

High Income Opportunity from China's USD Bond Market

An Overview of the
KraneShares CCBS China
Corporate High Yield Bond
USD Index ETF (Ticker: KCCB)



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).



KCCB

KraneShares CCBS China Corporate High Yield Bond Index ETF

Investment Strategy:

KCCB seeks to provide investment results that, before fees and expenses, track the price and yield performance of the Solactive USD China Corporate High Yield Bond Index. The Index seeks to track the performance of outstanding high yield debt securities denominated in U.S. dollars issued by Chinese companies.

USD China Corporate High Yield Bond Market Features:

- As dollar investors seek yield globally, the U.S. dollar denominated China corporate high yield bond market has grown considerably to meet investor demand.
- From 2014 to 2017, China accounted for more than half of all new annual USD bond issuance in Asia.¹
- The total value of Chinese USD denominated high yield corporate bonds increased by over 250% from 2015 to 2019, and the number of issuing companies increased by over 250% over the same period.²
- By the end of 2019, the total USD China Corporate High Yield Bond market size reached over \$800 billion with over 700 issuing companies.²

KCCB Features:

- USD-denominated exposure to China's high yield bond market.
- Low correlation to US and global markets.
- Co-managed by China Construction Bank (CCB), the second largest bank in the world by assets³.

1. Data from Bloomberg as of 12/31/17. Retrieved 3/31/2020.

2. Data from Bloomberg as of 12/31/2019. Retrieved 3/31/2020.

3. Global Finance, "Biggest Banks In The World 2018", 11/1/2018, retrieved 3/31/2020.

CCB Securities Ltd (CCBS), an overseas asset management platform owned by China Construction Bank (CCB), is the co-manager of KCCB.



\$3.38 Trillion in Assets¹

CCB Quick Facts

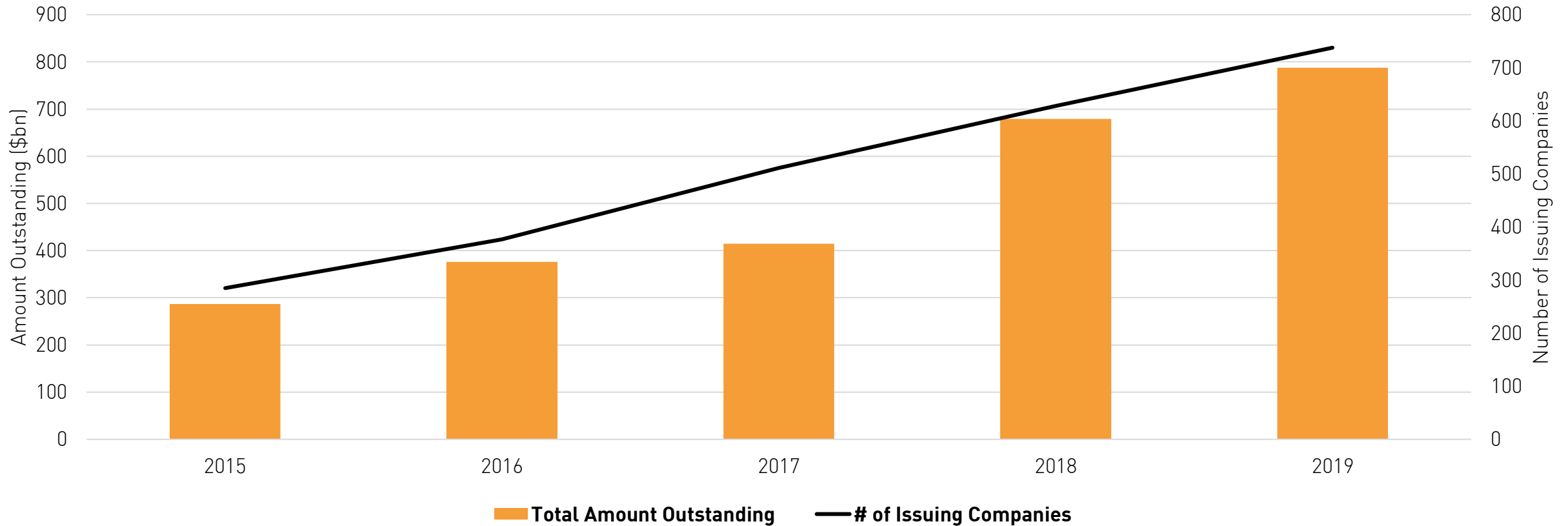
- **Headquartered in Beijing** with offices worldwide
- **Second largest** bank in the world by assets¹
- **Established in 1954**
- **Investment and Retail** banking divisions in China and around the world
- **Asset Management Team** with an average of 20 years of experience across asset classes including fixed income, equities, money market, FX, derivatives, fund-of-funds, etc.¹

1. Data from Forbes as of 3/31/2020.

China has the largest USD denominated bond market in Asia.

Demand from yield seeking investors created a booming USD denominated bond market for Chinese companies. Strong issuance provides a solid capacity for investors to benefit from this growing credit market.

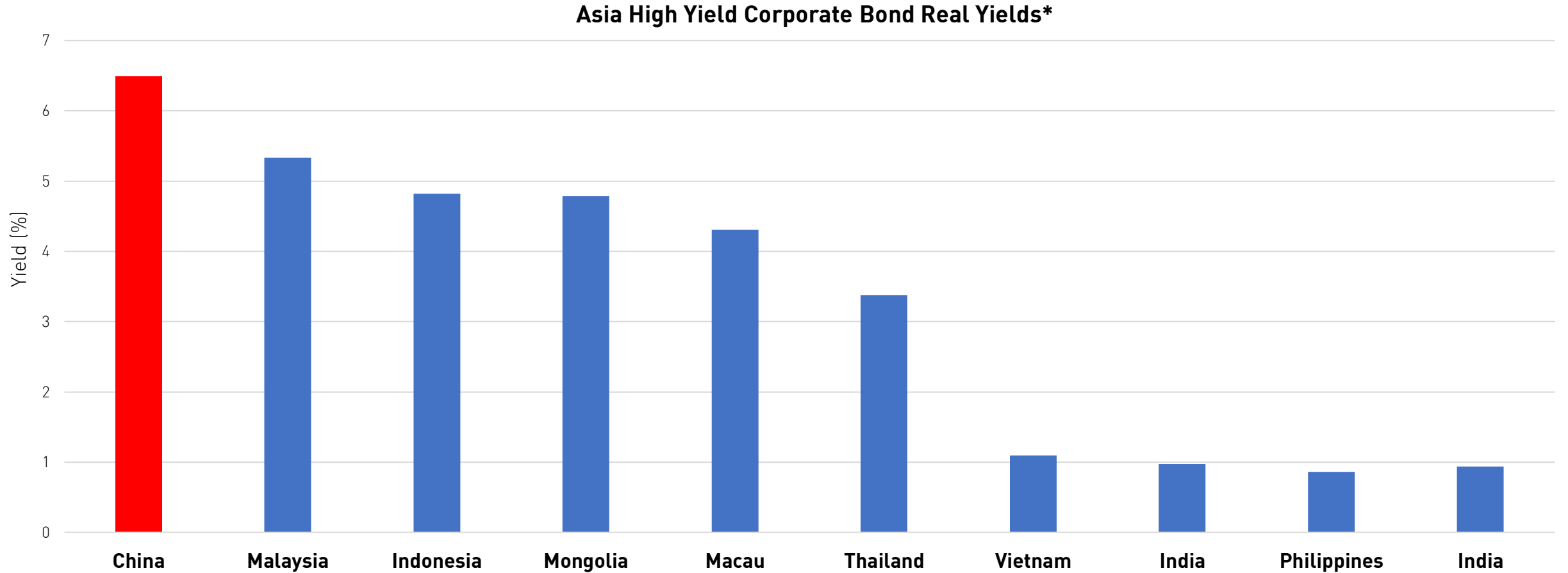
China USD Denominated High Yield Corporate Bond Issuance



Data from Bloomberg as of 12/31/2019. Note: High yield is defined as bonds that are not rated and/or have a rating of less than BBB- (S&P, Fitch) and/or less than Baa3 (Moody's). Issuing companies are counted by unique name and multiple issuers may represent the same underlying entity.

Yields on China corporate high yield debt are an outlier in Asia.

China's relatively low inflation rate means that real yields on high yield corporate debt are an outlier in Asia.



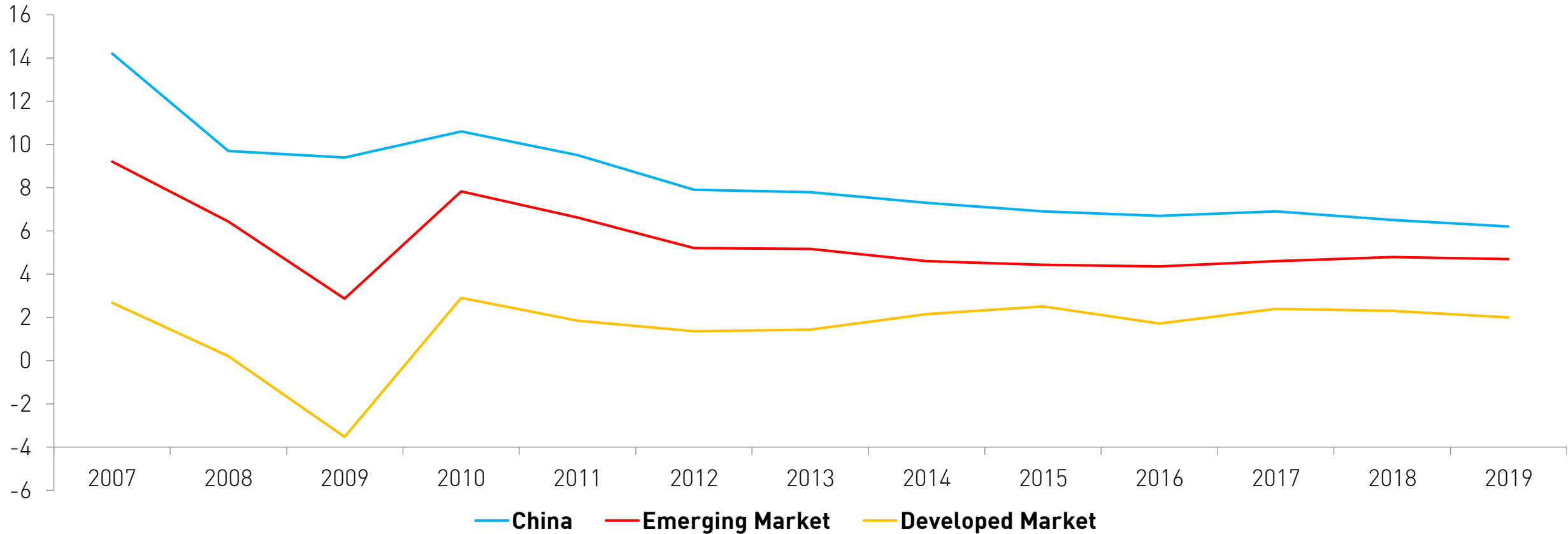
Data from JP Morgan as of 12/31/2019. Yields quoted from securities included in JP Morgan Corporate Emerging Markets Bond Index Broad High Yield (CEMBIB) . Real Yield=Yield to maturity-inflation (2018 CPI, according to World Bank)

A strong economy means a stable credit market.

China's economic growth has been relatively stable over the past few years

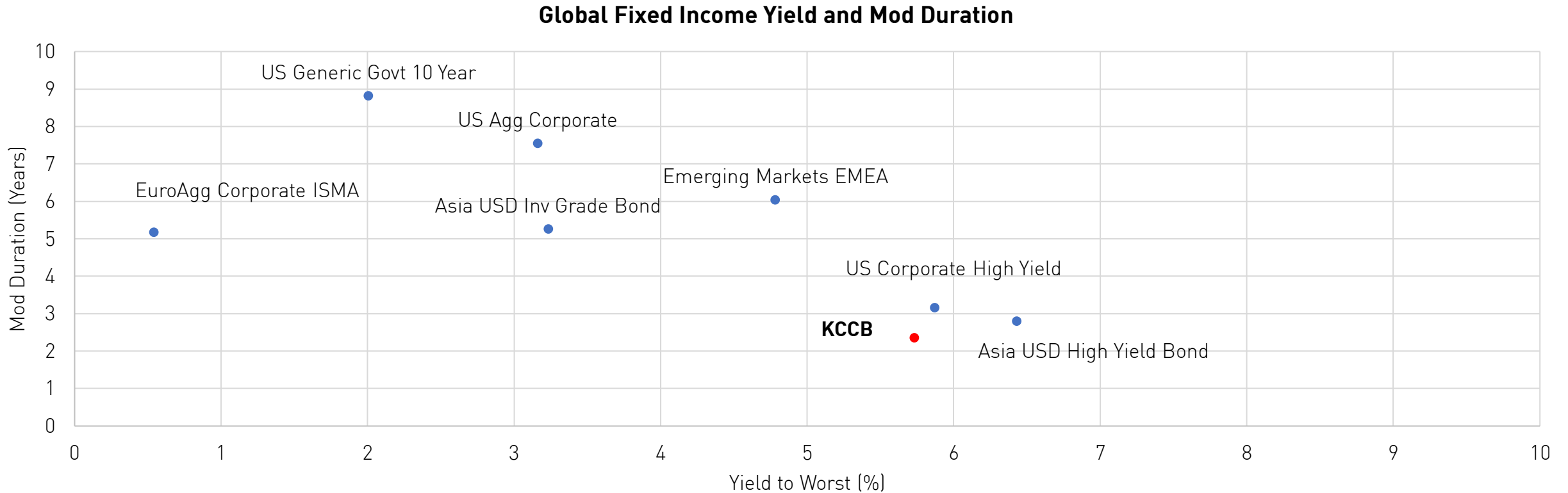
- China has a good track record for maintaining stable economic growth.

Real GDP Growth Rates



China high yield bonds offer comparatively higher yields and lower modified durations.

The China high yield bond market has a higher yield and lower modified duration¹ compared to other fixed income markets like the US and Europe.



Data from Bloomberg as of 3/31/2020. See page 13 for index descriptions. See page 12 for 30-day SEC yield.

1. Modified Duration is the change in the value of a bond that occurs with each percentage (100 bps) change in interest rates.
2. Yield to worst is the lowest possible yield that can be received on a bond without the issuer actually defaulting.

Index returns are for illustrative purposes only and do not represent actual Fund performance. Index returns do not reflect any management fees, transaction costs, or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

The China credit bubble is a misconception.

Deleveraging in 2017 created a stable credit market in 2018. China's corporates, especially SOEs¹, own abundant deposits, debt minus deposit shows a reasonable leverage level.



Data from Bloomberg as of 12/31/2018, retrieved 3/31/2020, Debt = Total Corporate Debt, Deposit = M1 - M0

1. SOE: State-Owned Enterprises as defined by MSCI are companies whose largest shareholder is a government entity or whose government ownership is over 20%.

Over the past 5 years, China USD-denominated high yield bonds have had negative correlations to the global bond market.

Correlation Matrix	10-Year US Treasury*	US Aggregate*	EU Aggregate*	Asia USD Investment Grade*	Asia USD High Yield	China USD High Yield*
10-Year US Treasury*	100%					
US Aggregate*	54%	100%				
EU Aggregate*	33%	80%	100%			
Asia USD Investment Grade*	74%	91%	72%	100%		
Asia USD High Yield*	7%	71%	64%	58%	100%	
China USD High Yield*	-7%	-71%	-62%	-59%	-83%	100%

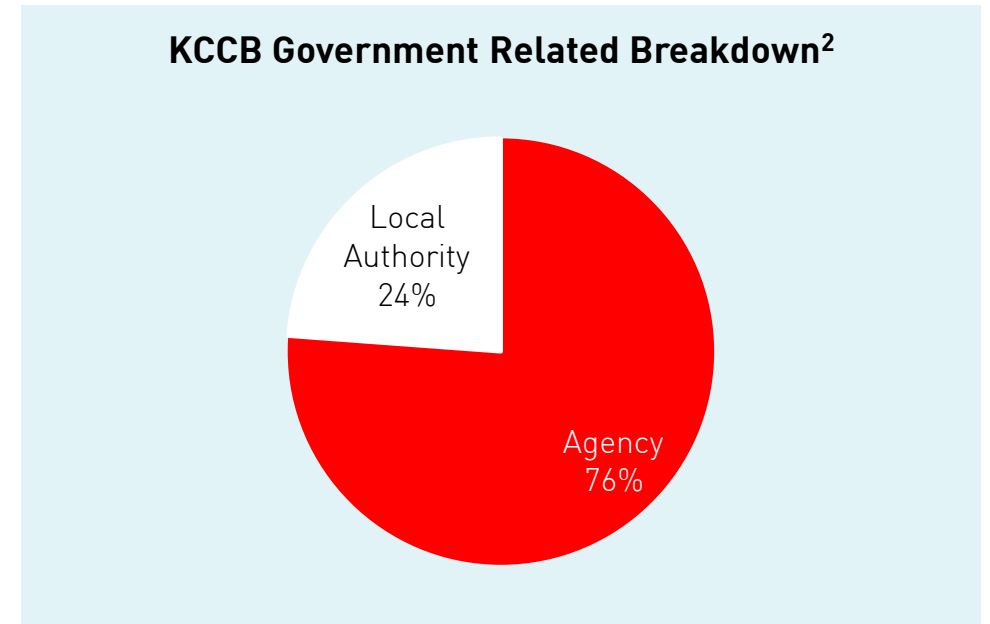
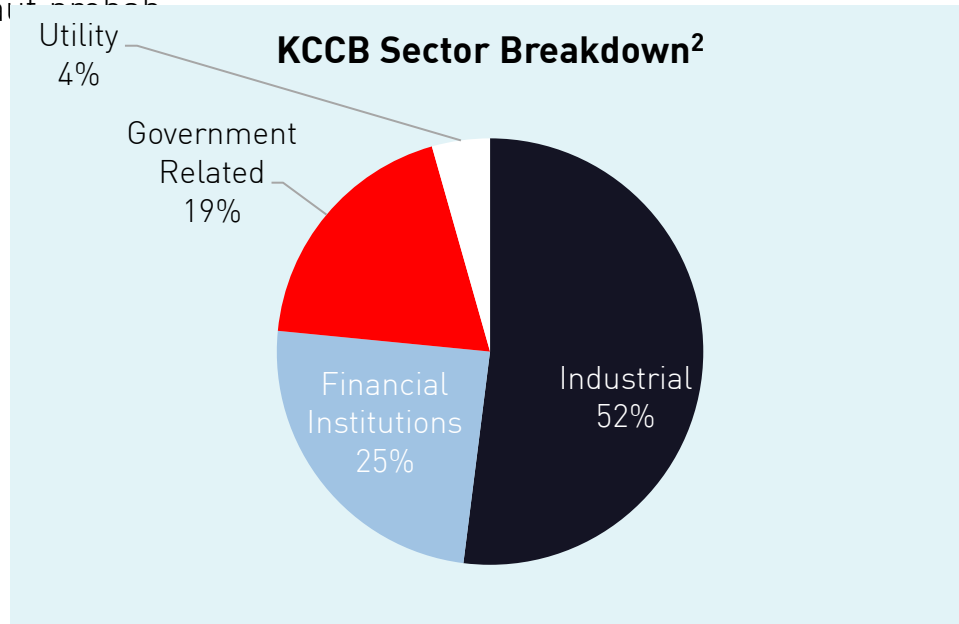
Data on correlation coefficients from Bloomberg from 3/31/2015 to 3/31/2020 (weekly)

*Index definitions available on page 14

Exposure to government-related debt may drive down default risk.

China's central government provides support and, at times, default protection for companies providing public or strategic services.

- Moody's affirmed China's central government's A1 sovereign rating in 2019 with a stable outlook. The ratings agency also affirmed that, depending on location and primary industry, many companies can be considered government related and will receive debt relief from the central government in extreme circumstances.¹
- With stable credit and 10-year yields of over 2% China government bonds are an attractive asset class. Government related issuers provide indirect access to government debt and at potentially higher rates of return.
- KCCB average 3-year default probability is 2.33%.²
- KCCB provides significant exposure to government-related issuers in the form of local authorities and agency issuers and an average 3-year default probability is 2.33%.



1. Lau, Gary. "Likelihood of extraordinary support depends on primary activities and government owner," Moody's Investors Service. July 30, 2019. Retrieved 3/31/2020.

2. Data from Bloomberg as of 3/31/2020.

KraneShares CCB China Corporate High Yield Bond USD Index ETF (NYSE: KCCB)

Investment Strategy:

The KraneShares CCBS China Corporate High Yield Bond USD Index ETF seeks to provide investment results that track the price and yield performance of the Solactive USD China Corporate High Yield Bond Index. The index seeks to track the performance of outstanding US dollar-denominated debt securities issued by Chinese corporations.

Ticker	KCCB
Index Name	Solactive USD China Corporate High Yield Bond
Primary Exchange	NYSE
Total Annual Fund Operating Expense	0.69%
Inception Date	6/28/2018
Distribution Frequency	Monthly
Cusip	500767843
Number of Holdings (ex cash)	52
Modified Duration*	3.52 Years
30-Day SEC Yield	6.62%
Unsubsidized 30-day SEC Yield	6.62%
Average 3-Year Default Probability**	2.33%

Top Ten Holdings as of 3/31/2020 Excluding cash. The Fund's Holdings Are Subject to Change	% of Fund
CKINF 5 7/8 PERP	4.35
CNREFI 3 3/4 03/09/22	3.58
NANYAN 5 PERP	2.90
KAISAG 9 3/8 06/30/24	2.81
KMCMIN 6.2 06/27/22	2.70
SHIMAO 6 1/8 02/21/24	2.66
ICBCAS 4 1/4 PERP	2.65
EVERRE 7 1/2 06/28/23	2.59
CIMWLB 6 1/2 PERP	2.24
CHALUM 4 1/4 04/21/22	2.18

*Modified Duration: The change in the value of a bond in response to a one percentage point (100bp) change in interest rates.

**Average 3-Year Default Probability: The average of the default probabilities (over a 3-year period) of the securities within the portfolio. Default probability is the probability that an issuer will default within a certain period (in this case 3 years) and is calculated based on each issuer's financials, economic environment, and credit rating.

KCCB Performance History as of 3/31/2020

	Cumulative %			Average Annualized %		
	3 Mo	6 Mo	Since Inception 6/28/2018	1 Yr	3 Yr	Since Inception 6/28/2018
Fund NAV	-7.13%	-5.48%	1.78%	-3.72%	-	1.01%
Closing Price	-5.95%	-4.23%	3.39%	-2.46%	-	1.91%
Index	-7.33%	-5.74%	5.27%	-3.28%	-	2.95%

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.

Important Notes (continued)

The 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. With 834 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

FTSE China 50 Index: is a real-time tradable index comprising 50 of the largest and most liquid Chinese stocks (H Shares, Red Chips and P Chips) listed and trading on the Stock Exchange of Hong Kong (SEHK).

MSCI China Index: The MSCI China Index captures large and mid cap representation across China H shares, B shares, Red chips and P chips. With 157 constituents, the index covers about 84% of this China equity universe.

S&P China BMI Index: is a comprehensive benchmark that defines and measures the investable universe of publicly traded companies domiciled in China, but are legally available to foreign investors.

US Generic Government 10 Year Index Yield (“10-Year US Treasury”): This index tracks the yield performance of 10-year treasury bills. Treasury bills are often used as a benchmark to represent a risk-free asset. Yields are yield to maturity and pre-tax. Indices have increased in precision as of 5/20/2008 to 4 decimal places. The rates are comprised of Generic United States on-the-run government bill/note/bond indices.

Bloomberg Barclays US Aggregate Corporate Index Yield to Worst (“US Aggregate”): This index tracks the yield to worst of corporate bonds in the United States. The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, fixed-rate agency MBS, ABS and CMBS (agency and non-agency). The US Aggregate Index was created in 1986 with history backfilled to January 1, 1976.

Bloomberg Barclays Euro Aggregate Corporate ISMA Index (“EU Aggregate”): The index is a rules based benchmark measuring investment-grade, Euro denominated, fixed rate, corporate bonds. The index began tracking on June 22, 1998.

Bloomberg Barclays US Corporate High Yield Index: The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

Bloomberg Barclays Asia USD Inv. Grade Bond Index (“Asia USD Investment Grade”): This index tracks the performance of Asian corporate bonds with an S&P rating of BBB- and/or a Moody's rating of Baa3 or higher. The index started tracking on June 30, 2009.

Blomberg Barclays Asia USD High Yield Bond Index (“Asia USD High Yield”): This index tracks the performance of Asian junk bonds. The bonds tracked have have a higher risk of default than investment grade bonds or may currently be in default. The index started tracking on January 30, 1987.

Solactive China USD Corporate High Yield Index (“China USD High Yield”): The index seeks to track the performance of outstanding US dollar-denominated debt securities issued by Chinese corporations.

Important Notes (continued)

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.

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Important Notes

Carefully consider the Funds' investment objectives, risk factors, charges and expenses before investing. This material must be preceded or accompanied by a prospectus. 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 Fund 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. The Fund invests in perpetual bonds, which offer fixed return with no maturity date. Perpetual bonds can be more volatile than other types of bonds that have a maturity date and may be more sensitive to changes to interest rates. The Fund depends on the CIBM Program to invest directly in RMB Bonds. There is no guarantee the Fund will be able to continue to participate in the program

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