

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

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





**KraneShares Bosera
MSCI China A Share
ETF**

Investment Strategy:

KBA is benchmarked to the MSCI China A Index which captures large and mid-cap representation across China securities listed on the Shanghai and Shenzhen exchanges (A-shares). Over the coming years, MSCI will complete the incremental inclusion of China A-Shares into their Global Standard Indexes, including the MSCI Emerging Markets Index, which may potentially benefit the securities KBA holds today. The MSCI China A Index is designed for global investors accessing the A-share market using the Stock Connect framework and is calculated using China A Stock Connect listings based on the offshore RMB exchange rate (CNH).

MSCI China A-Share Inclusion Overview:

- China A-Shares are vastly underrepresented in global indexes. While the United States has a weight of 55.59% in the MSCI All Country World Index, China only has a weight of 4.19%¹.
- MSCI is incrementally realigning China's overall weight in their Global Standard Indexes through the inclusion process, and by the end of 2019, MSCI's definition of China included 264 large-cap and 172 mid-cap A-Share securities, including 30 securities from the ChiNext board².
- Upon completion, China A-Shares are predicted to account for about 17% of the MSCI Emerging Market (EM) Index³.

MSCI China A Index Overview:

- The Index captures mostly large and mid-cap equities listed on the Shanghai and Shenzhen stock exchanges and reflects the full 2019 inclusion of China A-Shares in the MSCI Emerging Markets Index.
- On March 11, 2019, the Hong Kong Stock Exchange announced a license agreement with MSCI to introduce futures contracts on the MSCI China A Index⁴.
- There are a total of 465 constituents¹ giving investors diverse exposure to A-Shares.

1. Data from MSCI as of 12/31/2019.
 2. MSCI, "MSCI Will Increase the Weight of China A Shares in MSCI Indexes", 2/28/2019.
 3. MSCI, "China and the future of equity allocations", June 2019.
 4. HKEx, MSCI China A Index Futures, 9/30/2019.

The Evolution of China's Capital Markets and KraneShares



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



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 BofA MSCI China A-Share ETF (Ticker: KBA) launches
KraneShares partners with BofA 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

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

March 2019

HKEX launches futures contracts for the MSCI China A Index

1990

2002

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

2013

KraneShares launches its first U.S. listed China ETF



KraneShares

Dec 2014

KraneShares E Fund China Commercial Paper ETF (Ticker: KCNY) Launches
KraneShares partners with E Fund Asset Management to list KCNY, 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

Sep 2018

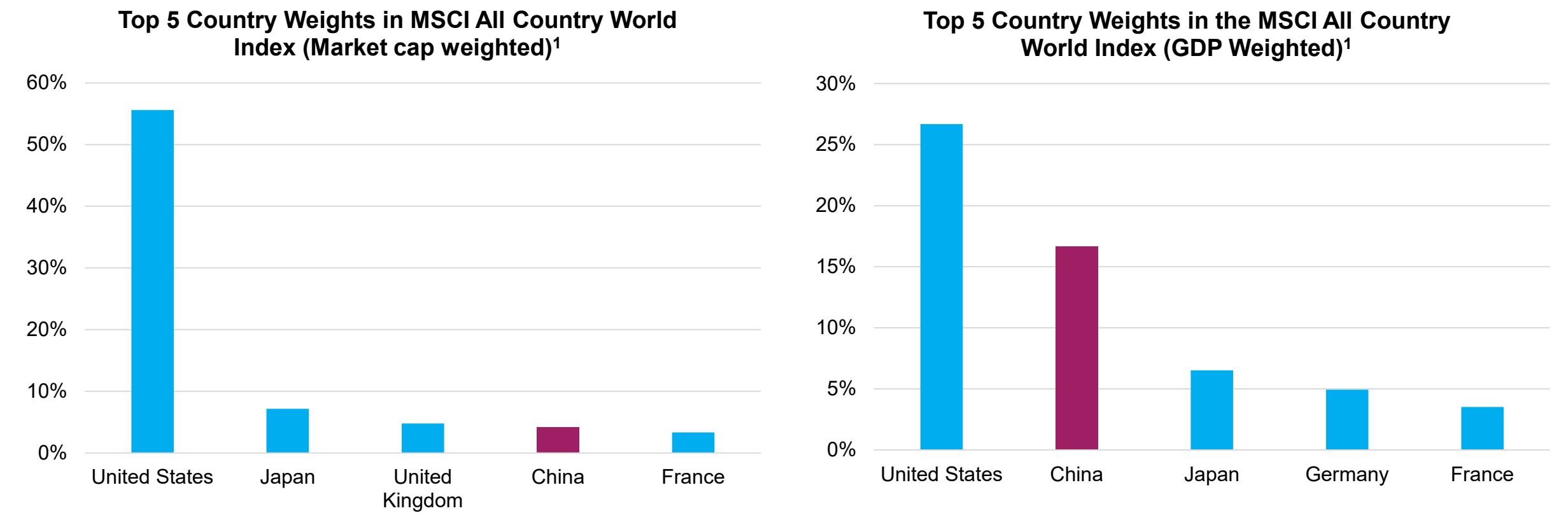
First phase of China A-Share Inclusion completed

Nov 2019

Second phase of China A-Share Inclusion scheduled for completion

The China A-Share market is too big to ignore.

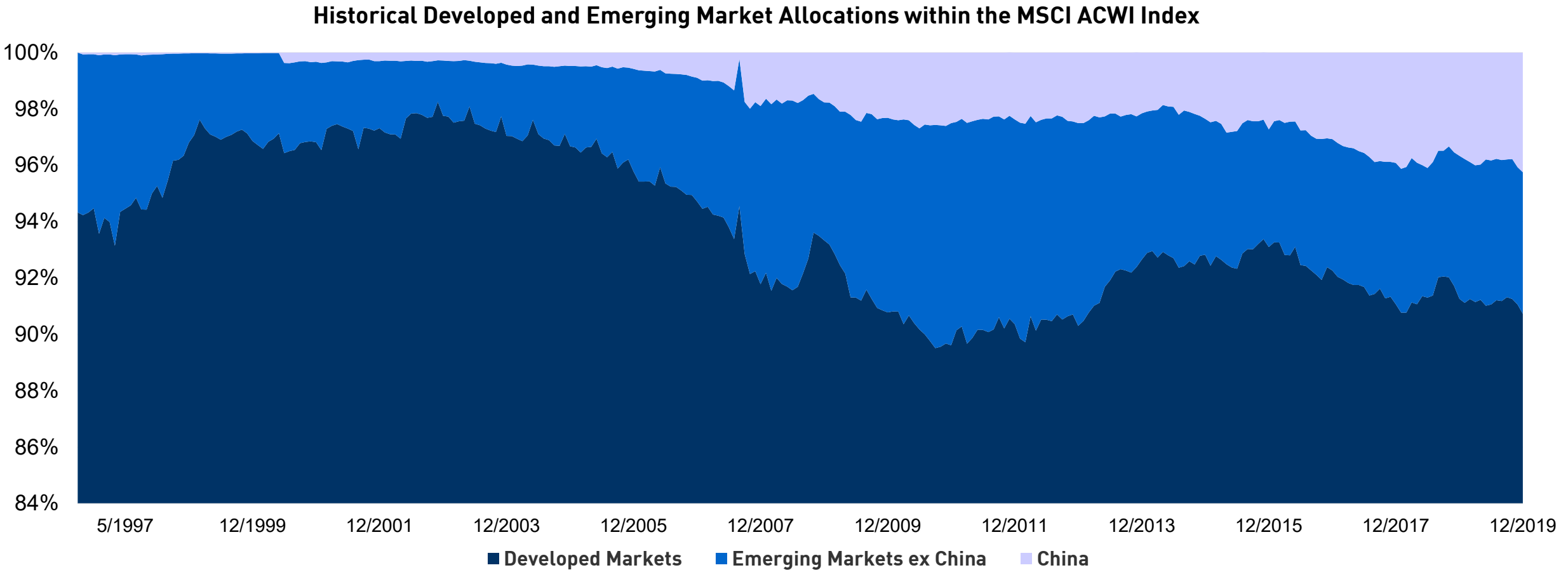
Even though China is the world’s second largest economy and stock market, China A-Shares are still underrepresented in global capital markets.



1. Data from MSCI as of 12/31/2019, retrieved 12/31/2019. See page 16 for index definitions

Emerging Market Evolution

- China’s weighting in the MSCI ACWI Index has grown since 2000 but remains a small percentage overall.
- We believe China will occupy a larger portion of both the MSCI All Country World Index and investors’ portfolios in general as its markets continue to open up.



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 12/31/2019.
² Based on latest P&I AUM data and MSCI clients as of March 2018, retrieved 12/31/2019.
³ As of September 2018 , retrieved 9/30/2019; 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 12/31/2019.

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 and China A-shares. This definition represents only a small percentage of Chinese stocks.

MSCI's Current Global Standard Definition of China

MSCI China Index

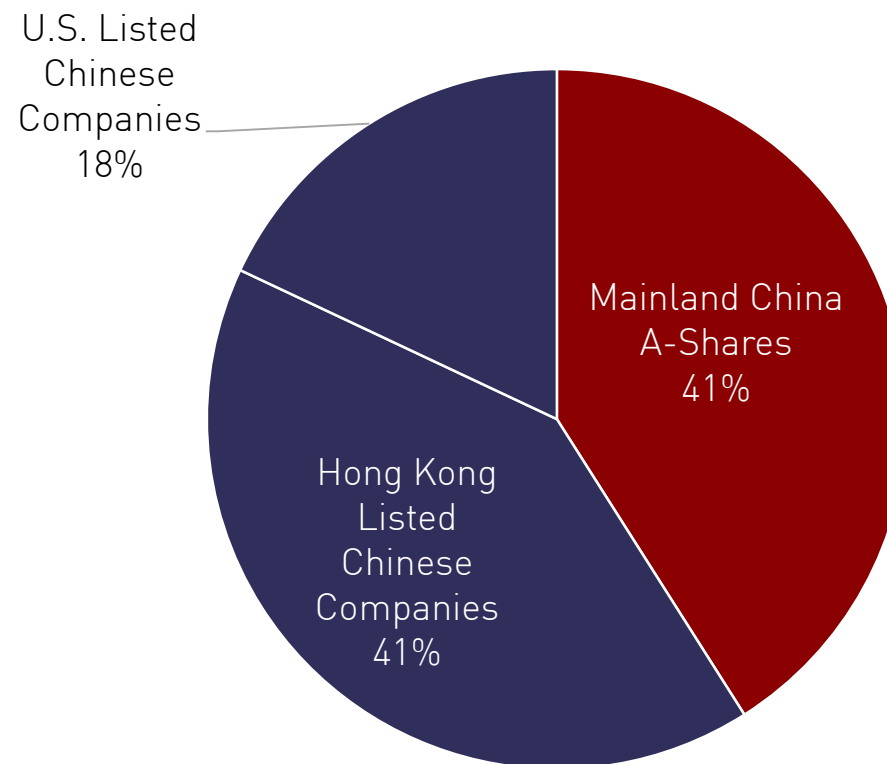
Hong Kong and US = 88.4%
China A-Shares = 11.60%
597 Stocks

MSCI's Definition of Entire Mainland A-Share Market

MSCI China A Onshore IMI Index

Shanghai and Shenzhen only
2,729 Stocks

SHARE CLASS BREAKDOWN OF THE MSCI CHINA ALL SHARES INDEX

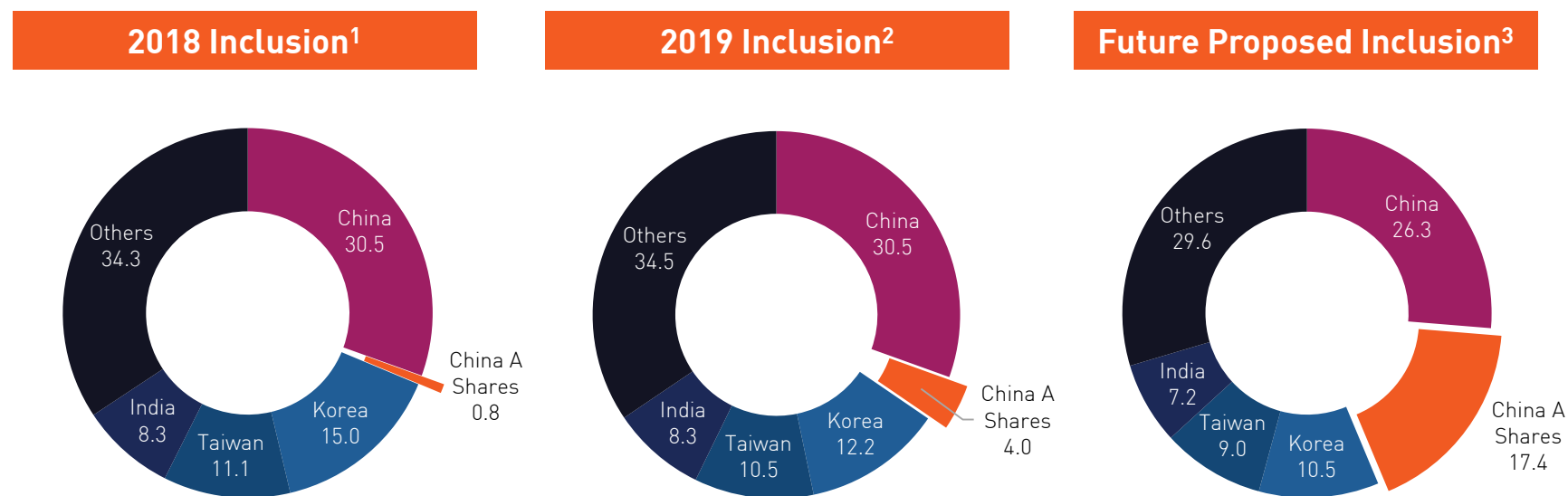


On February 28, 2019, MSCI made a larger than expected China A-Share inclusion announcement. MSCI will increase the inclusion factor of China A-Shares in their Global Standard Indexes from 5% to 20% in 2019.

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.

China A-Share Inclusion in MSCI EM



1. MSCI.com/China, retrieved 12/31/2019

2. "MSCI Will Increase The Weight Of China A Shares In MSCI Indexes" MSCI, Feb. 2019, retrieved 12/31/2019

3. MSCI, "China and the future of equity allocations", June 2019., retrieved 12/31/2019

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

- 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 465 securities deemed most suitable for international investors by MSCI.¹
- The constituent count overlap of these indexes is approximately 53%.²
- 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	Takes into account Chinese regulator's foreign ownership limits of 30%	Does not consider foreign ownership limits, creating potential for tracking error	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

1. Data from MSCI as of 12/31/2019.

2. Data from Bloomberg as of 12/31/2019 calculated by KraneShares.

See page 16 for index definitions.

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

- There are currently 3,867 A-Shares listed in Mainland China.
- A-Shares contain 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 12/31/2019

		Average Market Cap	30 Day Average Daily Volume
93% KBA Net Assets	1	15.0 B	34.0 M
7% KBA Net Assets	2	2.6 B	20.7 M
0% KBA Net Assets	3	1.5 B	16.2 M
	4	1.0 B	14.0 M
	5	738.8 M	10.7 M
	6	571.0 M	9.0 M
	7	444.2 M	7.7 M
	8	334.7 M	5.7 M
	9	230.4 M	4.8 M

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	0.946	0.818	0.947	0.698	0.45	0.337
EAFE	0.946	1	0.797	0.809	0.672	0.451	0.308
EM	0.818	0.797	1	0.66	0.869	0.438	0.406
USA	0.947	0.809	0.66	1	0.564	0.392	0.291
China	0.698	0.672	0.869	0.564	1	0.402	0.581
Frontier	0.45	0.451	0.438	0.392	0.402	1	0.259
China A	0.337	0.308	0.406	0.291	0.581	0.259	1

- 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

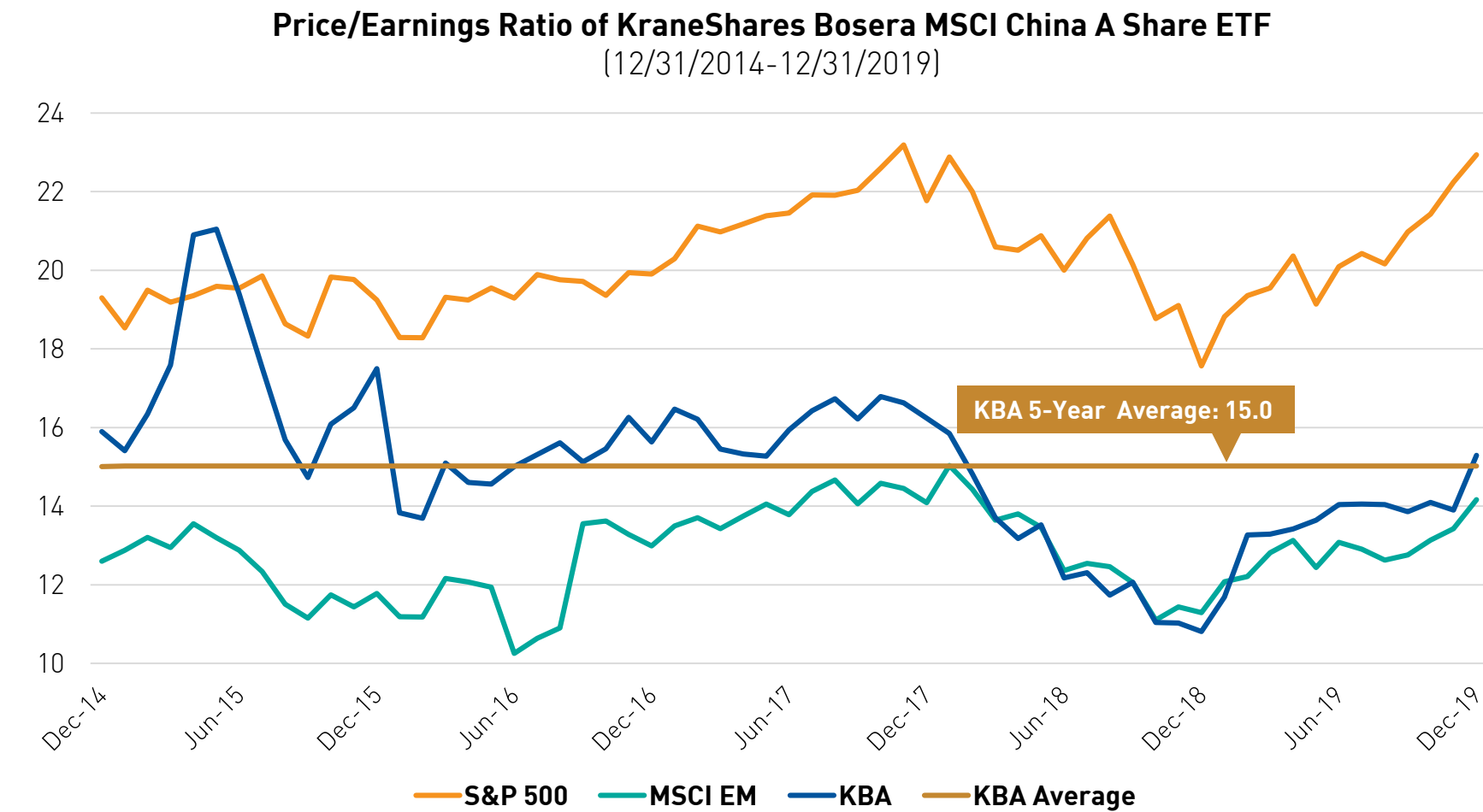
Source: Table from Bloomberg, weekly correlation from December 31, 2009 to December 31, 2019

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 16 for index definitions.

Past performance is no guarantee of future results.

Current 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.



Data from FactSet as of 12/31/2019

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.

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

Investment Strategy:

KBA is benchmarked to the MSCI China A Index which captures large and mid-cap representation across China securities listed on the Shanghai and Shenzhen exchanges (A-shares). The MSCI China A Index is designed for global investors accessing the A-share 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 Index	
Primary Exchange	NYSE	
Total Annual Fund Operating Expense	Gross: 0.80%	Net: 0.60%*
Inception Date	3/4/2014	

Top Ten Holdings as of 12/31/2019 (Excluding cash) The Fund's Holdings Are Subject to Change.	%
KWEICHOW MOUTAI CO LTD-A	5.18
PING AN INSURANCE GROUP CO-A	3.23
CHINA MERCHANTS BANK-A	2.71
WULIANGYE YIBIN CO LTD-A	1.80
INDUSTRIAL BANK CO LTD -A	1.44
JIANGSU HENGRUI MEDICINE C-A	1.34
CHINA YANGTZE POWER CO LTD-A	1.31
SHANGHAI PUDONG DEVEL BANK-A	1.27
IND & COMM BK OF CHINA-A	1.10
CHINA VANKE CO LTD -A	1.09

KBA Performance History as of 12/31/2019

	Cumulative %**			Average Annualized %			
	3 Mo	6 Mo	Since Inception 7/31/2013	1 Yr	3 Yr	5 Yr	Since Inception 7/31/2013
Fund NAV	10.16%	6.99%	55.66%	34.50%	8.46%	-0.04%	7.90%
Closing Price	11.03%	7.27%	56.76%	36.04%	9.17%	0.02%	8.03%
Index	10.36%	7.64%	65.64%	35.69%	6.88%	0.54%	9.04%

†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, the MSCI China A Inclusion Index from December 26, 2017 to May 29, 2019, and the MSCI China A Index going forward.

*Fee waivers are contractual and in effect until 1/Aug/2020.

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.

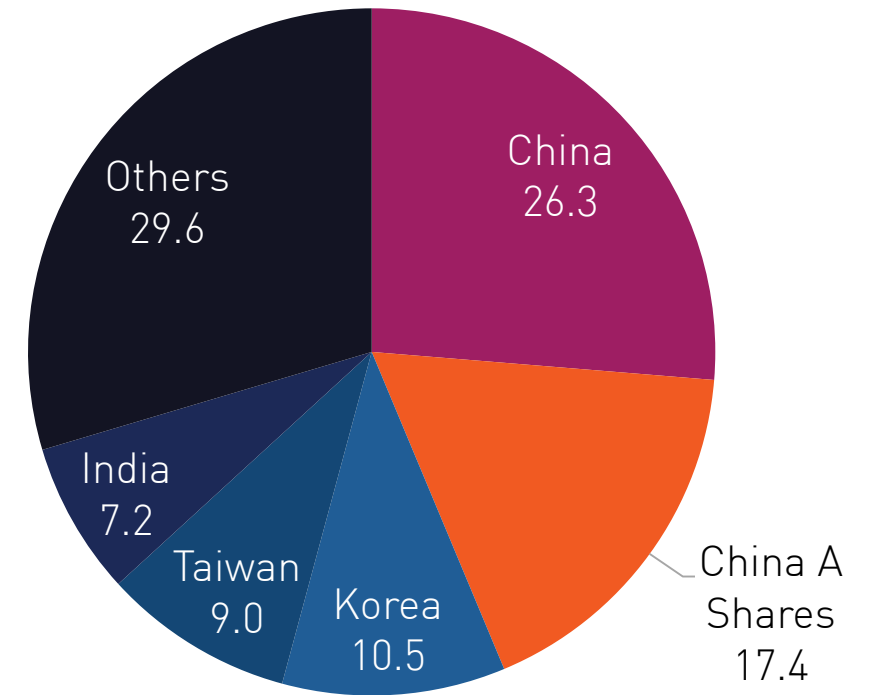
The Index reflects the reinvestment of any cash distributions after deduction of any withholding tax using the maximum rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

Index returns are for illustrative purposes only. Index performance returns do not reflect any management fees, transaction costs or expenses (except for withholding taxes described above). 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 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.

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



Source: MSCI, "China and the future of equity allocations", June 2019.

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.

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

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

MSCI USA Index: The MSCI USA Index is designed to measure the performance of the large and mid cap segments of the US market.

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

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

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.

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.

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.

The KraneShares ETFs are distributed by SEI Investments Distribution Company (SIDCO), which is not affiliated with Krane Funds Advisors, LLC, the Investment Adviser for the Fund.

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