Introduction to the KraneShares CICC China Leaders 100 Index ETF:
A Smart Beta Approach to Investing in Mainland China’s Top 100 Companies
Introduction to China International Capital Corporation (CICC) and KraneShares

About CICC
Leading publicly traded (Hong Kong) Chinese financial services company with expertise in research, asset management, investment banking, private equity and wealth management. Majority owned by China Investment Corporation (CIC), the second largest sovereign wealth fund with over $900 billion AUM.

CICC 2018 Awards

<table>
<thead>
<tr>
<th>Institutional Investor</th>
<th>Asiamoney</th>
<th>Forbes</th>
<th>Finance Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td>#1 China Research Team</td>
<td>Best Local Brokerage</td>
<td>China Top PE (CICC Capital)</td>
<td>Best Investment Bank in China</td>
</tr>
</tbody>
</table>

About KraneShares
KraneShares' mission is to provide investors with strategies to capture China’s importance as an essential element of a well-designed investment portfolio. KraneShares seeks to provide innovative, first to market strategies that have been developed based on the firm and its partners’ deep knowledge of investing. The firm was founded in 2013 and manages over $2B across fourteen China-focused strategies for individuals and institutions globally. In 2017, KraneShares formed a strategic partnership with China International Capital Corporation (CICC) when they acquired a majority ownership stake.

CICC has over 200 branches in Mainland China and has set footprints in Hong Kong, New York, San Francisco, London and Singapore.
Investment Strategy:
KFYP tracks the CSI CICC Select 100 Index, which takes a smart-beta\(^1\) approach to systematically invest in companies listed in Mainland China. The strategy is based on China International Capital Corporation (CICC)’s latest research on China’s capital markets. This quantitative approach reflects CICC’s top down and bottom up research process, seeking to deliver the 100 leading companies in Mainland China.

KFYP features:
• Smart-beta strategy which seeks to deliver cost effective alpha\(^2\).
• Exposure to the top 100 industry leaders within China’s Mainland A-share market identified through the CICC Research team’s quantitative methodology.
• Seeks to provide exposure to performance leaders through a Return on Equity (ROE)\(^3\) filter which is further refined through bottom-line growth and valuation criteria.

About CICC & CICC Research:
• CICC is a leading, publicly traded, Chinese financial services company with expertise in research, asset management, investment banking, private equity and wealth management.
• In 2018, the CICC Research Team ranked #1 in Institutional Investor’s All-China Research Category for the seventh year in a row.\(^4\)
• CICC has over 200 branches across Mainland China, with offices in Hong Kong, Singapore, New York, San Francisco, and London.

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1. Smart beta is an investment style where a manager passively follows an index designed to take advantage of perceived systematic biases or inefficiencies in the market.
2. Alpha is the active return on an investment, gauges the performance of an investment against a market index or benchmark which is considered to represent the market’s movement as a whole.
3. Return on equity (ROE) is a measure of financial performance calculated by dividing net income by shareholders’ equity.
The 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.

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.

• On September 3, 2018 MSCI completed the first 5% inclusion of China A-Shares within the MSCI Emerging Markets Index.

• Then, on February 28, 2019, MSCI announced they will increase the inclusion factor of China A-Shares from 5% to 20% in 2019.

• The full proposed inclusion weight is projected to reach 17.4% of the Emerging Markets Index.

• We believe multiple inclusions could provide a sustained catalyst for the outperformance of the Mainland market.

1. MSCI.com/China retrieved 6/30/2019
2. “MSCI Will Increase The Weight Of China A Shares In MSCI Indexes” MSCI, 6/30/2019
The Chinese economy is transforming into a high-quality growth model. As such, prudent China investment strategies will allocate according to signs of long-term value and growth rather than sentiment.

As the world’s second largest economy develops, the structure of its capital markets will increasingly resemble those in the developed world.

- The Chinese government’s 13th Five Year Plan (2016-2020) stressed market allocation of resources and lowering costs of doing business in China.¹

- Chinese consumers are upgrading to higher-end products while its industries are consolidating and moving up the value chain.²

- Accordingly, the financial sector in China is experiencing significant growth. Financial institutions are increasingly exerting influence over equity markets³ as they long have done in developed capital markets. In the United States, institutions own approximately 80% of the stock market.⁴

- The result is that markets become less influenced by short-term sentiment and are increasingly driven by long-term fundamentals analysis.

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KraneShares has partnered with CICC and CSI to provide investors with smart-beta investment solutions.
Why use the smart-beta approach with China A-shares?

- Compared to active and traditional passive funds, a smart-beta approach provides investors with a cost-effective way to potentially gain excess returns in China’s A-share market.
- Lower fees compared to average fees of active A-share funds
- Liquidity and transparency provided through the ETF structure
The Chinese market is dominated by retail investors which can make smart-beta investing more challenging

- Individual investors account for more than 80% of total trading volume in the China A-share market
- China A-shares see a higher proportion of retail investors in market turnover than other major markets
- Retail investors are typically more sentiment driven than institutions, which may cause stock prices and fundamentals to diverge significantly

**Market Turnover of Major Asian Stock Exchanges by Investor Type**

- China: 85% Retail Investors, 15% Institutional Investors
- Korea: 53% Retail Investors, 47% Institutional Investors
- Hong Kong: 25% Retail Investors, 75% Institutional Investors

**Trading Volume of the Shanghai Stock Exchange by Investor Type**

- Individual Investors: 90%, 87%, 89%, 87%, 86%, 83%, 85%, 88%, 89%, 87%
- Institutional Investors: 10%, 13%, 11%, 13%, 14%, 17%, 15%, 12%, 10%, 12%

CICC has identified that smart-beta investing is more effective for companies with high ROE\(^1\) in China

- An ROE filter is a useful tool for identifying stocks that perform in line with fundamentals
- CICC Research has determined that smart-beta factors work more effectively when applied to the top 50% of A-share stocks as ranked by normalized ROE
- These stocks tend to have a more stable shareholder base because institutional investors typically make decisions based on fundamentals over longer time horizons


1. Return on equity (ROE) is a measure of financial performance calculated by dividing net income by shareholders’ equity
The CICC smart-beta approach selects companies with a combination of high and stable ROEs, high dividend yields, and high earnings growth rates to determine China’s top 100 A-share companies.

Smart-Beta Filtering Process for Constituent Selection

1. **China A-share Stock Universe**
   - Select stocks from Chinese companies listed on the Shanghai and Shenzhen Stock Exchanges.

2. **Size and Liquidity Screen**
   - Implement a market cap, revenue and liquidity screen to eliminate small and illiquid stocks.

3. **Quality Filter**
   - Select firms with high and stable ROEs which are more likely to perform in line with fundamentals.

4. **Smart-Beta Factors**
   - Rank the companies by average 5-year dividend yield and growth rate of net profit.

5. **CICC Select 100**
   - Choose the top 100 remaining Chinese A-share companies as constituents of the CICC Select 100 Index. They are free-float market capitalization weighted with each stock capped at 5%.

Source: “Methodology of CSI CICC Select 100 Index”, China Securities Index Co., Ltd.
The KraneShares CICC China Leaders 100 Index ETF provides exposure to predominantly large cap China A-share companies across a diverse range of sectors.
Since inception, the CICC Select 100 Index has generally outperformed other China A-share indexes.

*Cumulative return is the aggregate amount that an investment has gained or lost over time.*

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

See page 15 for index definitions.

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.

KraneShares CICC China Leaders 100 Index ETF* (ticker: KFYP)

KFYP tracks the CSI CICC Select 100 Index, which takes a smart-beta approach to systematically invest in companies listed in Mainland China. The strategy is based on China International Capital Corporation (CICC)'s latest research on China’s capital markets. This quantitative approach reflects CICC’s top down and bottom up research process, seeking to deliver the 100 leading companies in Mainland China.

Top Ten Holdings as of 6/30/2019
The Fund’s Holdings are Subject to Change.

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<tr>
<th>Ticker</th>
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KFYP Performance History as of 6/30/2019

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<tr>
<th>Cumulative %</th>
<th>Average Annualized %</th>
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<tr>
<td></td>
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<tr>
<td>Fund NAV</td>
<td>0.75%</td>
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<tr>
<td>Closing Price</td>
<td>3.75%</td>
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<tr>
<td>Index</td>
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*Formerly the KraneShares Zacks New China ETF
†The Hybrid KFYP Index (noted as “Index” above in the chart) consists of the CSI China Overseas Five Year Plan Index from the inception of the Fund through May 31, 2016, the Zacks New China Index from June 1, 2016 through November 1, 2018, and the CSI CICC Select 100 Index going forward.

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

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

**MSCI ACWI Index**: captures large and mid cap representation across 23 Developed Markets (DM) and 23 Emerging Markets (EM) countries.

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

**The MSCI China A Index**: captures large and mid cap representation across China securities listed on the Shanghai and Shenzhen exchanges.

**CSI 300 Index**: is a capitalization-weighted stock market index designed to replicate the performance of top 300 stocks traded in the Shanghai and Shenzhen stock exchanges. Inception date is 4/8/2005.

**CSI CICC Select 100 Index**: is designed to select 100 A-Shares companies with high and stable ROEs, high dividend yields and high earnings growth rates amongst a stock pool which is comprised of the A-Shares companies with higher size, liquidity and operating revenue in each Industry Group according to CSI Industry Classification Standard. Inception date is 2/14/2018.
Important Notes

Carefully consider the Funds’ investment objectives, risk factors, charges and expenses before investing. This and additional information can be found in the Funds’ full and summary prospectus, which may be obtained by visiting www.kraneshares.com. Read the prospectus carefully before investing.

ETF shares are not redeemable with the issuing fund other than in large Creation Unit aggregations. Instead, investors must buy or sell ETF Shares in the secondary market with the assistance of a stockbroker. In doing so, the investor may incur brokerage commissions and may pay more than net asset value (NAV) when buying and receive less than net asset value when selling. The NAV of the Fund’s shares is calculated each day the national securities exchanges are open for trading as of the close of regular trading on the New York Stock Exchange (“NYSE”), normally 4:00 P.M. Eastern time (the "NAV Calculation Time"). Shares are bought and sold at market price not NAV. Closing price returns are based on the midpoint of the bid/ask spread at 4:00 P.M. Eastern Time (when NAV is normally determined).

Narrowly focused investments typically exhibit higher volatility. Technology companies may be subject to severe competition and rapid obsolescence. The Fund is non-diversified.

Investing involves risk, including possible loss of principal. There can be no assurance that a Fund will achieve its stated objectives. The Funds are subject to political, social or economic instability within China which may cause decline in value. Fluctuations in currency of foreign countries may have an adverse effect to domestic currency values. Emerging markets involve heightened risk related to the same factors as well as increase volatility and lower trading volume.

Although the information provided in this document has been obtained from sources which Krane Funds Advisors, LLC believes to be reliable, it does not guarantee accuracy of such information and such information may be incomplete or condensed.

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