

# China Healthcare: Potential Opportunities From One Of The Fastest Growing Major Global Healthcare Markets<sup>1</sup>

An Overview of the KraneShares MSCI All China Health Care Index ETF (Ticker: KURE)

1. Major healthcare markets defined as top five global markets by the World Health Organization. Data from the World Health Organization as of 12/31/2017, last updated on 4/7/2020.



## 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 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 MSCI All China Health Care Index ETF

### Investment Strategy:

KURE seeks to measure the performance of MSCI China All Shares Health Care 10/40 Index. The Index is a free float adjusted market capitalization weighted index designed to track the equity market performance of Chinese companies engaged in the health care sector. The securities in the Index include all types of publicly issued shares of Chinese issuers, which are listed in Mainland China, Hong Kong and the United States. Issuers eligible for inclusion must be classified under the Global Industry Classification Standard (GICS) as engaged in the healthcare sector. The issuers included in the Underlying Index may include small-cap, mid-cap and large-cap companies.

### China Health Care Sector Highlights:

- China is one of the fastest growing major healthcare markets in the world with a ten-year compound annual growth rate of 13%, compared to just 3% in the United States and 2% in Japan<sup>1</sup>.
- China is the second largest healthcare market globally with total healthcare expenditures reaching \$630 billion in 2017<sup>1</sup>, a number projected to reach \$1.1 trillion by 2020<sup>2</sup>.
- There is still opportunity for considerable growth in China's healthcare market with per capita health spending at just \$441, compared to an average of over \$5,400 for the world's top eight healthcare markets<sup>3</sup>.
- China's aging population, rising incomes and increasing urbanization may provide a sustained catalyst for growth in China's healthcare sector.

### KURE features:

- Exposure to Chinese companies listed in the Mainland, Hong Kong and United States that are involved in the healthcare industry. Specifically: patent and generic pharmaceuticals, hospital administration, biotechnology, medical equipment production, healthcare IT, and traditional Chinese medicine.
- Exposure to companies that benefit from China's growing middle class and aging population.
- Access to leading Chinese pharmaceutical companies which have been recipients of favorable policy and market conditions for research and development and the invention of new medicines and devices.

1. Major healthcare markets defined as top five global markets by the World Health Organization. Data from the World Health Organization, last updated on 4/7/2020.

2. International Trade Association, "2016 Top Markets Report Pharmaceuticals, 2016", retrieved 6/30/2020.

3. Data from the World Health Organization, last updated on 4/7/2020. Retrieved 6/30/2020.

## The COVID-19 pandemic may cause a surge in global demand for China healthcare companies.

- 18% of revenue from holdings within KraneShares MSCI All China Healthcare ETF is derived from abroad.<sup>1</sup>
- Several key China healthcare companies within KURE derive significant revenue from abroad.
- Today, Chinese pharmaceutical manufacturers have captured 97% of the U.S. market for antibiotics and 90% of the market for vitamin C.<sup>2</sup>

### China Healthcare Company Highlights

**mindray**

Mindray is a leading ventilator manufacturing, producing 3,000 ventilators a month<sup>3</sup>. The company quickly expanded its global reach due to COVID-19 shortages, entering the US market last month after obtaining FDA authorization.

**YUYUE**

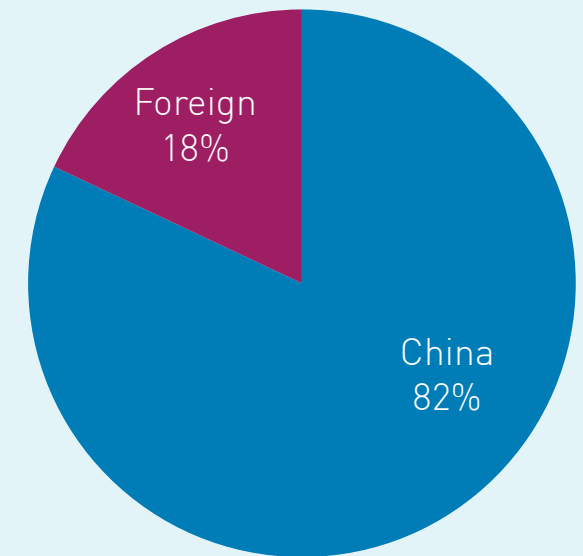
Jiangsu Yuyue recently received FDA authorization to sell its ventilators to the US on April 1st.<sup>4</sup> The company is also major supplier of forehead thermometers and nebulizers.

**WuXi AppTec**

WuXi AppTec and WuXi Biologics are both contract research organizations (CROs), which offer pharmaceutical and biotech R&D and manufacturing services for both domestic and foreign companies.

**WuXi Biologics**  
Global Solution Provider

### KURE's Revenue Source<sup>1</sup>

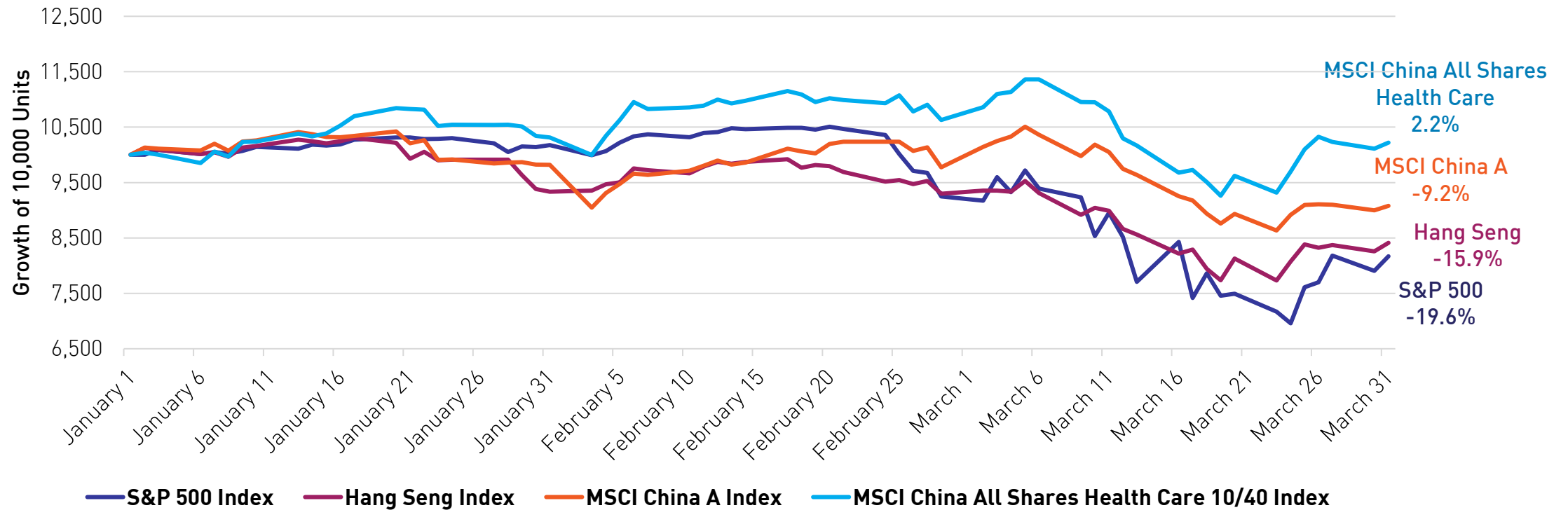


1. Data from MSCI, as of 3/31/2020. Retrieved 6/30/2020.  
 2. Council on Foreign Relations, "The Coronavirus Outbreak Could Disrupt the U.S. Drug Supply", 3/5/2020. Retrieved 6/30/2020.  
 3. Bloomberg, "World Ventilator Demand Now 10 Times What's Available, Says Maker", 3/25/2020.  
 4. Reuters, "Jiangsu Yuyue Medical Equipment's Unit Obtains Emergency Use Authorization From U.S. FDA For Ventilator Product", 4/1/2020.

## The Covid-19 pandemic had a relatively muted effect on China healthcare.

- Equity markets in China did not sell off to the extent they did in the United States. The healthcare sector was notably resilient.
- China's proactive fiscal response offset economic weakness during quarantine

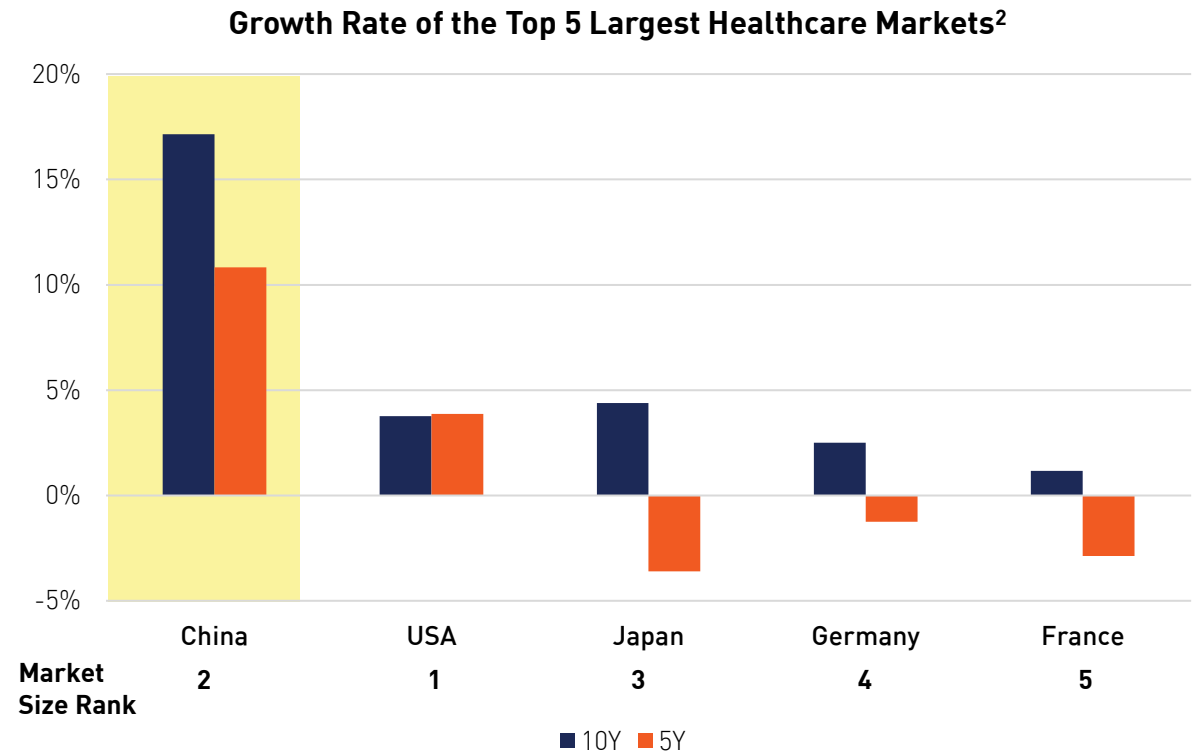
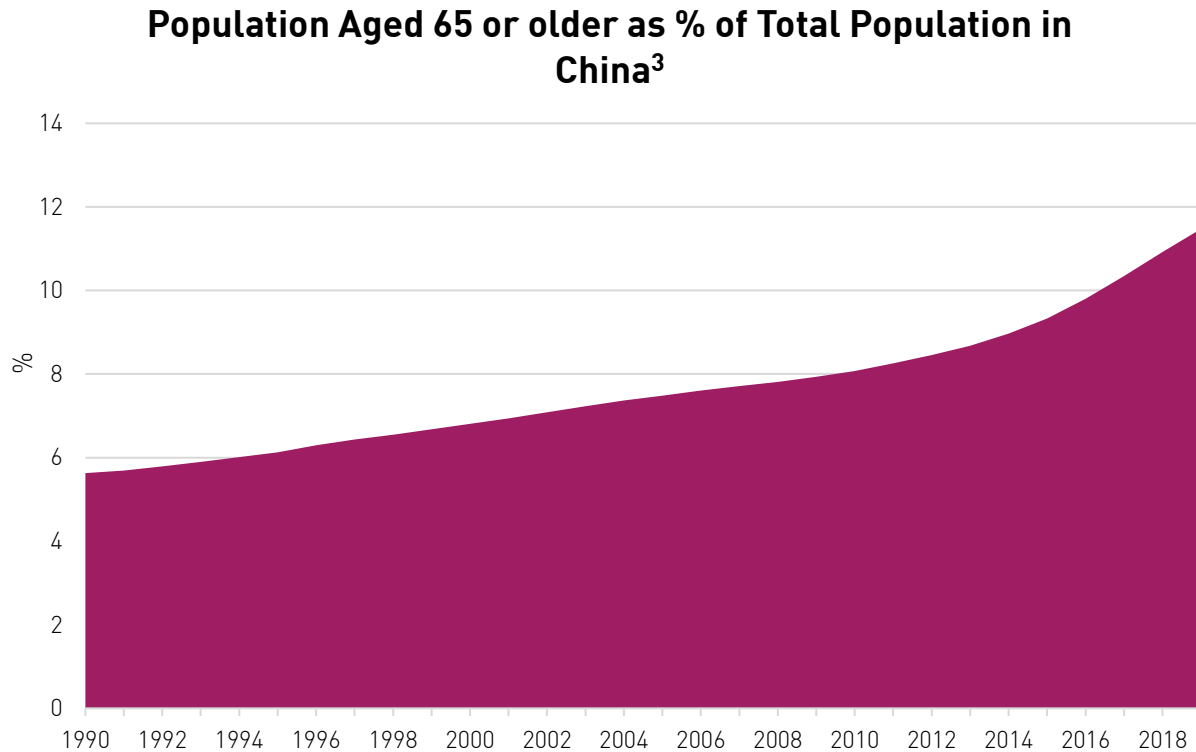
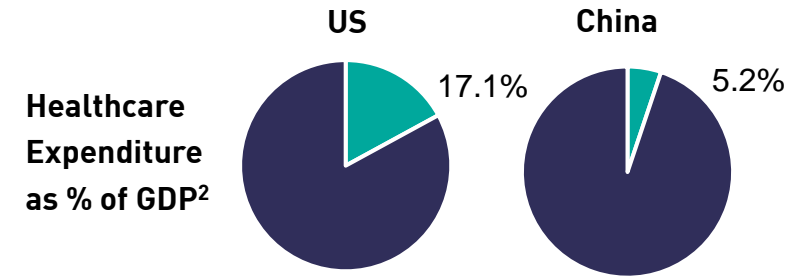
### Performance of Major Stock Indexes Q1 2020



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.

# An aging population means a growing health care market.

- China's aging population is expected to increase the burden of chronic disease by 40% by the year 2030<sup>1</sup>.
- China healthcare expenditure is still small compared to the US<sup>2</sup>.
- China is one of the fastest growing major healthcare markets in the world with a ten-year compound annual growth rate of 13%, compared to just 3% in the United States<sup>2</sup>.

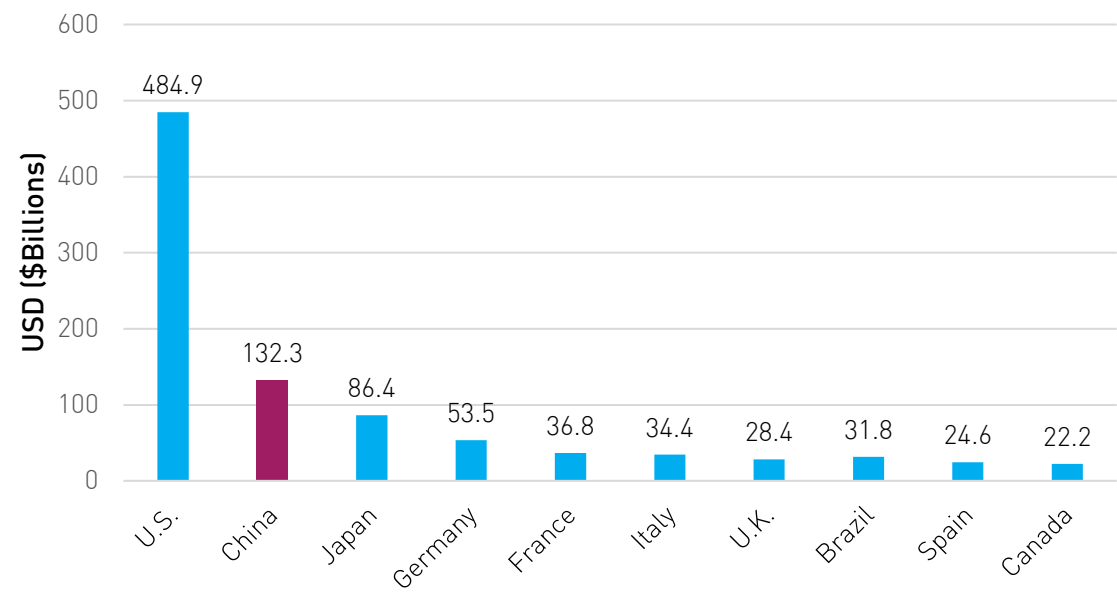


1. Data from the National Bureau of Statistics of China. Data as of 12/31/2017. Retrieved 6/30/2020.  
 2. Data from the World Health Organization as of 12/31/2017, last updated on 4/7/2020. Retrieved 6/30/2020.  
 3. Data from the World Bank as of 12/31/2019. Retrieved 6/30/2020.

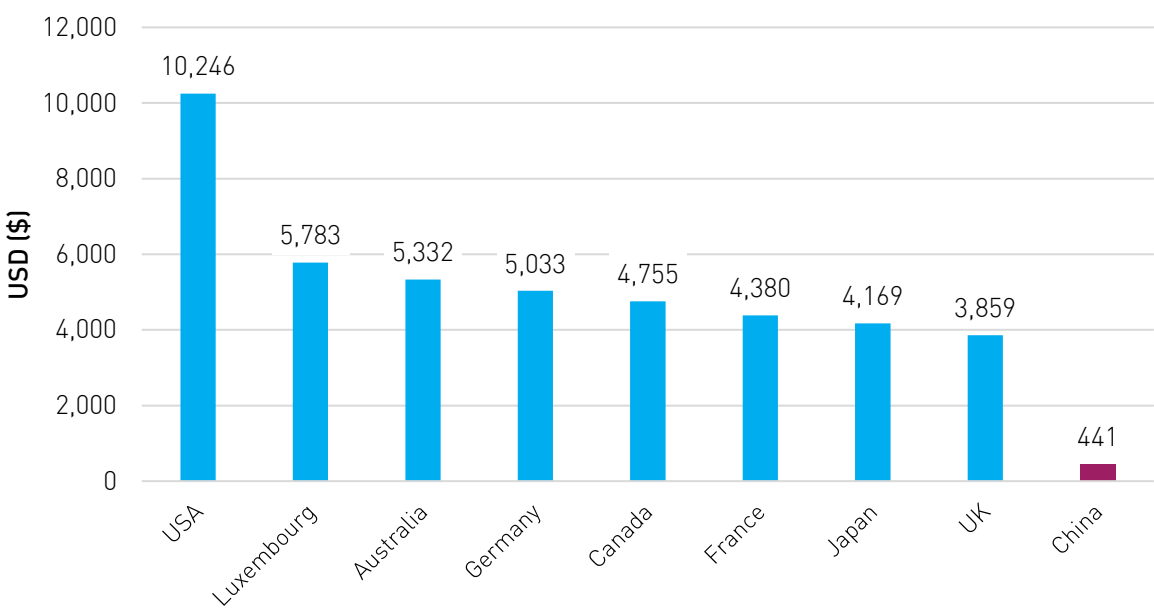
# China has continued to break historical pharmaceutical sales records despite having significantly lower healthcare per capita expenditures compared to other major economies.

- China’s pharmaceutical sales reached \$137 billion in 2018<sup>1</sup>. This number is projected to grow to \$175 billion by 2022<sup>1</sup>, according to healthcare information company, IQVIA.
- Per capita health spending remains low at \$441, as compared to an average of over \$5,400 in the world’s top eight healthcare markets in terms of per capita expenditure<sup>2</sup>.
- In 2011, China adopted Universal Healthcare with 95% of China’s population gaining access to healthcare services<sup>3</sup>.

**Global Top 10 Pharmaceutical Spending in 2018<sup>4</sup>**



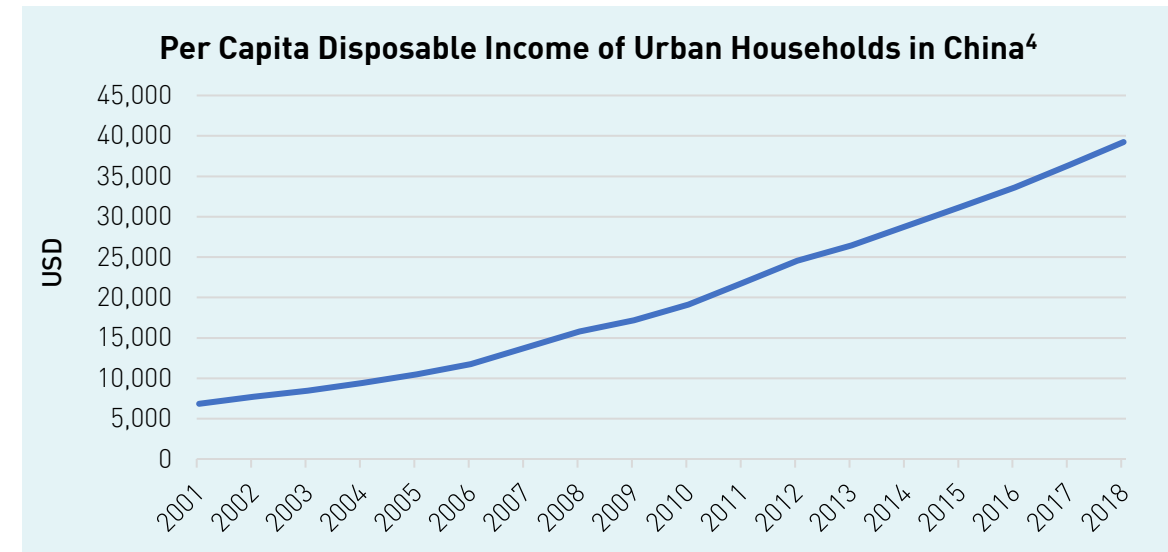
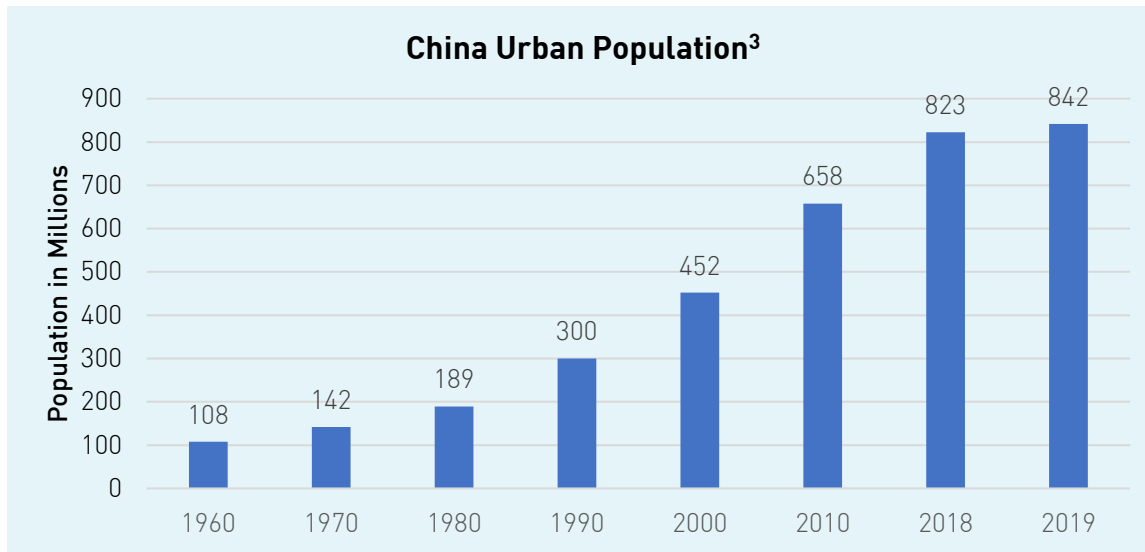
**Per capita healthcare expenditure of major countries in 2017<sup>2</sup>**



1. China Daily. “Fast growth in China’s pharmaceutical market to benefit foreign firms.” 9/29/2019. Retrieved on 3/31/2020.  
 2. Major healthcare markets defined as top five global markets by the World Health Organization. Data from the World Health Organization, last updated on 4/7/2020.  
 3. Sun et al., “Chinese healthcare system and clinical epidemiology”, NIH, 3/16/2017.  
 4. IMS Market Prognosis, 2018. Retrieved on 6/30/2020.

## As China's population moves to cities and wages increase, healthcare is becoming a greater focus.

- As average household income and urbanization rates have risen, Chinese citizens have greater access to healthcare knowledge and have a greater ability to pay for medical-related costs.
- However, rising incomes and urbanization have given rise to China's current obesity problem as more citizens adopt western eating habits.
- Today, about 5% of Chinese adults (approximately 69 million people) are obese overall and in some cities the obesity rate is up to 20%.<sup>1</sup>
- Additionally, instances of cancer in China are rising, with 4.3 million new cancer cases in 2018 alone<sup>2</sup>.
- In 2016, the government responded to growing healthcare concerns by launching the "Healthy China 2030 Plan", which is a national initiative that promotes diet, exercise, and access to healthcare services.



1. WebMD. "One third of global population overweight or obese according to new study," WeMD. June 13, 2017.  
 2. World Health Organization's Global Cancer Observatory, "China Population Fact Sheet". Data as of May 2019. Retrieved on 6/30/2020.  
 3. Data from the World Bank as of 12/31/2019. Retrieved on 6/30/2020.  
 4. Data from Bloomberg as of 12/31/2019. Retrieved on 6/30/2020.



## China offers a favorable environment for drug research and development.

### Favorable Policies

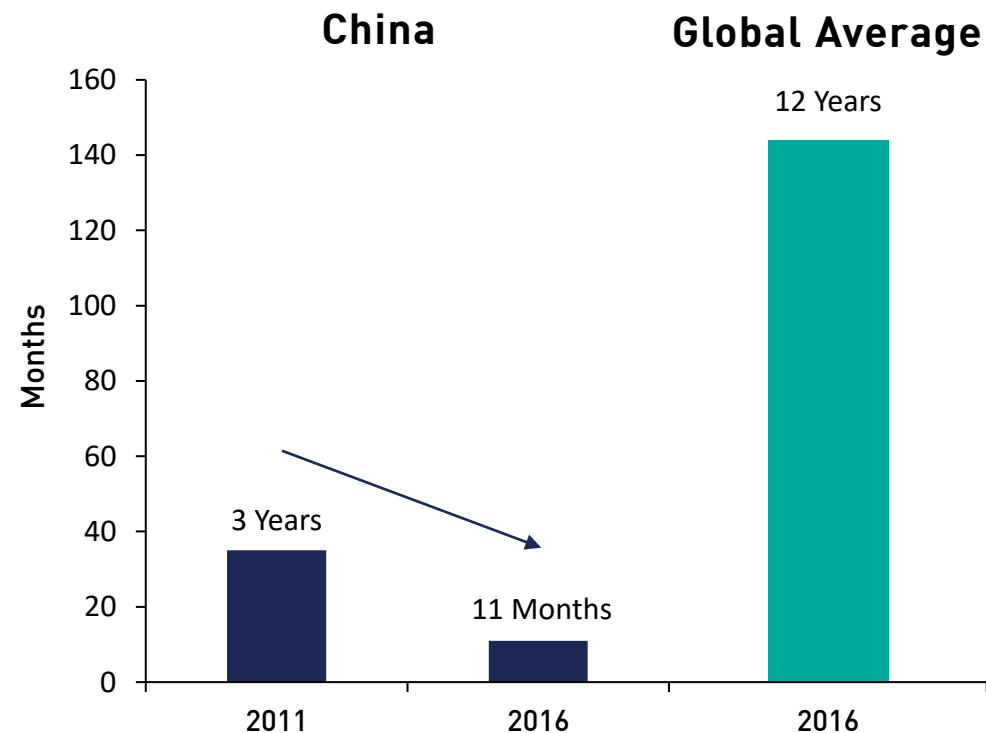
In 2015, the China Food and Drug Administration (CFDA) issued the “Opinions on Reforming the Review and Approval System for Drugs and Medical Devices”, which set policies aimed towards:

- Increasing efficiency and transparency of drug review and approval processes
- Maximizing quality of generic drugs
- Enhancing efficiency in R&D innovations

### Lower Research & Development Costs

R&D costs are significantly lower in China. On average, drug development costs in the US amount to \$3 to \$4 billion, while comparable developments could be done in China for about \$30 to \$40 million<sup>2</sup>.

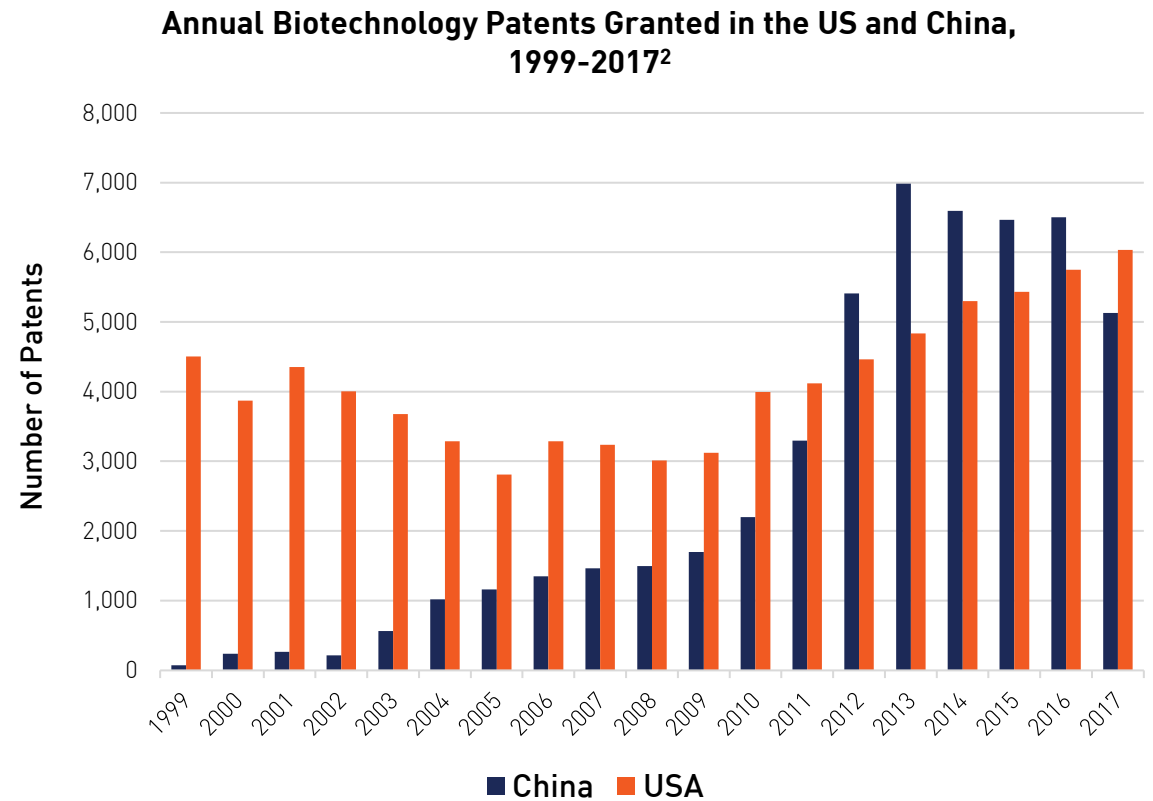
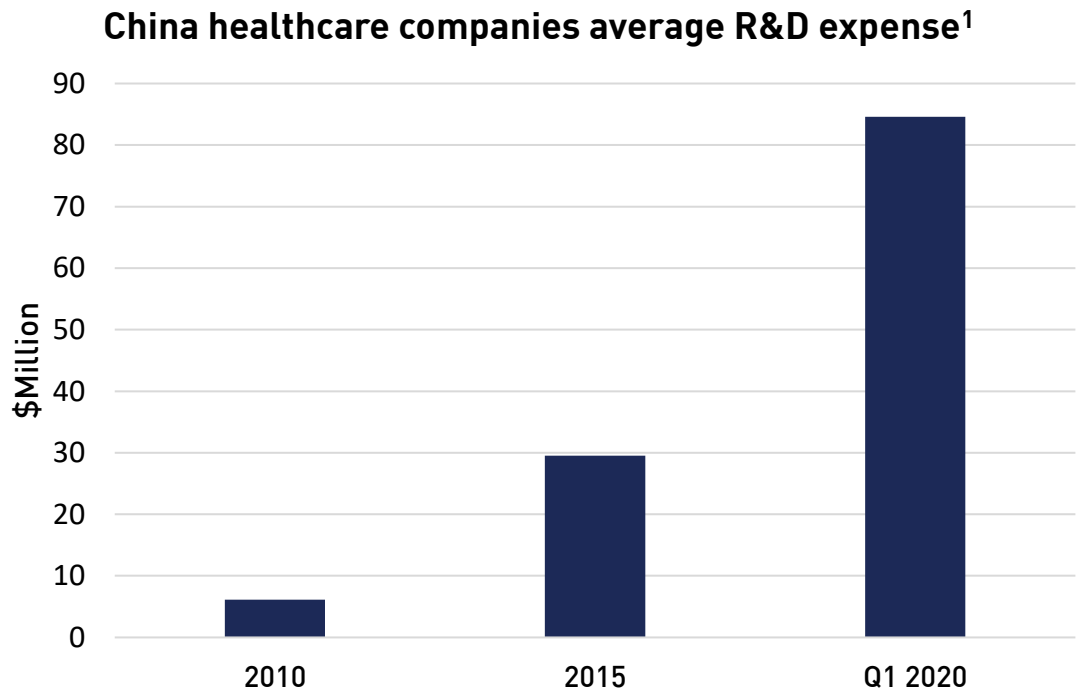
### Average Drug Approval Time<sup>1</sup>



1. BCG, “The Next Decade of Opportunity – and Jeopardy – in China’s Pharma Market”, Jan. 2019

# Research and development activity has recently picked up in China.

- Chinese Healthcare companies are increasing their R&D spending
- China equals the US in terms of number of biotechnology patents granted<sup>2</sup>.

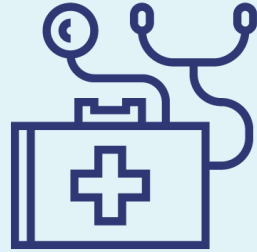


1. Data from Bloomberg as of 3/31/2020.  
 2. World Intellectual Property Organization as of 12/31/2018.

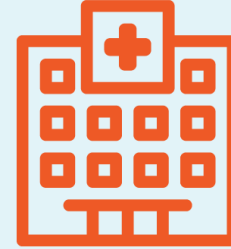
# The China healthcare ecosystem



**Patent and Generic  
Pharmaceuticals**



**Medical Equipment  
Production**



**Hospital Administration**



**Biotechnology**



**Traditional  
Chinese Medicine**



**Healthcare IT**

## China's domestic pharmaceutical market is flourishing due to favorable market conditions and policies.

### Favorable Policies

- Several market-friendly policies have been introduced encouraging joint ventures between multinational companies and domestic companies.
- In 2015, the China Food and Drug Administration (CFDA) issued the "Opinions on Reforming the Review and Approval System for Drugs and Medical Devices", which set policies aimed towards:
  - Increasing efficiency and transparency of drug review and approval processes
  - Maximizing quality of generic drugs
  - Enhancing efficiency in R&D innovations
- More than 100 foreign-developed drugs were approved for entry into the Chinese market in 2018<sup>1</sup>.

### Lower Research & Development Costs

- R&D costs are significantly lower in China. On average, drug development costs in the US amount to \$3 to \$4 billion, while comparable developments could be done in China for about \$30 to \$40 million<sup>2</sup>.
- The CFDA now allows drug license holders to sub-contract manufacturing so that R&D institutions can focus solely on high quality R&D innovations rather than investing in their own manufacturing plants.

### Technological Innovations

- IT Companies are leveraging China's robust internet infrastructure to increase efficiency and transparency in the healthcare R&D space.

#### Joint Venture Partnerships



The Hisun-Pfizer joint venture is mutually beneficial in international marketing and in the commercialization of generic medicines.



Fosun Pharma and Intuitive Surgical's joint venture is mutually beneficial in biomedical technology and pharmaceutical manufacturing and distribution.

#### Technological Innovations



WuXi Biologic's WuXi AppTec is a global tech platform that offers a portfolio of medical R&D resources to shorten the lag time in biomedical discovery and innovative development.

1. Gordon Orr, "What can we expect in China in 2019?", McKinsey and Company, December 2018. Retrieved 6/30/2020.  
 2. Fortune, "Why China Is Having A Healthcare Boom", 1/18/2018. Retrieved 6/30/2020.



## China's medical device market maintains a double-digit growth rate.

- The medical device market has been one of the fastest growing healthcare segments in China, maintaining double-digit growth for over a decade.
- In 2018, the medical device market reached \$78.8 billion, an increase of 22% compared to 2017.
- Over 70% of this growth is fueled by hospital procurements.
- The government's "Made in China 2025" initiative to improve industry efficiency, product quality, and brand reputation aims to further spur the development of domestic medical device manufacturers and increase the competitiveness of Chinese medical device brands.

### China Medical Device and Pharmaceutical Markets

	Medical Devices	Pharmaceuticals
<b>Total Market Size</b>	\$78.8B	\$220B
<b>% health expenditure</b>	10%	28.6%
<b>% GDP</b>	0.5%	1.6%
<b>Per capita (\$US)</b>	\$56.4	\$157.1

Due to perceived quality advantages medical equipment imports from the U.S. and Europe remain high. However, as quality increases, Chinese domestic medical device companies are increasingly competing with U.S. and European companies making particularly strong gains in medium-level technology niches.

**As China's population becomes more health conscious, the demand for high quality preventative care also increases, providing a catalyst for private hospitals and facilities that offer health examinations, evaluations, and consulting services.**

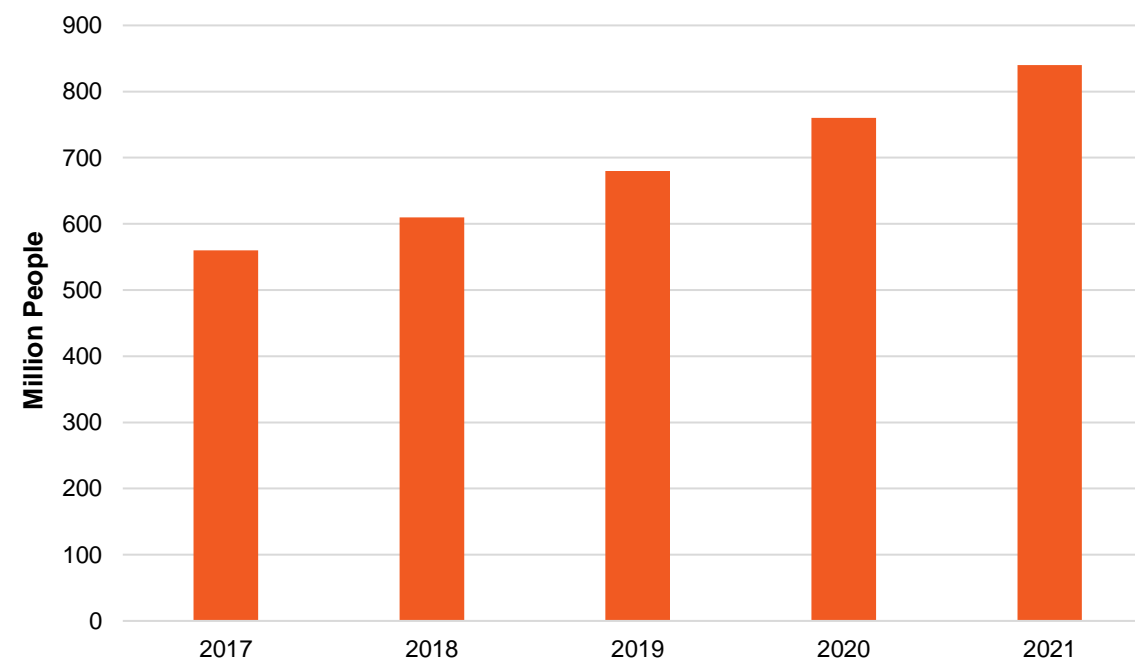
### Privatization

- Rising demand from wealthier Chinese seeking quality care and diverse services has led to increased privatization of hospitals to match demand.
  - The number of private hospitals in China has reached 21,165 and constitutes 63.9% of all hospitals<sup>1</sup>.

### Emphasis on preventative care

- The "Healthy China 2030" policy outlines the Government's plans to upgrade the standards and quality of service in primary care institutions.
  - The government sees General practitioners as the gatekeepers of people's health and primary method of controlling medical expenditures.
  - By 2030, the goal is to have five qualified general practitioners available for every 10,000 residents in China<sup>2</sup>.
  - The National Health and Family Planning Commission estimates China needs to add 210,000 general practitioners<sup>2</sup>.
  - Establishment of a medical network and referral system geared toward reducing overcrowding in China's largest tertiary hospitals.

### Preventative Health Examination Volume is Projected to Grow



Source: [www.abaogao.com](http://www.abaogao.com) "2017 China's health examination industry market development forecast analysis", translated from Chinese, Jan 25 2017, retrieved on 6/30/2020.

1. "China Hospital Industry Report,2019-2025", May 2019 ,Retrieved 6/30/2020.  
 2. WANG XIAODONG "China to improve training of GPs" China Daily, 1/25/2018, Retrieved 6/30/2020.

## Four major catalysts for China's biotechnology and life science industry:

### Government funding

- Biotech industry highlighted in three of the government's latest five-year plans
- An estimated \$100 billion per year<sup>1</sup> is already invested in the life-sciences sector by central, provincial, and local governments in an effort to reach the five-year-plan targets.

### Venture Capital / Private Equity Funding

- ChinaBio reports that Chinese venture capital and private equity funds raised a total of \$42.8 billion in 2018 for life-sciences investment<sup>1</sup>.

### Regulatory Changes

- China is moving toward global standardization.
- In June 2017, China joined the International Council for Harmonization of Technical Requirements for Pharmaceuticals for Human Use (ICH).

### Returning Talent

- Foreign undergraduate and advanced degree recipients are increasingly returning to China to work.
- Over 2 million returnees in last 6 years, estimated 250,000 in life science<sup>1</sup>.

1. "State of China Life Science - 2019" ChinaBio Today, 1/6/2019, Retrieved 6/30/2020.  
 2. "China's biotech revolution" UBS Research, 8/2/2018, Retrieved 6/30/2020.  
 3. "China biotech: Six things to watch in 2019" KNect365, 11/14/2018, Retrieved 6/30/2020.  
 4. Shanghai-Fosun Pharma (2196.HK) is held in KURE as of 3/31/2020 at a weight of 1.50%. All fund holdings are subject to change.  
 5. "Recent Articles in Deals & Financings" ChinaBio Today. Retrieved 6/30/2020.  
 6. Lepu Medical (300003.SHE) is held in KURE as of 3/31/2020 at a weight of 1.44%. All fund holdings are subject to change.

### FIVE YEARS

#### *A snapshot of China's biotech industry*

#### 2015

- The 13<sup>th</sup> 5-Year Plan (2015-2020) mandated the biotech industry should exceed 4% of China's GDP by 2020<sup>2</sup>.

#### 2016

- A Chinese biotech start-up broke the country's record for first-round financing, raising \$150 million.

#### 2017

- China's drug administration body agreed to align Chinese drug regulations with the rest of the world.

#### 2018

- The Hong Kong Stock Exchange relaxed rules allowing public stock investment in pre-revenue (development-stage) biotech companies. In July, the first such company (Hangzhou-based Ascleptis Pharma) took advantage of this regulatory change and went public<sup>3</sup>.
- Total value of Chinese healthcare IPOs was \$7 billion in 2018, an increase of 41% from 2017<sup>1</sup>.

#### 2019

- Shanghai-Fosun Pharma (KURE holding)<sup>4</sup> paid \$36 million to acquire a former GlaxoSmithKline drug-making facility in Suzhou.<sup>5</sup>
- Lepu Biotech, a subsidiary of Lepu Medical (KURE holding)<sup>6</sup> raised \$191 million in series-A funding for immunotherapies.<sup>5</sup>

## The Traditional Chinese Medicine (TCM) industry represents a sizable portion of the entire market.

- TCM has a rich 2,000-year history encompassing herbal medicine, acupuncture, massage and dietetics.
- In recent years, TCM has enjoyed a modern resurgence championed by Chinese president Xi Jinping.
- In December 2016, China's State Council issued the "Strategic Plan on the Development of Traditional Chinese Medicine" making the development of TCM a national strategy.
- The policy emphasizes promoting a balance between Western medicine and TCM practices.
- The TCM industry has an annual compound growth of 20%, and is projected to have a \$434 billion annual sales revenue by 2020.<sup>1</sup>
- Currently, TCM has a global presence in 183 countries and regions.<sup>1</sup>
- By 2020, the government also seeks to register 100 TCM products and set up 50 international TCM cooperation model centers<sup>2</sup>.
- TCM practitioners emphasize preventative medicine and treating diseases before they occur through healthy living and proper diets. This is especially important in China which has increasing obesity, diabetes and smoking rates.

### TCM has over 2000 years of tradition



In Traditional Chinese Medicine, good health is believed to be achieved by a balance between yin and yang.

1. China Daily, "China's TCM Going Global", 8/12/2019, retrieved 6/30/2020.  
 2. South China Morning Post, "Traditional Chinese medicine closes in on US\$50 billion market with long-awaited nod from WHO", 9/29/2018, retrieved 6/30/2020.



## Healthcare IT services catch up with China's growing healthcare demand.

- China's healthcare IT market reached \$4.6 billion in 2017, a 46% increase from the previous year. The market is projected to grow to \$12 billion by 2020.<sup>1</sup>
- The sustained growth of China's healthcare IT market has been driven by:
  - Convenience and timeliness to consult with healthcare professionals
  - Greater access to areas that lack adequate healthcare resources
  - Ability to provide continuous support to patients with chronic diseases
- The COVID-19 outbreak has accelerated the growth of China's online healthcare platforms, which experienced a surge in new users. Online platform, PingAn Good Doctor saw 1.1 billion new users during the height of the outbreak.<sup>2</sup>
- A Bain Frontline of Health survey found that 64% of Chinese respondents expect to use telemedicine, if covered by insurance over the next five years. This would amount to a 164% increase from 2019 levels.<sup>3</sup>

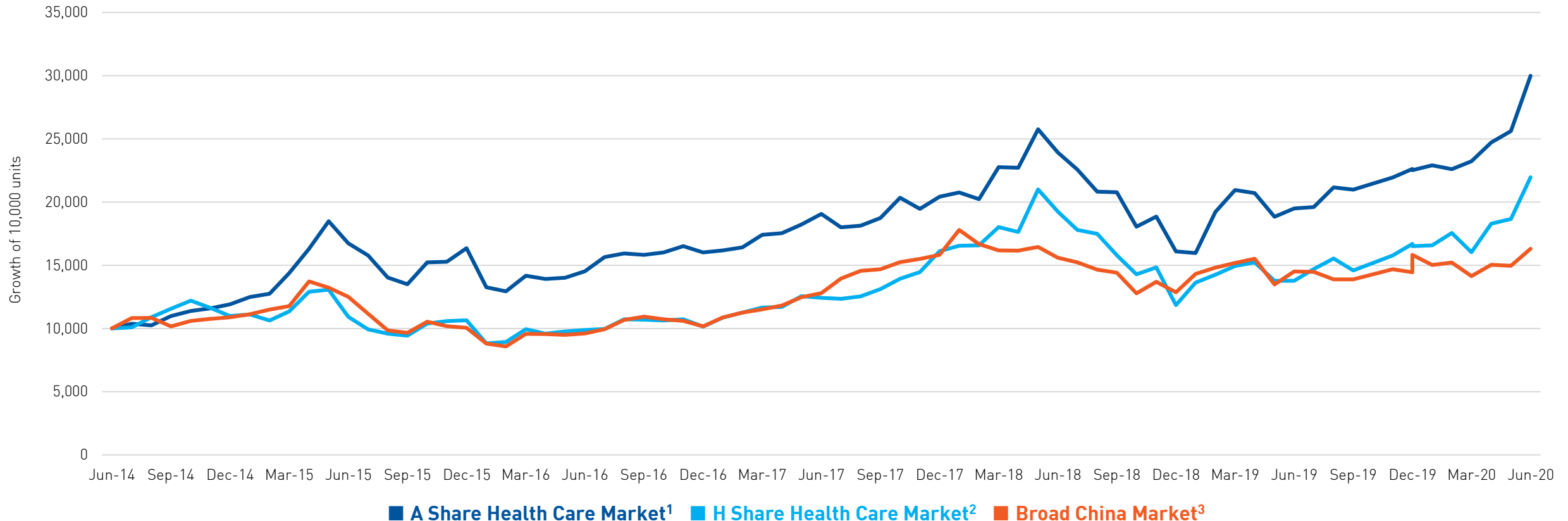
**Healthcare IT** refers to an array of technologies used to store, share, and analyze health information.



1. China Daily, "China's healthcare sector promising for 2020 and beyond", 12/25/2019.  
 2. SCMP, "Ping An Good Doctor, China's largest health care platform, reports jump in users amid coronavirus, smaller than expected annual loss" 2/12/2020.  
 3. Bain & Co., "How the Coronavirus Will Transform Healthcare in China", 3/4/2020.

**The China healthcare sector in both Mainland (A shares) and Hong Kong (H shares) has outperformed the broader Chinese markets over the past 6 years.**

### China A & H Share Health Care vs MSCI China Index since 2014 (6/30/2014 - 6/30/2020)



**Data from Bloomberg as of 6/30/2020. 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.**

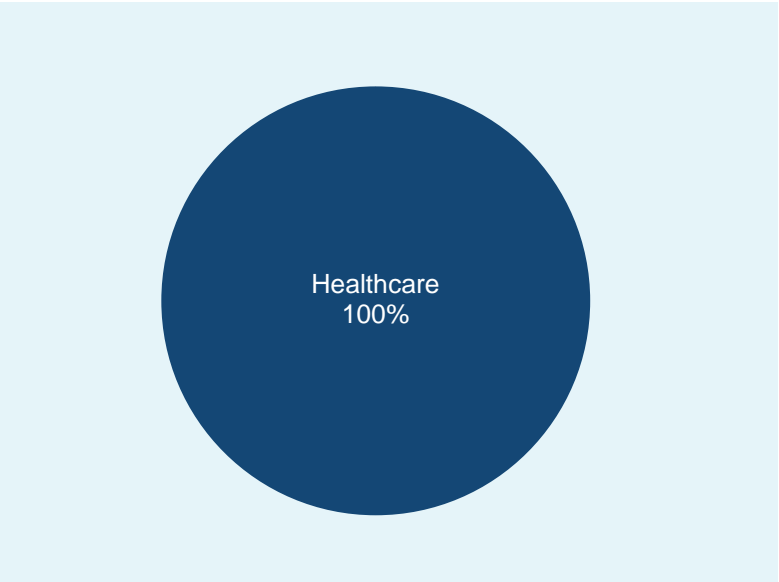
1.) China A Share healthcare sector is represented by CSI 300 Health Care Index  
 2.) China H Share healthcare sector is represented by MSCI China Health Care Index  
 3.) Broad China Market is represented by MSCI China Index. See Page 22 for Index Definitions.

## Example Holdings in the KraneShares MSCI All China Health Care Index ETF (Ticker: KURE)

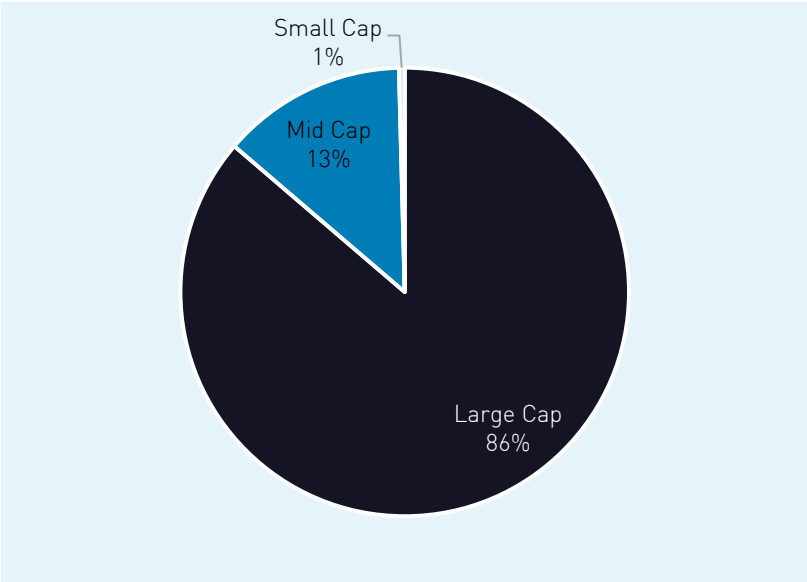
Theme		Example Holding	Holding weight (as of 6/30/2020)	Company logo	Company Description
	<b>Patent and Generic Pharmaceuticals</b>	Jiangsu Hengrui	7.8%		Jiangsu Hengrui develops, manufactures, and markets a variety of medicines and medicine packing materials. The Company specializes in the R&D of new medicines in areas of antineoplastics, endocrine system, cardiovascular, and the immune system.
	<b>Medical Equipment Production</b>	Shenzhen Mindray	4.94%		Mindray is one of the leading global providers of medical devices and solutions in the fields of Patient Monitoring & Life Support, In-Vitro Diagnostics, and Medical Imaging System. Mindray is a leading ventilator manufacturer.
	<b>Hospital Administration</b>	Meinian Onehealth	0.89%		Meinian Onehealth Healthcare Holdings Co., Ltd. provides health examinations, evaluations, consulting services and other medical services in 200+ medical facilities throughout China.
	<b>Biotechnology</b>	WuXi Biologics	6.32%		WuXi Biologics owns WuXi AppTec, a leading global pharmaceutical, biopharmaceutical, and medical device open-access capability and technology platform with global operations. WuXi AppTec provides a portfolio of services throughout the drug R&D process.
	<b>Traditional Chinese Medicine</b>	Tong Ren Tang	0.58%		Tong Ren Tang is a Chinese pharmaceutical company founded in 1669, which is now the largest producer of traditional Chinese medicine. The company is engaged in both manufacture and retail sales and drug store operations throughout China.
	<b>Healthcare IT</b>	Alibaba Healthcare	4.06%		Ali Health provides internet solutions for the healthcare industry to increase cross-regional sharing of existing social medicine resources and efficiencies of medical treatment. AliHealth specializes in medical e-commerce, smart medical treatment and product tracing.

# KURE Portfolio Characteristics

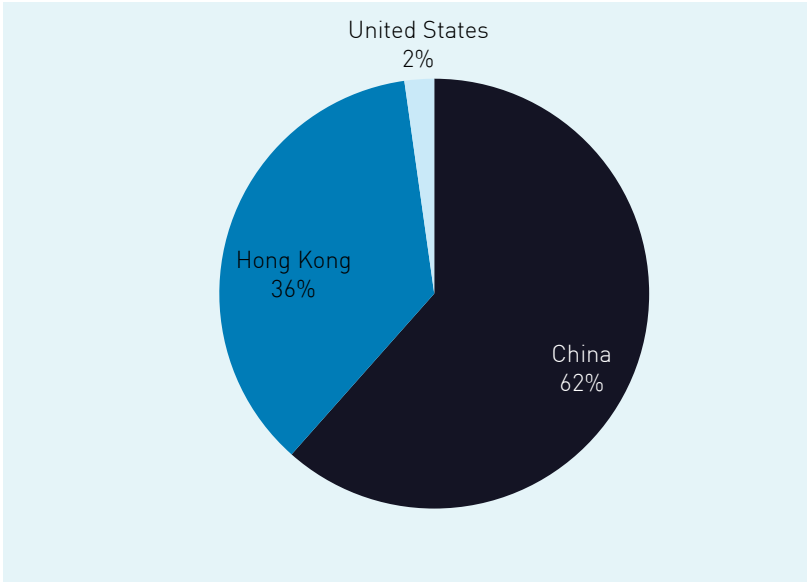
KURE Sector Breakdown



KURE Market Cap Breakdown



KURE Breakdown by Listing Location



Data from Factset as of 6/30/2020, excluding cash. Due to rounding, the percentage might not add up to 100%.



## KraneShares MSCI All China Health Care Index ETF (Ticker: KURE)

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### KURE Performance History as of 6/30/2020

	Cumulative %			Average Annualized %		
	3 Mo	6 Mo	Since Inception	1 Yr	3 Yr	Since Inception
Fund NAV	33.43%	36.24%	27.80%	56.31%	–	10.68%
Closing Price	33.91%	37.97%	28.20%	56.42%	–	10.83%
Index	34.25%	37.21%	29.53%	58.06%	–	11.32%

**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).**

\*Fee waivers are contractual and in effect until 8/01/2020

Shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Market price returns are based upon the midpoint of the bid/ask spread at the close of the exchange and does not represent the returns an investor would receive if shares were trade at other times. Brokerage commissions will reduce returns. NAVs are calculated using prices as of 4:00 PM Eastern Time.

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.**

Fund Details	As of 6/30/2020
Primary Exchange	NYSE
Cusip	500767835
Total Annual Fund Operating Expense (Gross)	0.79%
Total Fund Operating Expense (Net)	0.65%*
Inception Date	1/31/2018
Distribution Frequency	Annually
Index Name	MSCI All China Health Care 10/40 Index
Index Ticker	Bloomberg: M1CXCAH
Number of Holdings (ex Cash)	82

Top Ten Holdings as of 6/30/2020 The Fund's Holdings are Subject to Change.	%
JIANGSU HENGRUI MEDICINE C-A	7.8
WUXI BIOLOGICS CAYMAN INC	6.32
SINO BIOPHARMACEUTICAL	5.06
SHENZHEN MINDRAY BIO-MEDIC-A	4.94
CSPC PHARMACEUTICAL GROUP LT	4.22
ALIBABA HEALTH INFORMATION T	4.05
WUXI APPTTEC CO LTD-A	3.18
AIER EYE HOSPITAL GROUP CO-A	2.76
CHANGCHUN HIGH & NEW TECH-A	2.72
INNOVENT BIOLOGICS INC	2.67

#### Index Definitions:

**MSCI China Index:** captures large and mid cap representation across China H shares, B shares, Red chips and P chips. With 143 constituents, the index covers about 84% of this China equity universe.

**MSCI China A Health Care Index:** captures large and mid cap representation across China securities listed on the Shanghai and Shenzhen exchanges. All securities in the index are classified in the Health Care sector as per the Global Industry Classification Standard.

**CSI 300 Health Care Index:** consists of all the constituents of CSI 300 Index that are in the health care sector. It aims to reflect the overall performance of the sector.

**Hang Seng Index:** The index is a free-float capitalization-weighted index of a selection of companies from the Stock Exchange of Hong Kong. The components of the index are divided into four sub indices: Commerce and Industry, Finance, Utilities, and Properties. The index was developed with a base level of 100 as of July 31, 1964.

**S&P 500:** The S&P 500 Index is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 9.9 trillion indexed or benchmarked to the index, with indexed assets comprising approximately USD 3.4 trillion of this total. The index includes 500 leading companies and covers approximately 80% of available market capitalization. The index was launched on March 4, 1957.

**MSCI All China Healthcare 10/40 Index:** The index captures large and mid-cap representation across China A-shares, B-shares, H- shares, Red-chips, P- chips and foreign listings (e.g. ADRs). The index aims to reflect the opportunity set of China share classes listed in Hong Kong, Shanghai, Shenzhen and outside of China. It is based on the concept of the integrated MSCI China equity universe with China A-shares included. All securities in the index are classified in the Health Care sector according to the Global Industry Classification Standard (GICS®). The 10/40 concentration constraints apply investment limits where the weight of each group entity in the index is capped at 10% and the cumulative weight of all group entities with a weight in excess of 5% does not exceed 40% of the Index by weight.

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

#### 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.**

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. Technology companies may be subject to severe competition and rapid obsolescence. The KraneShares MSCI All China Health Care Index ETF is non-diversified.

The ability of the KraneShares MSCI All China Health Care Index ETF to achieve its respective investment objectives is dependent, in part, 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 to limited availability of A Share quota, the Fund could seek exposure to the component securities of the Underlying Index by investment 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.

The KraneShares MSCI All China Health Care Index ETF invests primarily in the health care industry. The profitability of companies in the healthcare sector may be affected by government regulations and government healthcare programs, government reimbursement for medical expenses, increases or decreases in the cost of medical products and services, limited product lines, increased emphasis on the delivery of healthcare through outpatient services and product liability claims. Many healthcare companies are heavily dependent on patent protection, which may be time consuming and costly, and the expiration of a company's patent may adversely affect that company's profitability. Healthcare companies are subject to competitive forces that may result in pricing pressure, including price discounting, and may be thinly capitalized and susceptible to product obsolescence. Many new products in the healthcare sector require significant research and development and may be subject to regulatory approvals, which may be time consuming and costly and with no guarantee that the product will come to market.

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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