The World’s Second Largest Bond Market Is Now Open

Overview of the KraneShares Bloomberg Barclays China Bond Inclusion ETF (ticker: KBND)

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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 current on global market trends and aim to provide meaningful diversification. Krane Funds Advisors, LLC, is a signatory of the United Nations-supported Principles for Responsible Investing (UN PRI). The firm is majority owned by China International Capital Corporation (CICC).
Investment Strategy:
KBND is benchmarked to the Bloomberg Barclays China Inclusion Focused Bond Index, which is designed to track the performance of China’s onshore renminbi-denominated bond market. The Fund seeks to invest at least 80% of its assets in a basket of fixed income securities.

KBND Overview:
• Invests in treasuries (i.e. government bonds) and high-quality corporate bonds and attempts to provide attractive yields relative to other government and investment grade bond markets with a monthly distribution.
• KBND offers access to issuers in China that are rated by international ratings agencies.
• KBND offers access to the securities included in Bloomberg Barclays broad fixed income indexes and investment opportunities within the second largest bond market in the world.
• For investors seeking diversification* within their global bond portfolios, KBND offers low correlations to other major bond markets.

Bloomberg Barclays China Bond Inclusion Overview:
• The inclusion of onshore, Renminbi-denominated Chinese bonds in Bloomberg Barclays indexes began in April 2019 and was concluded at the end of 2020.
• The market estimates nearly $150 billion of fund inflows into China’s $13 trillion onshore bond market.1
• China’s government bonds are a focus of the inclusion and China has already replaced South Korea as the top issuer by weight within the Bloomberg Barclays Emerging Market Local Currency Government Bond Index.

*Diversification does not ensure a profit or guarantee against a loss.
Bloomberg Barclays China Bond Inclusion

- On January 31, 2019, Bloomberg announced that China’s RMB-denominated government and policy bank bonds would be added to the Bloomberg Barclays Global Aggregate Index.

- Inclusion began in April of 2019 and was concluded at the end of 2020.

- Bloomberg’s decision stems from years of extensive research into China’s financial markets and several recent enhancements made by the People’s Bank of China (PBOC), the Ministry of Finance, and the State Tax Administration including the implementation of delivery v. payment settlement and the clarification of key tax policies.

- The development represents a strong endorsement of China’s efforts to further open its capital markets as well as gain the trust of the global investment community.

“Today’s announcement represents an important milestone on China’s path towards more open and transparent capital markets, and underscores Bloomberg’s long-term commitment to connecting investors to China. With the upcoming inclusion of China in the Global Aggregate Index, China’s bond market presents a growing opportunity for global investors.”

—Peter T. Grauer, Bloomberg Chairman, 31 January 2019
The RMB-denominated bonds included in Bloomberg Barclays’ indexes

- 484 onshore RMB-denominated bonds are included in Bloomberg Barclays’ indexes with a total market value of $5.34 trillion, average modified duration of 3.54 years, and an average yield to maturity of 2.65%\(^1\).

- Currently, foreign investors only represent less than 3% of the Chinese interbank bond market\(^2\) versus 40% in Indonesia, 10% in Japan, and 30% in the US.\(^3\)

<table>
<thead>
<tr>
<th>Issuer Type</th>
<th>Count</th>
<th>Total Market Value (MV) (US$ trillion)</th>
<th>Total Amount Outstanding (US$ trillion)</th>
<th>Average Modified Duration (Years)</th>
<th>Average Yield to Maturity (%)</th>
<th>Average S&amp;P Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government-Related</td>
<td>78</td>
<td>2.19</td>
<td>2.25</td>
<td>2.53</td>
<td>1.78</td>
<td>A</td>
</tr>
<tr>
<td>Treasury</td>
<td>161</td>
<td>1.37</td>
<td>1.33</td>
<td>6.27</td>
<td>2.88</td>
<td>A+</td>
</tr>
<tr>
<td>Policy Bank</td>
<td>210</td>
<td>1.37</td>
<td>1.33</td>
<td>3.77</td>
<td>2.91</td>
<td>A+</td>
</tr>
<tr>
<td>Corporate</td>
<td>35</td>
<td>0.41</td>
<td>0.4</td>
<td>1.6</td>
<td>3.02</td>
<td>BBB+</td>
</tr>
<tr>
<td><strong>Total/Average (non-weighted)</strong></td>
<td><strong>484</strong></td>
<td><strong>5.34</strong></td>
<td><strong>5.31</strong></td>
<td><strong>3.54</strong></td>
<td><strong>2.65</strong></td>
<td><strong>A+/A</strong></td>
</tr>
</tbody>
</table>

1. Data from Bloomberg as of 3/16/2021. Inclusion universe is based on the Bloomberg Barclays China Inclusion Focused Bond Index.
The fast pace of China government bond inclusion reflects the underlying investment opportunity it offers. China has gone from having no representation in the EM Government Bond Index to being the top issuer.

In 2019, China replaced South Korea as the top issuer in the index by weight.

Issuer Breakdown of Bloomberg Barclays Emerging Market Local Currency Government Bond Index

Data from Bloomberg as of 3/31/2021
China’s weight has increased to 7% of the Global Aggregate Index, and the Chinese RMB has become the fourth-largest currency component.¹

Inclusion of the Chinese bond market in Bloomberg Barclay’s leading fixed income indexes is expected to drive $150 billion of fund inflows² into China’s $15 trillion bond market.³

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¹ Data from Bloomberg as of 3/31/2021.
In addition to Bloomberg’s inclusion, JP Morgan has included and FTSE Russell will be including onshore Chinese bonds in their indexes for the first time.

<table>
<thead>
<tr>
<th>Index Inclusion</th>
<th>JP Morgan</th>
<th>FTSE Russell</th>
</tr>
</thead>
<tbody>
<tr>
<td>February, 2020 to November, 2020</td>
<td><strong>Inclusion Type:</strong> Sovereign</td>
<td><strong>Inclusion Type:</strong> Sovereign</td>
</tr>
<tr>
<td><strong>Bonds to be Added:</strong> 9 China government bonds</td>
<td><strong>Bonds to be Added:</strong> China Government Bonds</td>
<td></td>
</tr>
<tr>
<td><strong>Weight Increase:</strong> 0% to 10%</td>
<td><strong>Expected Inflows:</strong> $130 billion¹</td>
<td><strong>Weight Increase:</strong> 0% to 5%¹</td>
</tr>
<tr>
<td><strong>Expected Inflows:</strong> $20 billion</td>
<td><strong>Flagship Index:</strong> FTSE Russell World Government Bond Index</td>
<td></td>
</tr>
<tr>
<td><strong>Flagship Index:</strong> JP Morgan Government Bond Index – Emerging Markets Global Diversified</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: JP Morgan and FTSE Russell as of 3/31/2021

A Brief History of China’s Bond Market

The history of China’s bond market goes back to the 19th century. However, it was not until 1951 that the Chinese developed a market for debt that resembled modern bond markets.

1951 – The Ministry of Finance, which is equivalent to the treasury of China, issues bonds for the first time without creating a secondary market.1

1958 – The issuance of government bonds is terminated.1

1981 – The Ministry of Finance decides to restart government bond issuance to shore up funding gaps especially for infrastructure projects as China becomes an export powerhouse.1

1988 – A secondary market is established for the first time. Bonds begin to change hands between businesses and individuals at the Shanghai stock exchange, between banks in the inter-bank market, and between various entities in the OTC market.1

2001 – A system for market-makers is established. This leads to a dramatic increase in liquidity.1

2002 – The QFII & RQFII programs are established, allowing registered foreign investors to invest in the exchange market. The program is extended to the interbank market in 2011.

2010 – The CIBM Direct program is established, which allows foreign investors to enter the interbank market by submitting planned investment amounts and horizons.

2017 – Foreign investors with Hong Kong accounts are granted access to China’s now massive bond market with few restrictions through the Bond Connect program.1

2019 – The first offshore government bonds are issued in Macau.3

2020 – Leading the world in environmentally conscious business practices, Chinese corporations issue $22 billion in green bonds at the implore of the central government.4

2020 – A system for market-makers is established. This leads to a dramatic increase in liquidity.1

Yields on China’s government bonds are higher than most developed world government debt.

Data from Bloomberg as of 3/31/2021. Curves are for illustrative purposes only. Securities may not be available at every maturity.
In real terms, yields on China’s government bonds are also attractive compared to their emerging Asian peers and China has a higher sovereign credit rating.


Real Yield = (Yield) – (Y2019 CPI Inflation)

*Yield quoted is on 10-year note where available. In cases where the issuer does not issue a 10-year note, the yield on the issued security with a maturity closest to 10 years is used.
China’s government bonds exhibit low correlations to other major government bond markets. Over the past five years, China’s government bonds have exhibited a correlation of under 15% to government bonds issued by the US, Japan, and Germany.

<table>
<thead>
<tr>
<th></th>
<th>China Gov.</th>
<th>Japan Gov.</th>
<th>Treasuries (US)</th>
<th>German Bund</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Gov.</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan Gov.</td>
<td>0.04</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treasuries (US)</td>
<td>0.01</td>
<td>0.57</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>German Bund</td>
<td>0.01</td>
<td>0.60</td>
<td>0.75</td>
<td>1.00</td>
</tr>
</tbody>
</table>


*Correlation is a statistic that measures the degree to which two securities move in relation to each other, computed as the correlation coefficient, which has a value that must fall between -1, meaning that the two securities move inversely relative to one another, and 1, which means that the two securities move exactly in tandem with one another.
Historical Evolution of CNY Dynamics & Reasons for a Stable Outlook

- The RMB steadily depreciated against the dollar for much of the 1980s and 1990s, as China gained its competitive export edge.

- In 1997, a peg to the dollar was initiated at 8.3 CNY for every dollar and lasted until 2005, resulting in appreciation that aligned with China's plan to shift the economy away from an exporting economy to a consumer-led economy.

- 2015-2016 saw concerns about capital flight, an economic hard landing, banking crisis and FX reserve depletion, leading to a 7% decline. Incidentally, only a brief period of FX reserve depletion was experienced.

- The International Monetary Fund (IMF) launched a new Special Drawing Rights (SDR) basket including CNY on September 30, 2016.

- In July 2017, the Bond Connect mutual market access program was established, allowing global investors to invest directly into China's fixed income market.

- China's currency is likely to see stability going forward due to relatively stable interest rates, high foreign reserve levels, the government's desire to de-dollarize trade, and China's recent transformation into a creditor nation.

*Spot rate refers to the immediate settlement price for a currency at a given time. Spot rates for currencies reflect the current market value of a unit of a given currency (usually in USD).

**Pegged indicates that a given currency is tied to the value of another such that any fluctuations in the value of that currency parallel fluctuations in the currency to which it was pegged.

Data from Bloomberg as of 3/31/2021.
The Chinese Onshore Renminbi (CNY) had the third lowest volatility among Asian emerging market currencies in 2020.

**Asian Emerging Market Currencies by 2020 Volatility**

Data from Bloomberg as of 12/31/2020. Past performance is no guarantee of future results.

*Volatility/Standard Deviation: the degree of variation of a trading price series over time as measured by the standard deviation of returns. Standard deviation is a quantity calculated to measure the extent of deviation for a group as a whole. A low standard deviation indicates that the data points tend to be closer to the mean (also called the expected value) of the set, while a high standard deviation indicates that the data points are spread out over a wider range of values.*
Investors are well compensated for investing in China’s government bonds compared to those issued by many highly indebted European governments.

- S&P currently rates China as an A+ sovereign issuer\(^1\) thanks to its steadily maintained foreign reserves, which totaled over $3 trillion at the end of 2020.
- China has a lower sovereign debt to GDP ratio than many European countries despite offering a higher yield on its sovereign debt.
- China is the largest single holder of US treasuries and is now a net creditor to the world.\(^2\)

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1. S&P Global Ratings as of 3/17/2021
China’s government bonds have proven resilient in times of general market turmoil and bond market stress.

- The global COVID-19 pandemic in 2020 caused a selloff in equities and flight to the safety of government bonds.
- Many central banks were forced to take emergency measures to ensure liquidity in the bond market in the face of a surge in demand.
- As a result, yields on most developed world government bonds plunged to historic lows.
- Despite being the first country to experience a major outbreak of COVID-19, the yield on China’s 10-year government bond never fell below 2%.
- The PBOC did not ease as aggressively as other central banks. China’s financial system proved more resilient compared to others in the face of a crisis.

As yields have climbed globally over the last six months, yields in China have remained relatively stable, reflecting the potential diversification* benefits of owning China within a global bond portfolio.

Data from Bloomberg as of 3/31/2021. Yields are for illustrative purposes only. *Diversification does not guarantee a profit or ensure against a loss.
China’s bond market is the second largest in the world, yet its weighting in broad indexes is not reflective of the country’s economic importance.


Data from Bloomberg as of 3/31/2021.
Issuance in China’s government bond market has increased significantly since 2017.

The Bloomberg Barclays China Inclusion Focused Bond Index tracks securities of various maturities issued by the central government (treasuries), policy banks, government-related entities, and corporations.

Data from Bloomberg as of 5/31/2021. Policy banks are defined as fully state-owned banks in China. Government-related entities are defined as entities owned, at least in part, by central or local governments. Government-related does not imply any government guarantee.
KraneShares Bloomberg Barclays China Bond Inclusion ETF*

Investment Strategy:
KBND is benchmarked to the Bloomberg Barclays China Inclusion Focused Bond Index, which is designed to track the performance of China’s onshore renminbi-denominated government and high-quality corporate bond market. The Fund seeks to invest at least 80% of its assets in a basket of fixed income securities.

*As of June 4, 2021. Formerly the KraneShares E Fund China Commercial Paper ETF (Ticker: KCNY)

Fund Details

<table>
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<tr>
<th>Data as of 5/31/2021</th>
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<tbody>
<tr>
<td>Listing Exchange</td>
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<tr>
<td>CUSIP</td>
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<tr>
<td>ISIN</td>
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<tr>
<td>Total Annual Fund Operating Expense (Gross)</td>
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<tr>
<td>Total Annual Fund Operating Expense (Net)**</td>
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<td>Inception Date</td>
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<tr>
<td>Distribution Frequency</td>
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<td>Index Name</td>
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<td>Net Assets</td>
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<td>Number of Holdings</td>
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<td>Underlying Securities Currency</td>
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<td>Currency Hedge</td>
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Top 10 Index Constituents as of 5/31/2021

<table>
<thead>
<tr>
<th>Constituent</th>
<th>Weight</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHEVBK</td>
<td>3.45</td>
<td>4.13</td>
</tr>
<tr>
<td>POSABK 3.3</td>
<td>1.02</td>
<td>2.73</td>
</tr>
<tr>
<td>POSABK 4.1</td>
<td>0.86</td>
<td>1.82</td>
</tr>
<tr>
<td>PICCLI 5.0</td>
<td>0.95</td>
<td>1.26</td>
</tr>
<tr>
<td>SBSG 2.37</td>
<td>0.70</td>
<td>1.21</td>
</tr>
<tr>
<td>COAMCO 4.9</td>
<td>0.75</td>
<td>1.11</td>
</tr>
<tr>
<td>CHGRWA 3.6</td>
<td>0.70</td>
<td>1.03</td>
</tr>
<tr>
<td>SINOPC 2.2</td>
<td>0.65</td>
<td>1.00</td>
</tr>
<tr>
<td>CITICS 3.5</td>
<td>0.65</td>
<td>0.95</td>
</tr>
<tr>
<td>GDHJIN 4.5</td>
<td>0.60</td>
<td>0.86</td>
</tr>
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</table>

Index Characteristics

<table>
<thead>
<tr>
<th>Data as of 5/31/2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit quality of underlying securities</td>
</tr>
<tr>
<td>Maturity***</td>
</tr>
<tr>
<td>Modified Duration***</td>
</tr>
<tr>
<td>Yield To Maturity***</td>
</tr>
<tr>
<td>Average 3-Year Default Probability***</td>
</tr>
</tbody>
</table>

KBND Performance History as of 3/31/2021:

<table>
<thead>
<tr>
<th>Cumulative %</th>
<th>Average Annualized %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3 Mo</td>
</tr>
<tr>
<td>Fund NAV</td>
<td>-0.54%</td>
</tr>
<tr>
<td>Closing Price</td>
<td>-0.21%</td>
</tr>
<tr>
<td>Index</td>
<td>0.45%</td>
</tr>
</tbody>
</table>

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/kbnd.

The Fund/Index performance is for the prior Fund/Index. Index returns are for illustrative purposes only. Index returns do not reflect any management fees, transaction costs, or expenses. Indexes are unmanaged and one cannot invest directly in an index.

**Fee waivers are contractual and in effect until August 1, 2021  ***Weighted Average. See page 22 for definitions
Term Definitions

**Yield To Maturity:** The total anticipated return on a bond if the bond is held until it matures.

**Yield To Worst:** The lowest possible return on a bond that can be received if the bond operates fully within the terms of its contract without defaulting.

**Average Weighted Maturity:** A calculation of the weighted average of the maturities of fixed income instruments held in a portfolio.

**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. The metric was calculated by Bloomberg using data as of 12/31/2019.

**CPI Inflation:** Inflation as measured by the Consumer Price Index (CPI) reflects the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specific intervals, such as yearly.

**Investment Grade:** Defined as having an S&P rating of BBB- or higher. Ratings may not be available for all issuers at all times.

Index Definitions

**Bloomberg Barclays China Treasury and Policy Bank 9% Capped Index:** The Bloomberg Barclays China Treasury and Policy Bank 9% Capped Index seeks to track the performance of the Chinese onshore Renminbi-denominated government and government-related bank fixed-income market. The index was launched on January 1, 2013.

**Bloomberg Barclays China Inclusion Focused Bond Index:** The Bloomberg Barclays China inclusion Focused Index seeks to track the performance of the Chinese onshore Renminbi-denominated bonds included in the Bloomberg Barclays Global Aggregate Bond Index. The index was launched on July 1, 2015.

**FTSE Japanese Government Bond Index:** The FTSE Japanese Government Bond Index aims to reflect the performance of fixed-rate tradable bonds issued in Japanese Yen by the Japanese government. Only bonds which pay holders a fixed rate of interest are eligible for inclusion in the index. Certain additional requirements may be considered in order to determine the eligible universe of bonds, such as minimum remaining time to maturity or a minimum size of the bond issue. The index base date is December 31, 1984.

**Bloomberg Barclays US Treasury Total Return Unhedged USD Index:** The Bloomberg Barclays US Treasury Total Return Unhedged USD Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index. STRIPS are excluded from the index because their inclusion would result in double-counting. The index was launched on January 1, 1973.

**S&P Germany Sovereign Bond Total Return EUR Index:** The S&P Germany Sovereign Bond Index is a comprehensive, market-value-weighted index designed to track the performance of euro-denominated securities publicly issued by Germany for its domestic market. The index was launched on October 8, 2014.
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.

Risk Disclosures

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 a decline in value. Fluctuations in currency of foreign countries may have an adverse effect on domestic currency values. Emerging markets involve heightened risk related to the same factors as well as increased volatility and lower trading volume.

The KraneShares Bloomberg Barclays China Bond Inclusion ETF is subject to interest rate risk, which is the chance that bonds will decline in value as interest rates rise. The Fund is subject to sovereign and quasi-sovereign debt risk. The governmental authority that controls the repayment of sovereign and quasi-sovereign debt may be unwilling or unable to repay the principal and/or interest when due. The Fund may invest 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 a change in interest rates. The Fund depends on the China interbank Bond Market Program to invest directly in RMB bonds. There is no guarantee the Fund will be able to continue to participate in the program. 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.

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

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.

Fund shares are bought and sold on an exchange at market price [not NAV] and are not individually redeemed from the Fund. However, shares may be redeemed at NAV directly by certain authorized broker-dealers [Authorized Participants] in very large creation/redemption units. The returns shown do not represent the returns you would receive if you traded shares at other times. Shares may trade at a premium or discount to their NAV in the secondary market. Brokerage commissions will reduce returns. Beginning 12/23/2020, market price returns are based on the official closing price of an ETF share or, if the official closing price isn’t available, the midpoint between the national best bid and national best offer ("NBBO") as of the time the ETF calculates the current NAV per share. Prior to that date, market price returns were based on the midpoint between the Bid and Ask price. NAVs are calculated using prices as of 4:00 PM Eastern Time.

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