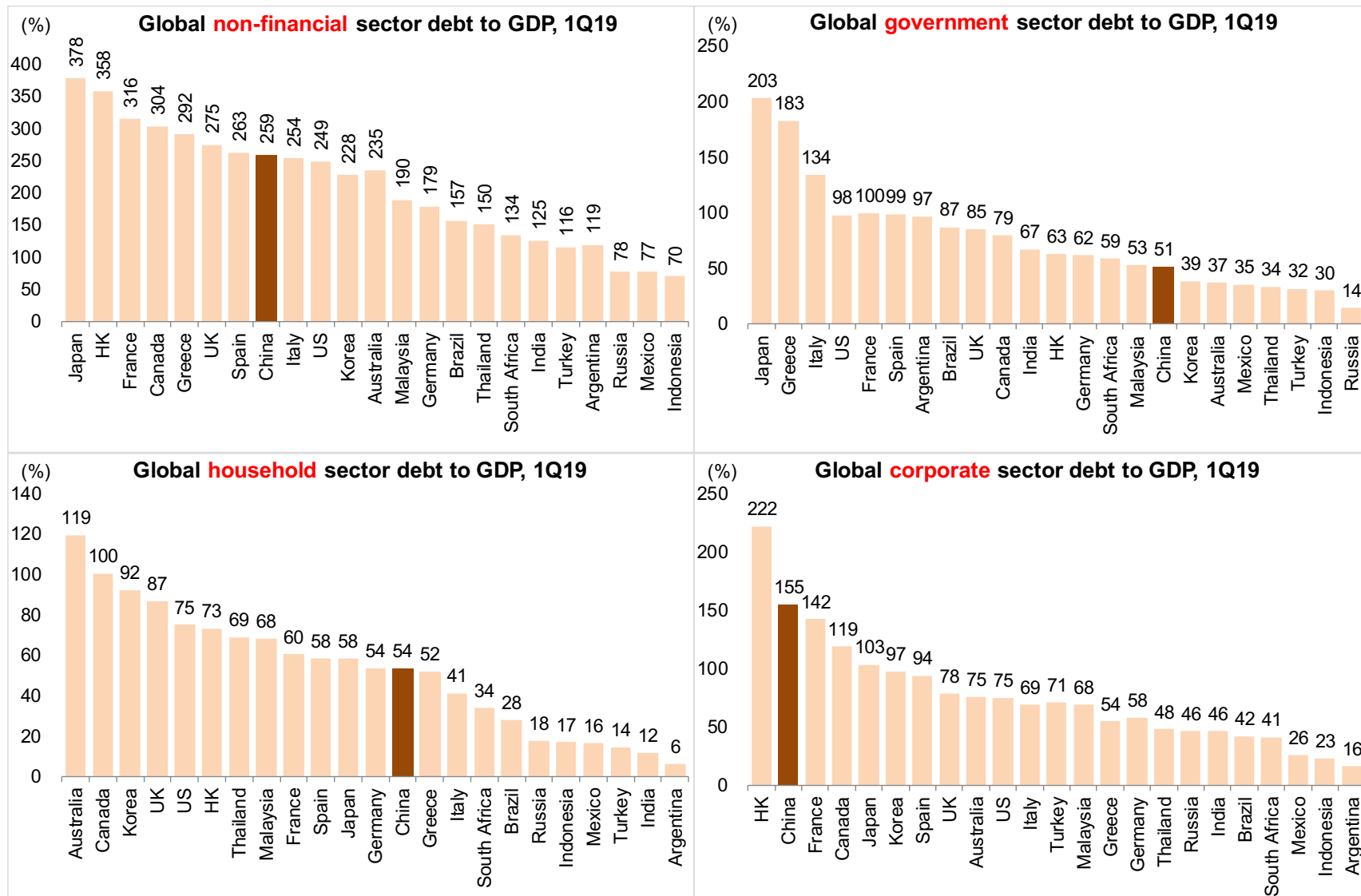
Policy responses: 1) boost domestic demands (e.g. VAT & fee cut, auto, infrastructure inv't); 2) to open service accounts



Internal: the mystery of China's "high leverage": high savings + the inefficient financial system

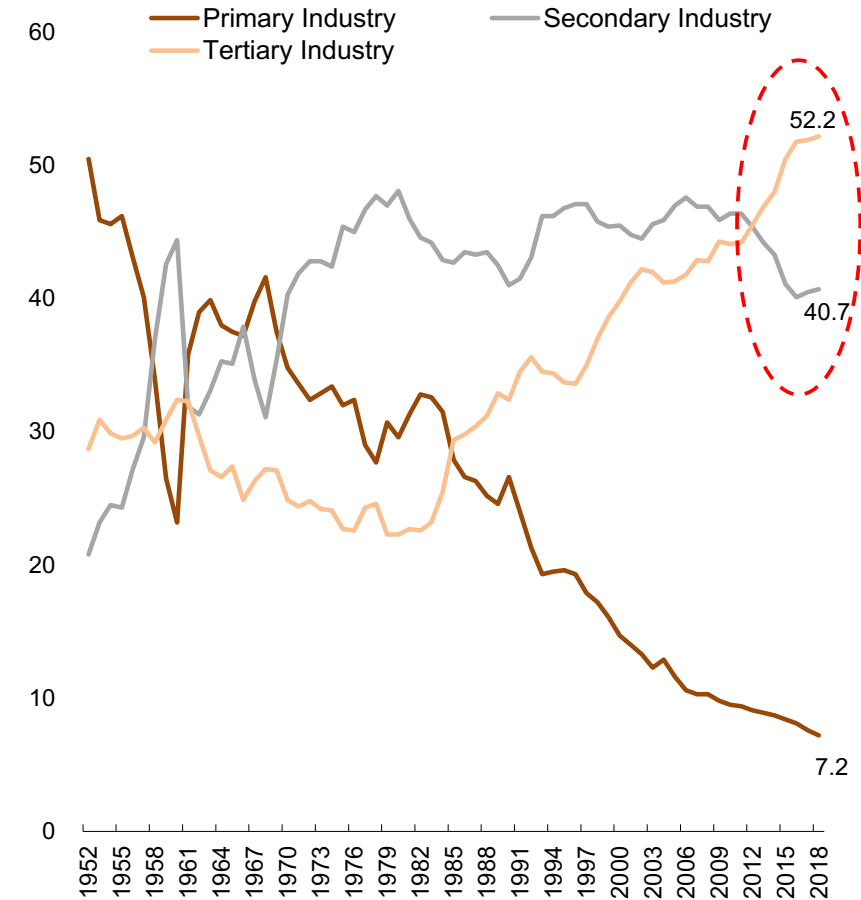


By sector: more critical for corporate and LGFV; household & govt sectors are in net cash



Structural changes: China has witnessed visible growth model transition over the past decade

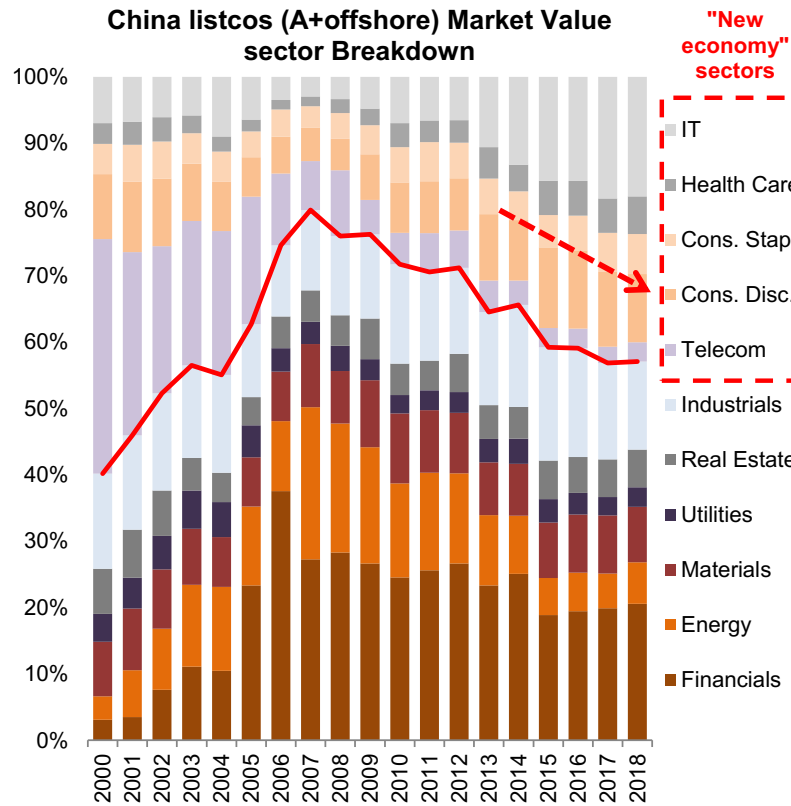
At the first glance, China's overall growth continued to slow down since 2008... ...but a deeper look shows that the tertiary sector (services and consumption) already exceeded 50%



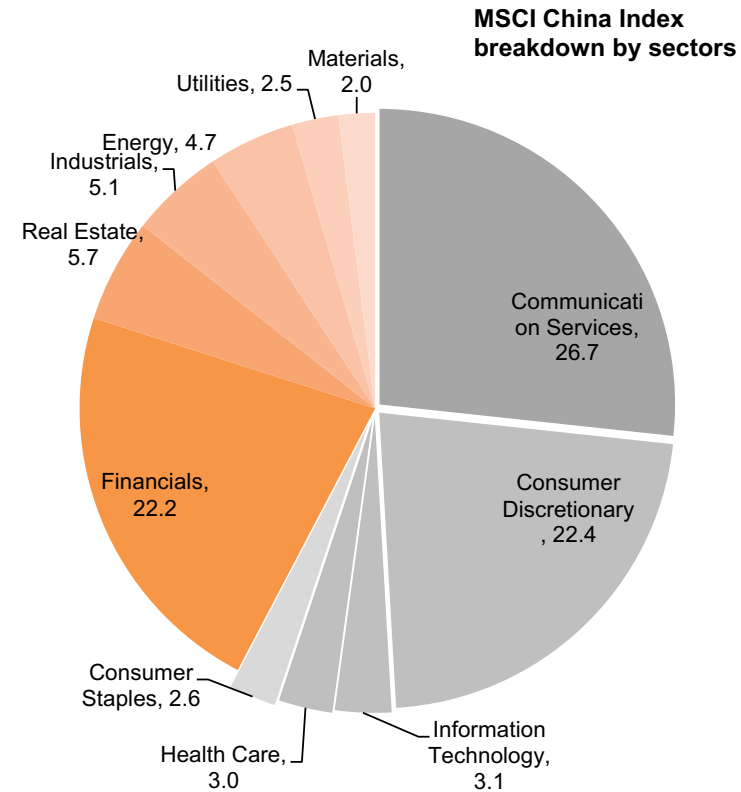
Part III: Structural changes and secular trends

Stock market: ~60% are consumption and technology related companies in the MSCI China index

"New economy" is gaining share in China's listed space in terms of market value

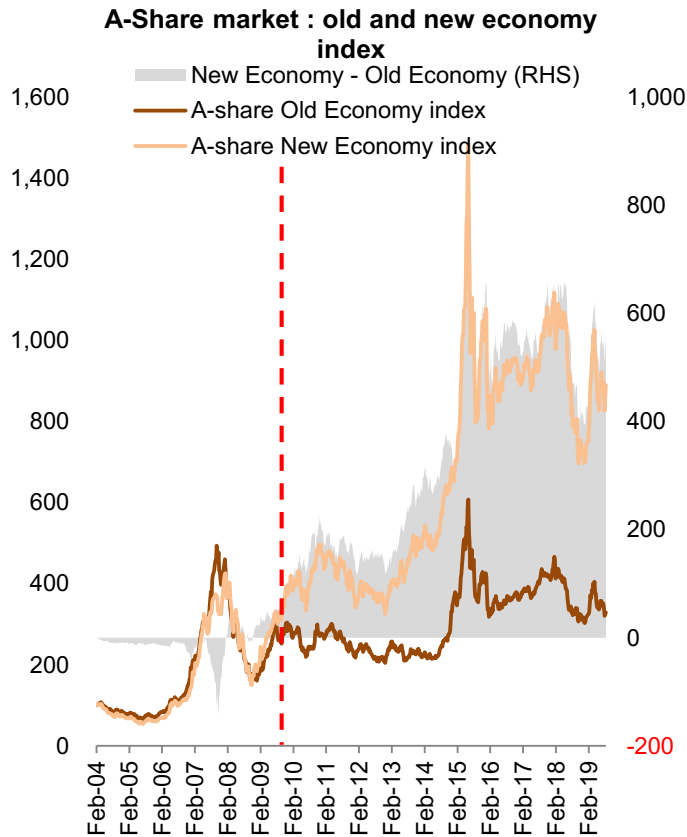


MSCI China index now consists of ~60% of consumption/technology related companies

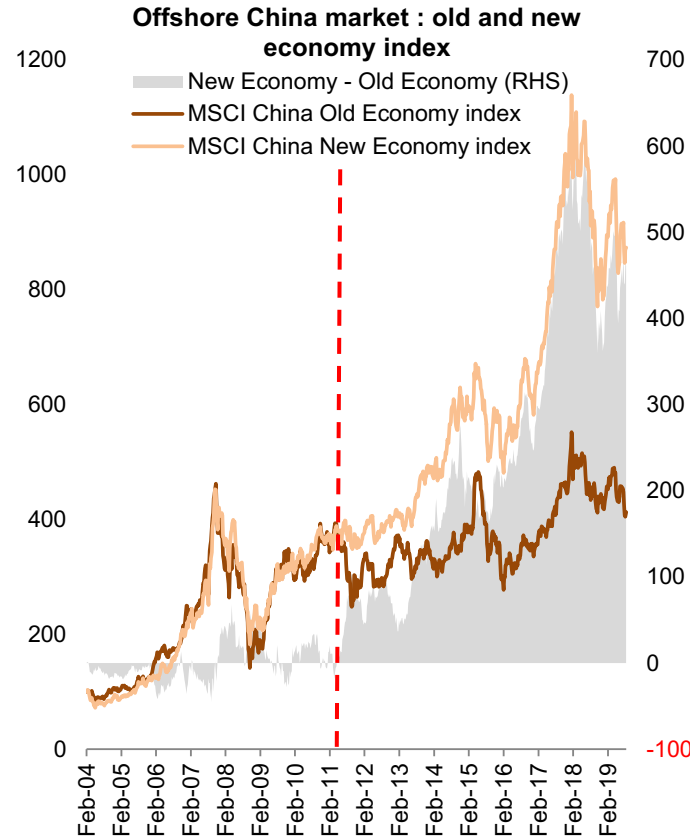


The divergence: “new economy” has been outperforming “old economy” by very large margins

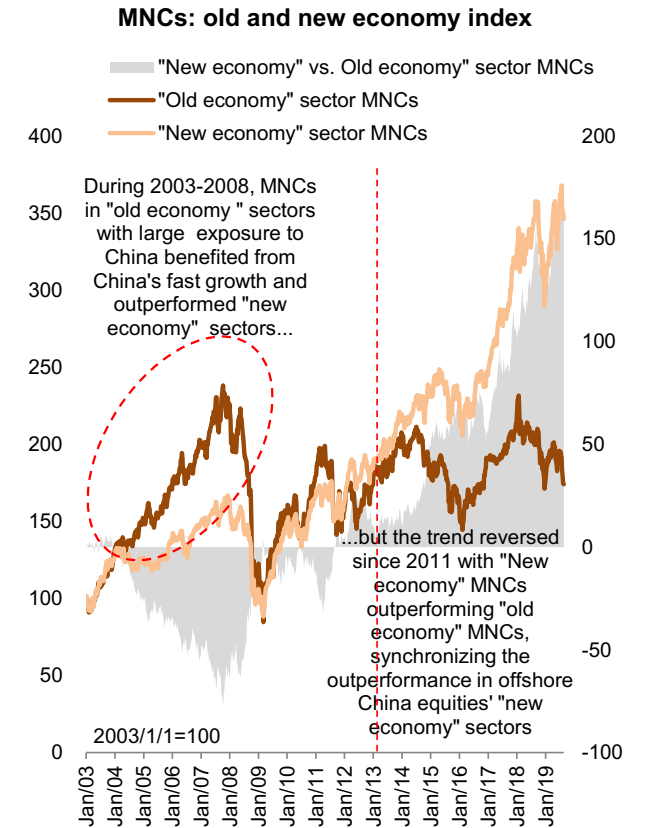
“New economy” sectors
outperformed “old economy”
sectors in A-share in recent years...



...and in offshore China equities
as well...



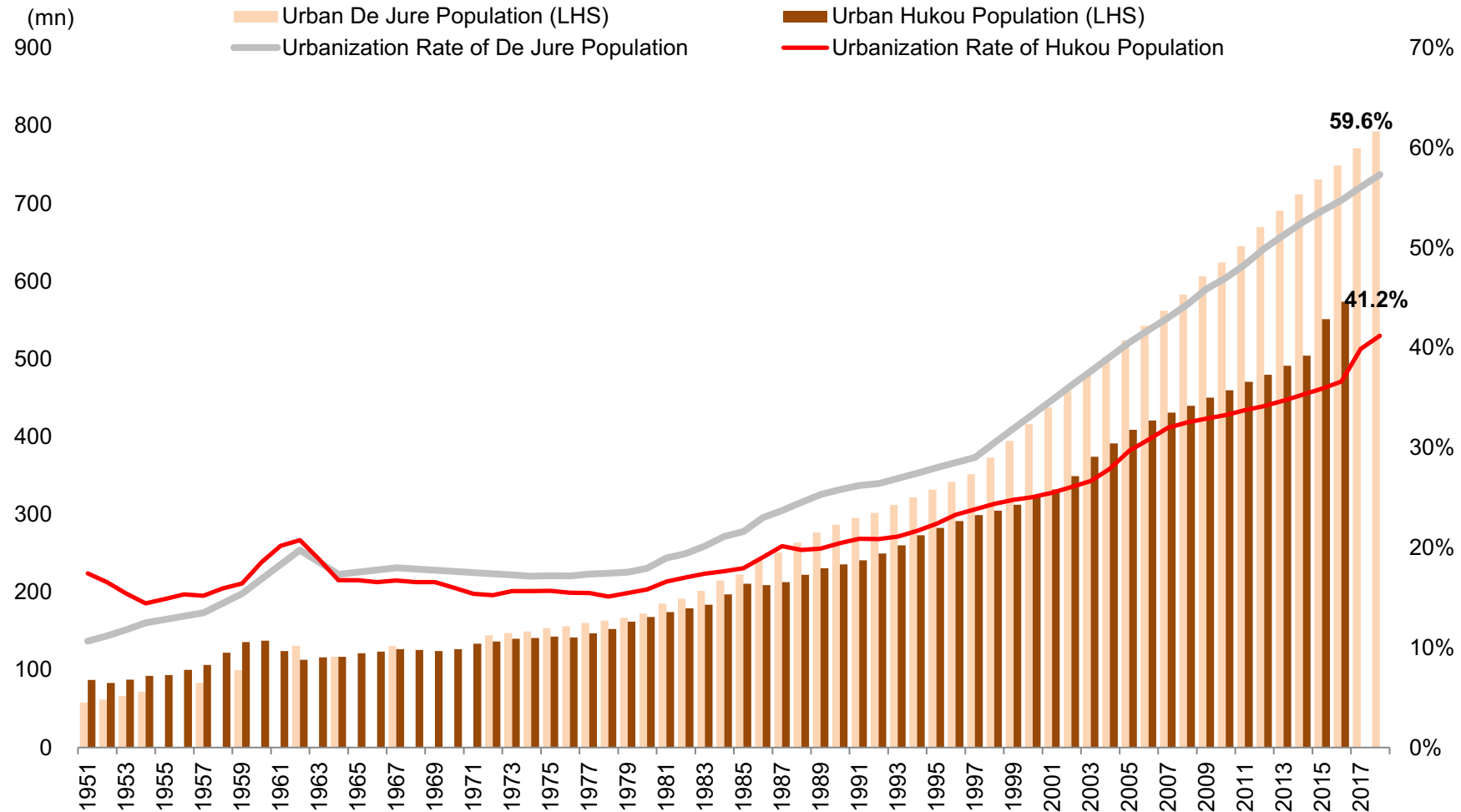
...stock price of MNCs with large
China exposure also
outperformed



Note: Old economy sectors: investment related, including raw materials, industrials, and utilities;
 New economy sectors: consumption related, including consumer discretionary, consumer staples, health care and information technology.
 Source: Wind, Factset, CICC Research

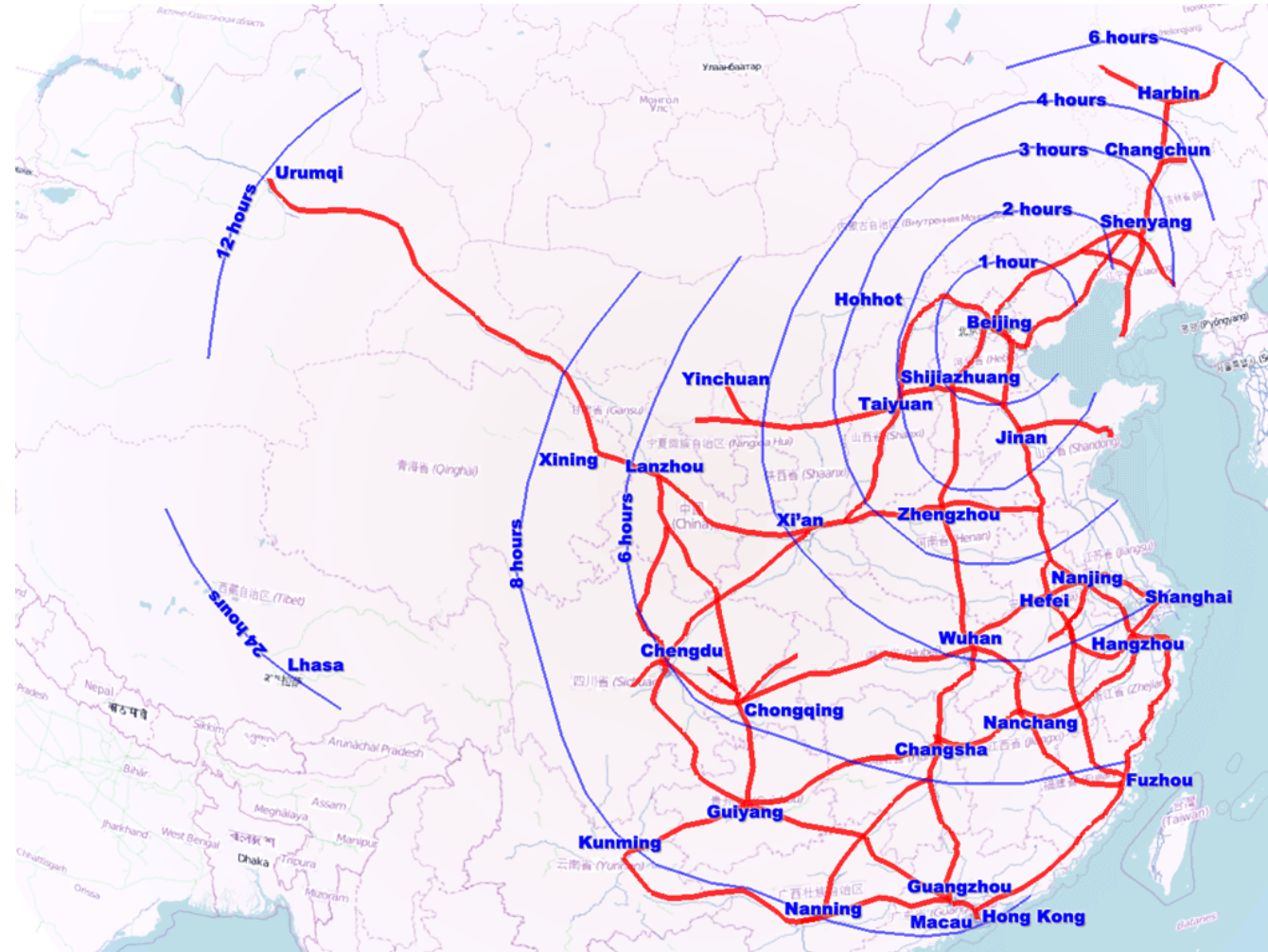
Urbanization and hukou system reform: the main driver of aggregate demands in China

China's urban residence population vs. urban De Jure (*Hukou*) population

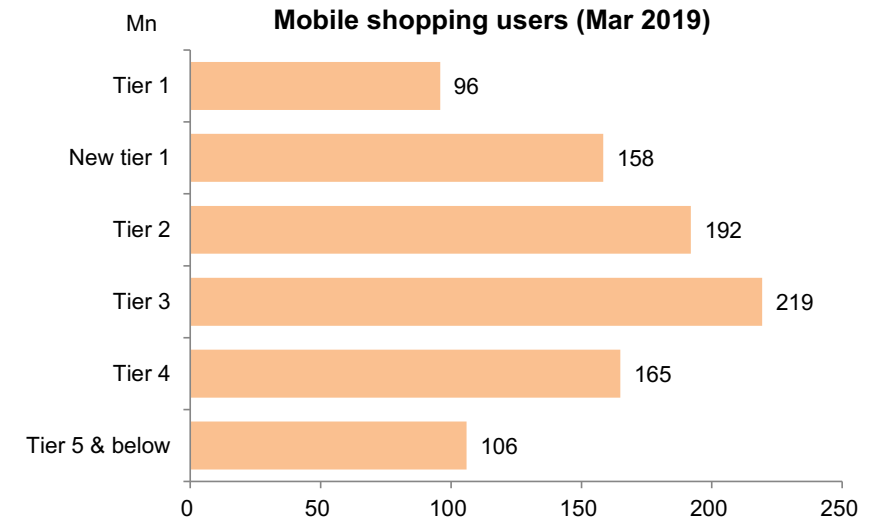
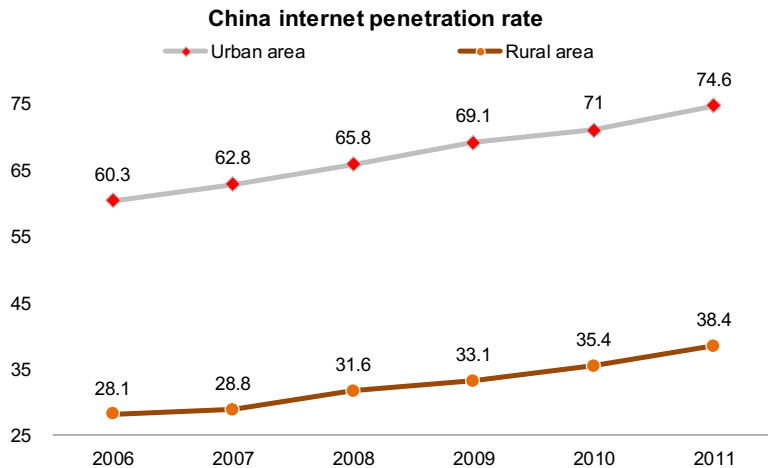
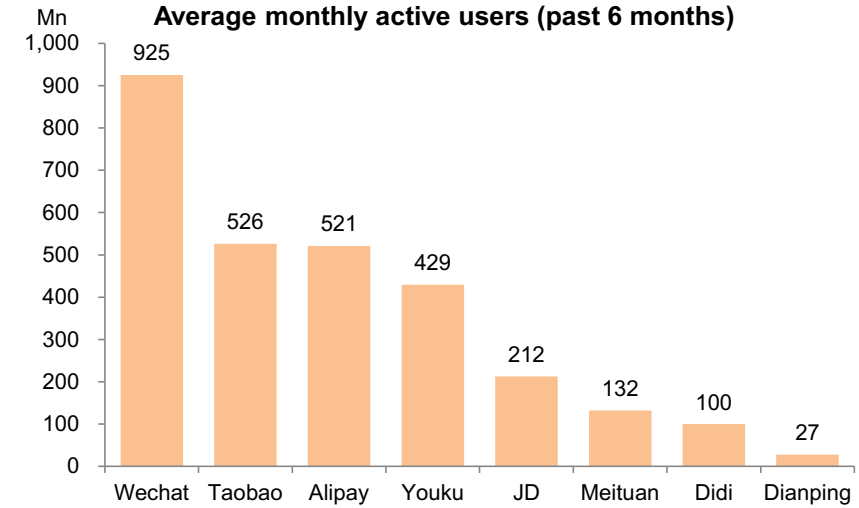
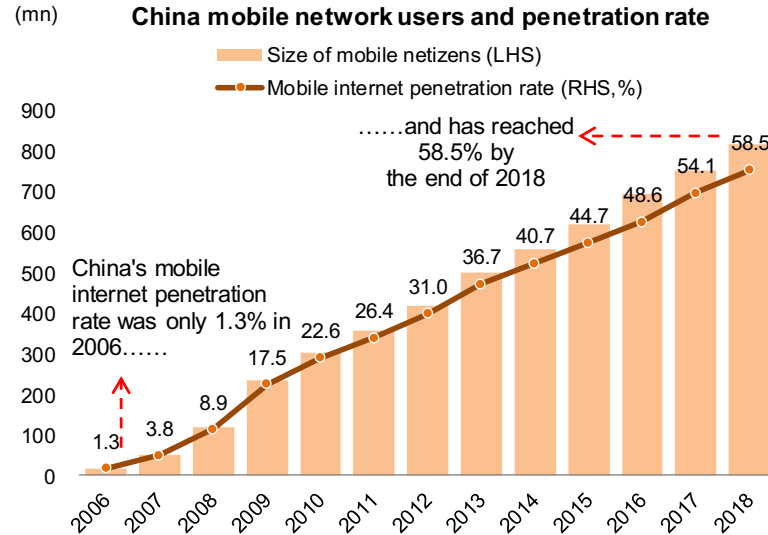


Two “super networks”: the high-speed railway

The eight vertical and eight horizontal system



Two “super networks”: the mobile internet & 5G; China has become a so-called cash-free society

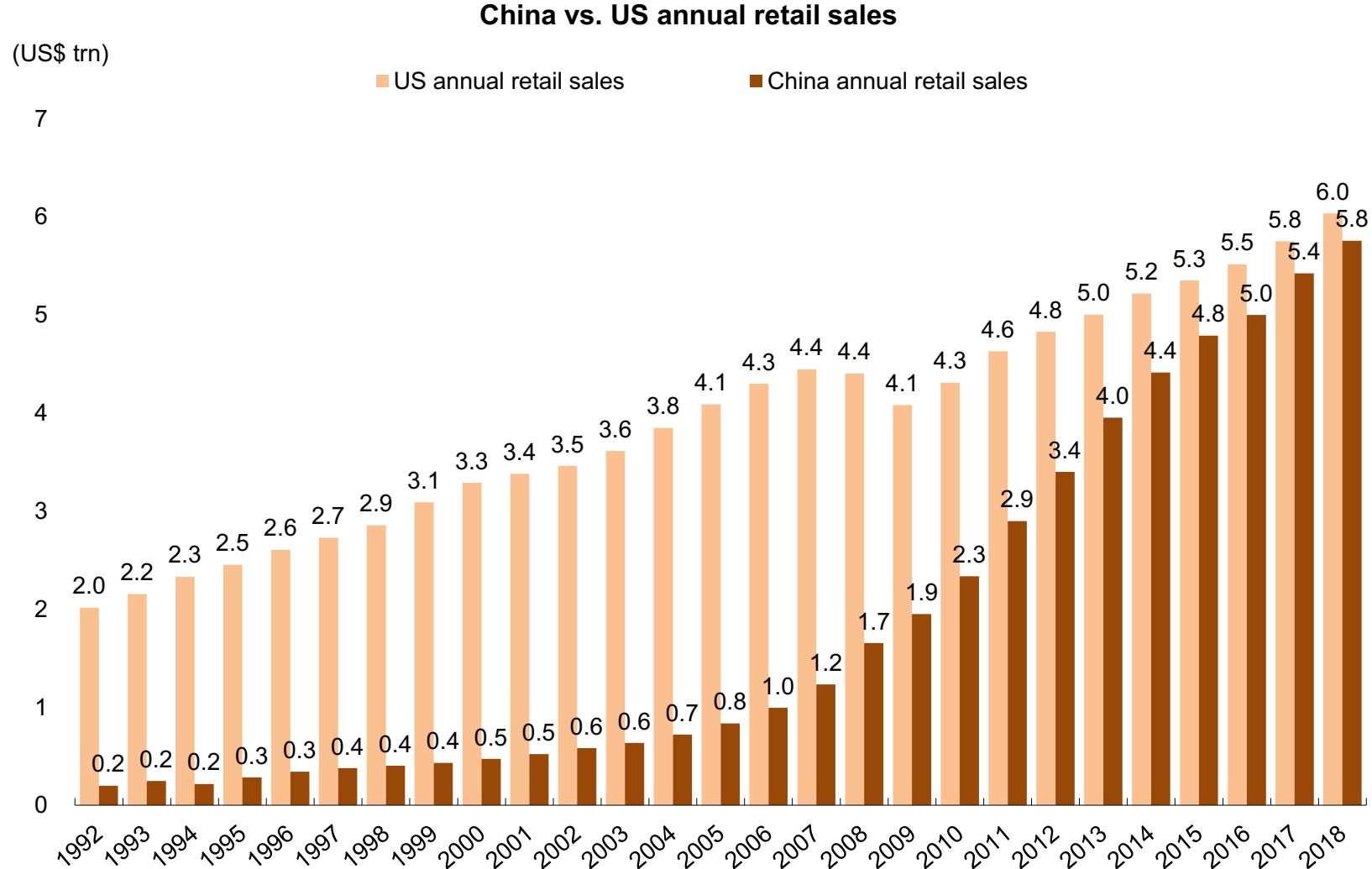


Secular Trend 1: Consumption upgrades

- Home-grown brands that benefit from urbanization in tier-3, 4 and 5 cities



Advantages of Chinese industries: large population and domestic consumer market



Secular trend 2: Manufacturing upgrade – the rise of “Made in China”

Consumer products mfg.



Automobile



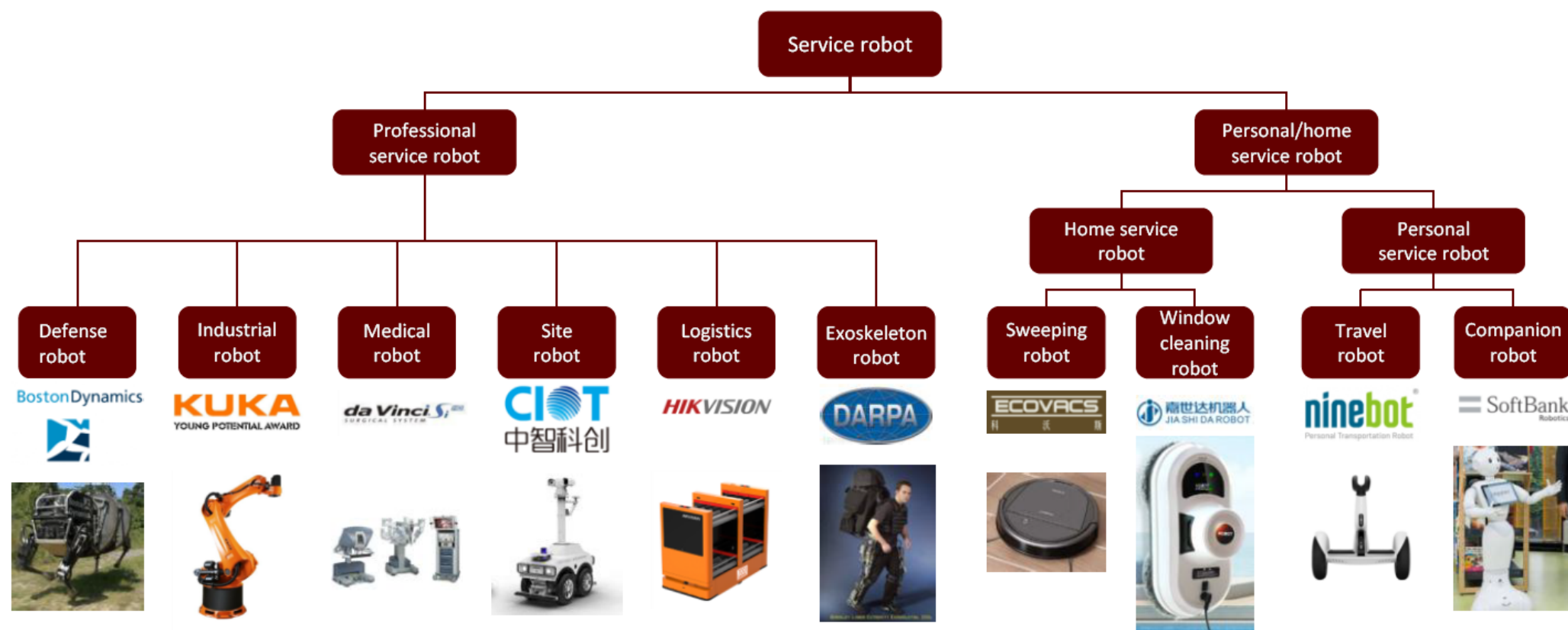
Machinery



The competitiveness of China's manufacturing industry: service robots

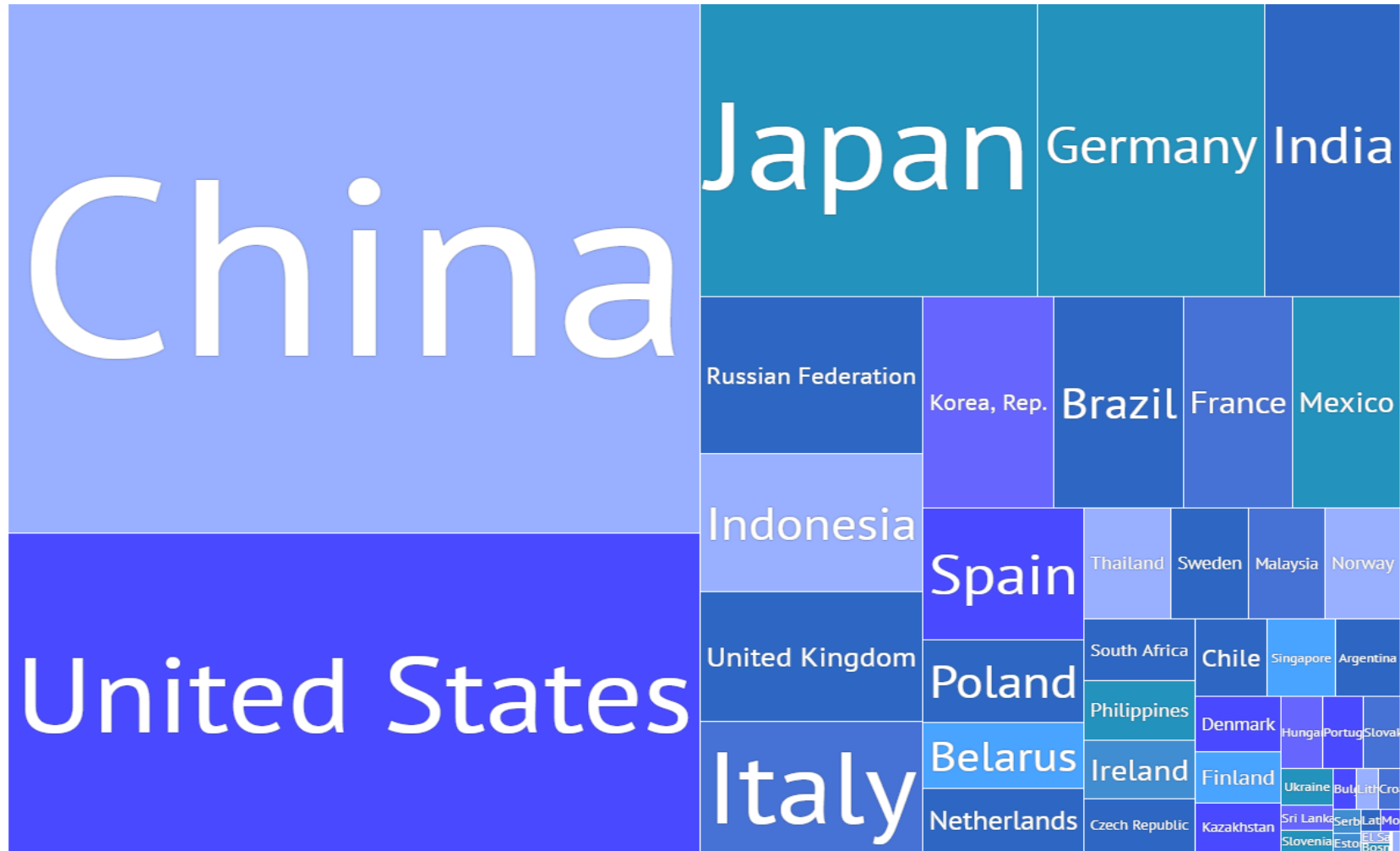
Ninebot is a leader in the market of electric self-balancing personal transporters. Founded in 2014, the firm acquired Segway in April 2015 and gained some patents on self-balancing personal transporters.

Figure 4: Major types of service robots



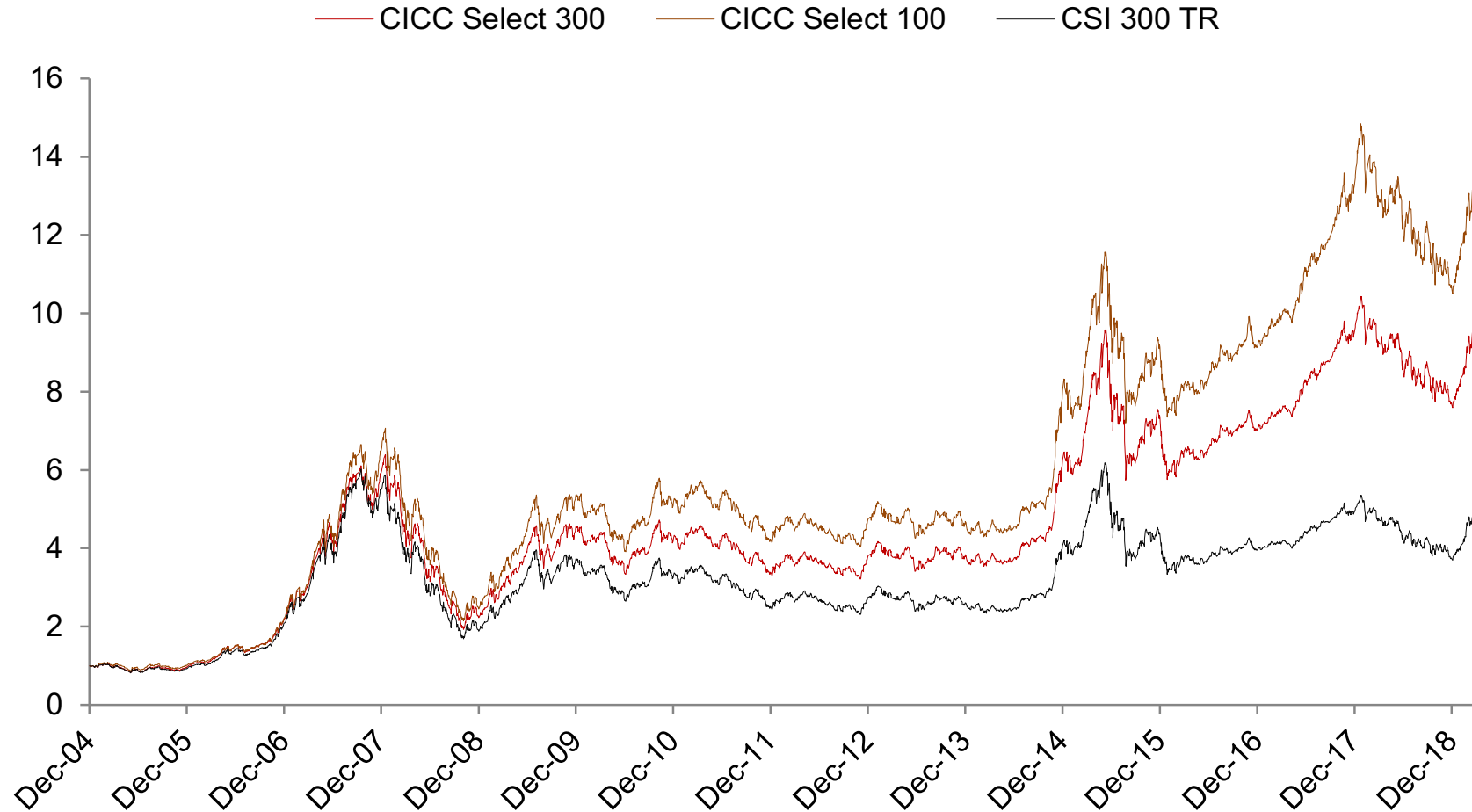
Source: image.baidu.com, CICC Research

China has the world's the largest manufacturing sector: industrial production reached \$4.4trillion in 2018



How have Chinese assets performed? The smart beta, CICC select portfolios

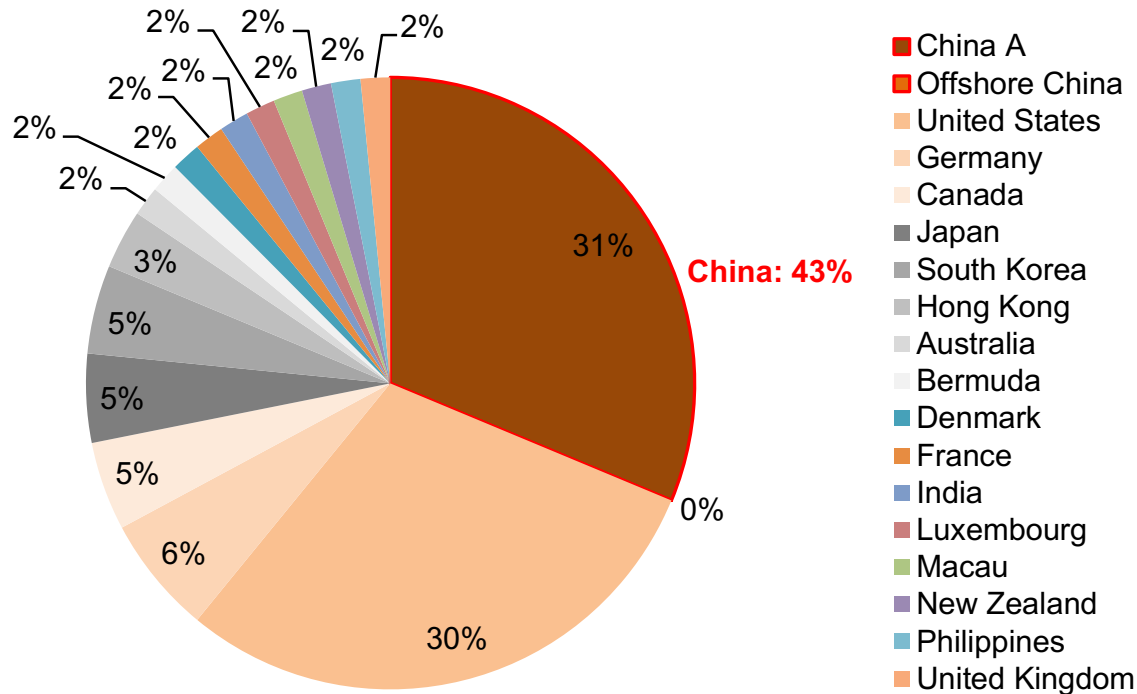
In long-term horizons, CICC Select 300 and CICC Select 100 booked returns of 21.04% and 18.15% from 2005 to 24th April, 2019, which are significant higher than CSI300 TR's 12.42%



China is still the world's best place to search for growth

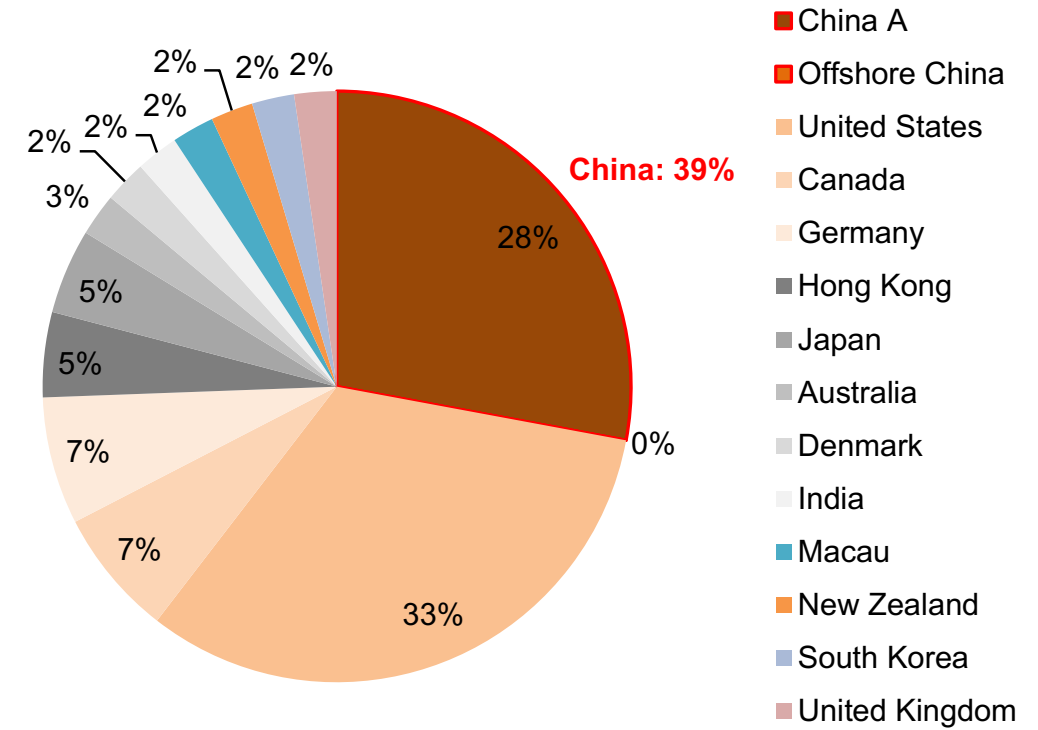
China accounts for 43% of the world's consumer, technology and pharmaceutical companies for companies with a market cap between US \$5–80BN and 2018 & 2019e revenue growth above 15%.

(26% A-shares and 17% offshore Chinese stocks)



China accounts for 39% of the world's consumer, technology and pharmaceutical companies for companies with market cap between US \$5–80BN and 2018 & 2019e revenue growth above 20%.

(23% A-shares and 16% offshore Chinese stocks)



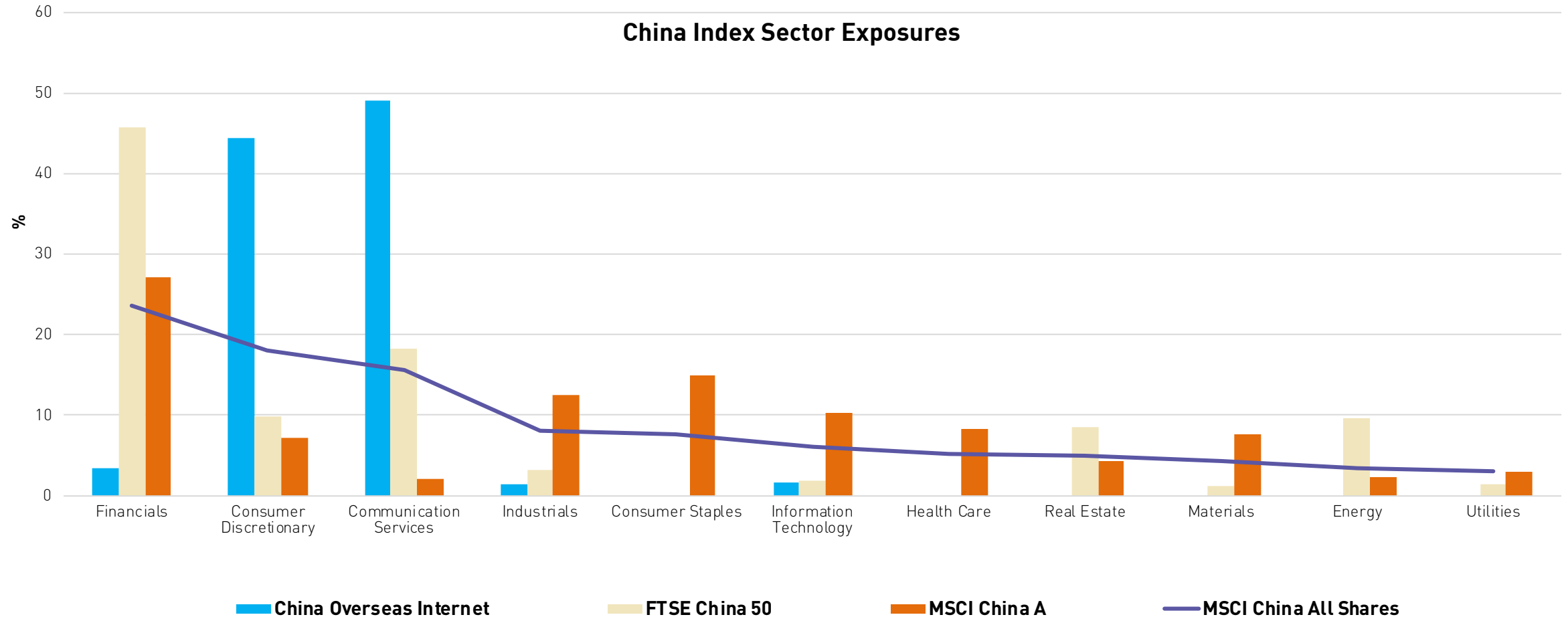
MSCI A-Share Inclusion Update

2019 performance differential for Chinese companies listed in Mainland China, Hong Kong and the US

Market	No. of Listed Companies	3M Average Daily Volume	Free-float Cap	Free Float Market Cap%	Proxy Index	YTD Performance
China A-share	3,578	47,327	2,676,829	56%	MSCI China A	27.37%
Shanghai	1,451	20,519	1,529,215	32%	Shanghai SE 180	16.65%
Shenzhen	2,127	26,808	1,147,614	24%	Shenzhen Component	27.55%
Offshore China	1,521	9,280	2,083,187	44%	MSCI China	12.15%
Hong Kong	1,086	5,563	1,277,350	27%	FTSE China 50	8.39%
H-share	269	2,448	556,266	12%		
Red Chip	163	872	241,875	5%		
P-Chip	654	2,243	479,209	10%		
US	195	3,597	718,056	15%	CSI Overseas China Internet	18.76%
NYSE	62	1,668	502,100	11%		
NASDAQ	133	1,929	215,956	5%		
AMEX	7	1	518	0%		
B-share	99	32	82,543	2%		
Singapore	90	52	4,223	0%		
Canada	18	30	875	0%		
London	11	1	23	0%		
Others	22	5	117	0%		
All China	5,099	56,606	4,760,016	100%	MSCI China All Shares	17.78%

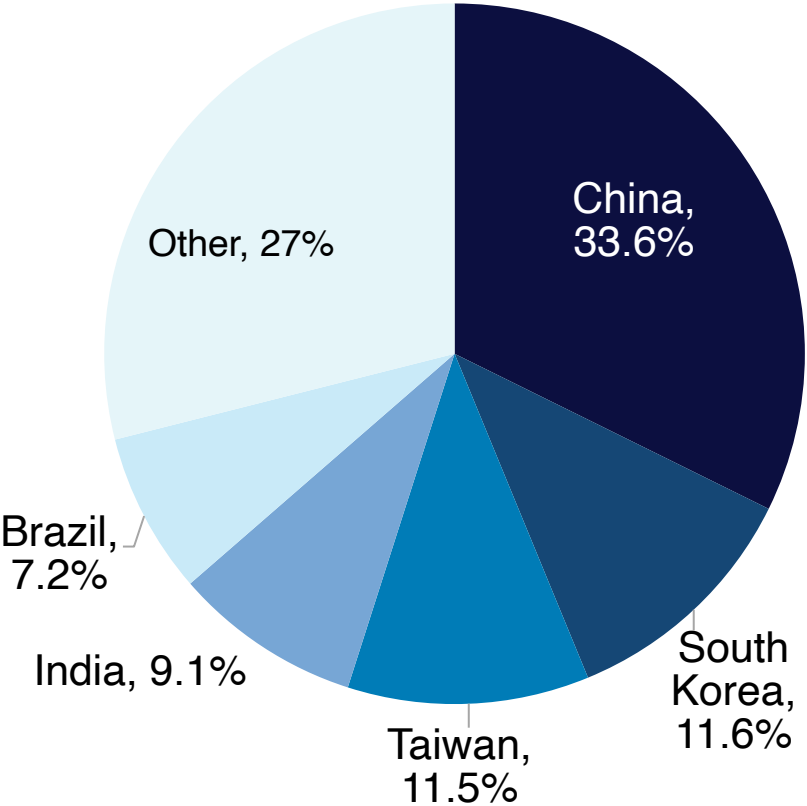
Chinese companies listed in different locations offer different exposures

Hong Kong is Financials heavy, US offers more new economy and China A shares is unique for Consumer Staples and Health Care

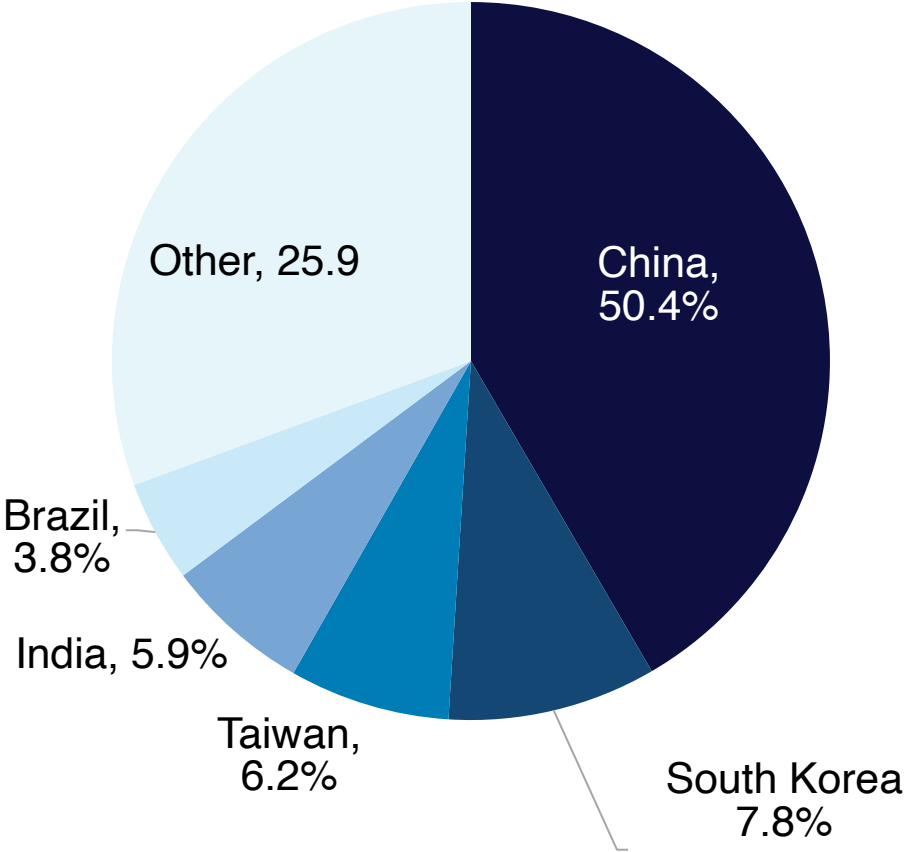


China is the largest country in the MSCI Emerging Markets (EM) Index by weight and by number of securities. Pro-forma Weights of MSCI EM post November 26th SAIR.

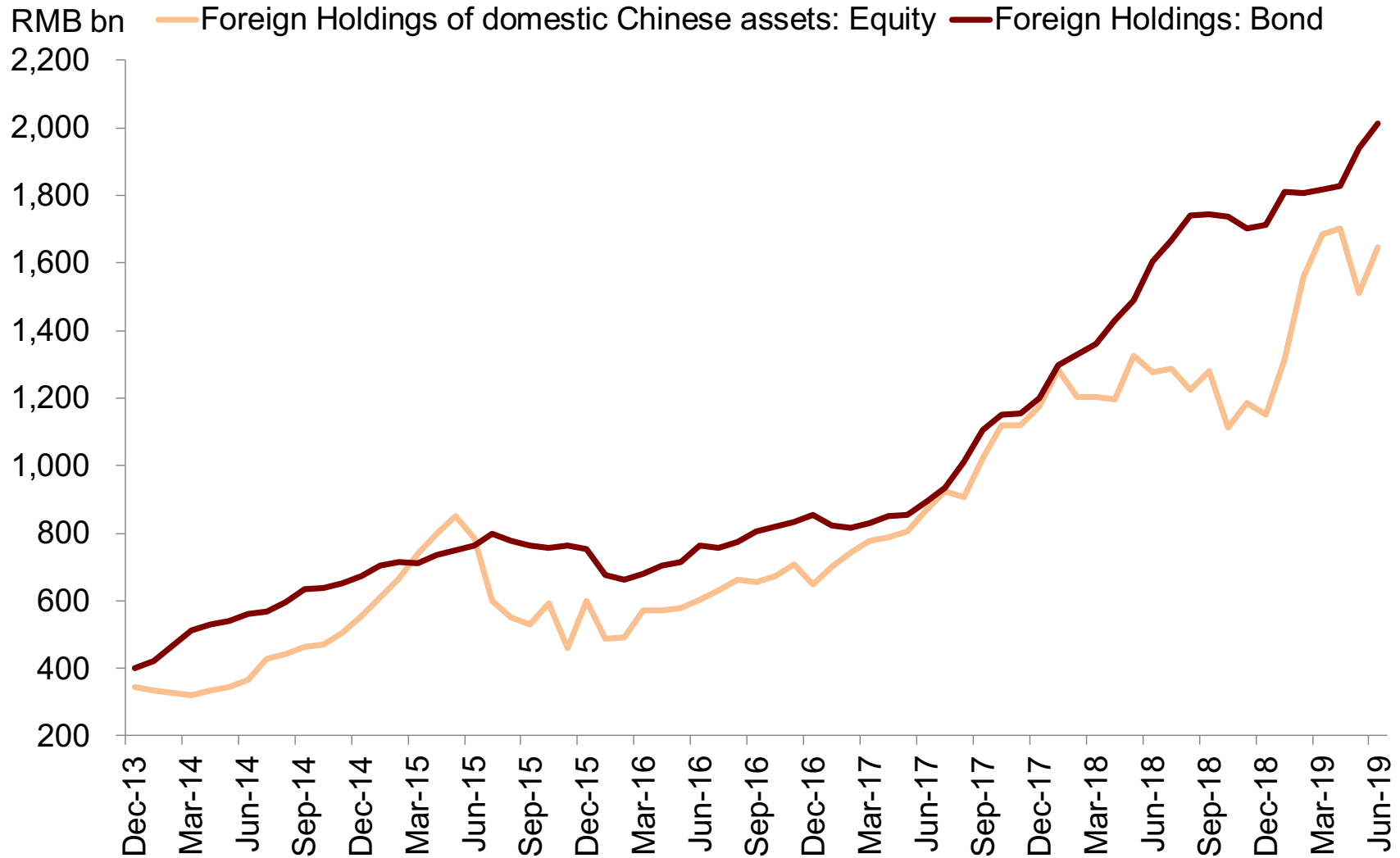
% of MSCI EM Index
by Market Capitalization Weight



% of MSCI EM Index
by Number of Securities



There have been continuous foreign inflows via stock and bond connect into Chinese domestic assets.



The Index Matters

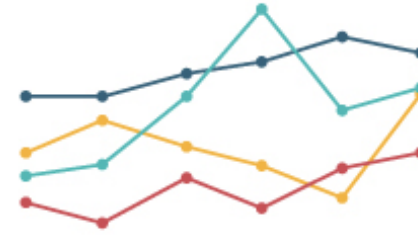
MSCI is a trusted index provider for the largest global investment managers



>\$14.8 trillion
in equity assets are
estimated to be
benchmarked to
MSCI indexes¹



99 of top 100
global investment
managers are
MSCI clients²



1040+
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 June 30, 2018, as reported on September 30, 2018 by eVestment, Morningstar and Bloomberg, retrieved 6/30/2019.

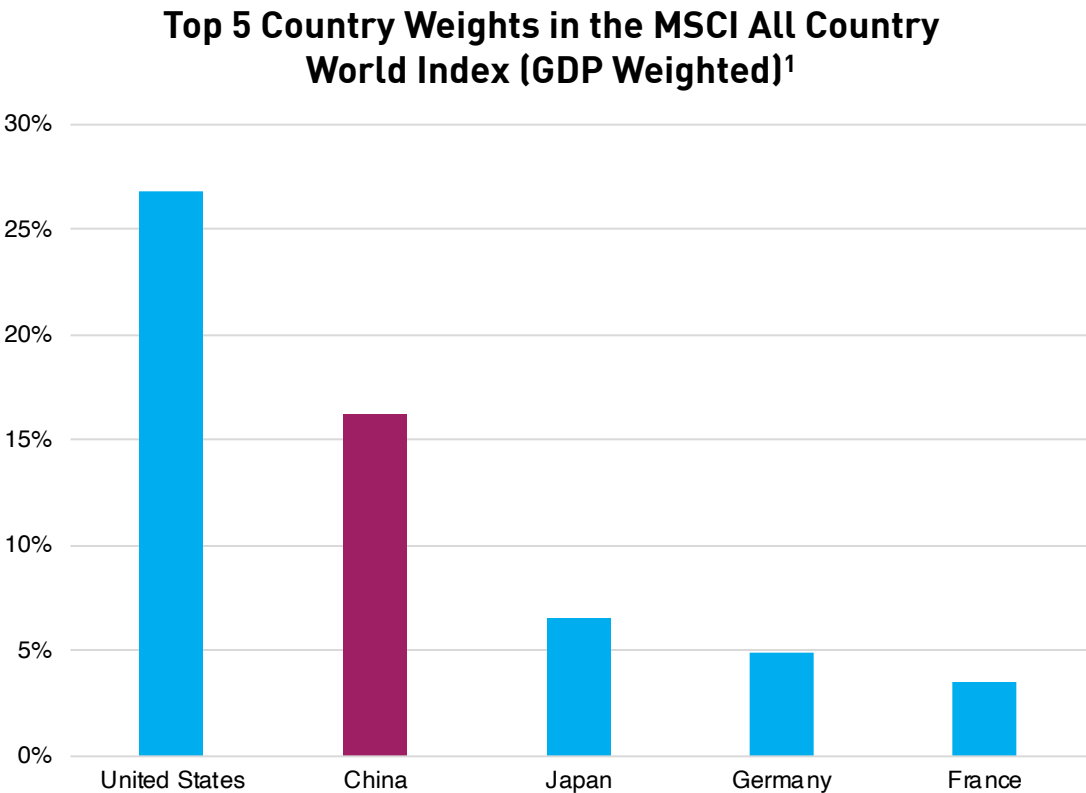
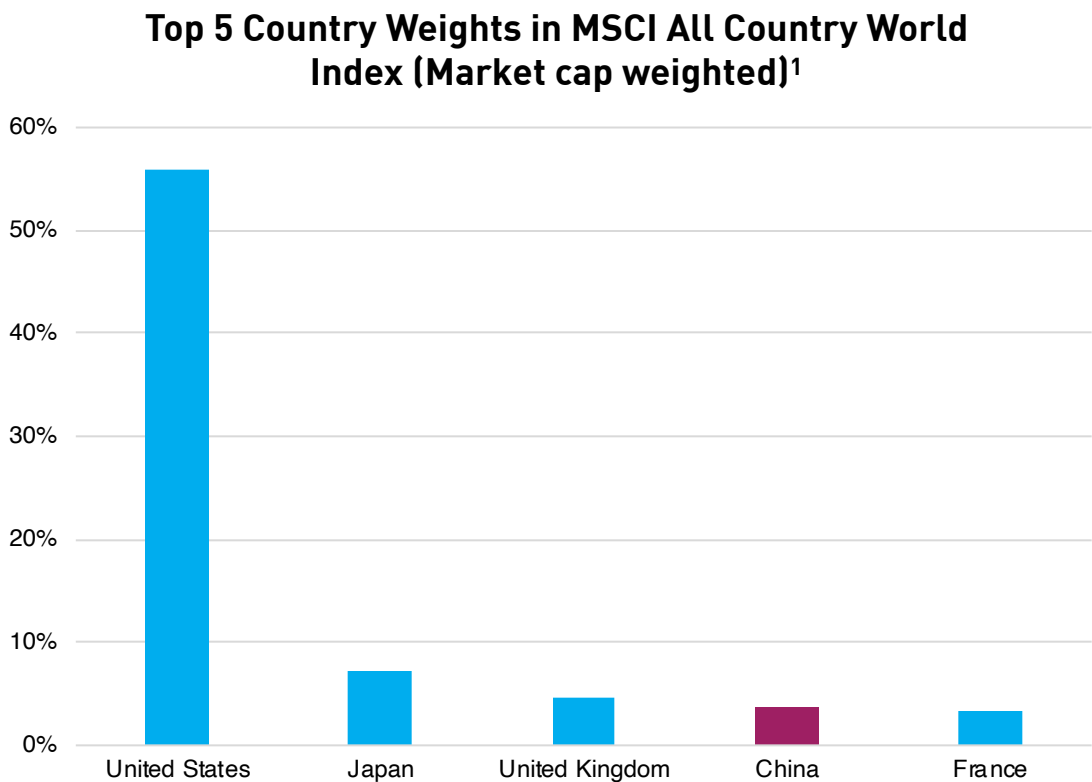
² Based on latest P&I AUM data and MSCI clients as of March 2018, retrieved 6/30/2019.

³ As of September 2018, retrieved 6/30/2019; 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, retrieved 6/30/2019.

The China A-Share market is too big to ignore

Even though China is the world’s second largest economy and stock market, China A-Shares are still underrepresented in global capital markets.



1. Data from MSCI as of 8/31/2019. See end of the presentation for index definitions

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

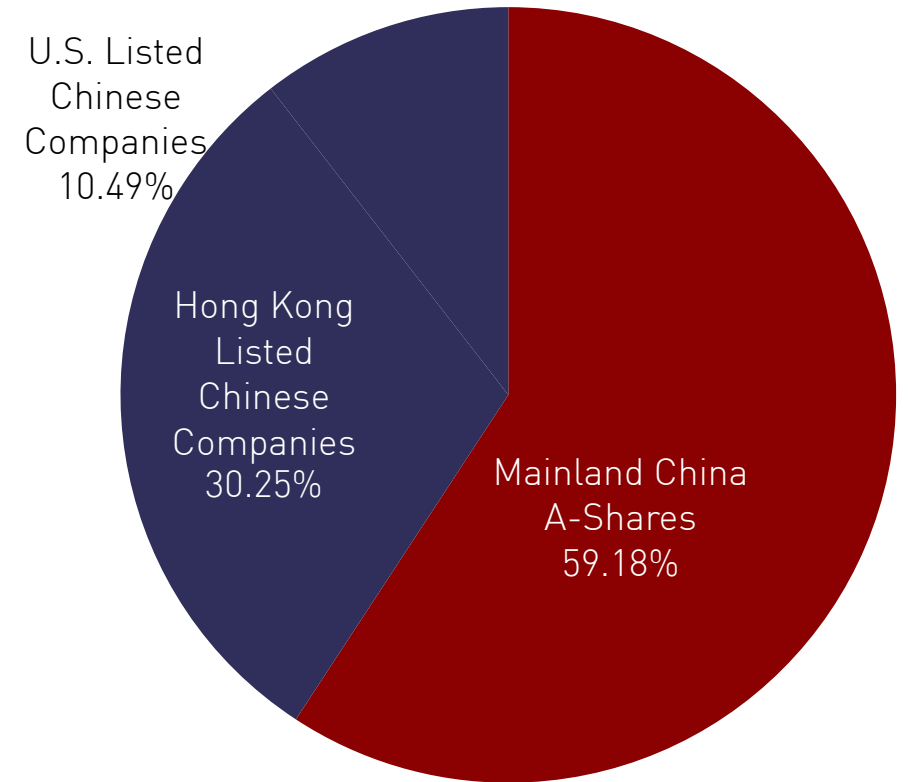
MSCI China Index

Hong Kong and US = 94.7%
China A-Shares = 5.3%
500 Stocks

MSCI's Definition of Entire Mainland A-Share Market

MSCI China A Onshore IMI Index

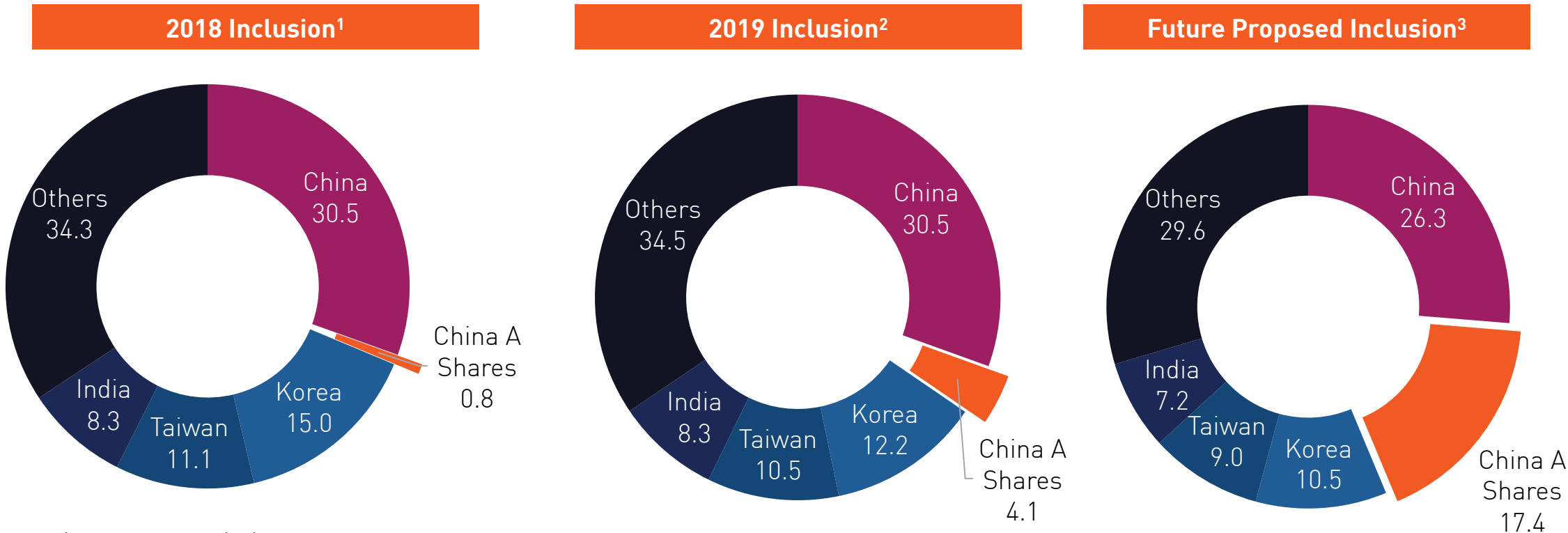
Shanghai and Shenzhen only
2,411 Stocks



On February 28, 2019, MSCI made a larger than expected China A-Share inclusion announcement. MSCI will increase the inclusion factor of China A-Shares in their Global Standard Indexes from 5% to 20% in 2019.

Currently, **\$1.8 trillion** track the MSCI EM Index. **Up to \$300b** are expected to be reallocated to China A-Shares after full inclusion.

China A-Share Inclusion in MSCI EM



1. MSCI.com/China retrieved 9/30/2019
 2. "MSCI Will Increase The Weight Of China A Shares In MSCI Indexes" MSCI, Feb. 2019, retrieved 9/30/2019
 3. MSCI, "China and the future of equity allocations", June 2019., retrieved 9/30/2019

Index Matters: We believe that the MSCI China A Index has distinct advantages over the CSI 300 Index

- MSCI is a trusted index provider for the largest global investment managers with over \$14.8 trillion in equity assets estimated to be benchmarked to MSCI Indexes⁴
- The CSI 300 Index, originally built for domestic Chinese investors, consists of the 300 largest China A-Share stocks ranked by market capitalization. In comparison, the MSCI China A Index currently tracks 427 securities deemed most suitable for international investors by MSCI.
- The constituent count overlap of these indexes is 53%¹.
- We believe gaining exposure to China A-Shares through an MSCI index provides international investors with several distinct advantages.

MSCI China A Index and CSI 300 Index Comparison ²			
	MSCI China A Index	CSI 300 Index	MSCI Advantage
Index Construction Methodology	Based on MSCI's Global Investable Market Index (GIMI) methodology	Largest 300 China A-share companies ranked by full market capitalization	Consistent with MSCI EM and MSCI ACWI which enables building and monitoring portfolios in a cohesive manner
Eligible Universe	Only A-shares that can be traded through Stock Connect	Any A-share listed in Shanghai and Shenzhen Stock Exchanges	No QFII or RQFII quota restraints
Foreign Ownership	Subject to Foreign Ownership Limits of 30%	Does not consider Foreign Ownership Limits	Tailored for foreign investors
Size Segmentation	Large Cap Size Segment targets 70%, Standard Size Segment targets 85%, and IMI Size Segment targets 99% of the coverage universe	Uses a fixed number of constituents methodology	Designed to dynamically reflect the growing China capital markets
Index Review	Semi-Annual and Quarterly Index Reviews	Semi-Annual Reviews	More timely reflection of the market

MSCI Quick Facts

- **Over \$14.8 trillion** in assets are estimated to be benchmarked to MSCI indexes.³
- **99 of top 100** global investment managers MSCI clients.⁴
- **1040+** ETFs are based on MSCI indexes, more than any other index provider.⁵
- **94%** of US pension fund assets invested in global equities are benchmarked to MSCI indexes.⁶

1. Data from Bloomberg as of 9/30/2019, calculated by KraneShares.

2. Data from MSCI as of 9/30/2019. See page 20 for index definitions.

3. As of June 30, 2018, as reported on September 30, 2018 by eVestment, Morningstar and Bloomberg, retrieved 9/30/2018.

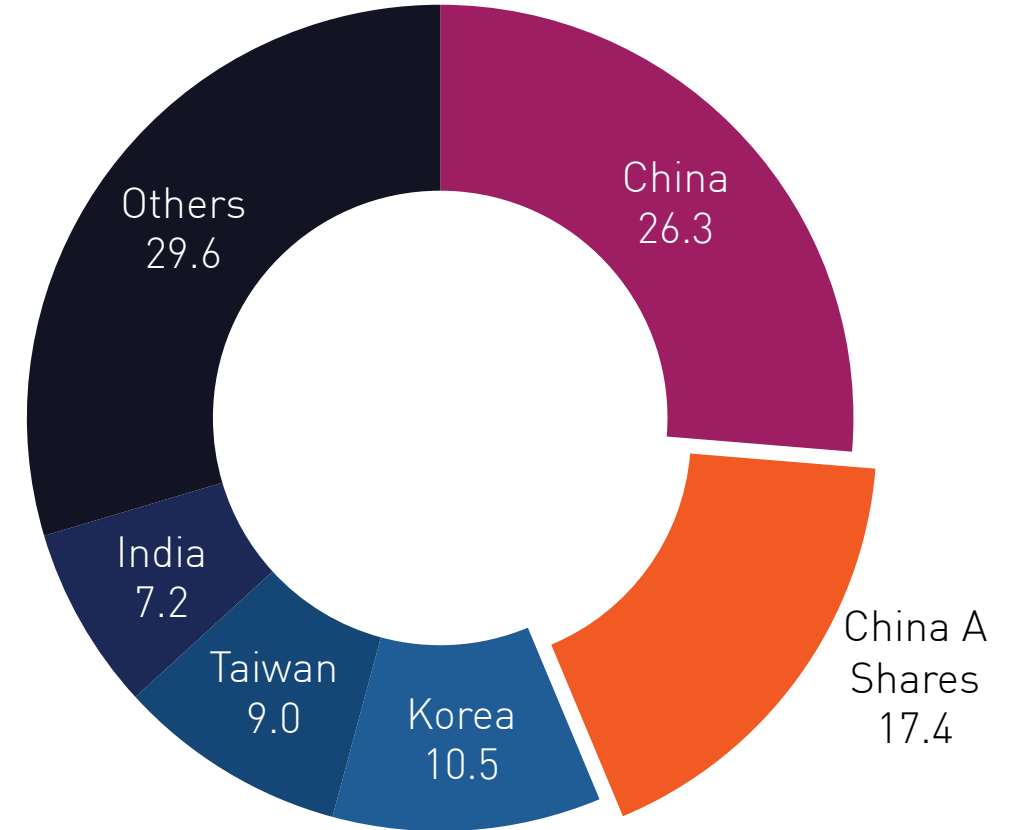
4. Based on latest P&I AUM data and MSCI clients as of March 2018, retrieved 9/30/2018

5. As of September 2018, retrieved 9/30/2018; defined as each share class of an exchange traded fund, as identified by a separate ticker. Only primary listings, and not cross-listings, are counted.

6. As of Dec 2016, according to Intersec LLC, retrieved 9/30/2018.

Conclusion: Perception Is Not China's Reality

- KraneShares Offers a Balanced Perspective on China's Economy and Capital Markets
- 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 China A-Share 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.



Investment Strategies to Capture China's Growing Importance In Global Portfolios



China Thematic

China Internet

China Health Care

China Environment

China ESG

China A
Large Cap Smart Beta



China Core

MSCI China A

MSCI All China



EM Thematic

MSCI Emerging Markets ex
China

Emerging Markets Consumer
Technology

Emerging Markets
Healthcare



China Fixed Income

China RMB Commercial
Paper

China High Yield USD
Bond



Global Thematic

One Belt One Road

Electric Vehicles &
Future Mobility

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Index Definitions:

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.

CSI 300 Index: consists of the 300 largest and most liquid A-share stocks. The Index aims to reflect the overall performance of China A-share market..

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