

# The Emerging Market Consumer Internet & E-Commerce Opportunity

An Overview of the KraneShares  
Emerging Markets Consumer Technology ETF  
(Ticker: KEMQ)



## 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).



# KEMQ

## KraneShares Emerging Markets Consumer Technology ETF

### Investment Strategy:

KEMQ seeks to track the Solactive Emerging Markets Consumer Technology Index. The Index selects companies from 26 eligible countries within emerging markets whose primary business or businesses are internet retail, internet software/services, purchase, payment processing, or software for internet and E-Commerce transactions.

### Emerging Markets Consumer Technology Highlights:

- Internet adoption is expanding rapidly within emerging markets at the same time that domestic consumption and retail sales are steadily increasing and frequently taking place online.
- According to a study from the Brookings Institution, middle class consumption could reach 50% of total global consumption by the year 2030, more than doubling from 2015<sup>1</sup>.
- We believe the growth of internet adoption within emerging markets is a long term secular theme that may continue to play out over the course of decades.

### KEMQ features:

- Access to emerging market internet companies that provide similar services as Google, Facebook, PayPal, Amazon, etc.
- Exposure to companies that stand to benefit from increasing domestic consumption by emerging markets' growing middle class
- Exposure to emerging market companies facilitating mobile E-Commerce sales

1. Homi Kharas, "The Unprecedented Expansion of the Global Middle Class" Brookings Institution, February 2017, retrieved 3/31/2020.

## Transformational growth in emerging markets is driven by the “Three P’s”



### Population

The middle class consumer in Emerging Markets will drive global demand.



### Penetration

Internet adoption is the catalyst for rapid innovation, and facilitates “leapfrogging”.



### Performance

Technology firms across the emerging markets are taking global leadership positions.

## Emerging markets represent a huge consumer market opportunity.

- In order to fairly compare the consumption power of different economies we use purchasing power parity (PPP)
- In terms of PPP, the top 25 economies by GDP represent 79% of the global economy<sup>1</sup>
- 60% of these economies (or 15 out of 25 numerically) are considered emerging markets<sup>1</sup>
- According to the World Bank, emerging markets represent a population of 4.5 billion people who spend more than \$5 trillion a year<sup>2</sup>

1. Data from the World Bank as of 12/31/2018. Retrieved 3/31/2020.  
 2. "The World Bank's Global Consumption Database" The World Bank. Retrieved 3/31/2020.

**World Bank 2018 GDP, by PPP**

	Ranking	Economy	(millions of international dollars)
CHN	1	China	25,361,744
USA	2	United States	20,494,100
IND	3	India	10,498,468
JPN	4	Japan	5,484,951
DEU	5	Germany	4,505,236
RUS	6	Russian Federation	3,986,064
IDN	7	Indonesia	3,494,762
BRA	8	Brazil	3,365,757
GBR	9	United Kingdom	3,074,432
FRA	10	France	3,073,179
ITA	11	Italy	2,542,974
MEX	12	Mexico	2,519,962
TUR	13	Turkey	2,372,087
KOR	14	Korea, Rep.	2,090,161
ESP	15	Spain	1,908,879
SAU	16	Saudi Arabia	1,857,538
CAN	17	Canada	1,774,034
THA	18	Thailand	1,320,373
AUS	19	Australia	1,288,228
POL	20	Poland	1,228,854
EGY	21	Egypt, Arab Rep.	1,219,510
PAK	22	Pakistan	1,176,498
NGA	23	Nigeria	1,171,387
MYS	24	Malaysia	999,405
NLD	25	Netherlands	978,240

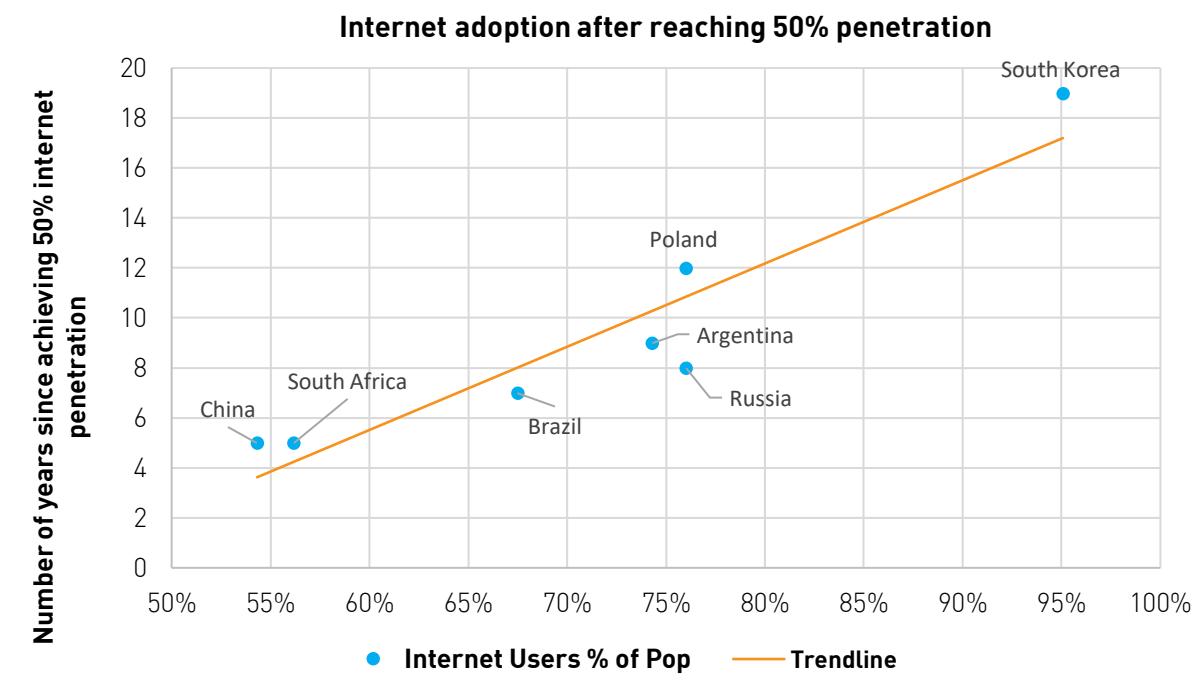
According to a study from the Brookings Institution, middle class consumption could reach 50% of total global consumption by the year 2030, more than doubling from 2015.

Middle Class Consumption – Top 10 Countries (billions of 2011 PPP\$ and global share)

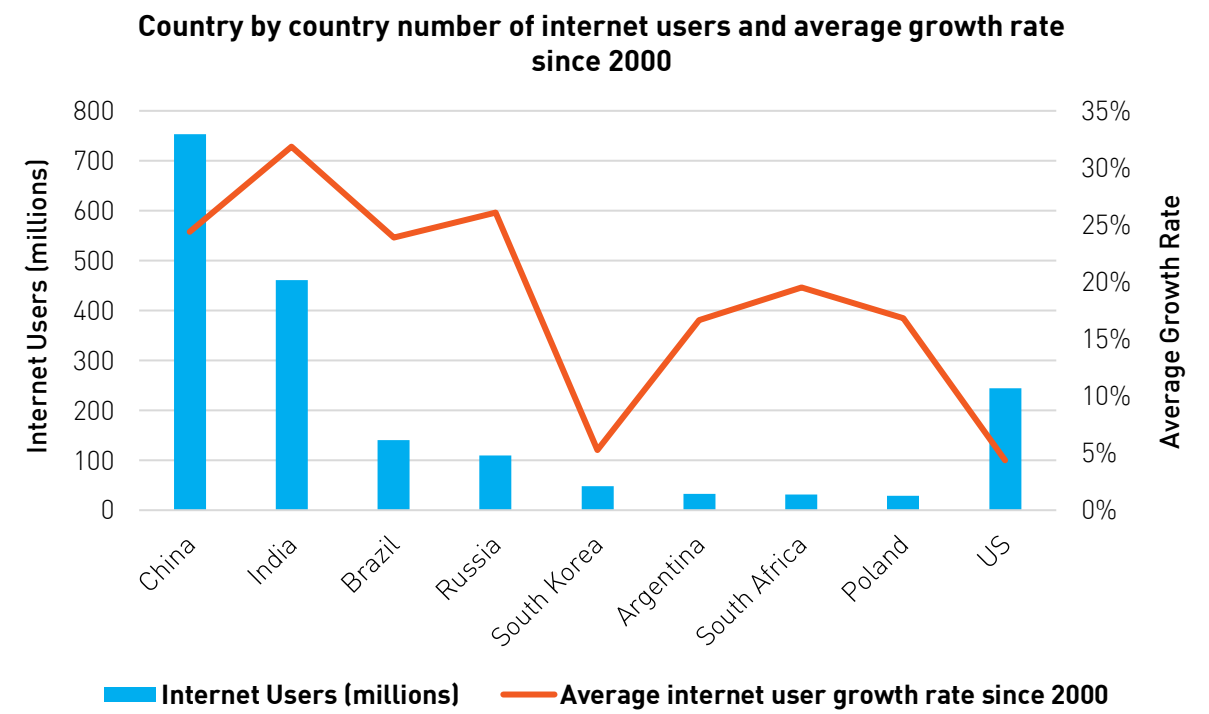
	2015			2020			2030		
1	United States	4.7	13%	China	6.8	16%	China	14.3	22%
2	China	4.2	12%	United States	4.7	11%	India	10.7	17%
3	Japan	2.1	6%	India	3.7	9%	United States	4.7	7%
4	India	1.9	5%	Japan	2.1	5%	Indonesia	2.4	4%
5	Russia	1.5	4%	Russia	1.6	4%	Japan	2.1	3%
6	Germany	1.5	4%	Germany	1.5	4%	Russia	1.6	3%
7	Brazil	1.2	3%	Indonesia	1.3	3%	Germany	1.5	2%
8	UK	1.1	3%	Brazil	1.2	3%	Mexico	1.3	2%
9	France	1.1	3%	UK	1.2	3%	Brazil	1.3	2%
10	Italy	0.9	3%	France	1.1	3%	UK	1.2	2%
	Emerging market total		24%	Emerging market total		35%	Emerging market total		50%

The rise of consumer technology goes beyond China to broader emerging markets as more of the developing world gets internet access for the first time.

Internet penetration rates vary across emerging markets creating distinct growth profiles for each country



Within major emerging market countries, internet usage has grown by an average of 20% a year





For the majority of the developing world, smart phones provide the first point of internet access, bypassing traditional computers.

Mobile-cellular telephone subscriptions			
	2000	2018	Growth multiple
India	3,577,095	1,176,021,869	329x
Russia	3,263,200	229,431,008	70x
China	85,260,000	1,641,147,000	19x
South Africa	8,339,000	88,566,977	11x
Brazil	23,188,171	207,046,810	9x
Argentina	6,487,950	58,598,041	9x
Malaysia	5,121,748	42,413,400	8x
Poland	6,747,000	51,098,747	8x
South Korea	26,816,398	66,355,778	2x

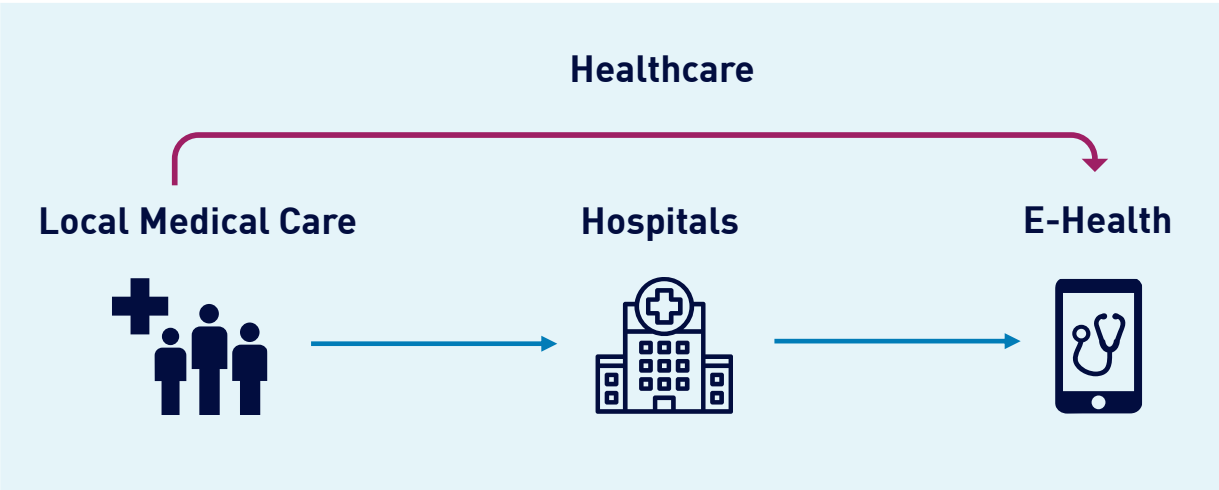
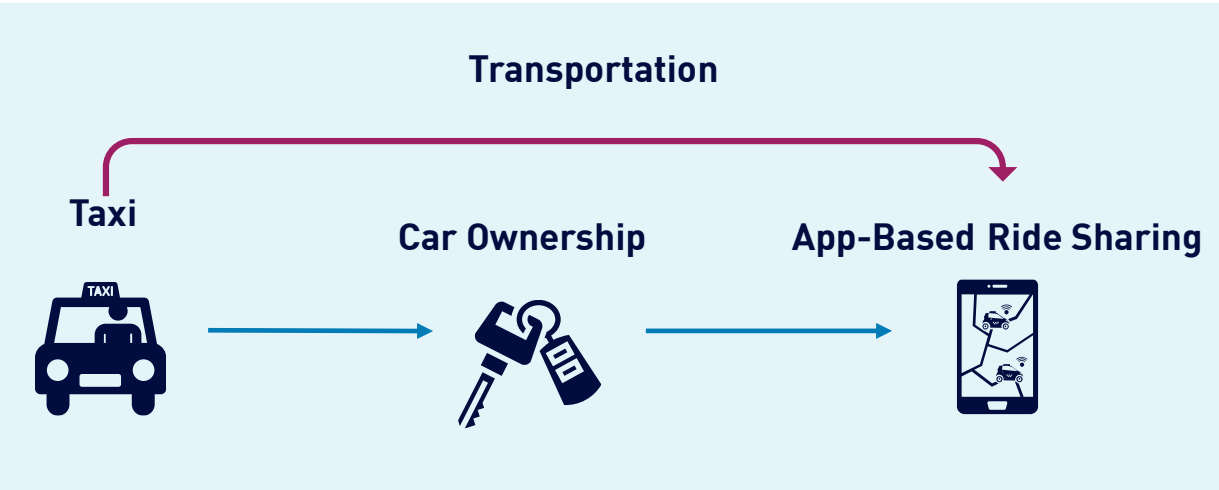
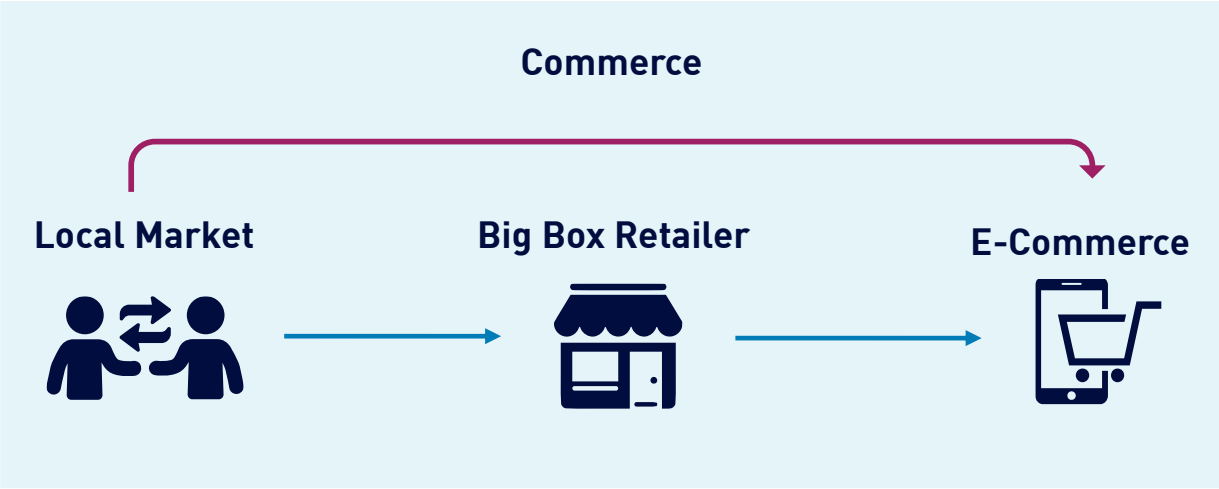
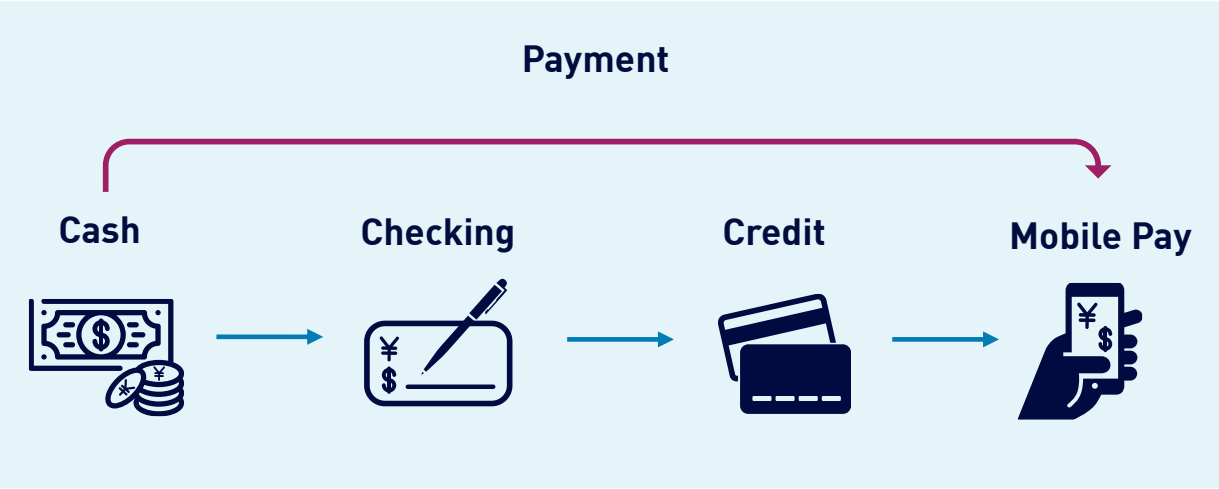
Source: International Telecommunications Union statistics database as of 12/31/2018. Retrieved on 3/31/2020.  
 ITU is the United Nations specialized agency for information and communication technologies. Data includes pay-as-you-go and contract renewals

The proliferation of low cost smart phones across emerging markets, like the Mi Max 2 from Xiaomi pictured below, has meant much of the developing population is gaining access to the internet for the first time via smart phones.





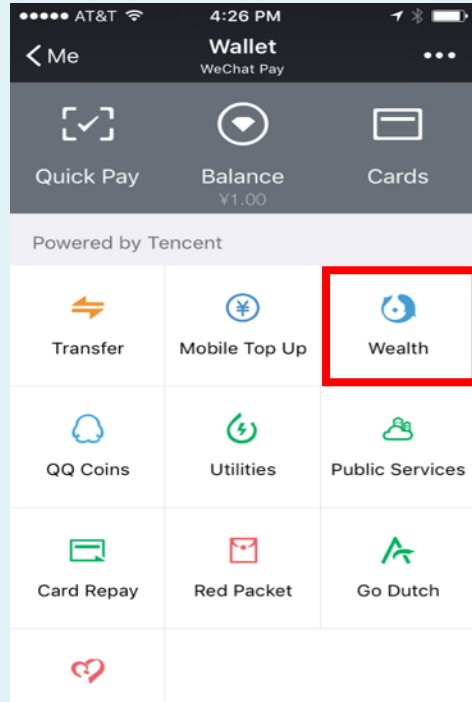
China's rapid adoption of new technologies has produced a “leapfrogging” effect.



## Money and the internet have become virtually inseparable.

Apps like Tencent's WeChat and Alibaba's Alipay allow users to do everything from buy a coffee, hail a cab, to make investments in wealth management products, all from a smart phone.

WeChat users can invest in mutual funds through the same app they use for social media.



# Through our experience investing in the Chinese markets we identified three core themes:

- Internet adoption is expanding rapidly within China
- Domestic consumption and retail sales are steadily increasing and frequently taking place online
- The China E-Commerce sector has consistently outperformed the broader Chinese markets

**Value of Monthly China Retail Sales Index**  
(12/31/2009 - 12/31/2019)

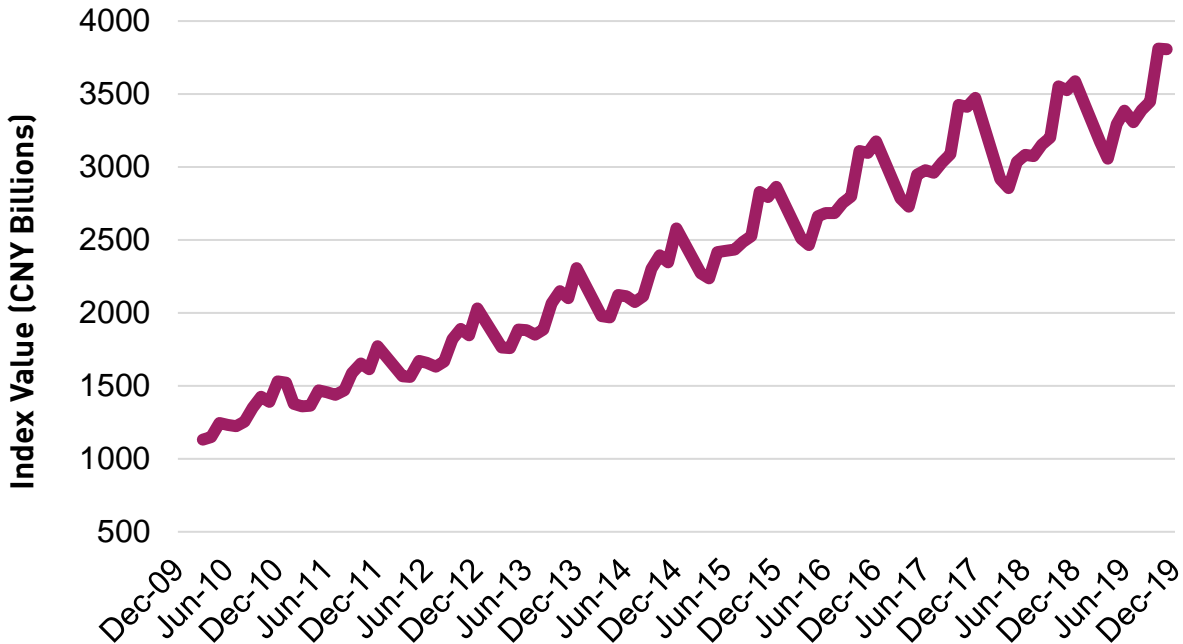


Chart data from Bloomberg as of 12/31/2019, retrieved 3/31/2020.

**China Retail Sales Index:** Retail sales (also referred to as retail trade) tracks the resale of new and used goods to the general public, for personal or household consumption. This concept is based on the value of goods sold.

China / US Internet Statistics	China	US
Total internet population	854mm <sup>1</sup>	294mm <sup>2</sup>
% of population with internet access	61.2% <sup>1</sup>	89.5% <sup>2</sup>
Country's share of world internet users	23.4% <sup>2</sup>	8.1% <sup>2</sup>
E-Commerce market size 2018	\$1.3T <sup>3</sup>	\$513.6B <sup>4</sup>
Total retail sales 2018	\$5.5T <sup>3</sup>	\$5.3T <sup>4</sup>
% of online retail sales 2018	23.6% <sup>3</sup>	9.7% <sup>4</sup>
2017-2018 growth online sales	23.9% <sup>3</sup>	14.2% <sup>4</sup>

1.CNNIC, The 44th Statistical Report on the Development of China's Internet, 8/31/2019.  
2.Data from Pew Research Center, World Bank, and US Census Bureau as of 6/30/2019. Retrieved 3/31/2020.  
3.National Bureau of Statistics in China, "National Economic Performance Maintained within an Appropriate Range in 2018 with Main Development Goals Achieved" 1/21/2019. Note: Figures converted from Chinese Renminbi to USD as of 12/31/2018.  
4.U.S. Department of Commerce, "Quarterly Retail E-commerce Sales 4th Quarter 2018" 3/13/2019.

## Through our trips to China we saw the proliferation of e-commerce firsthand.

Over 50 billion packages were delivered in China in 2018, an increase of 26% from the previous year<sup>1</sup>.

JD.com warehouse employees prepare same-day delivery



JD.com owns its own logistics network and has a fleet of delivery vehicles around China



<sup>1</sup>[www.xinhua.net](http://www.xinhua.net) "China's express delivery sector expands fast in 2018", 1/6/2019. Retrieved 3/31/2020.



## China is Rapidly Becoming A Global Internet Services Leader

### 2013

Top 10 Global Internet Companies By Market Cap <sup>1</sup>	
Alphabet	\$374.4B
Amazon	\$182.5B
Facebook	\$138.8B
Tencent	\$118.7B
Ebay	\$71.0B
Baidu	\$62.3B
Naspers Ltd	\$43.4B
Yahoo	\$41.0B
Twitter	\$36.1B
Salesforce	\$33.3B
<b>Total</b>	<b>\$1.10T</b>

### 2020

Top 10 Global Internet Companies By Market Cap <sup>2</sup>	
Amazon	\$1.0 T
Alphabet	\$830.7 B
Alibaba	\$525.8 B
Facebook	\$496.8 B
Tencent	\$474.5 B
Netflix	\$162.8 B
Paypal	\$123.2 B
Naspers	\$61.9 B
NetEase	\$41.6 B
Baidu	\$33.6 B
<b>Total</b>	<b>\$3.75T</b>

### Potential Future IPOs

Top 10 Private Companies <sup>3</sup>	
Toutiao (Bytedance)	\$75.0B
Didi Chuxing	\$56.0B
Stripe	\$35.3B
SpaceX	\$33.3B
Airbnb	\$18.0B
Kuaishou	\$18.0B
One97 Communications	\$16.0B
Epic Games	\$15.0B
DJI Innovations	\$15.0B
Grab	\$14.3B
<b>Total</b>	<b>\$295.9B</b>

1. Data from Bloomberg as of 12/31/2013. Retrieved 3/31/2019.

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

3. Data from CB Insights as of 3/31/2020.

# The Alibaba Ecosystem

## China Domestic Marketplaces



**1688.com**

(B2B Ecommerce Marketplace)

**Tmall 天猫**

**Tmall.com**

(B2C Online Retail Platform)



**Cainiao**

(E-commerce Logistics Platform)



**Alimama**

(Online Advertising Platform)

## Global Marketplaces



**AliExpress**

(Global B2B Marketplace)



**Taobao**

(Global C2C E-commerce Website)



**Ant Financial**

(Mobile and Online Payments Platform)

## Other Business Ventures



**Alibaba Music**



**Alibaba Pictures**



**South China Morning Post**

**YOUKU 优酷**



**Alibaba Cloud**

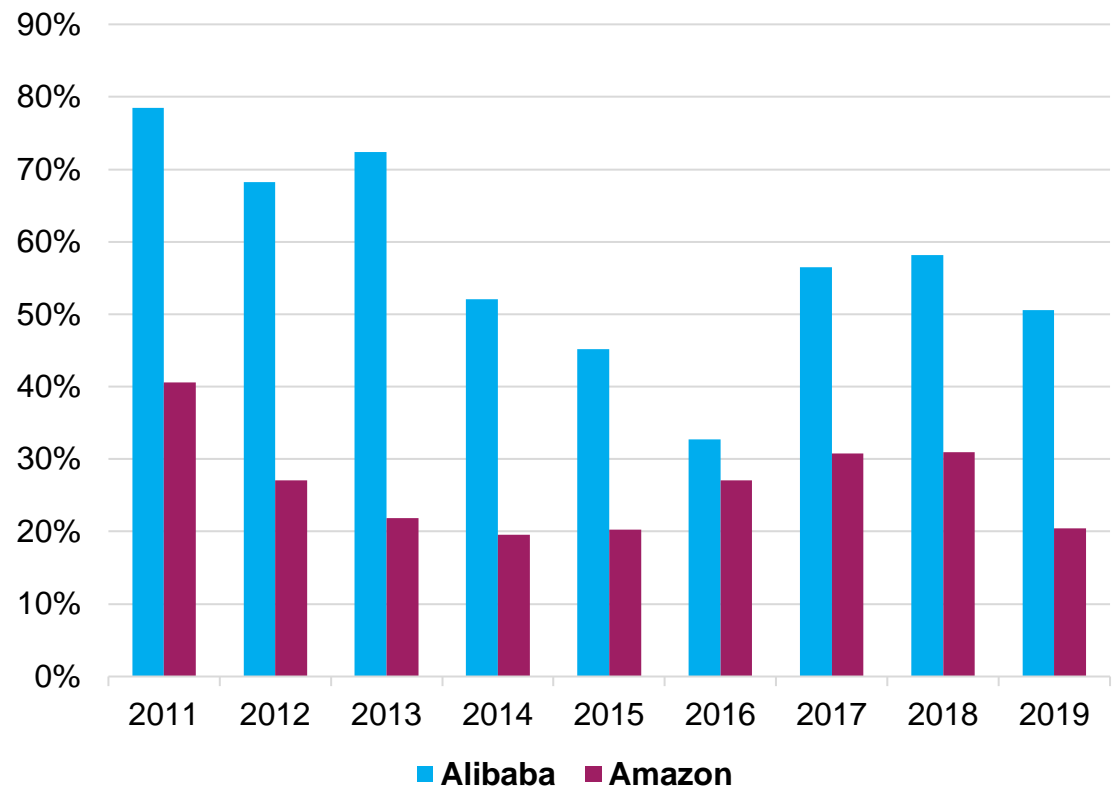
(Cloud Computing Services  
Provider to Online Businesses)

**Jack Ma** (Alibaba Founder)

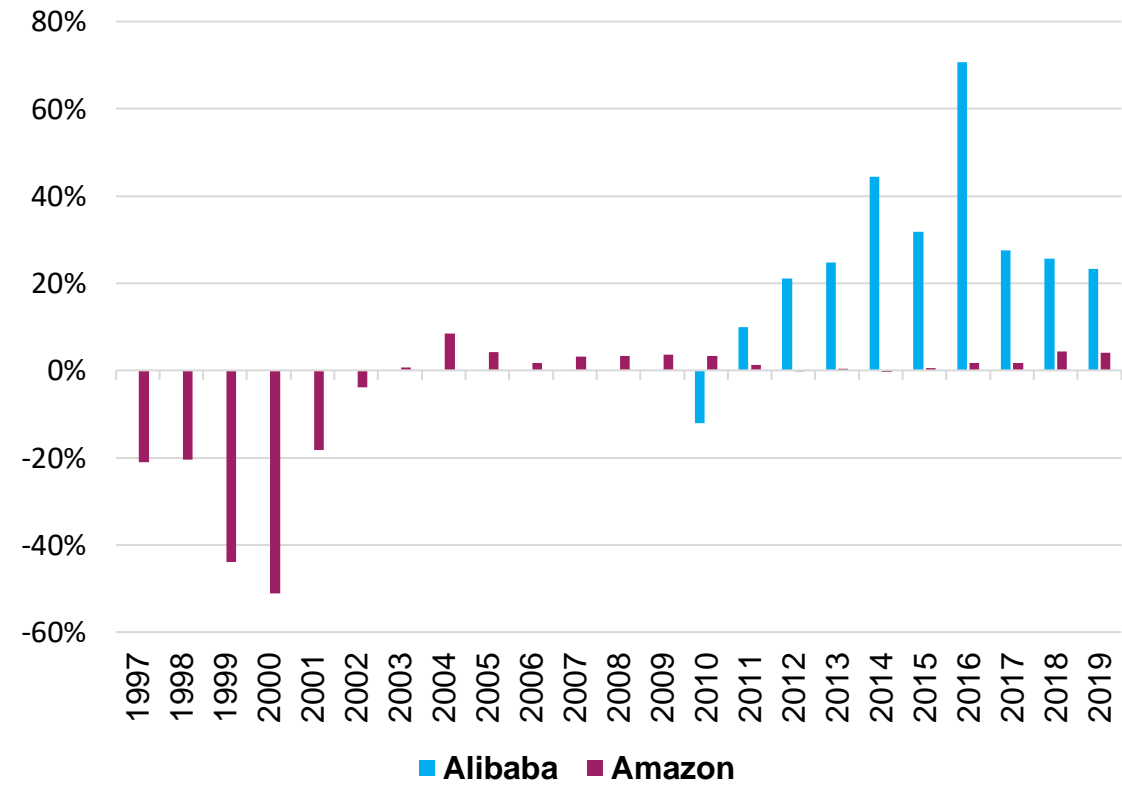


Historically, Alibaba has consistently outperformed Amazon in terms of revenue growth and profit margins.

YoY Revenue Growth



Profit Margins

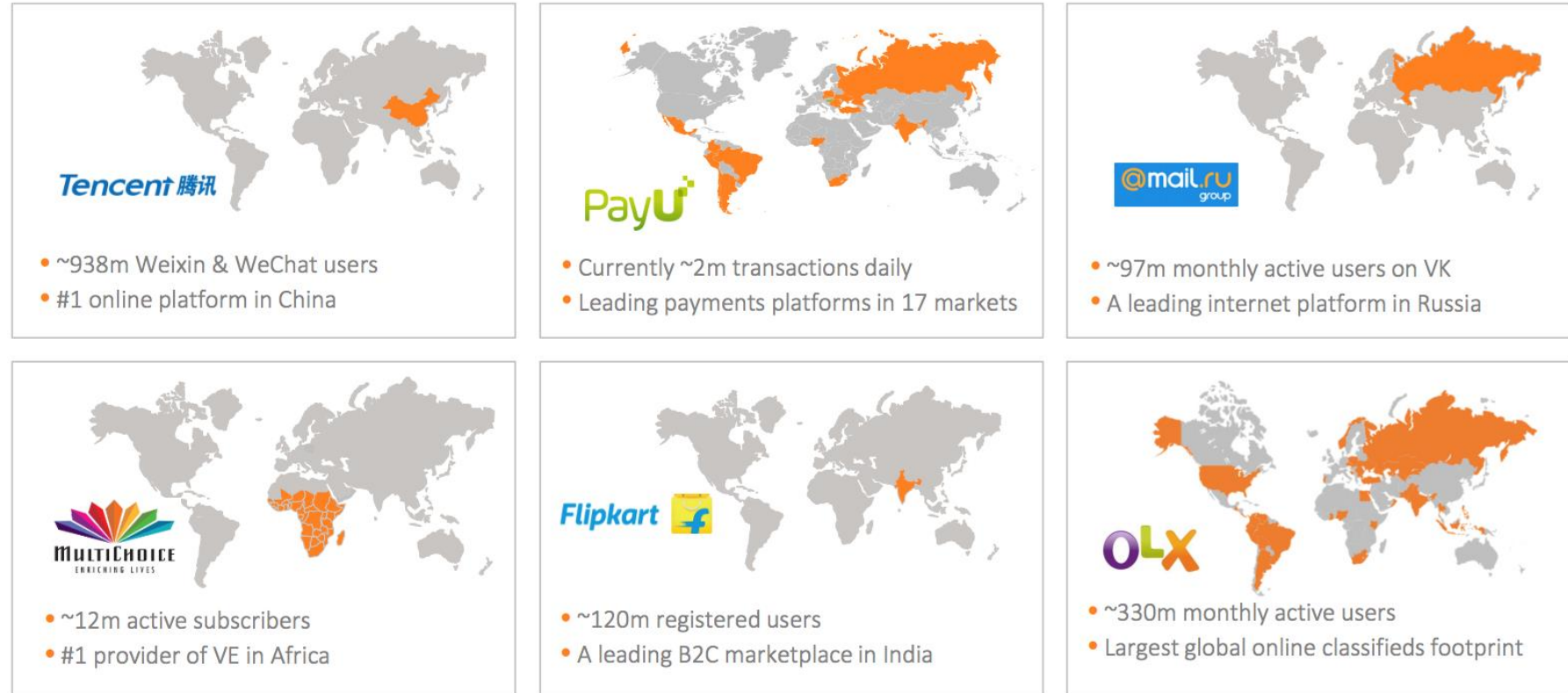


Data from Bloomberg as of 12/31/2018. Retrieved on 3/31/2020  
 Past performance does not guarantee future results.

Naspers is a global internet and entertainment group that has grown into one of the largest technology investors in the world. The company's investments span the globe and are organized into six business areas: Classifieds, Payments, B2C E-Commerce, Ventures, Video Entertainment, and Media<sup>1</sup>.

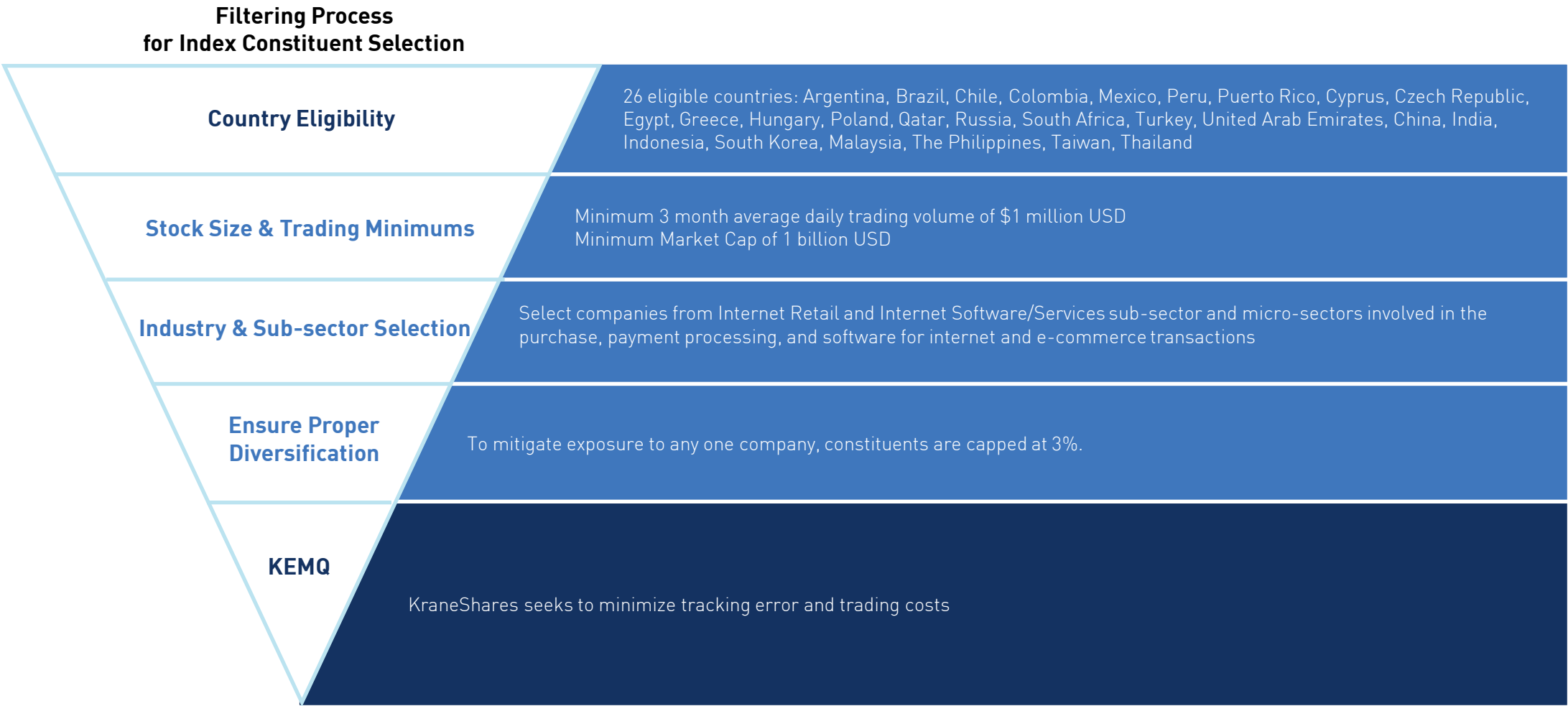
### Naspers has invested in technology companies across the developing world

- Naspers was founded in South Africa in 1915 as a publisher and printer of magazines.
- Naspers has become one of the world's leading technology investors.
- Naspers owned 31.16% of Tencent
- Naspers also has a stake in significant publicly traded companies like Mail.ru and private investments such as Indian E-Commerce company Flipkart.





In order to deliver a precise representation of the emerging markets consumer technology opportunity, we worked with Solactive to develop the Solactive Emerging Markets Consumer Technology Index.

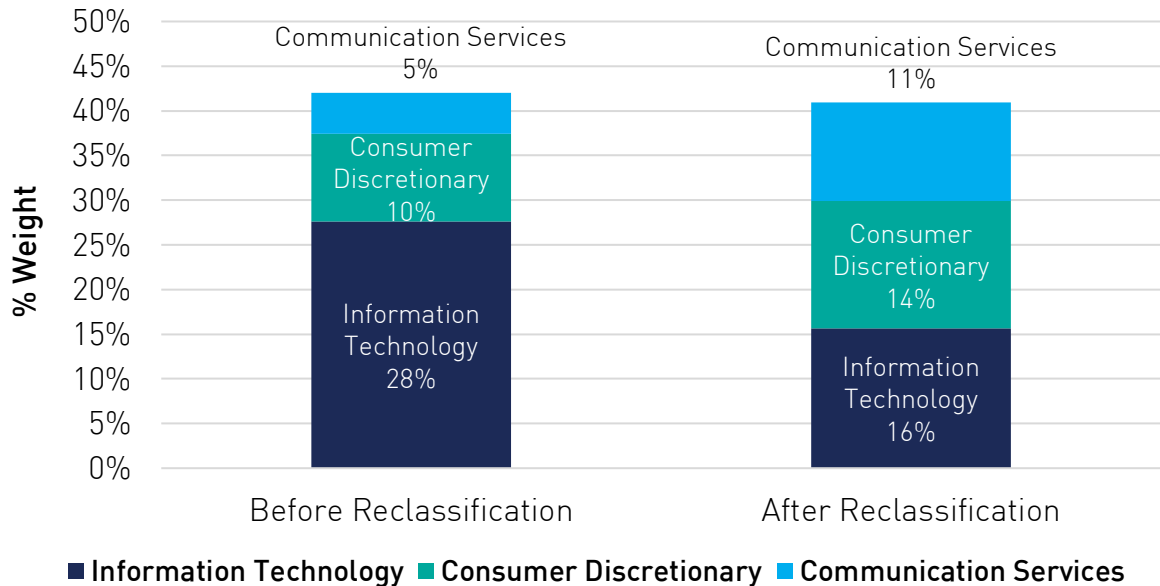


Diversification does not ensure a profit or guarantee against a loss.

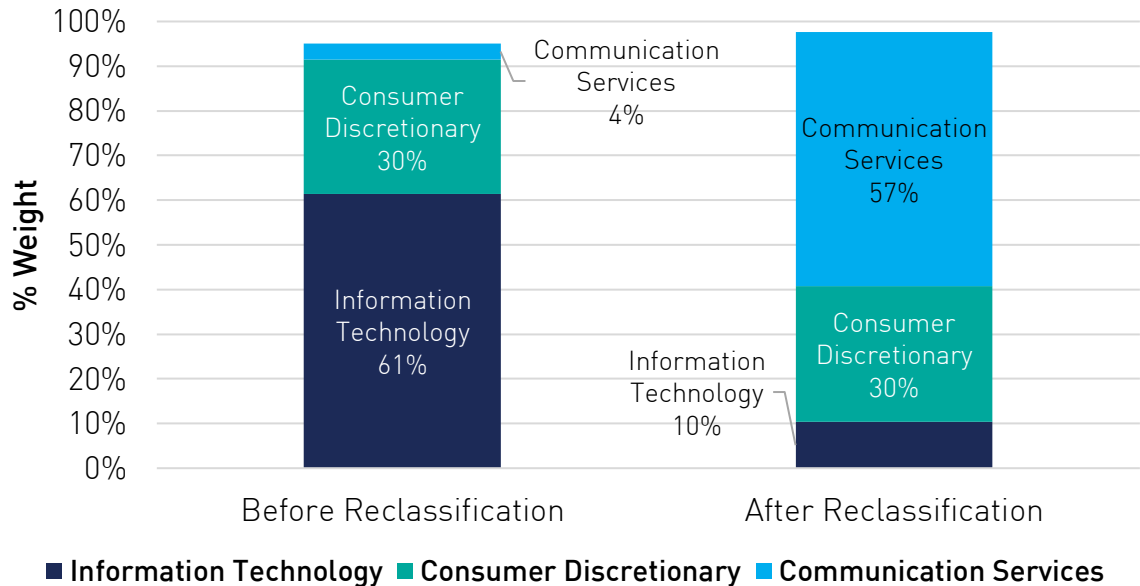
## Capturing the performance of the EM consumer/technology sector can be complicated.

- In the past, E-Commerce and internet platforms were classified by Global Industry Classification Standards (GICS) as information technology (IT) companies.
- However, as this sector evolved, it ended up grouping social media platforms, E-Commerce, gaming, and internet companies with chip-makers and hardware companies.
- In October 2018, GICS underwent a major reclassification to resolve this issue. Information technology was left with mostly hardware companies, while E-Commerce and internet platforms were split between two other sectors: consumer discretionary and communication services (formerly telecommunication services).
- For instance, Alibaba and Mercado Libre were shifted to the consumer discretionary sector, while internet platforms, such as Baidu and Naver, were classified as communication services companies.

**Weight of Select Sectors within the MSCI EM Index  
Before and After Reclassification**

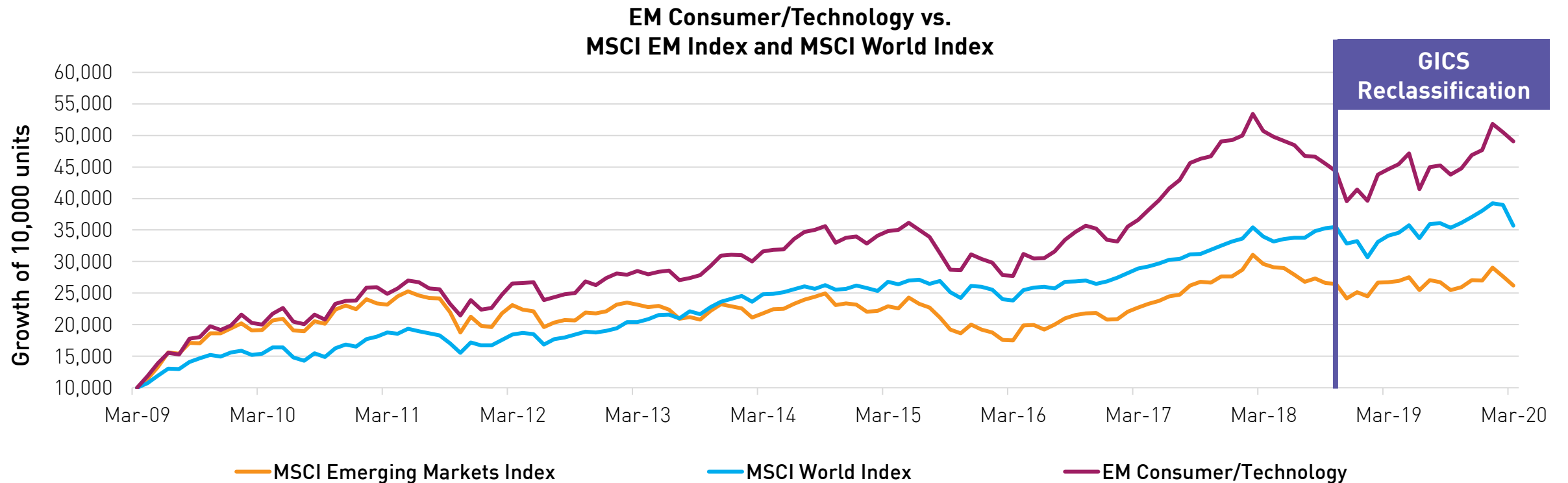


**Weight of Select Sectors within KEMQ  
Before and After Reclassification**

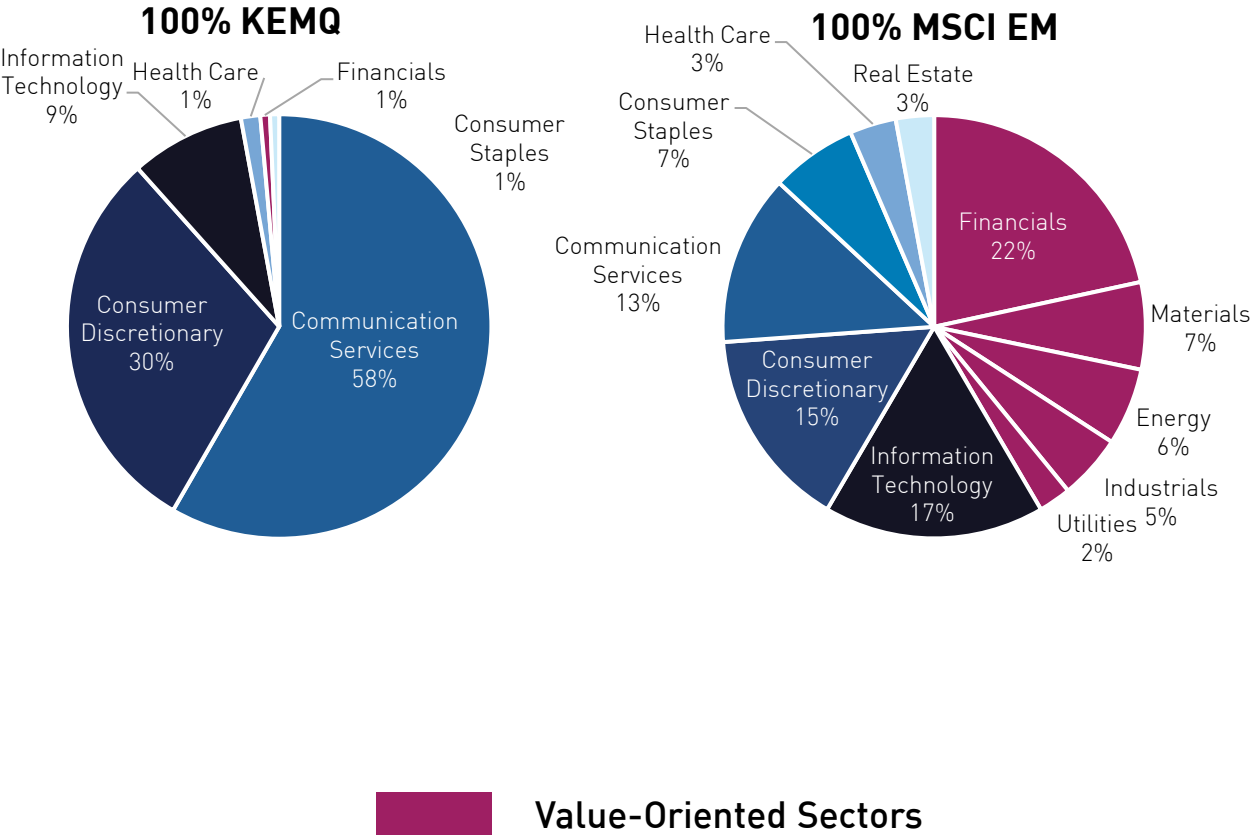


## EM consumer/technology outperformed developed and emerging markets.

- In order to show the historical performance of the EM consumer/technology sectors within the MSCI EM Index, we combined the Index's information technology, consumer discretionary, and communication services sectors. We used the sectors' pre- and post-GICS reclassification weightings pictured in slide 15.
- We found that EM consumer/technology outperformed both broad emerging markets and developed markets since the end of the recession, returning 377% against a return of 281% for the MSCI World Index and 170% for the MSCI Emerging Markets Index.



# KEMQ offers greater exposure to growth-oriented sectors than the MSCI Emerging Markets Index.

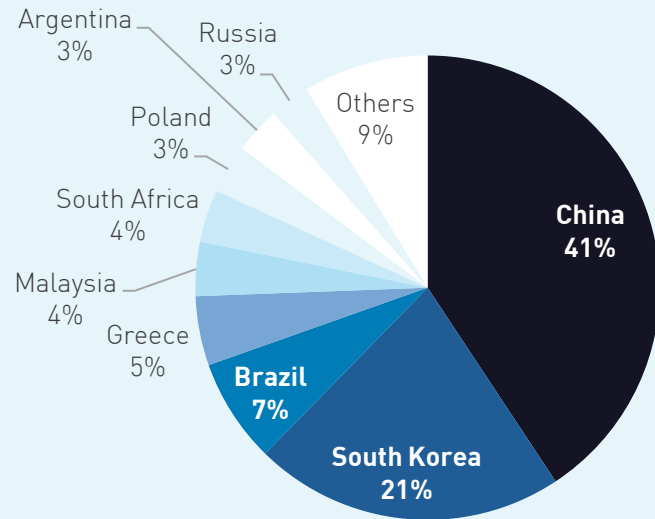


Weight of Growth and Value-Oriented Sectors					
	100% MSCI EM	75% MSCI EM / 25% KEMQ	50% MSCI EM / 50% KEMQ	25% MSCI EM / 75% KEMQ	100% KEMQ
<b>Growth-Oriented Sectors</b>	58%	69%	79%	89%	99%
<b>Value-Oriented Sectors</b>	42%	31%	21%	11%	1%

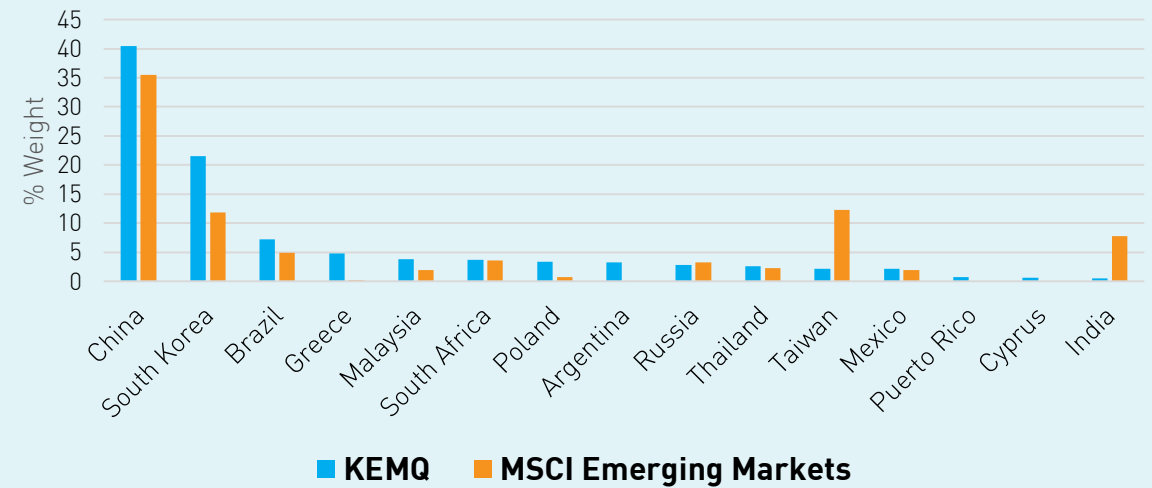


Our index filtering process also results in a very different country breakdown than traditional emerging markets.

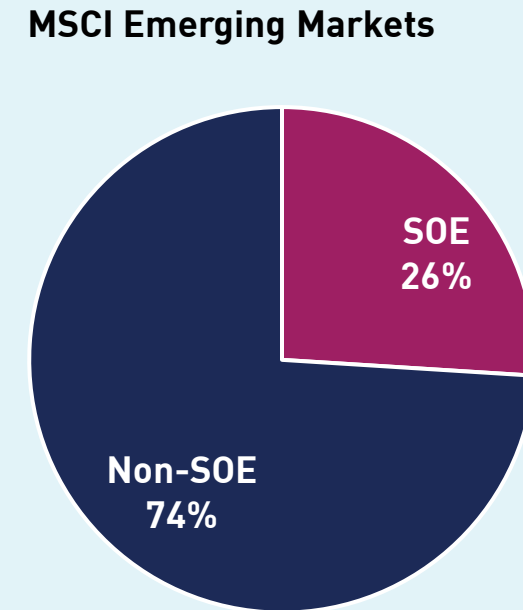
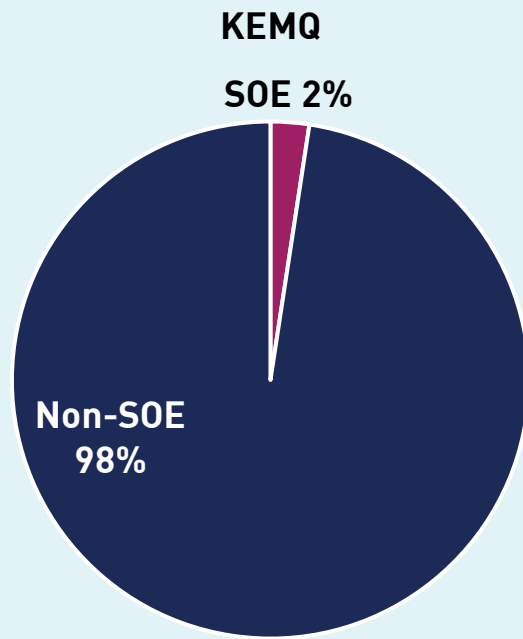
**KEMQ Country Breakdown**



**Country Breakdown  
KEMQ vs. MSCI Emerging Markets**












**KEMQ holds significantly fewer state-owned enterprises (SOEs) than the broader MSCI Emerging Markets Index.**



## Emerging market internet companies around the world



The KraneShares Emerging Markets Consumer Technology ETF (Ticker: KEMQ) tracks a variety of companies throughout key emerging market countries.

Top countries and weight within KEMQ		Top Holdings in country	Weight	Company Logo	Company description
China	40.50%	<b>TENCENT HOLDINGS</b>	3.93%		New Oriental Education & Technology Group, Inc. offers educational services. The Company offers foreign language training, test preparation courses for admissions and assessment tests in the United States, the PRC and Commonwealth countries, primary and secondary school education, development and distribution of educational content, software and other technology, and online classes.
South Korea	21.52%	<b>NAVER CORP</b>	3.78%		NAVER Corporation provides Internet site with web portal services, such as search engine, online game, and content development. The Company also offers online marketing service through banner advertisement and e-commerce services. The company owns the popular Line app, which is used primarily used in Japan and South Korea but also present in over 230 countries worldwide. Line offers services similar to WhatsApp and WeChat
Brazil	7.22%	<b>B2W CIA DIGITAL</b>	2.19%		B2W Companhia Digital is an e-commerce company. The Company offers technology, logistics, distribution, customer service, and consumer financing services.
Greece	4.80%	<b>HELLENIC TELECOM</b>	2.63%		Hellenic Telecommunications Organization S.A. provides telecommunication services. The company offers fixed-line, television and mobile telecommunications services including voice, broadband, data, and leased lines. The company serves the audio-visual, communications, industrial, and residential industries, as well as public customers.
Malaysia	3.75%	<b>TELEKOM MALAYSIA BHD</b>	3.01%		Telekom Malaysia Berhad establishes, provides, and maintains telecommunication and related services. Through its subsidiaries, the Company provides payphone network, mobile telecommunication, public telephone, and leasing of optical fiber telecommunication system services. Telekom also manages and operates Kuala Lumpur Tower and provides intelligent security services
South Africa	3.64%	<b>NASPERS LTD</b>	3.64%		As a holding company, Naspers mainly grows through acquisitions and equity stakes in companies in emerging markets. It also plans to focus on investment in technology; the company has worked to upgrade and improve its subscriber and user platforms by investing in e-commerce transaction platforms and instant-messaging communication.
Poland	3.40%	<b>CYFROWY POLSAT SA</b>	2.64%		Cyfrowy Polsat, S.A. offers broadcast satellite subscription television services and mobile telephony in Eastern and Central Europe. The Company distributes signal decoders and offers a variety of television and radio channels.
Argentina	3.21%	<b>MERCADOLIBRE INC</b>	3.21%		MercadoLibre Inc. operates an online trading site for the Latin American markets. The Company's website allows businesses and individuals to list items and conduct sales and purchases online in either a fixed-price or auction format. MercadoLibre offers classified advertisements for motor vehicles, vessels, aircraft, real estate and services, and offers online payment services.
Russia	2.78%	<b>MAIL.RU GROUP</b>	2.78%		Mail.Ru Group Ltd. offers Internet access services in Russia. The Company also operates social networking websites, instant messaging networks, an email service, and an online games company.

## KraneShares Emerging Markets Consumer Technology ETF (NYSE: KEMQ)

### Investment Strategy:

KEMQ seeks to track the Solactive Emerging Markets Consumer Technology Index. The Index selects companies from 26 eligible countries within emerging markets whose primary business or businesses are internet retail, internet software/services, purchase, payment processing, or software for internet and E-Commerce transactions.

### KEMQ Performance History as of 3/31/2020

	Cumulative %			Average Annualized %		
	3 Mo	6 Mo	Since Inception	1 Yr	3 Yr	Since Inception
Fund NAV	-18.61%	-8.46%	-20.43%	-13.29%	–	-8.84%
Closing Price	-18.12%	-7.62%	-20.19%	-13.25%	–	-8.72%
Index	-18.60%	-8.53%	-17.75%	-12.69%	–	-7.60%

\*Fee waivers in effect until August 1, 2021

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.

Fund Details	As of 3/31/2020
Primary Exchange	NYSE
Cusip	500767876
Total Annual Fund Operating Expense (Gross)	0.80%
Total Annual Fund Operating Expense (Net)	0.70%*
Inception Date	10/11/2017
Distribution Frequency	Semiannually
Index Name	Solactive Emerging Markets Consumer Technology Index
Index Ticker	Bloomberg: SOLEMCT
Number of Holdings (ex Cash)	50

Top Ten Holdings as of 3/31/2020 The Fund's Holdings Are Subject to Change.	% of Fund
TENCENT HOLDINGS LTD	3.95
NETEASE INC-ADR	3.91
TAL EDUCATION GROUP- ADR	3.88
JD.COM INC-ADR	3.83
NAVER CORP	3.80
ALIBABA GROUP HOLDING-SP ADR	3.73
NASPERS LTD-N SHS	3.66
BAIDU INC - SPON ADR	3.56
NEW ORIENTAL EDUCATIO-SP ADR	3.34
MERCADOLIBRE INC	3.23



## Key Takeaways

- Our China experience has allowed us to identify and deliver extraordinary opportunities across emerging markets
- The three P's will shape buying behavior for decades to come
  - **Population:** The middle class consumer
  - **Penetration:** Rapid internet adoption
  - **Performance:** The growth of technology platforms
- Many of the themes and opportunities that we observe in China extend across the Emerging Markets and include the consumer, technology, healthcare, the environment and electric vehicles



## Index Definitions:

**CSI Overseas China Internet Index:** Represents the Chinese internet companies listed in overseas markets (New York and Hong Kong), in order to measure the performance of the Chinese internet companies listed outside mainland China.

**MSCI China Index:** The MSCI China Index captures large and mid cap representation across China H shares, B shares, Red chips and P chips.

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

**MSCI World Index:** The MSCI World Index is a free-float weighted equity index. It was developed with a base value of 100 as of December 31, 1969. The index includes developed world markets and does not include emerging markets.

**The Solactive Emerging Markets Consumer Technology Index:** The Solactive Emerging Markets Consumer Technology Index selects companies from 26 eligible countries within emerging markets whose primary business or businesses are internet retail, internet software/services, purchase, payment processing, or software for internet and E-Commerce transact.

**The S&P 500 Index:** The S&P 500 Index is an American stock market index based on the market capitalization of the 500 largest companies having common stock listed on the NYSE or NASDAQ.

## Term Definitions:

**Purchasing Power Parity (PPP):** is an economic theory that compares different countries' currencies through a market "basket of goods" approach. According to this concept, two currencies are in equilibrium or at par when a market basket of goods (taking into account the exchange rate) is priced the same in both countries.

## 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 (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. The ability of the Emerging Markets Consumer Technology Index ETF to achieve its investment objective is dependent, in part, on the continuous availability of A Shares and the ability to obtain, if necessary, additional A Shares quota. The fund may invest in derivatives, which are often more volatile than other investments and may magnify the Fund's gains or losses. The Fund may engage in securities lending. The Fund is non-diversified.

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