

# Finding Quality Income

An Overview of Opportunities Within  
China's Interbank Bond Market



## 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).



 KCNY

## KraneShares E Fund China Commercial Paper ETF

### Investment Strategy:

The KraneShares E Fund China Commercial Paper ETF (NYSE: KCNY) seeks to track the CSI Diversified High Grade Commercial Paper Index. The Fund seeks to invest at least 80% of its total assets in a diversified basket of investment-grade<sup>1</sup> commercial paper denominated in on-shore renminbi issued by sovereign, quasi-sovereign and corporate issuers in the People's Republic of China and traded in the inter-bank bond market. Commercial paper in the Fund is investment-grade and has a remaining term to final maturity of no more than one year and no less than one month.

### KCNY features:

- Invests in money market securities (i.e. commercial paper) and attempts to preserve principal investment while providing attractive monthly distributions
- The average maturity of the securities held by the fund is less than six months
- Invests into commercial paper that has received an investment grade credit rating<sup>1</sup>

### China commercial paper may be appropriate for investors who have a(n)...

- Allocation to investment products that only invest in short-term securities
- Investment goal with a short time horizon
- Daily liquidity requirement

<sup>1</sup> Investment grade commercial paper is commercial paper that is issued by an issuer whose long-term bonds are rated AAA or equivalent by one or more Chinese credit rating agencies; or commercial paper that is issued by an issuer whose long-term bonds are rated AA+ or equivalent by one or more Chinese credit rating agencies and commercial paper is rated A-1 or equivalent by one or more Chinese credit rating agencies.

## E Fund Asset Management is the co-advisor to the KraneShares E Fund China Commercial Paper ETF (ticker: KCNY)

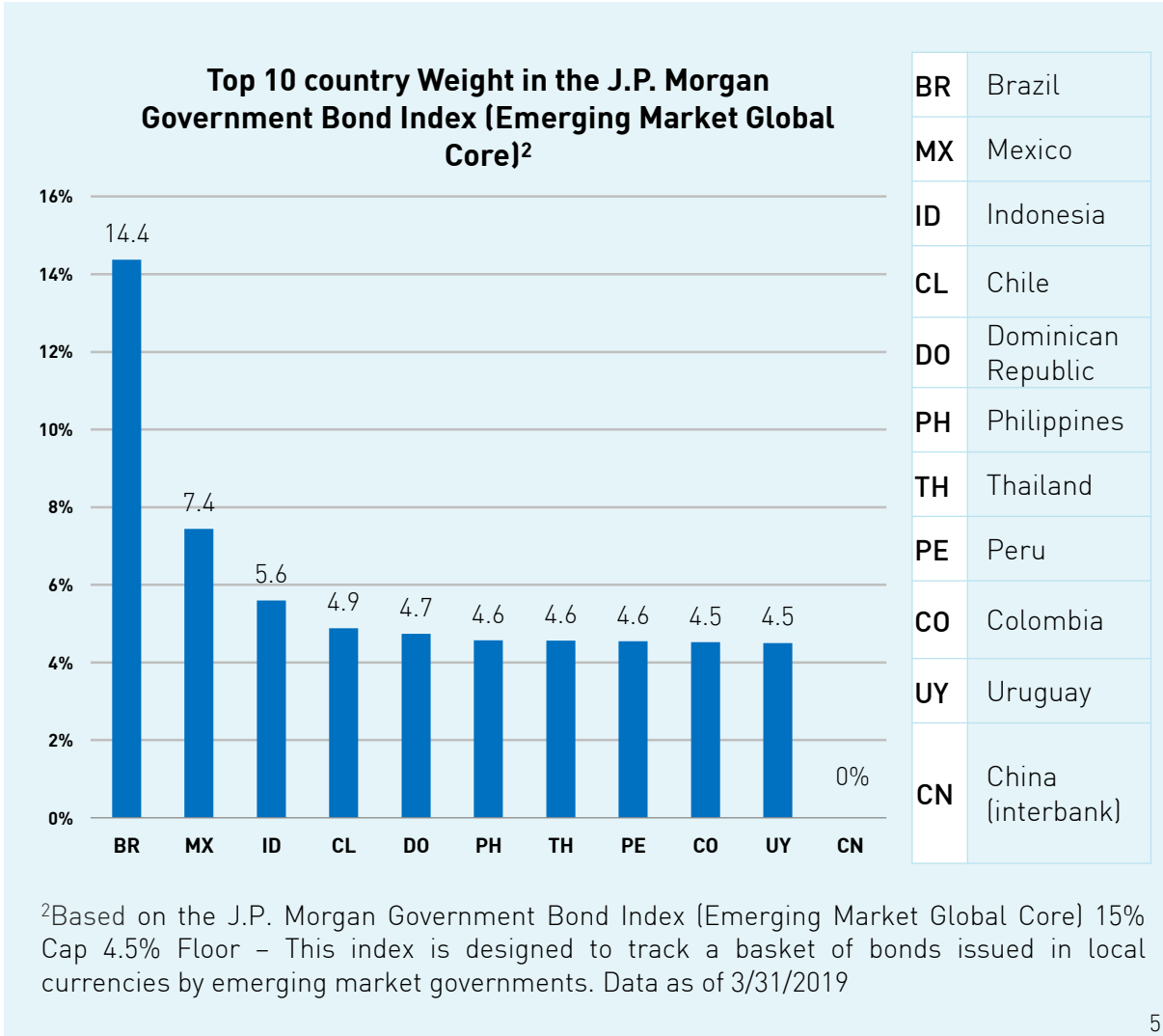
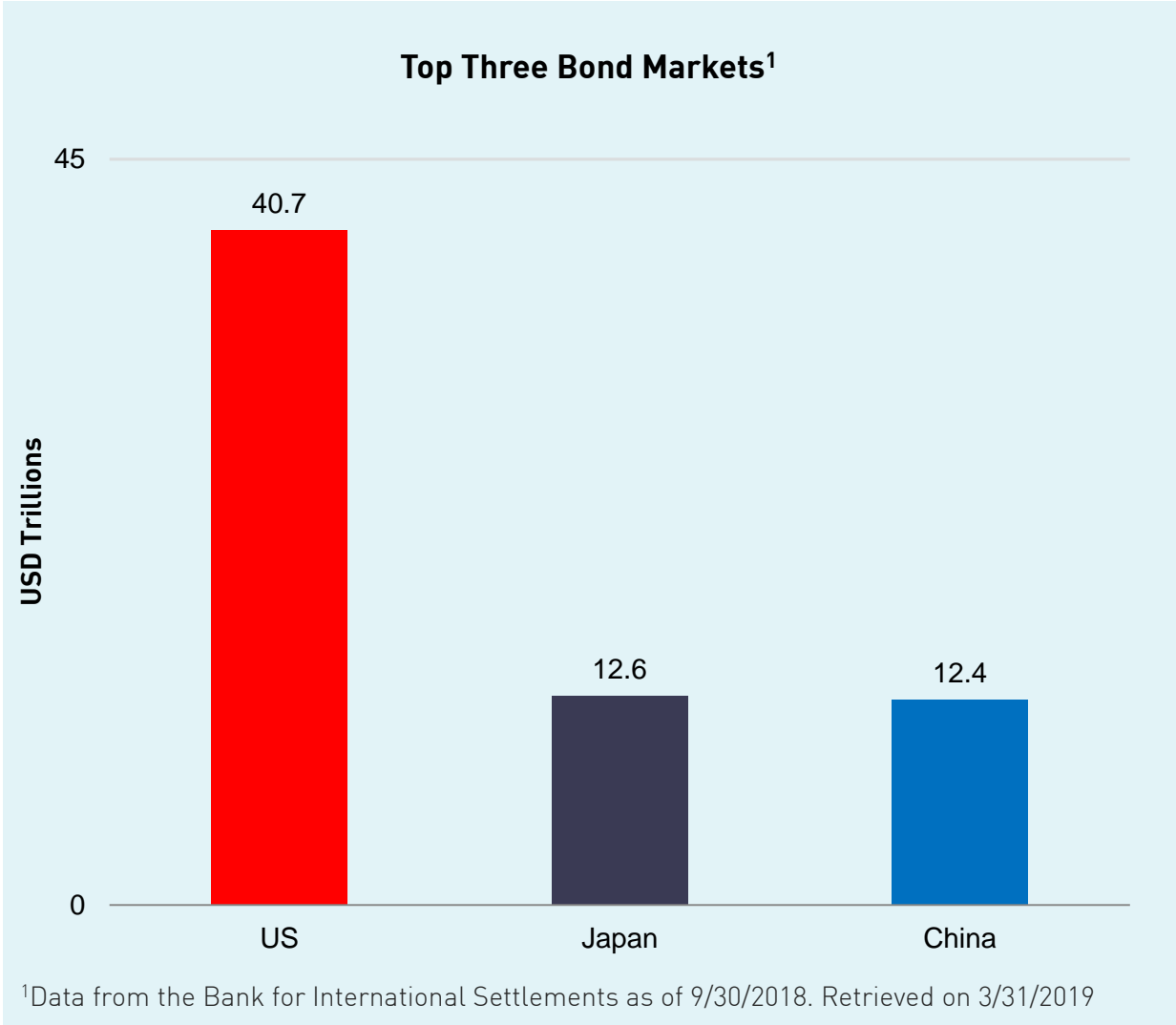


**\$177b AUM**

### E Fund Quick Facts

- **Located:** Headquartered in Guangzhou with offices in Beijing, Shanghai and Hong Kong
- **Established in 2001**, was among the 1st Chinese asset management companies approved to do business in Mainland China
- **\$177b** in assets under management; one of the top three asset managers by assets in Mainland China
- Serves more than **80 million clients**

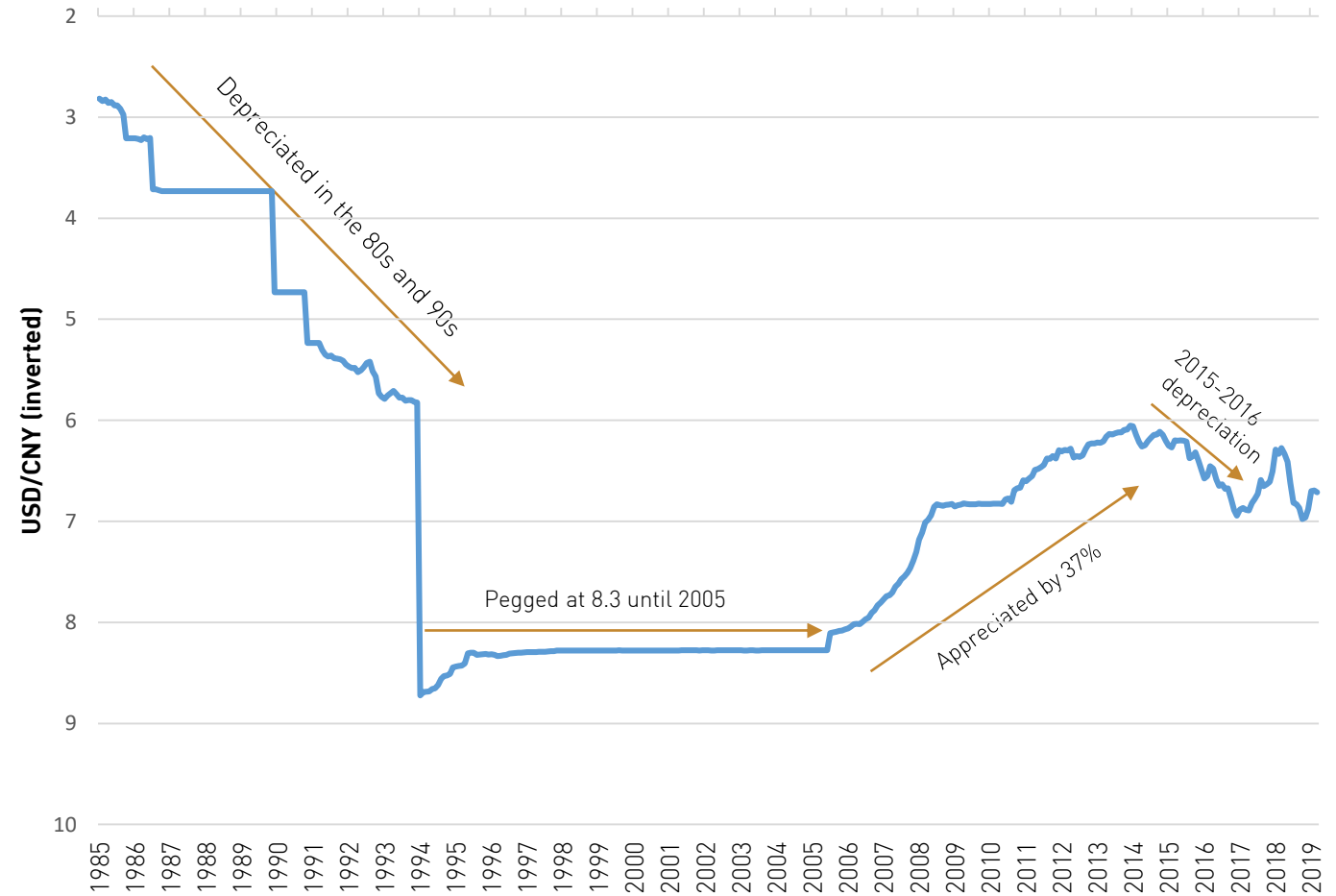
# China's Interbank Bond Market is the third largest in the world, yet it has virtually no foreign ownership



## Historical evolution of RMB dynamics

- The RMB steadily depreciated against the dollar for much of the 1980s and 1990s, as China gained its competitive export edge.
- In 1997, a peg to the dollar was initiated at 8.3 RMB for every dollar, and this peg stayed in place until July 2005.
- Once the peg was removed in 2005, the RMB appreciated by 37% to reach a high of 6 RMB per dollar, which remains the recent high to this day.
- The appreciation that occurred after de-pegging aligned with China's plan to shift the economy away from an exporting economy to a consumer led economy.
- August of 2015 began an RMB depreciation cycle that lasted 1.5 years, with 2015 ending down 4.5% for the currency.
- 2016 saw concerns about capital flight, an economic hard landing, banking crisis and FX reserve depletion, leading to a 7% decline. Incidentally, only a brief period of FX reserve depletion was experienced, but none of the other concerns fully materialized.
- the International Monetary Fund (IMF) launched a new Special Drawing Rights (SDR) basket including Chinese RMB on September 30, 2016.
- July 2017, Bond Connect established for global investors to invest into China's fixed income market directly.
- In September 2018, China implemented a new settlement system for Bond Connect to further open Chinese markets to international investors

USD/CNY Spot Rate



## On April 1, 2019, Bloomberg Barclays began including RMB-denominated bonds issued by the Chinese government and policy banks into their Global Aggregate Index, tracked by \$2.5 trillion in assets<sup>1</sup>

- 364 onshore Chinese bonds are being added to the Bloomberg Barclays Global Aggregate Index over the next 20 months.
- New regulations have provided global investors with the fundamental rules of engagement, and set the foundation for enhanced market access and participation through CIBM Direct and Bond Connect.
- Currently, foreign investors only represent about 2% of the Chinese interbank bond market<sup>2</sup>

### Chinese Treasury and Policy Bank Debt Being Included in the Bloomberg Barclays Global Aggregate Index<sup>2</sup>

Issuer	Count	Market Value (MV) (US\$ bn)	Amt Out (US\$ bn)	Duration	Yield to Worst
China Government Bond	159	\$1,551.0	\$1,490.2	6.69	3.00
China Development Bank	102	\$978.0	\$935.4	4.78	3.37
Agricultural Development Bank	58	\$495.3	\$476.1	4.08	3.33
Export-Import Bank of China	45	\$298.6	\$287.3	3.86	3.31
<b>Total</b>	<b>364</b>	<b>\$3,323.0</b>	<b>\$3,189.0</b>	<b>5.49</b>	<b>3.19</b>

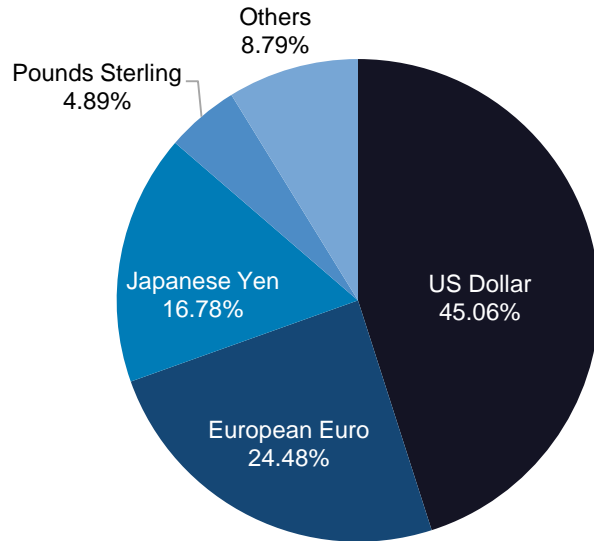
1. Reuters, "Explainer: Why China's inclusion in global bond benchmarks matters", 3/29/2019.  
 2. Data from Bloomberg as of 2/18/2019, retrieved 3/31/2019.

**When Chinese bonds are fully added into the Global Aggregate Index, China's weight will increase to about 6% of the Index, and the Chinese RMB will become the fourth-largest currency component<sup>1</sup>.**

Full inclusion could lead to about \$2 trillion of fund inflows<sup>2</sup> into China's \$12 trillion bond market<sup>3</sup>.

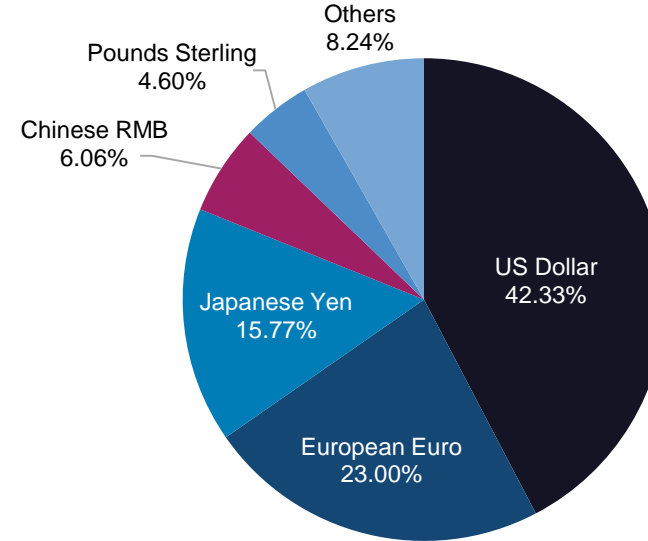
**Current  
(Mar. 2019)**

**Currency Breakdown of the Global Aggregate Index<sup>1</sup>**



**Projected Full Inclusion  
(Nov. 2020)**

**Currency Breakdown of the Global Aggregate Index<sup>1</sup>**

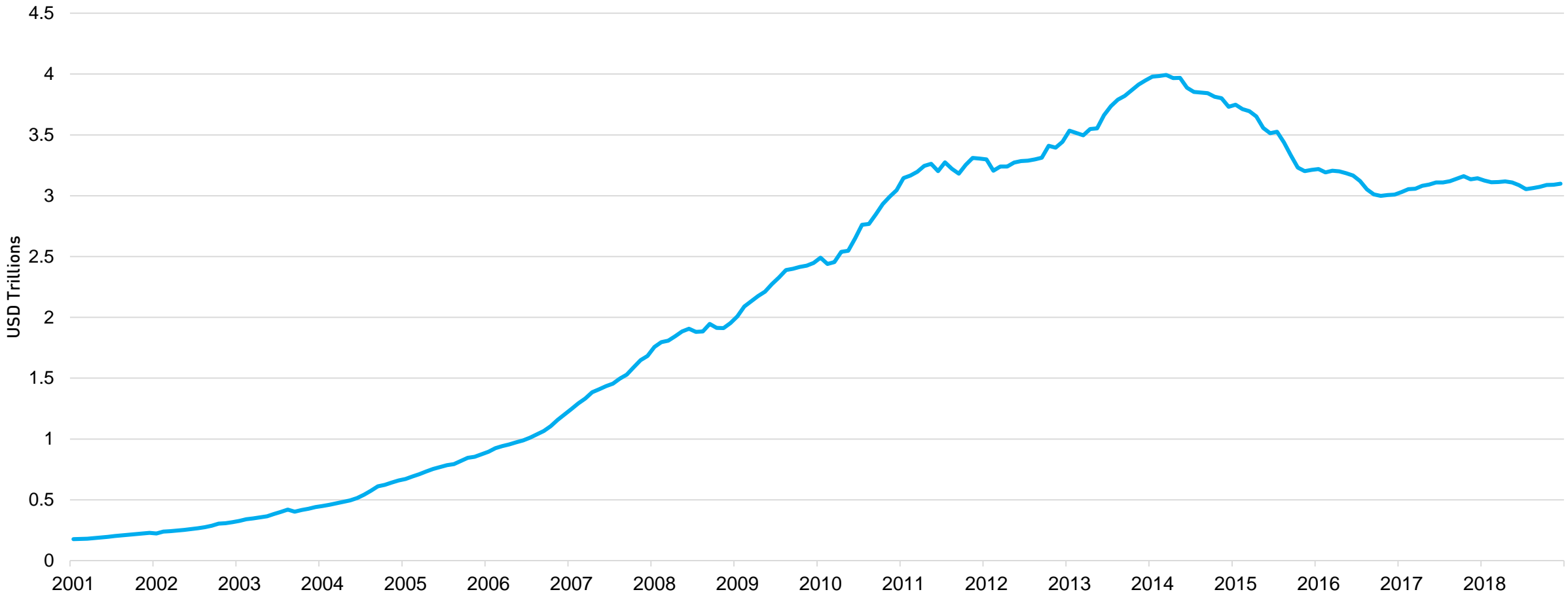


1. Data from Bloomberg as of 2/18/2019, retrieved 3/31/2019.
2. Financial Times, "Bloomberg adds Chinese government bonds to flagship index", 3/31/2019.
3. Data from the Bank for International Settlements as of 9/30/2018, retrieved on 3/31/2019.



# China maintains over \$3 trillion in Foreign Exchange Reserves

### China Monthly Foreign Exchange Reserves

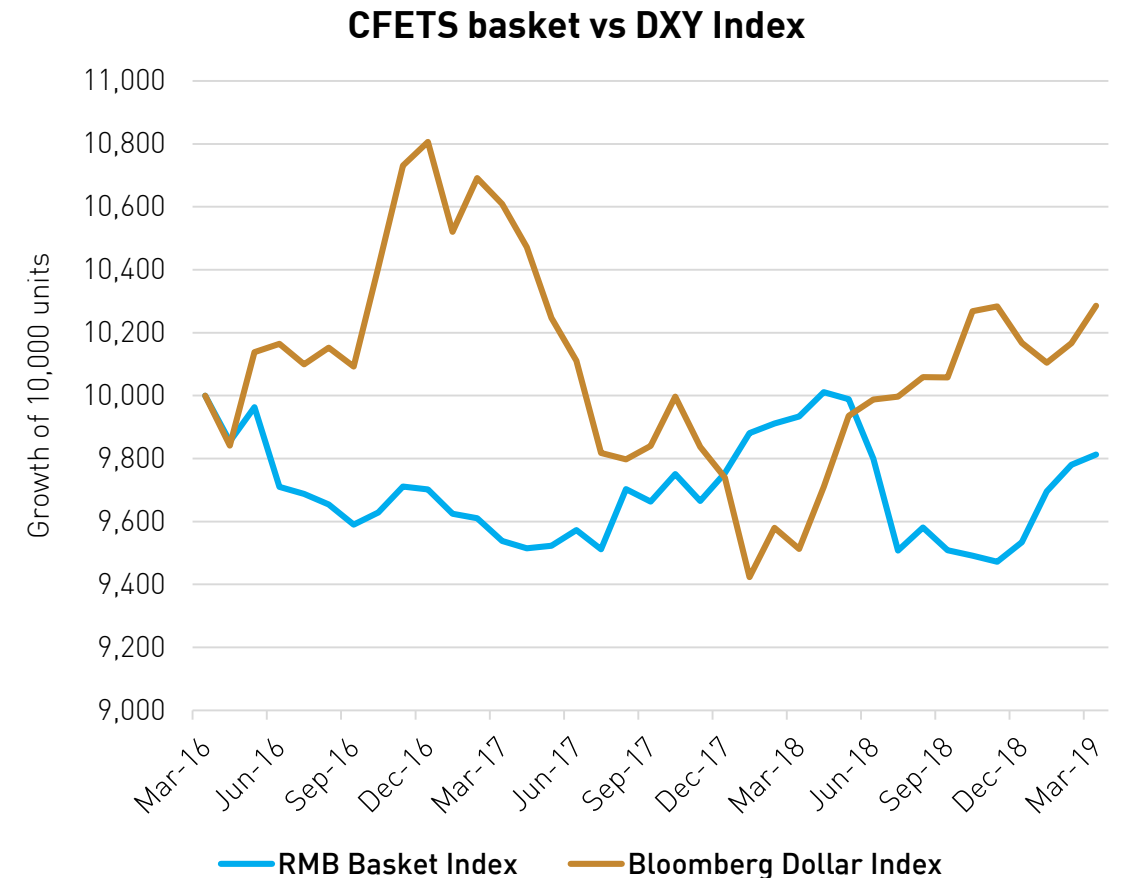


Data from Bloomberg as of 3/31/2019

## PBoC's new CFETS Basket approach has created stability

China Foreign Exchange Trade System (CFETS) was created by People's Bank of China (PBoC) to manage the RMB risk. In December of 2015, CFETS adopted a 13-currency basket for managing the RMB. The basket was expanded to 24 currencies at the end 2016. Since the basket approach was implemented, the RMB basket index has been stable relative to the US dollar.

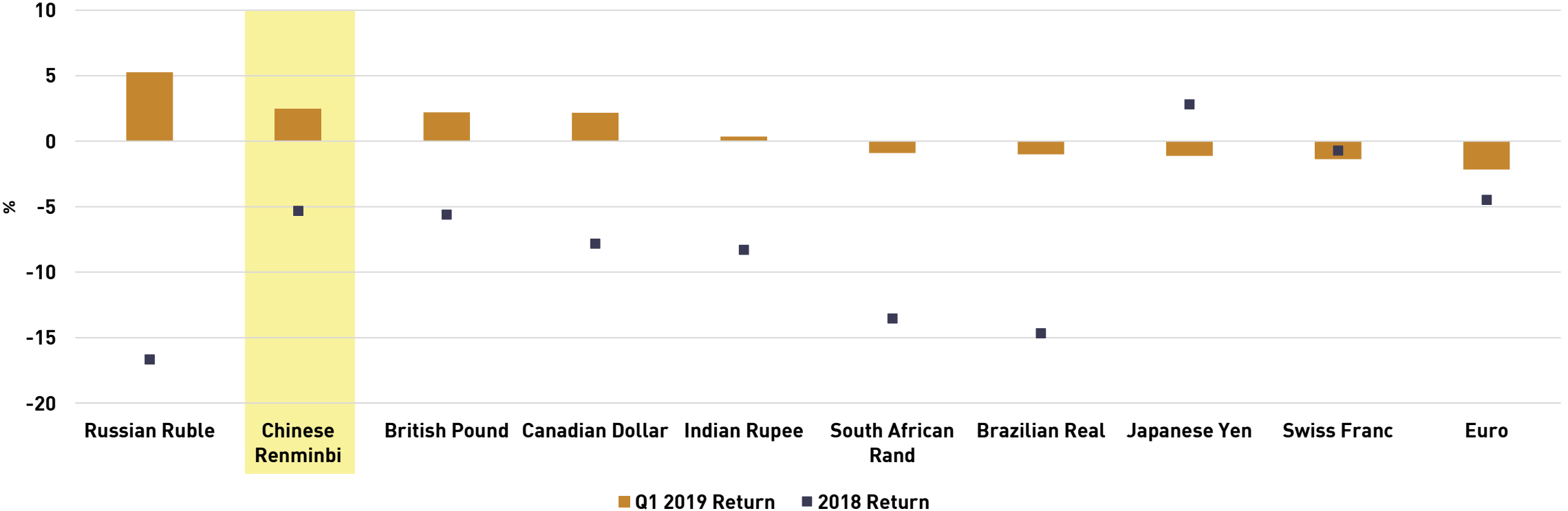
	Currency	2016	2017
US Dollar	USD	26.40%	22.40%
Euro	EUR	21.40%	16.30%
Japanese Yen	JPY	14.70%	11.50%
Australian Dollar	AUD	6.30%	4.40%
Hong Kong Dollar	HKD	6.60%	4.30%
Malaysian Ringgit	MYR	4.70%	3.80%
British Pound	GBP	3.90%	3.20%
Singapore Dollar	SGD	3.80%	3.20%
Thai Baht	THB	3.30%	2.90%
Russian Rubble	RUB	4.40%	2.60%
Canadian Dollar	CAD	2.50%	2.20%
Swiss Franc	CHF	1.50%	1.70%
New Zealand Dollar	NZD	0.70%	0.40%
South Korean Won	KRW		10.80%
Saudi Riyal	SAR		2.00%
United Arab Emirates Dirham	AED		1.90%
South African Rand	ZAR		1.80%
Mexican Peso	MXN		1.70%
Turkish Lira	TRY		0.80%
Polish Zloty	PLN		0.70%
Swedish Krona	SEK		0.50%
Danish Krone	DKK		0.40%
Hungarian Forint	HUF		0.30%
Norwegian Krone	NOK		0.30%



Data from Bloomberg as of 3/31/2019, indices were rescaled to 10,000 at 12/31/2015.

# Chinese Onshore Renminbi (CNY) outperformed major emerging market currencies last year

Expanded Major Currencies\* Return Comparison

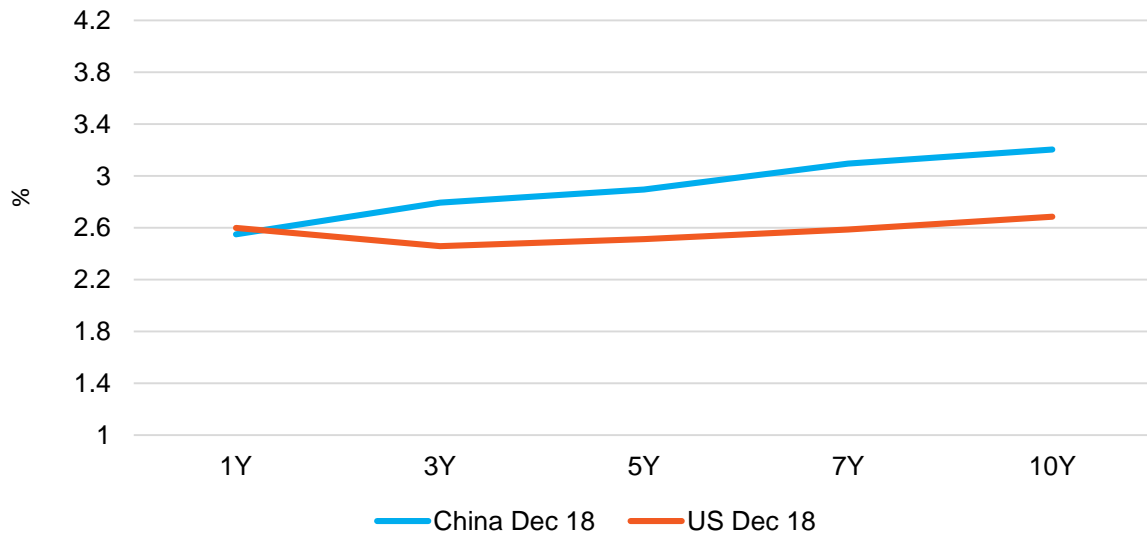


Data from Bloomberg as of 3/31/2019.

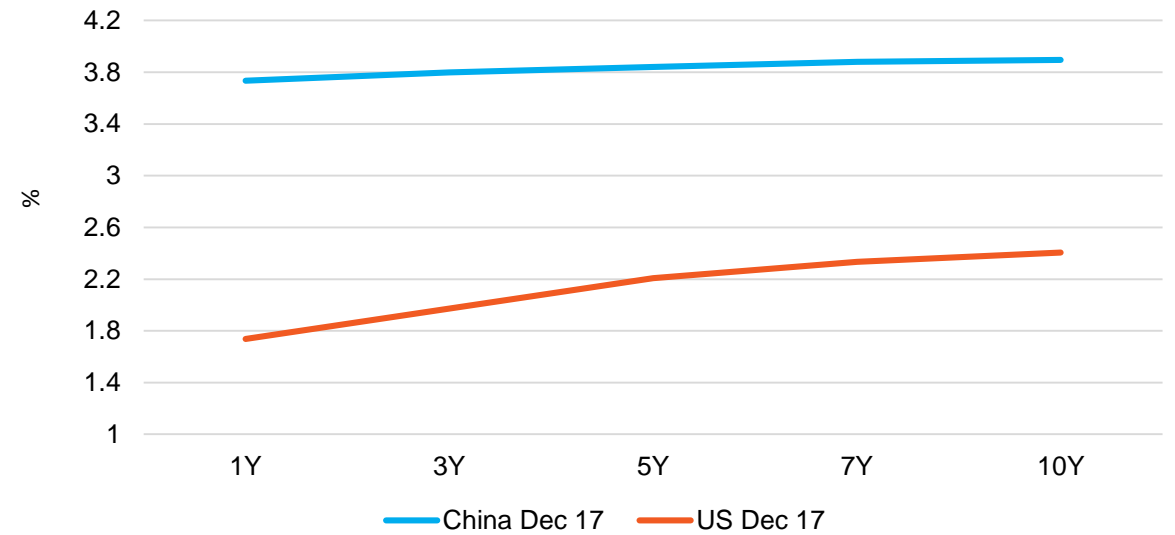
\*Expanded Major Currencies defined by Bloomberg as of 3/31/2019.

Historically, yields in China have been higher than in the US across the yield curve. Recent rapid rate increases in the US have caused yields to converge at the front-end of the curve.

US China Yield Curve 2018



US China Yield Curve 2017



## KraneShares E Fund China Commercial Paper ETF (NYSE: KCONY)

### Investment Strategy

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### KCONY Performance History as of 3/31/2019

	Cumulative			Annualized Calendar QTR 3/31/2019		
	3 Mo	6 Mo	Since Inception 12/02/2014	1 Yr	3 Yr	Since Inception 12/02/2014
Fund NAV	3.13%	4.26%	5.19%	-2.52%	2.06%	1.18%
Closing Price	3.32%	3.98%	4.99%	-2.38%	2.03%	1.13%
Index	3.40%	4.20%	8.67%	-2.54%	2.54%	1.94%

\* Contractual net fee waivers are in effect until October 4, 2019

**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)**

**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.**

### Key Fund Information

Ticker	KCONY	
Primary Exchange	NYSE	
Index Name	CSI Diversified High Grade Commercial Paper Index	
Total Annual Fund Operating Expense	Gross: 0.74%	Net: 0.62%*
Inception Date	12/02/2014	
Distribution Frequency	Monthly	

Credit quality of underlying securities	Investment Grade <sup>1</sup>	Top 10 Holdings as of 3/31/2019 (Holdings subject to Change) (Excl cash & cash equivalents)	
		%	
Maturity	0.34 years	5.62	SHAPRO 3 ¾ 09/09/19
		4.89	GUOPOW 4.1 04/12/19
30-day SEC Yield	2.51%	4.15	TSSTEE 4.87 04/04/19
		3.99	CFHENG 3.38 09/06/19
30-day SEC Unsubsidized Yield	2.39%	3.98	TJNCON 3.3 01/09/20
		3.97	SHGANG 3.14 11/15/19
		3.97	SHAGAN 3.29 11/22/19
		3.97	XMINTR 0 11/25/19
		3.97	BJSTAT 2.95 11/18/19
		3.27	PINGAO 4.51 04/19/19

<sup>1</sup> For purposes of the Underlying Index, investment grade commercial paper is commercial paper that is issued by an issuer whose long-term bonds are rated AAA or equivalent by one or more Chinese credit rating agencies; or commercial paper that is issued by an issuer whose long-term bonds are rated AA+ or equivalent by one or more Chinese credit rating agencies and commercial paper is rated A-1 or equivalent by one or more Chinese credit rating agencies 13

## KraneShares E Fund China Commercial Paper ETF (ticker: KCFNY) Monthly Distributions

2018 Distributions			
Ex-Date	Record Date	Payable Date	Amount
12/26/2018	12/27/2018	12/28/2018	\$0.70
11/28/2018	11/29/2018	11/30/2018	\$0.12
10/29/2018	10/30/2018	10/31/2018	\$0.12
9/26/2018	9/27/2018	9/28/2018	\$0.12
8/29/2018	8/30/2018	8/31/2018	\$0.12
7/30/2018	7/27/2018	7/31/2018	\$0.12
6/28/2018	6/27/2018	6/29/2018	\$0.13
5/30/2018	5/29/2018	5/31/2018	\$0.13
4/27/2018	4/26/2018	4/30/2018	\$ 0.11

2019 Distributions			
Ex-Date	Record Date	Payable Date	Amount
3/27/2019	3/28/2019	3/29/2019	\$0.12
2/26/2019	2/27/2019	2/28/2019	\$0.12
1/29/2019	1/30/2019	1/31/2019	\$0.12

## 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 when buying and receive less than net asset value (NAV) 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 a decline in value. Fluctuations in currency of foreign countries may have an adverse effect on domestic currency values. Emerging markets involve heightened risk related to the same factors as well as increased volatility and lower trading volume.

The KraneShares E Fund China Commercial Paper ETF is subject to interest rate risk, which is the chance that bonds will decline in value as interest rates rise. The components of the securities held by the Fund will be rated by Chinese credit rating agencies, which may use different criteria and methodology than U.S. entities or international credit rating agencies. The Fund may invest in high yield and unrated securities, whose prices are generally more sensitive to adverse economic changes and consequently more volatile. The Fund is subject to industry concentration risk and is non-diversified. Narrowly focused investments typically exhibit higher volatility.

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