

ESG Investing in China: Positive Impact Potential for the Planet and Portfolios

Overview of the KraneShares MSCI
China ESG Leaders ETF
(ticker: KESG)

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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).





KraneShares MSCI China ESG Leaders ETF

Investment Strategy:

KESG seeks to track the MSCI China ESG Leaders 10/40 Index. The MSCI China ESG Leaders 10/40 Index aims to provide exposure to companies with high Environmental, Social and Governance (ESG) ratings relative to their sector peers. The MSCI China ESG Leaders 10/40 Index consists of large and mid-cap companies in China. In order to ensure diversification, the Index is designed to limit individual constituent weights to 10% and sector weights to 40% of its composition.

China's ESG Highlights:

- Chinese domestic investors and issuers are moving fast to incorporate ESG considerations in their decision making, driven by strong regulatory initiatives to promote ESG practices and disclosures.
- China's commitment to stricter environmental mandates and conservation efforts is necessary to achieve national goals of sustained economic growth. Consequently, China now is the world leader in total renewable energy capacity, at approximately 30% of total global capacity¹.
- China's economic and technological transformation drives demand for a more educated workforce. In recent years, many Chinese companies in knowledge-intensive sectors have improved their talent programs, which has in turn upgraded their MSCI ESG Rating.
- Greater inclusion of China's capital markets internationally creates more of an incentive to align shareholder rights and governance policies with global standards, paving the way for Chinese companies to develop a more diversified shareholder structure.

KESG Features:




- MSCI China ESG Leaders 10/40 Index inclusion criteria has a track record of effectively identifying growth companies within China's new economy.
- As companies with high ESG scores have proven to consistently outperform their peers in China, investors do not necessarily have to compromise returns for investing based on beliefs.²
- Benchmarked to the MSCI China ESG Leaders 10/40 Index: MSCI is the #1 index provider for ESG, Socially Responsible Investment (SRI), and Corporate governance indexes according to a 2018 survey of 1,300 participants conducted by SRI Connect and Extel.

1. REN21's Renewables 2020 Global Status Report (GSR), Chapter 5: Investment Flows.

2. Performance is based on total returns of MSCI China ESG Leaders Index vs MSCI China Index since inception of MSCI China ESG Leaders Index through 6/30//2020. See page 19 for index definitions.

What is ESG investing?

ESG investing, as defined by MSCI, is the consideration of environmental, social, and corporate governance factors alongside financial factors in the investment decision making process.¹ Sustainable and responsible business practices may potentially have a positive impact on corporate revenues and the planet.

MSCI ESG Ratings Key Issues Hierarchy ²			
3 Pillars	10 Themes	37 Key ESG Issues	
 Environment	Climate Change	Carbon Emissions Product Carbon Footprint	Financing Environmental Impact Climate Change Vulnerability
	Natural Resources	Water Stress Biodiversity & Land Use	Raw Material Sourcing
	Pollution & Waste	Toxic Emissions & Waste Packaging Material & Waste	Electronic Waste
	Environmental Opportunities	Opportunities in Clean Tech Opportunities in Clean Building	Opportunities in Renewable Energy
 Social	Human Capital	Labor Management Health & Safety	Human Capital Development Supply Chain Labor Standards
	Product Liability	Product Safety & Quality Chemical Safety Financial Product Safety	Privacy & Data Security Responsible Investment Health & Demographic Risk
	Stakeholder Opposition	Controversial Sourcing	
	Social Opportunities	Access to Communications Access to Finance	Access to Healthcare Opportunities in Nutrition & Health
 Governance	Corporate Governance*	Board* Pay*	Ownership* Accounting*
	Corporate Behavior	Business Ethics Anti-Competitive Practices Tax Transparency	Corruption & Instability Financial System Instability

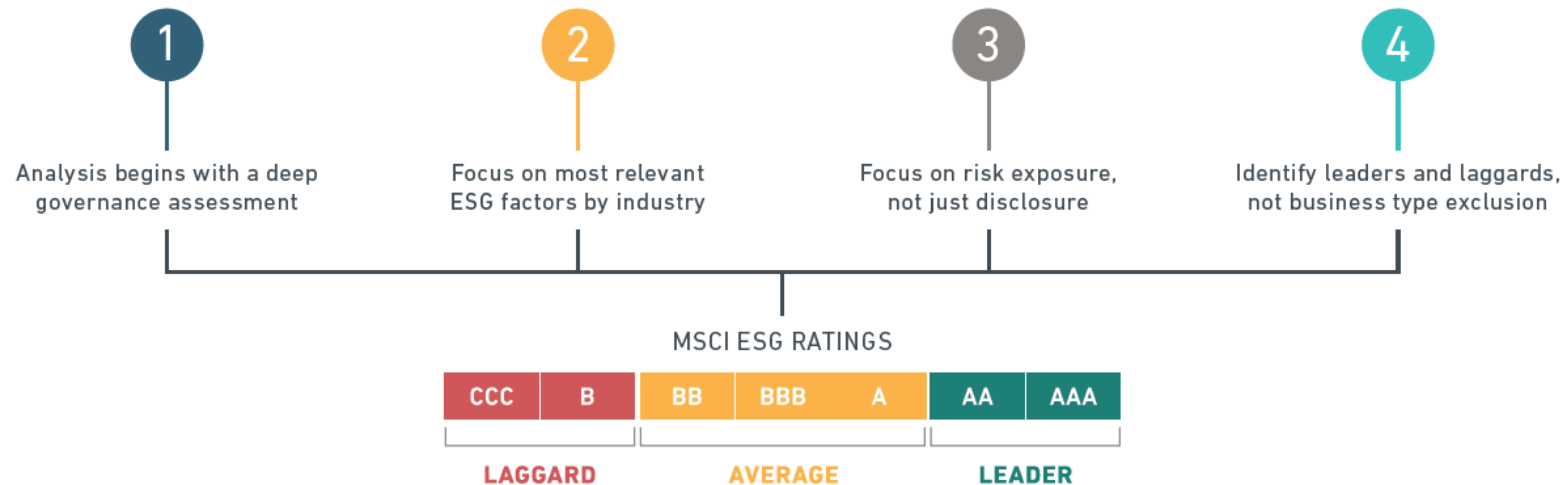
1. MSCI, "Introducing ESG Investing Brochure".
2. MSCI ESG Research, "China Through An ESG Lens", p.27, Sept 2019.

*Corporate Governance Theme carries weight in the ESG Rating model for all companies. In 2018, MSCI introduced sub-scores for each of the four underlying issues: Board, Pay Ownership, and Accounting

What is the MSCI ESG Investment Philosophy?

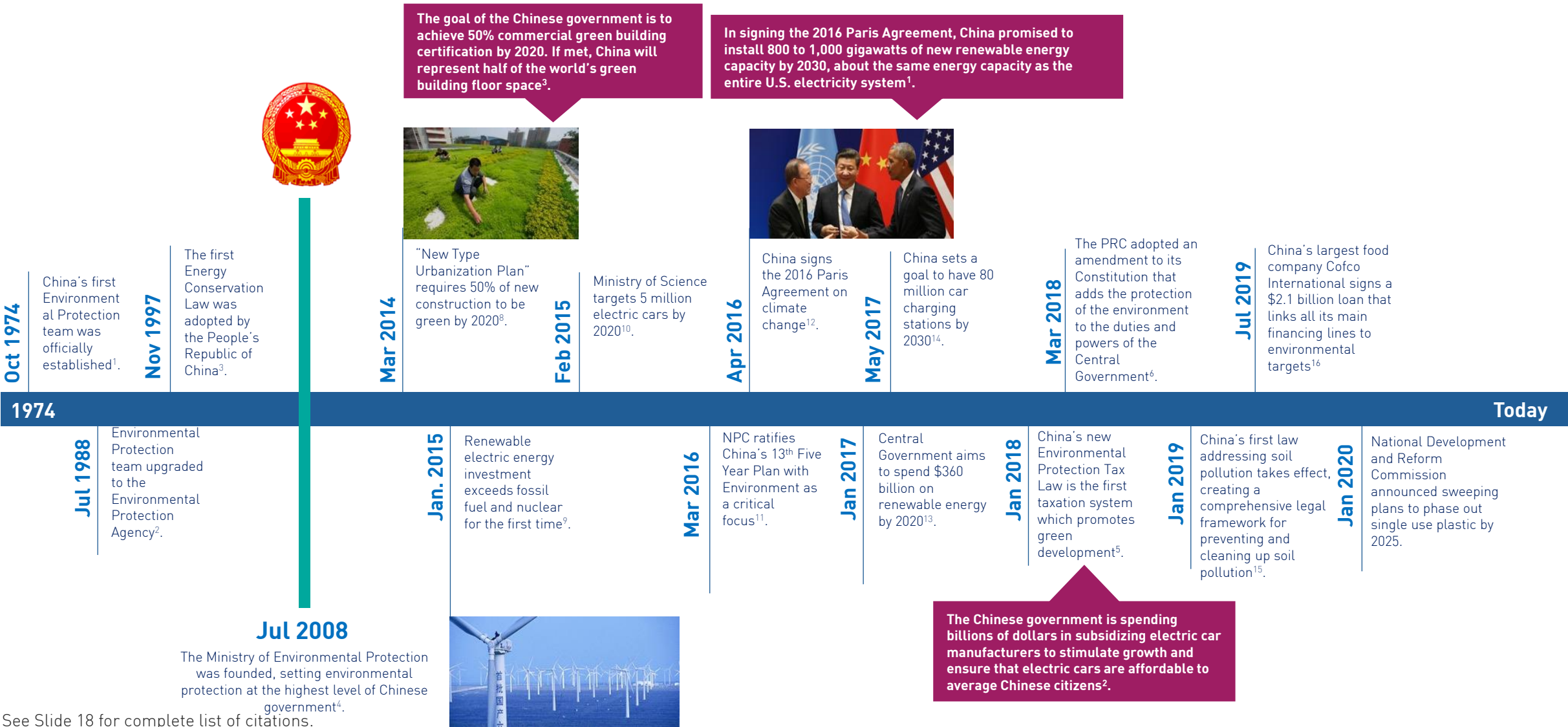
- According to MSCI, when it comes to ESG investing, the objectives of investors tend to converge around three main principles¹:
 - Integration:** Investors have been looking at ESG factors to better manage risk and attain long-term sustainable financial performance.
 - Personal Values:** ESG based investments allow investors to better tailor their portfolios to reflect their own ethical, religious, and political beliefs.
 - Positive Impact:** Some investors focus on the greater impact their investments have on the world. Such investors are particularly interested in companies that are working toward solutions to current environmental and/or social issues.

Improved data and analytic capabilities have helped make the ESG investing process more systematic.¹



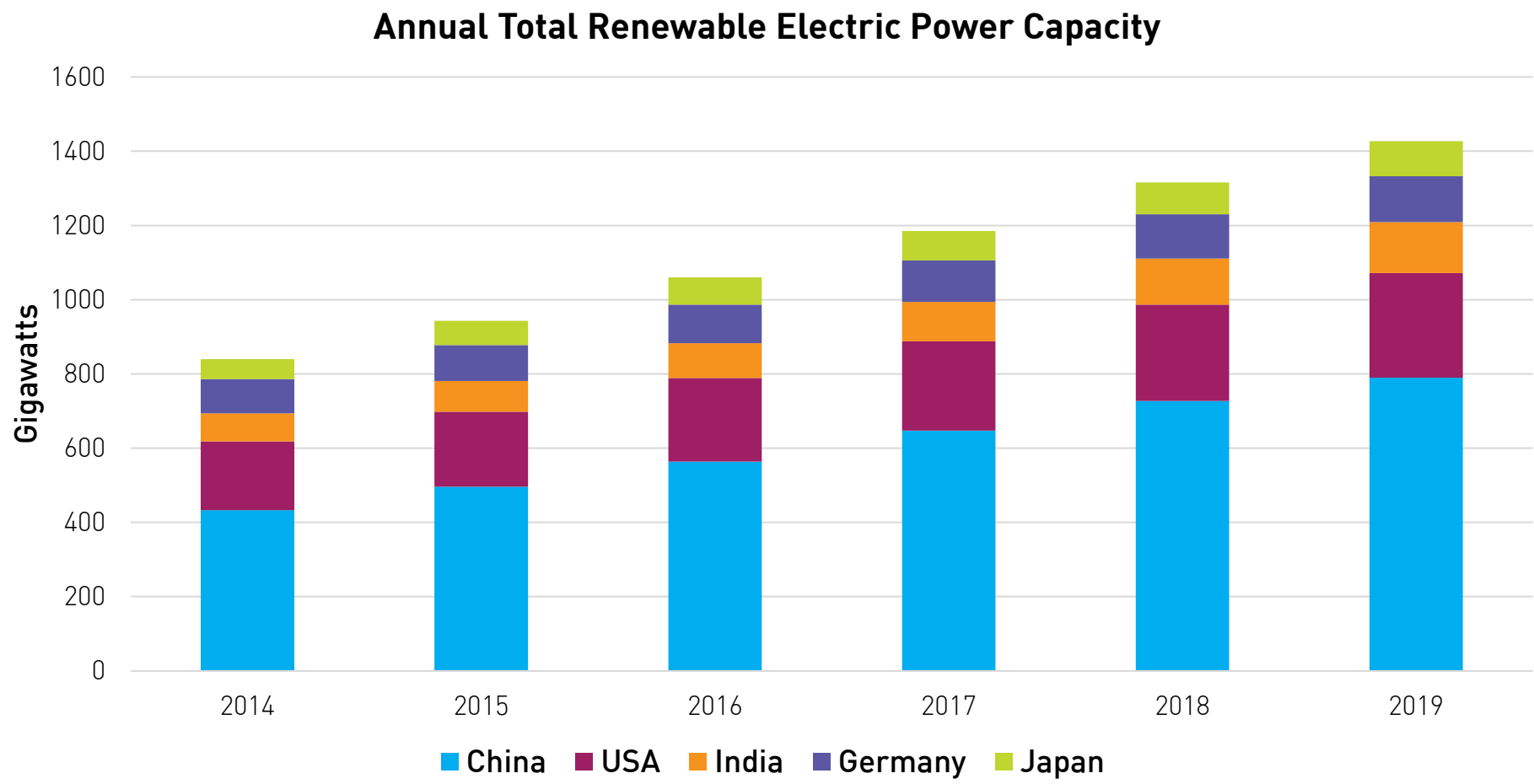
1. MSCI, "Introducing ESG Investing Brochure".

The Chinese government has made ESG a top priority over the past decade.



See Slide 18 for complete list of citations.

China has also outpaced other world leaders in growth of electric power capacity from renewable technologies.



Data from REN21's Renewables 2020 Global Status Report (GSR) p.205 as of 12/31/2019. Retrieved on 6/30/2020.

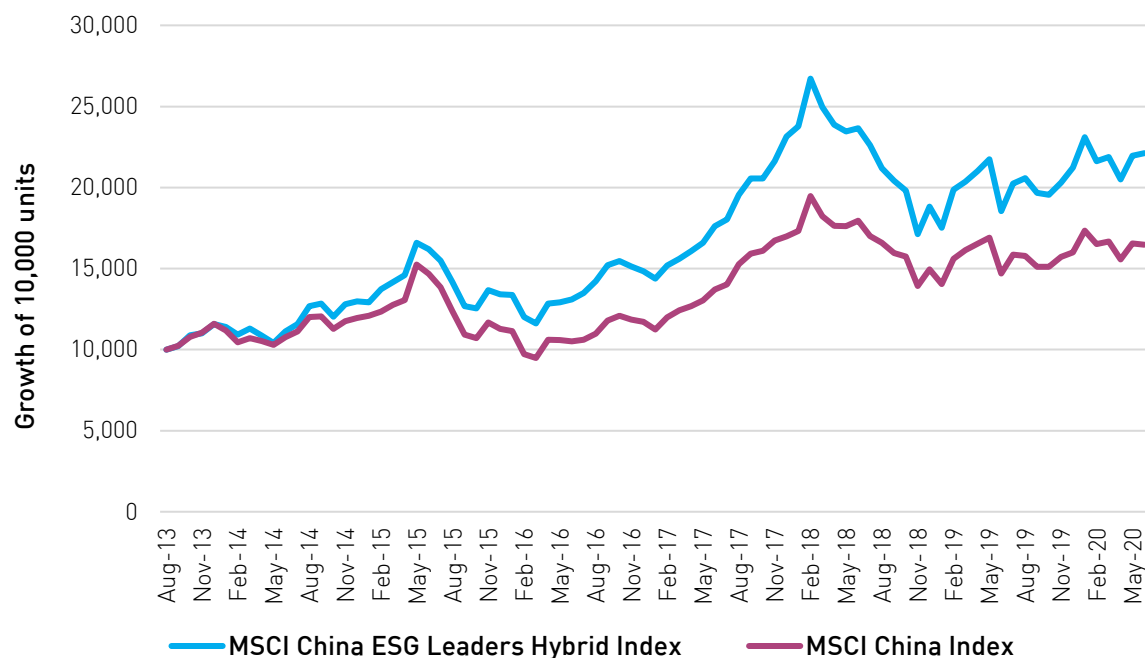
ESG is an effective filter for selecting companies that best adhere to China's future plans for development.



Companies with high ESG scores as measured by MSCI have generally outperformed their peers in China.

- The MSCI China ESG Leaders Hybrid Index* has outperformed the MSCI China Index by 62%.
- The annualized returns of MSCI China ESG Leaders Hybrid Index has also been greater than the MSCI China Index with similar volatility over the same period.

China ESG Leaders Hybrid vs. Broad China



Annualized Return and Volatility¹

	Annualized Return			Annualized Volatility		
	1-Year	5-Year	Since Inception	1-Year	5-Year	Since Inception
MSCI China ESG Leaders Hybrid Index	19.50%	6.47%	12.20%	18.76%	21.93%	20.52%
MSCI China	13.13%	5.32%	8.83%	17.45%	21.76%	19.94%

1. Data from Bloomberg as of 6/30/2020. See slide 19 for index definitions.

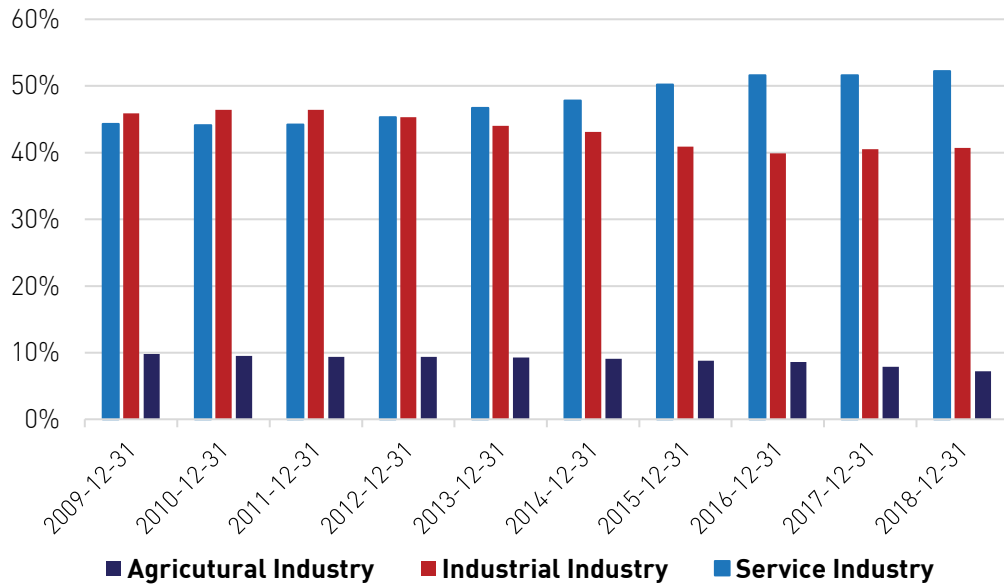
*Note: The MSCI China ESG Leaders Hybrid Index is comprised of the parent index, MSCI China ESG Leaders Index, from Jul. 12, 2013 to Nov. 7, 2019 and the MSCI China ESG Leaders 10/40 Index going forward. The parent index is used prior to the MSCI China ESG Leaders 10/40 Index's inception to show long-term historical performance

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. For actual fund performance visit our website www.kraneshares.com.

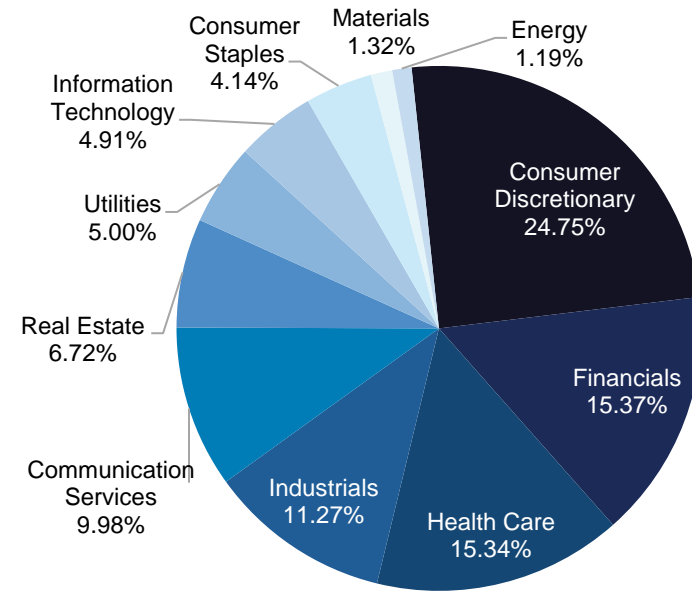
The KraneShares MSCI China ESG Leaders ETF (ticker: KESG) reflects China's shift toward a service-oriented "New China".

- In 2013, the services sector surpassed the industrial sector as the largest contributor to China's GDP for the first time.
- KESG tracks the MSCI China ESG Leaders 10/40 Index. With high exposure to Consumer Discretionary, Health Care and Communication Services, KESG effectively captures growth sectors of the "New China".

China GDP Breakdown¹
(2009 - 2018)



KESG Sector Distribution²

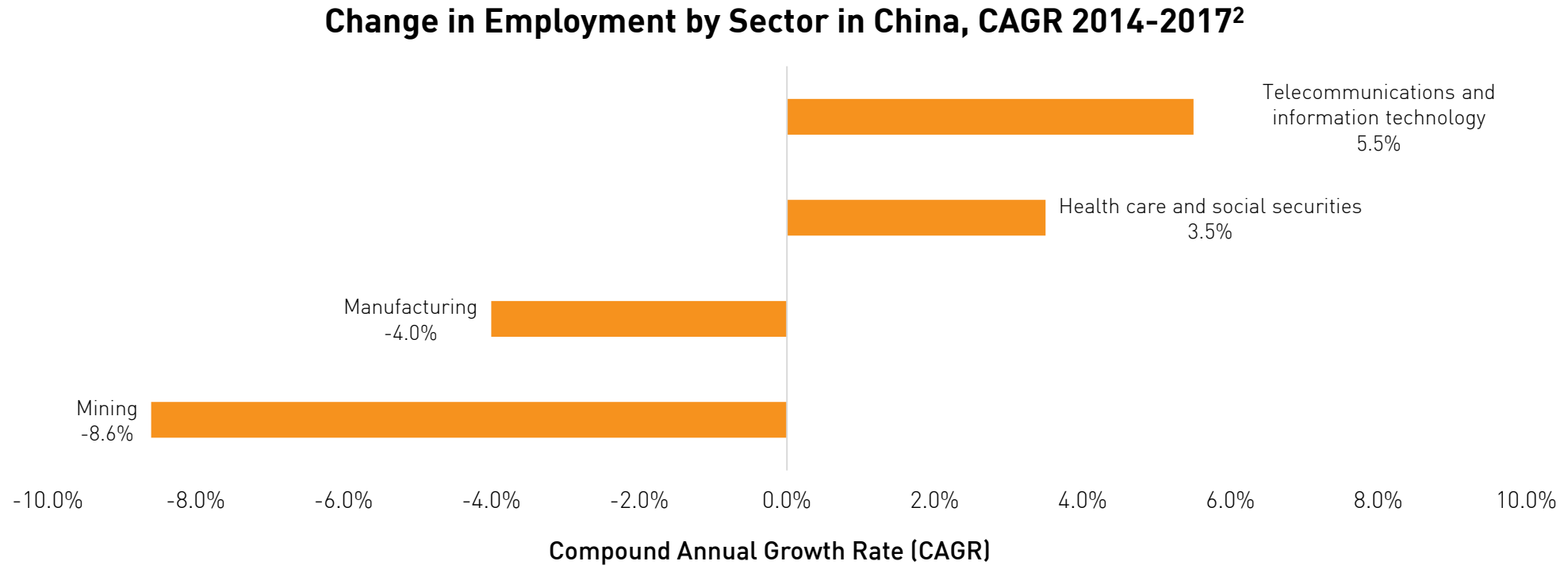


¹Data from Bloomberg as of 12/31/2018. Retrieved on 6/30/2020.

²Data from Bloomberg as of 6/30/2020.

“New China” sectors transformed China’s employment practices and have driven economic growth.

- Service-oriented, “New China” sectors have rapidly created jobs in China.
- From 2014 to 2017, the telecommunications, information technology and health care sectors saw consistent employment growth while manufacturing and mining shrank.
- Across this same time period, the average nominal wage in China nearly doubled².

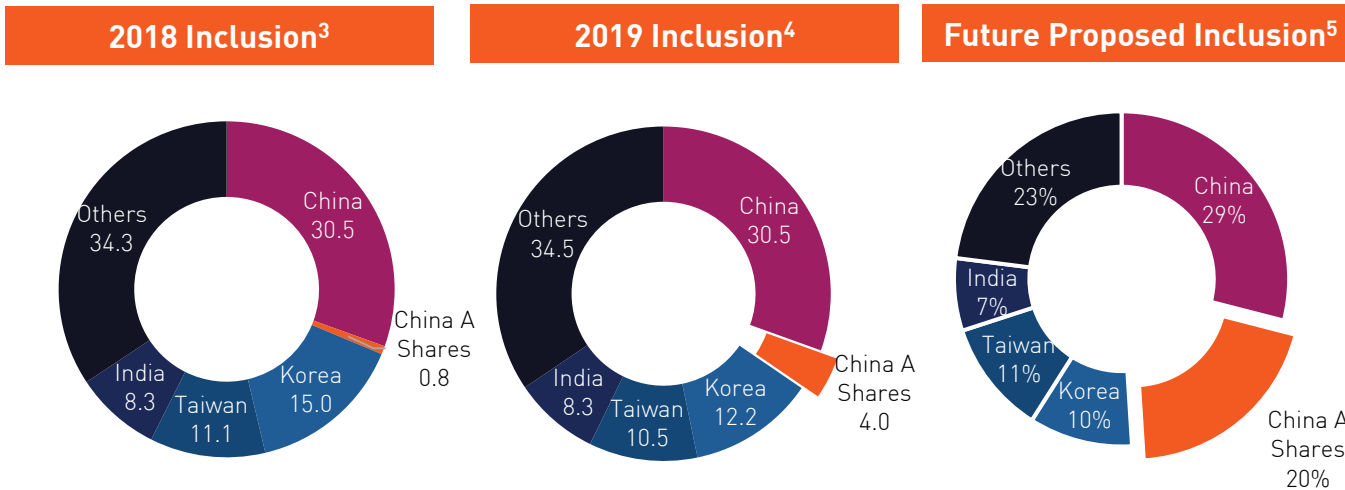


1. South China Morning Post, “What China can teach about wage growth, as workers globally continue to get a raw deal.”, 12/12/2018.
 2. National Bureau of Statistics of China, CAGR 2014-2017, retrieved on 6/30/2020

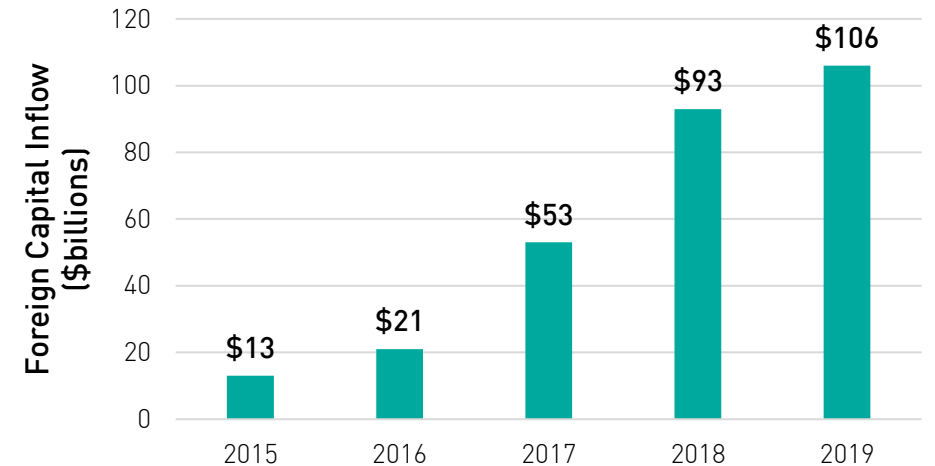
International investors have encouraged further growth in China's ESG development.

- ESG investment has increased rapidly; current estimates place total ESG investments at over \$20 trillion in assets under management (AUM).¹
- International investors now have more exposure to China's capital markets as a result of the China A-Share inclusion to MSCI's Global Standard Indexes.
- Domestic and foreign investors are pushing for better Chinese ESG practices and policies now that they are more heavily invested in China.

China A-Share Inclusion in MSCI EM



Annual Foreign Capital Net Inflow Via Hong Kong, Shenzhen, and Shanghai Stock Connect²



¹ Forbes, "The Remarkable Rise of ESG.", 6/11/2019.

² MSCI ESG Reach LLC, "China Through an ESG Lens," September 2019.

³ MSCI.com/China, retrieved on 6/30/2020

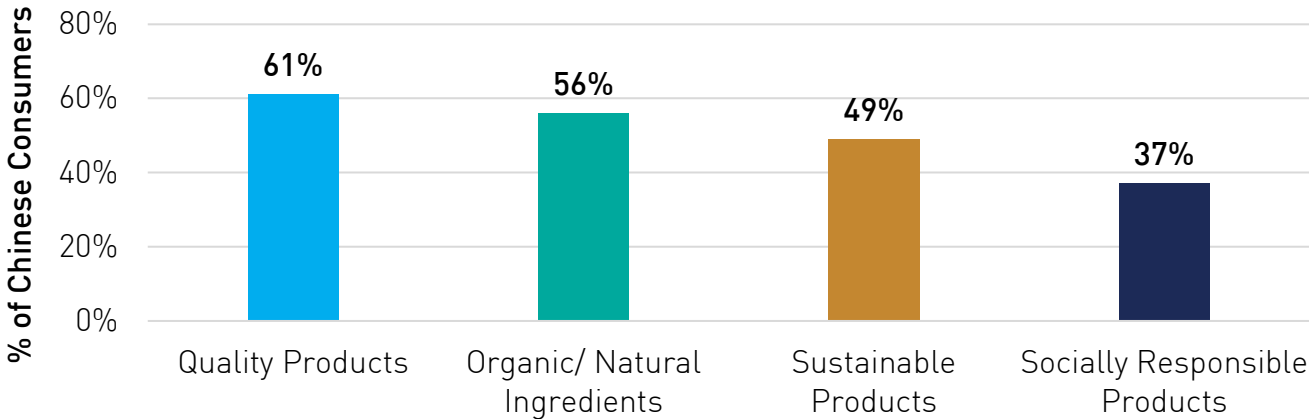
⁴ "MSCI Will Increase The Weight Of China A Shares In MSCI Indexes" MSCI, Feb. 2019, retrieved on 6/30//2020

⁵ MSCI, "China and the future of equity allocations", June 2019, retrieved on 6/30//2020

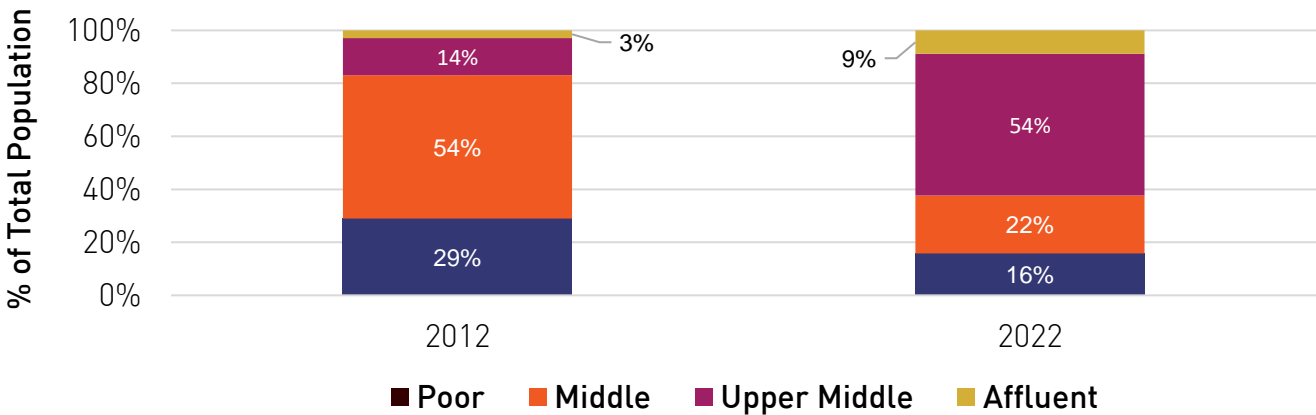
The Chinese consumer's focus on sustainability is also driving more Chinese companies to adopt ESG practices.

- Global trends show that as a consumer's disposable income increases, their demand for more sustainable products also increases.
- At present, 61% of Chinese consumers show a strong preference for quality products, which is considerably higher than the global rate of 49%.¹
- With the Chinese population becoming more health and safety conscious, their affinity for quality products is becoming stronger. These better-quality products are also desirable because they are an expression of status.¹
- As the Chinese middle-class continues to expand and disposable income increases, demand for ESG focused companies is projected grow.

2019 Nielson Report on Chinese Consumer Preferences¹



China's Growing Middle Class²



¹ Nielson, "61% of Chinese Consumers Choose premium products because of superior quality." 4/1/2019.

² Mckinsey 2016 Consumer Report, "The Modernization of the Chinese Consumer." March 2016.

The Top 10 MSCI China ESG Leaders 10/40 Index constituents are actively furthering their ESG initiatives.

Top 10 Index Constituents (As of 6/30/2020)	Company logo	Ticker	% Weight	Company ESG Highlights
TENCENT HOLDINGS LTD		700 HK	9.69	Tencent uses energy saving measures in their offices in Beijing, including an optimized air conditioning system and building management system. ³
MEITUAN DIANPING-CLASS B		3690 HK	9.10	Meituan Dianping launched the Blue Mountain Project in 2017, which encourages merchants and consumers to use recycled food packaging. ⁷
CHINA CONSTRUCTION BANK-H		939 HK	8.47	China Construction Bank actively supports low-carbon transformation by giving green loans of 1 trillion RMB, equivalent to 69 million tons of CO2 emissions. ¹
ALIBABA GROUP HOLDING-SP ADR		BABA US	8.33	Alibaba uses renewable energy and water-efficient systems to makes their data centers more environmentally friendly. ²
CHINA MERCHANTS BANK-H		3968 HK	3.90	China Merchants Bank has invested nearly 117 million RMB to facilitate local poverty alleviation in counties in Yunnan Province, China. ⁴
WUXI BIOLOGICS CAYMAN INC		2269 HK	3.62	Wuxi Biologics has continuous on-the-job training to accelerate the learning progress and improve the knowledge and skill levels of its workforce. ⁹
SINO BIOPHARMACEUTICAL		1177 HK	2.83	Sino Biopharmaceutical works with industrial elites to promote the development of social responsibility in the healthcare industry and make the Group a respected corporate citizen in the industry. ¹⁰
CHINA OVERSEAS LAND & INVEST		688 HK	2.52	China Overseas Land and Investment Co. carries out quantitative quality inspections and risk checkpoint monitoring for all of their products. ⁵
CSPC PHARMACEUTICAL GROUP LT		1093 HK	2.30	CSPC maintains high standards through comprehensive quality inspection and product recall management. ⁶
CHINA MENGNIU DAIRY CO		2319 HK	2.29	China Mengniu Dairy's joint venture with WhiteWave Foods in 2013 has helped to develop their plant-based dairy production. ⁸

MSCI China ESG Leaders 10/40 Index Constituent Selection Process



KESG is benchmarked to an MSCI index – MSCI is the world's largest provider of ESG indexes and research.¹

MSCI is committed to determining which companies best match their ESG criteria



#1 for SRI³ Research,
Corporate Governance
and ESG Indexes
as voted by

1,300

participants of the SRI Connect and
Ecofys Survey, 2015 & 2016

over
\$85bn
in assets are benchmarked to
MSCI ESG Indexes²



¹ By number of indexes and by assets tracking the indexes compared with publicly available information produced by FTSE and S&P Dow Jones

² As of March 2018, based on Bloomberg, Morningstar and MSCI data. Data excludes mandate or policy benchmark related assets.

³ 'SRI' - Socially Responsible Investment.

KraneShares MSCI China ESG Leaders ETF (ticker: KESG)

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Key Fund Information

Exchange	NYSE
Total Annual Fund Operating Expense	0.59%
Listing Date	7/15/2020
Index Name	MSCI China ESG Leaders 10/40 Index
Index Ticker	KESG
CUSIP	500767660
Number of Constituents	149
Base Currency	USD

Top 10 Holdings as of 6/30/2020 The Fund's holdings are subject to change.	%

KESG Performance History as of 6/30/2020

	Cumulative %			Average Annualized %		
	3 Mo	6 Mo	Since Inception	1 Yr	3 Yr	Since Inception
Fund NAV	-	-	-	-	-	-
Closing Price	-	-	-	-	-	-
Index	-	-	-	-	-	-

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.

Slide 6 List of Citations:

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- 4.China's Ministry of Environmental Protection website, About MEP, History.
- 5."5 Laws To Watch Out For In 2018" China Water Risk, Feb. 14, 2018.
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7. International Energy Agency, Policies and Measures of China, Wind Power Technology Development 12th Five Year Special Planning. Oct. 31, 2013.
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16. Bloomberg News, "Chinese Food Giant Raises \$2.1 Billion in Country's First Sustainability Loan." July 16, 2019.

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- 4.2018 China Merchants Bank Corporate Social Responsibility Report, retrieved on 31/Dec/2019.
- 5.China overseas Land & Investment LTD. 2018 Environmental, Social and Governance Report, retrieved on 31/Dec/2019.
- 6.CSPC Pharmaceutical Group Corporate Social Responsibility Report2017, retrieved on 31/Dec/2019.
- 7.Meituan 2018 Corporate Social Responsibility Report, retrieved on 31/Dec/2019.
- 8.WhiteWave Foods Press Release, "The WhiteWave Foods Company to Form Joint Venture with China Mengniu Dairy Company", January 2013.
- 9.Wuxi Biologics, "2019 Annual Report", 31/Dec/2019.
- 10.Geely, "2018 Social Responsibility Report", June 2018.

Index Definitions:

MSCI China Index: The index captures large and mid-cap representation across offshore listings of Chinese companies in the form of H shares, B shares, Red chips, P chips, and foreign listings such as ADRs. With 447 constituents, the index covers about 85% of this China equity universe. Currently, the index also includes Large Cap A shares, represented at 2.5% of their free float adjusted market capitalization. Inception date: Jan 1, 2001.

MSCI Emerging Markets Index: 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. Inception date: Jan 1, 2001.

MSCI China ESG Leaders Index: is a capitalization weighted index that provides exposure to companies with high Environmental, Social and Governance (ESG) performance relative to their sector peers. MSCI China ESG Leaders Index consists of large and mid-cap companies in Chinese markets. Inception date: Jul. 12, 2013.

MSCI China ESG Leaders 10/40 Index: aims to provide exposure to companies with high Environmental, Social and Governance (ESG) performance relative to their sector peers. The MSCI China ESG Leaders 10/40 Index consists of large and mid-cap companies in China. Inception date: Nov. 8, 2019.

MSCI EM Asia ESG Leaders Index: is a capitalization weighted index that provides exposure to companies with high Environmental, Social and Governance (ESG) performance relative to their sector peers. MSCI EM Asia ESG Leaders Index consists of large and mid-cap companies across 9 Emerging Markets (EM) countries including China, India, Indonesia, Korea, Malaysia, Pakistan, the Philippines, Taiwan and Thailand. Inception date: Jul 12, 2013.

MSCI China ESG Leaders Hybrid Index: The hybrid Index is comprised of the parent index, MSCI China ESG Leaders Index, from Jul. 12, 2013 to Nov. 7, 2019 and the MSCI China ESG Leaders 10/40 Index going forward.

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.

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.

Narrowly focused investments typically exhibit higher volatility. Internet companies are subject to rapid changes in technology, worldwide competition, rapid obsolescence of products and services, loss of patent protections, evolving industry standards and frequent new product productions. Such changes may have an adverse impact on performance.

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