

SEVENS REPORT *alpha*

Webinar #27: China & Emerging Markets Update

Today August 30th, 2018

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Guest: Brendan Ahern, CIO of KraneShares

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Goals of today's Webinar

- Update on the state of the Chinese economy.
- Expectation for U.S./China trade
- Valuation Update
- Earnings review (were results really that bad?)
- China tech – long term growth strategy still valid?
- Index inclusion thesis update for KBA
- Does he see this emerging market decline as similar opportunity to 2015 (when China and EM suffered a big decline but then massively outperformed for the next several years).

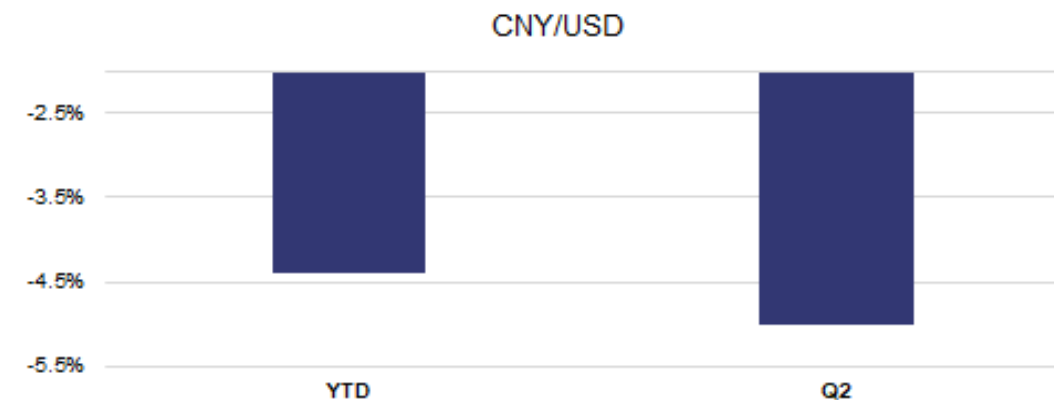
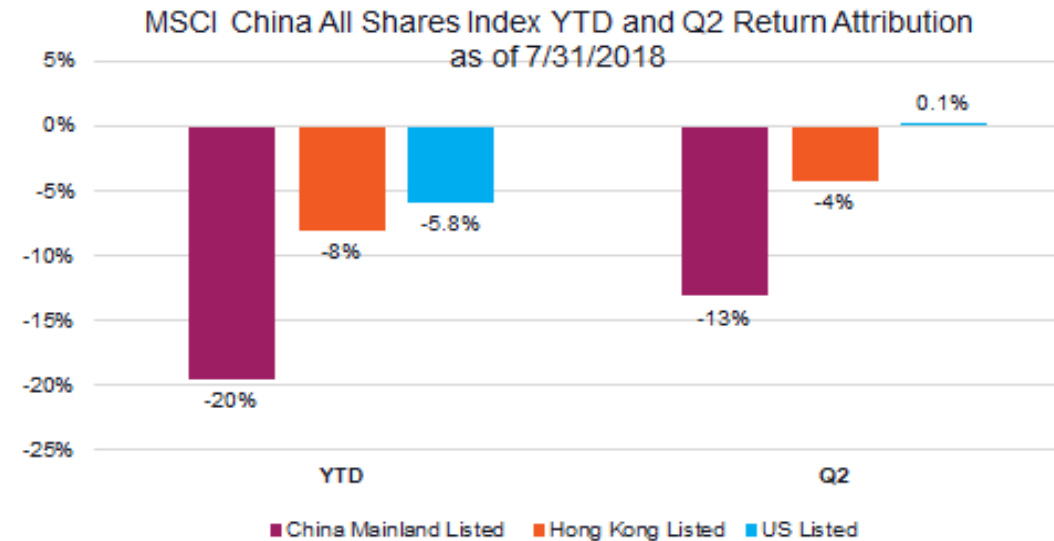
Q2 Review



Q2 Review – Trade war news detracted from performance

- After ranking as the best performing asset class globally in 2017¹, China's markets cooled in Q2
- Trade war headlines led to negative retail sentiment in Mainland China, which spread to Hong Kong and U.S. listed Chinese companies.
- CNY was down 5% against the dollar, which contributed to the underperformance of Mainland listed stocks compared to Hong Kong and US listed Chinese stocks.

1.) Data from MSCI as of 6/30/2018.



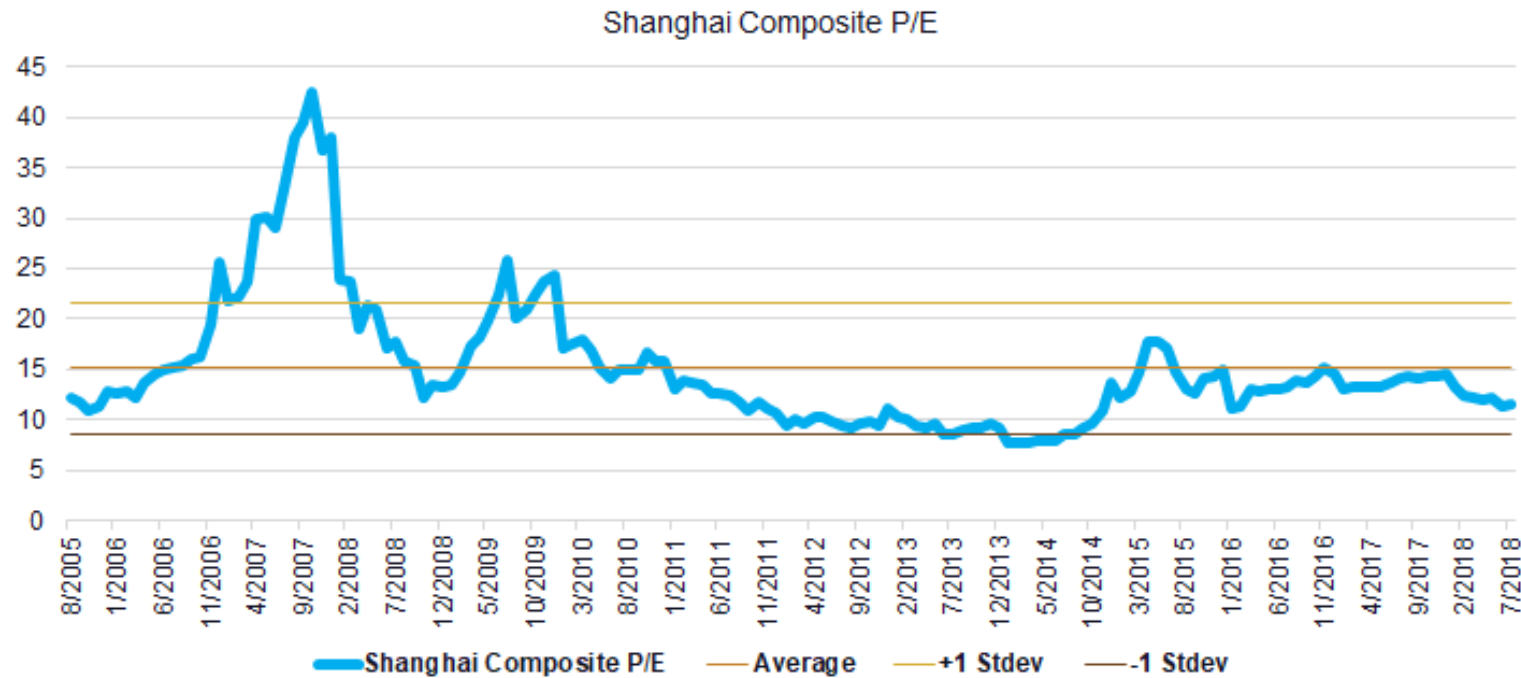
Data from Bloomberg as of 7/31/2018

China Valuation Update Post Decline



Q2 Review – Valuations in the Mainland Chinese equity market are below their historic average

- China A-share valuations are currently below their long run Price-Earnings (P/E) average



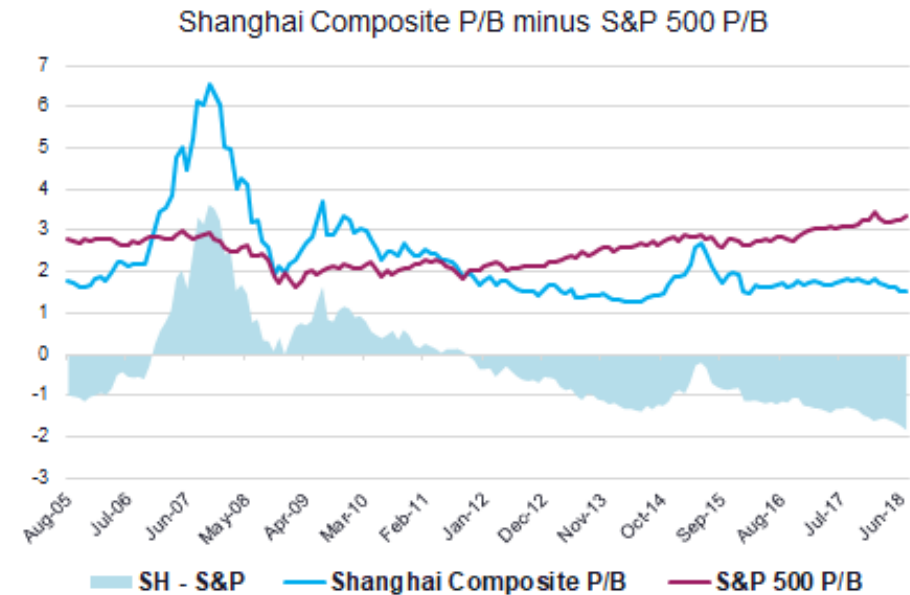
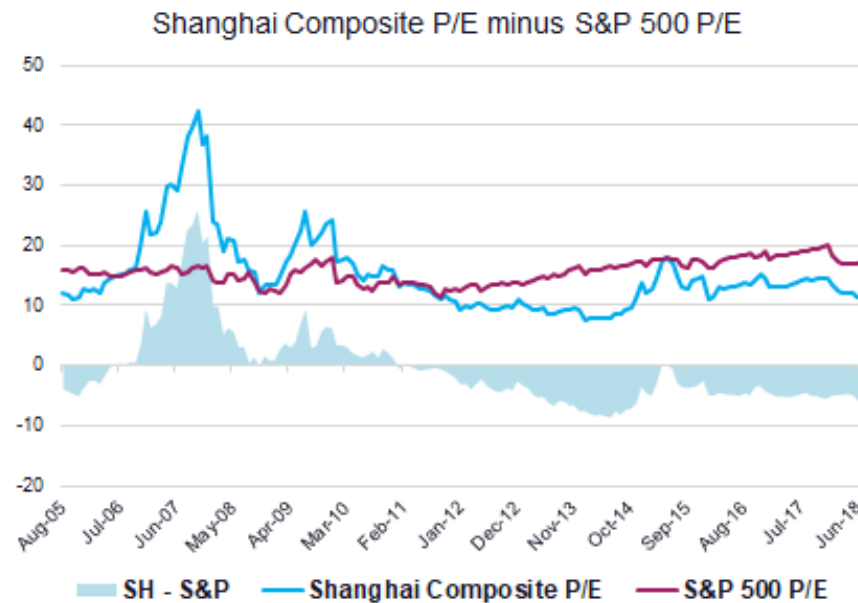
Data from Bloomberg as of 7/31/2018

China Valuation Update Post Decline



Q2 Review – Valuations in the Mainland Chinese equity market are below their historic average

- China A-Share valuations are at historical lows compared to U.S. market



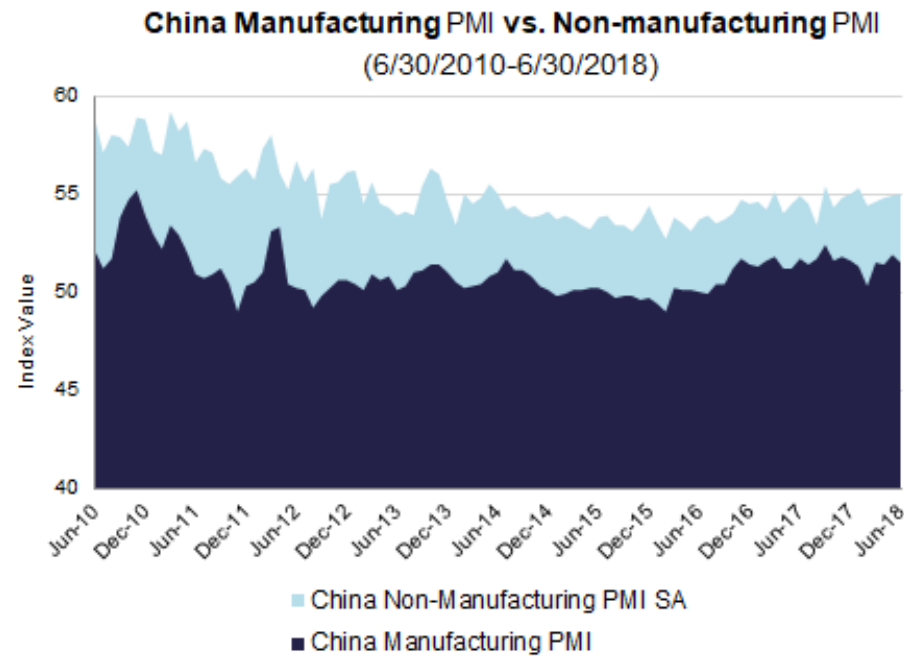
Data from Bloomberg as of 6/30/2018

China Fundamental Update

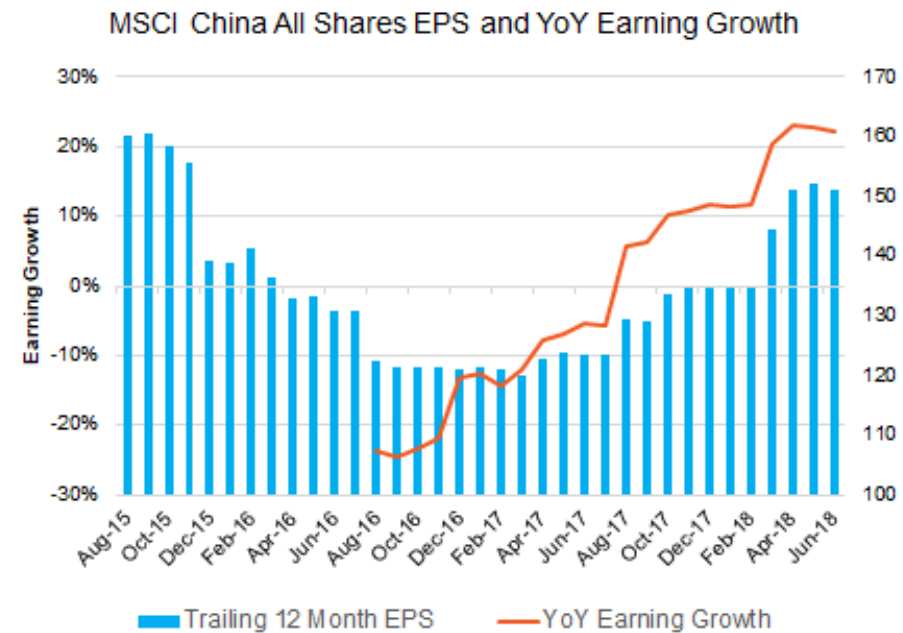


Q2 Review – Fundamentals are still strong

- Despite short term performance, earnings remain strong.
- China's economic transition is still in effect with non-manufacturing PMI consistently higher than manufacturing PMI.



Data from Bloomberg as of 6/30/2018



KBA – Index Inclusion Update



Index Overview

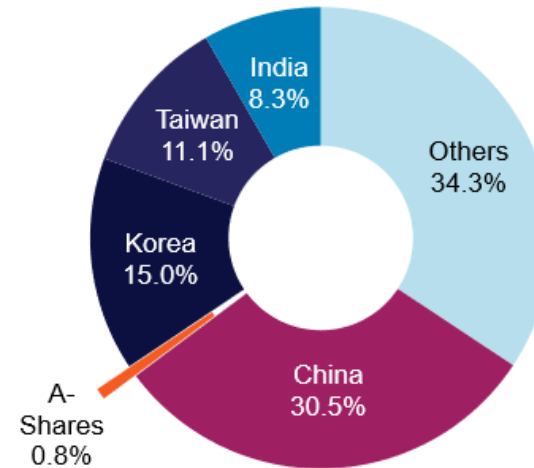
In June 2018 China A-Shares were included into MSCI's Global Standard Indexes for the first time. We believe full inclusion could take up to five years.

\$1.9 trillion track the MSCI EM Index. \$307b are expected to be reallocated to China A-Shares after full inclusion.

- On June 1, 2018 MSCI included the first half of the initial 5% weight for China A-Shares within the MSCI Emerging Markets Index. The remaining balance balance will be added in September 2018.
- The full proposed inclusion weight is projected to reach 16.2% of the Emerging Markets Index.
- We believe multiple inclusions could provide a sustained catalyst for the outperformance of the Mainland market.

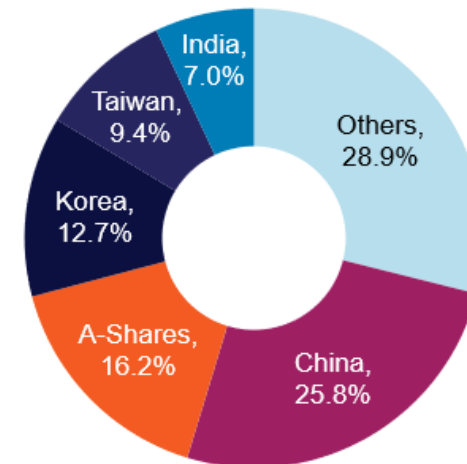
MSCI EM Index With 5% China A-Shares

FIRST PHASE TO BE COMPLETED
SEP 1, 2018



MSCI EM Index With 100% China A-Shares

POTENTIAL FULL INCLUSION



Source: MSCI Research.
Based off of data used for MSCI's May 2018 Semi-Annual Index Review.

KBA Profile



KraneShares Boser
MSCI China A ETF

Investment Strategy:

KBA is benchmarked to the MSCI China A Inclusion Index which is designed to track the progressive partial inclusion of A-shares in the MSCI Emerging Markets Index over time. The index is designed for global investors accessing the A-shares market using the Stock Connect framework and is calculated using China A Stock Connect listings based on the offshore RMB exchange rate (CNH).

KBA features:

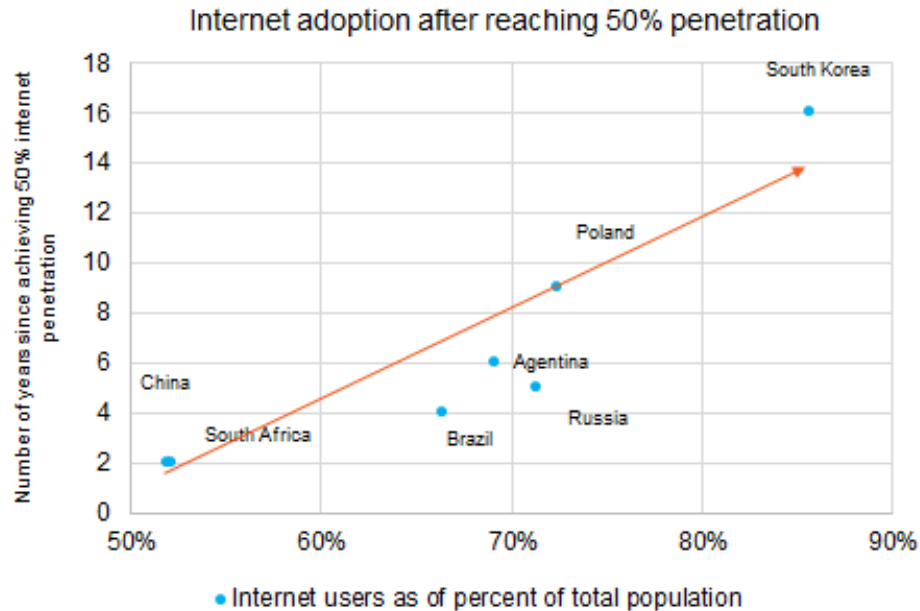
- Access to the Shanghai and Shenzhen Stock Exchanges - which are traditionally not available to U.S. investors - via RQFII and Stock Connect Programs.
- KBA's holdings represent Mainland Chinese equities scheduled for inclusion into broad MSCI indexes.
- With \$1.9 trillion¹ benchmarked to the MSCI Emerging Markets Index, full inclusion of Mainland Chinese equities could see significant flows into the securities KBA owns today.

1. As of December 31, 2017, as reported on March 31, 2018 by eVestment, Morningstar and Bloomberg.

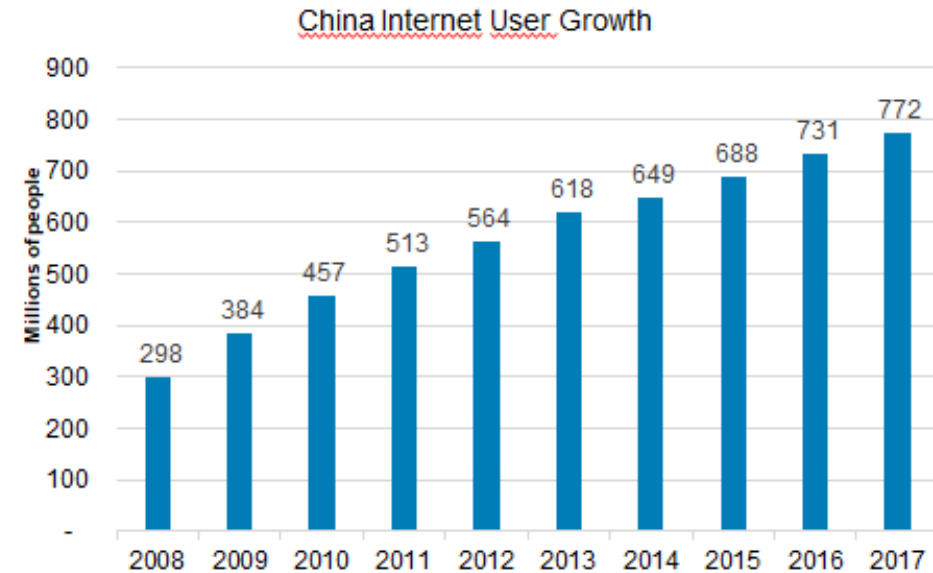
China Internet Stats



China has the largest internet population globally, yet its penetration rates mirror some of the least developed emerging markets



Data from internetlive stats as of 12/31/2016, retrieved on 6/30/2018

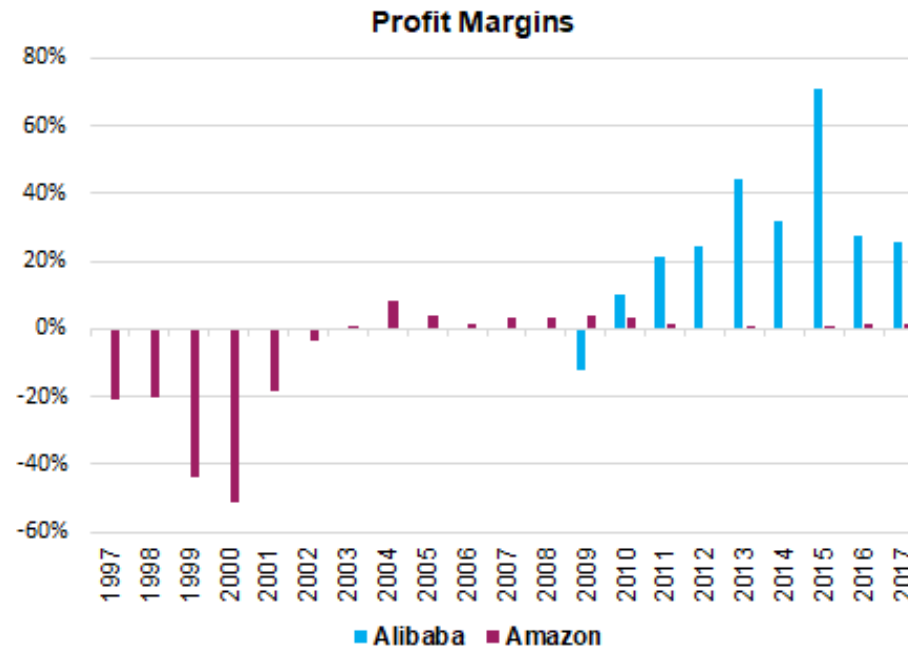
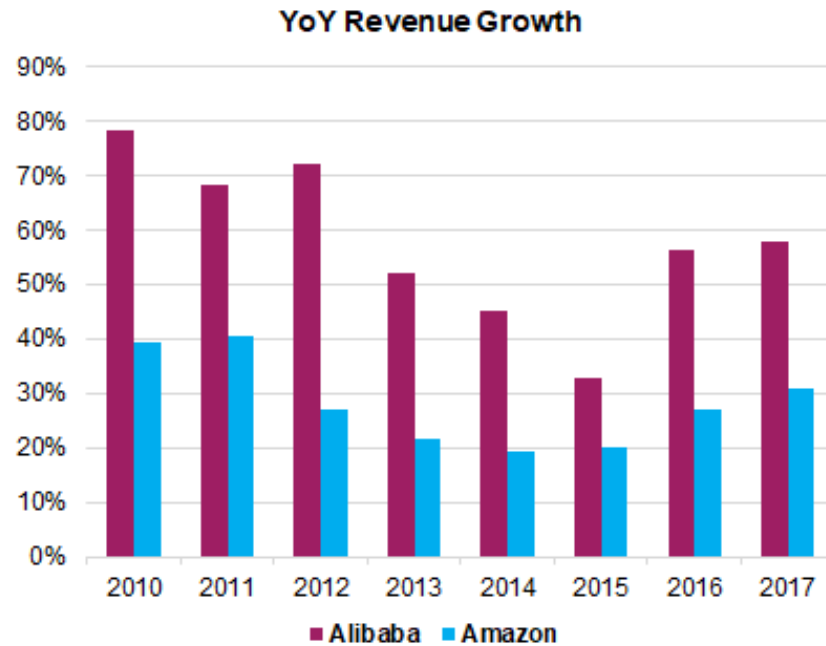


Data from Bloomberg, as of 12/31/2017 retrieved 6/30/2018

China vs. U.S. Internet Stocks



Alibaba consistently outpaces Amazon in terms of revenue growth and profit margins



Data from Bloomberg as of 6/30/2018

China vs. U.S. Internet Stocks



China internet companies have higher profit margin and revenue growth than those of many U.S. internet companies

Top 10 KWEB holdings vs. their U.S. equivalents

Top 10 KWEB Holdings	KWEB Weight	China Internet Companies		Primary Business	Comparable U.S. Business	U.S. Internet Companies	
as of 06/30/2018	as of 06/30/2018	5 Year Average Profit Margin	5 Year Average Revenue Growth Rate			5 Year Average Profit Margin	5 Year Average Revenue Growth Rate
TENCENT HOLDINGS	10%	28%	41%	Social Media	Facebook	29%	52%
ALIBABA GROUP HOLDING	9%	42%	49%	E-commerce	Amazon	1%	25%
NETEASE INC-ADR	8%	31%	50%	Online Gaming	Activision Blizzard	16%	10%
BAIDU INC - SPON ADR	8%	29%	31%	Search	Google	20%	18%
JD.COM INC-ADR	7%	-2%	45%	E-commerce	Amazon	1%	25%
IQIYI INC-ADR	5%	-32%	83%	Video Streaming	Netflix	4%	28%
CTRIIP.COM INTERNATIONAL	4%	8%	45%	Online Travel Services	Booking.com	24%	3%
AUTOHOME INC-ADR	4%	30%	47%	Online Auto Trade	Cars.com	27%	10%
SINA CORP.	4%	13%	27%	Social Media	Twitter	-30%	55%
MOMO INC-SPON AD	4%	15%	215%	Social Media	IAC	7%	4%
Total: 62%		Average: 18%	Average: 63%			Average: 10%	Average: 23%

The Fund's holdings are subject to change. Data from Bloomberg as of 6/30/2018

KWEB Profile



KraneShares CSI
China Internet ETF

Investment Strategy:

KWEB seeks to measure the performance of the investable universe of publicly traded China-based companies whose primary business or businesses are in the Internet and Internet-related sectors.

KWEB features:

- Access to Chinese internet companies that provide similar services as Google, Facebook, Twitter, eBay, Amazon, etc.
- Exposure to companies benefitting from increasing domestic consumption by China's growing middle class
- Exposure to Chinese internet companies listed in both the United States and Hong Kong

China Internet Sector Highlights:

- Chinese retail web sales totaled U.S.\$1.14 trillion¹ in 2017 (compared to U.S.\$453.5 billion³ in the United States).
- China's internet population reached 721 million people, a penetration of only 52.2%². The U.S. internet population reached 287 million people, a penetration rate of 88.5%².
- Total Chinese retail sales reached U.S.\$5.8 trillion in 2017¹
- Online shopping accounted for 19.6% of retail purchases in China in 2017¹

1. National Bureau of Statistics in China, "Total Retail Sales of Consumer Goods in December 2017". Retrieved on 6/30/2018. Note: Figures converted from Renminbi to USD

2. Data from internetlivestats.com as of 31 December 2016. Retrieved on 6/30/2018.

3. U.S. Department of Commerce, "Quarterly Retail E-commerce Sales 4th Quarter 2017". Retrieved on 6/30/2018.



Index Definitions:

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

MSCI All China Investable Market Index (IMI): captures large, mid and small cap representation across all China securities that are listed in China and Hong Kong, the US and in Singapore. The index includes: A-Shares, H shares, B shares, Red chips and P chips as well as China securities that are listed on the NYSE Euronext (New York), NASDAQ, New York AMEX and Singapore exchanges.

MSCI ACWI Index: captures large and mid cap representation across 23 Developed Markets (DM) and 23 Emerging Markets (EM) countries.

The MSCI EAFE Index: is an equity index which captures large and mid cap representation across Developed Markets countries around the world, excluding the U.S. and Canada.

S&P 500 Index: is an American stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ

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

The MSCI USA Index: The MSCI USA Index is designed to measure the performance of the large and mid cap segments of the U.S. market.

The MSCI Frontier Markets (FM) Index: captures large and mid cap representation across 29 Frontier Markets countries.

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

The MSCI China A International Index: is a free-float adjusted market capitalization weighted index that is designed to track the equity market performance of large-cap and mid-cap Chinese securities listed on the Shanghai and Shenzhen Stock Exchanges. The Index is based on the concept of the integrated MSCI China equity universe with mainland Chinese securities included.

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.

ETF shares are not redeemable with the issuing fund other than in large Creation Unit aggregations. Instead, investors must buy or sell ETF Shares in the secondary market with the assistance of a stockbroker. In doing so, the investor may incur brokerage commissions and may pay more than net asset value (NAV) when buying and receive less than net asset value when selling. The NAV of the Fund's shares is calculated each day the national securities exchanges are open for trading as of the close of regular trading on the New York Stock Exchange ("NYSE"), normally 4:00 P.M. Eastern time (the "NAV Calculation Time"). Shares are bought and sold at market price not NAV. Closing price returns are based on the midpoint of the bid/ask spread at 4:00 P.M. Eastern Time (when NAV is normally determined).

Investing involves risk, including possible loss of principal. There can be no assurance that a Fund will achieve its stated objectives. The Funds are subject to political, social or economic instability within China which may cause decline in value. Fluctuations in currency of foreign countries may have an adverse effect to domestic currency values. Emerging markets involve heightened risk related to the same factors as well as increase volatility and lower trading volume.

The ability of the KraneShares Bofisi MSCI China A ETF to achieve its investment objective is dependent 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 due to the limited availability of A-Share quota, the Fund could seek exposure to the component securities of the Underlying Index by investing 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.

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. The KraneShares CSI China Internet ETF is non-diversified.

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