

# SEVENS REPORT *alpha*

**Webinar #16: Investing in China and Index Rebalancing**

**Date: Thursday, March 29, 2018**

**Presenter: Tom Essaye**

**Guest: Brendan Ahern, CIO of KraneShares**

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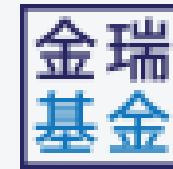
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## Goals for Today's Webinar

- Brendan Ahern, CIO of KraneShares
  - Reintroduction to KraneShares
  - Broad Investment Case for China and the “Index Rebalance Effect”
  - KraneShares CSI China Internet ETF (KWEB) & KraneShares Boseria MSCI China A Share ETF (KBA)
  - Ramifications of Trade War
  - Learn More at an Upcoming Roadshow

## About KraneShares

- Belief: Emerging market stocks will outperform developed market stocks over the long term.
- Goal: To provide solutions to capture China's importance as an essential element of a well-designed portfolio.
- Motto: *"Skate to where the puck is going, not where it has been."*
- Product Suite: 10 ETFs.



KraneShares™

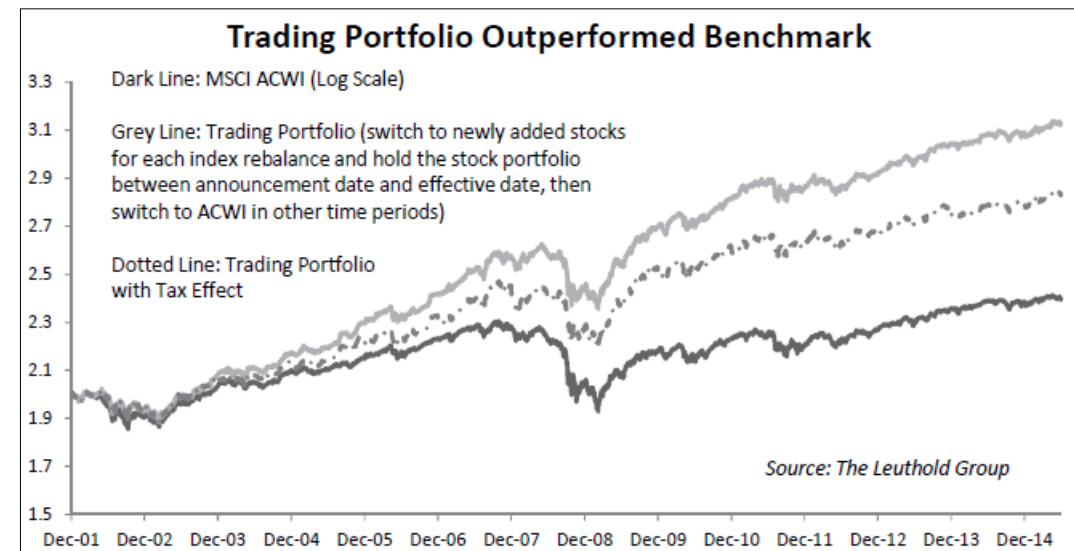
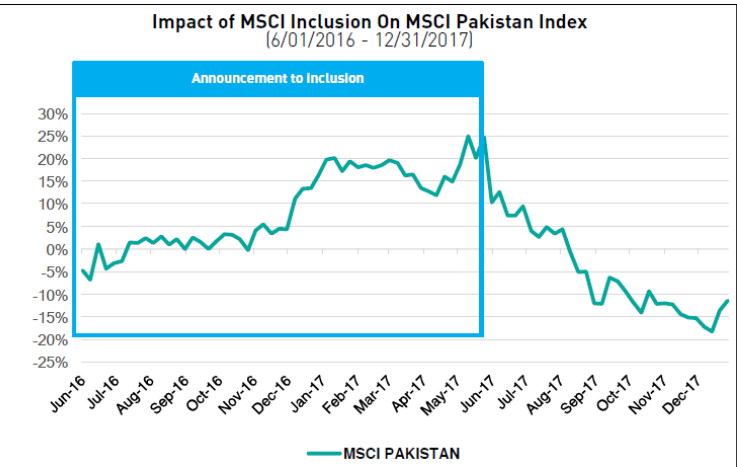
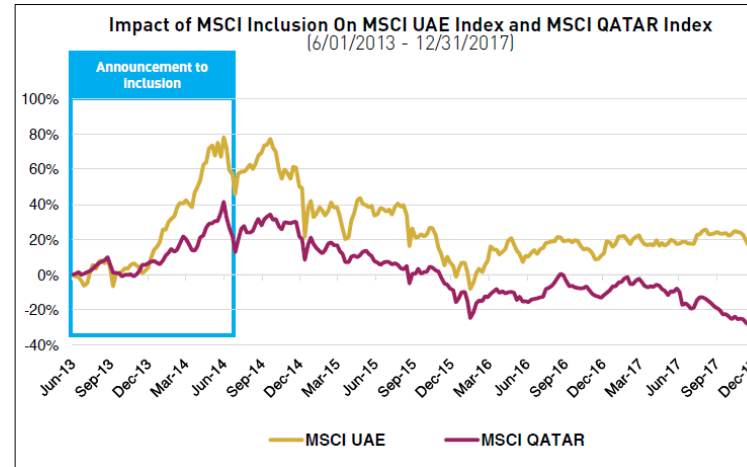


## Investment Case for China

- China is too big too ignore.
- Investors, on average, are under-allocated.
- A tale of two Chinas creates both:
  - Growth Opportunities: New Drivers of Economy, The Rise of Domestic Consumption
  - Value Opportunities: Traditional Drivers of Economy, SOE Reforms

## “Index Rebalance Effect” in Effect

- It works...
- Full country inclusions (1-year returns from announcement to inclusion date):
  - MSCI UAE Index up 85.6%
  - MSCI Qatar Index up 49.1%
  - MSCI Pakistan Index up 32.3%
- Comprehensive Leuthold study:
  - Buy and hold “additions” to MSCI ACWI Index from 2001 to 2015 (announcement to effective date)
  - Trading portfolio 21% annualized returns vs. MSCI ACWI index 7% annualized returns



## Case for KraneShares CSI China Internet ETF (KWEB)

China / US Internet Statistics	China	US
Total internet population	721mm <sup>1</sup>	287mm <sup>1</sup>
% of population with internet access	52.2% <sup>1</sup>	88.5% <sup>1</sup>
Country's share of world internet users	21.1% <sup>1</sup>	8.4% <sup>1</sup>
E-Commerce market size 2017	\$1.14T <sup>2</sup>	\$453.5B <sup>3</sup>
Total retail sales 2017	\$5.8T <sup>2</sup>	\$5.1T <sup>3</sup>
% of online retail sales 2017	19.6% <sup>2</sup>	8.9% <sup>3</sup>
2016-2017 growth online sales	32.2% <sup>2</sup>	16.0% <sup>3</sup>

### The China Internet Evolution

- In 2014 China's E-Commerce market size surpassed the U.S. for the first time.
- In 2017 China's total retail sales surpassed total retail sales of the U.S. for the first time
- As of 12/31/2016, only 52.2% of China's population had internet access compared to 88.5% in the U.S.
- There is potential for substantial continued growth in the Chinese internet sector.

1.Data from internetlivestats.com as of 12/31/2016. Retrieved 3/14/2018.

2.National Bureau of Statistics in China, "Total Retail Sales of Consumer Goods in December 2017" 1/25/2018. Note: Figures converted from Chinese Renminbi to USD

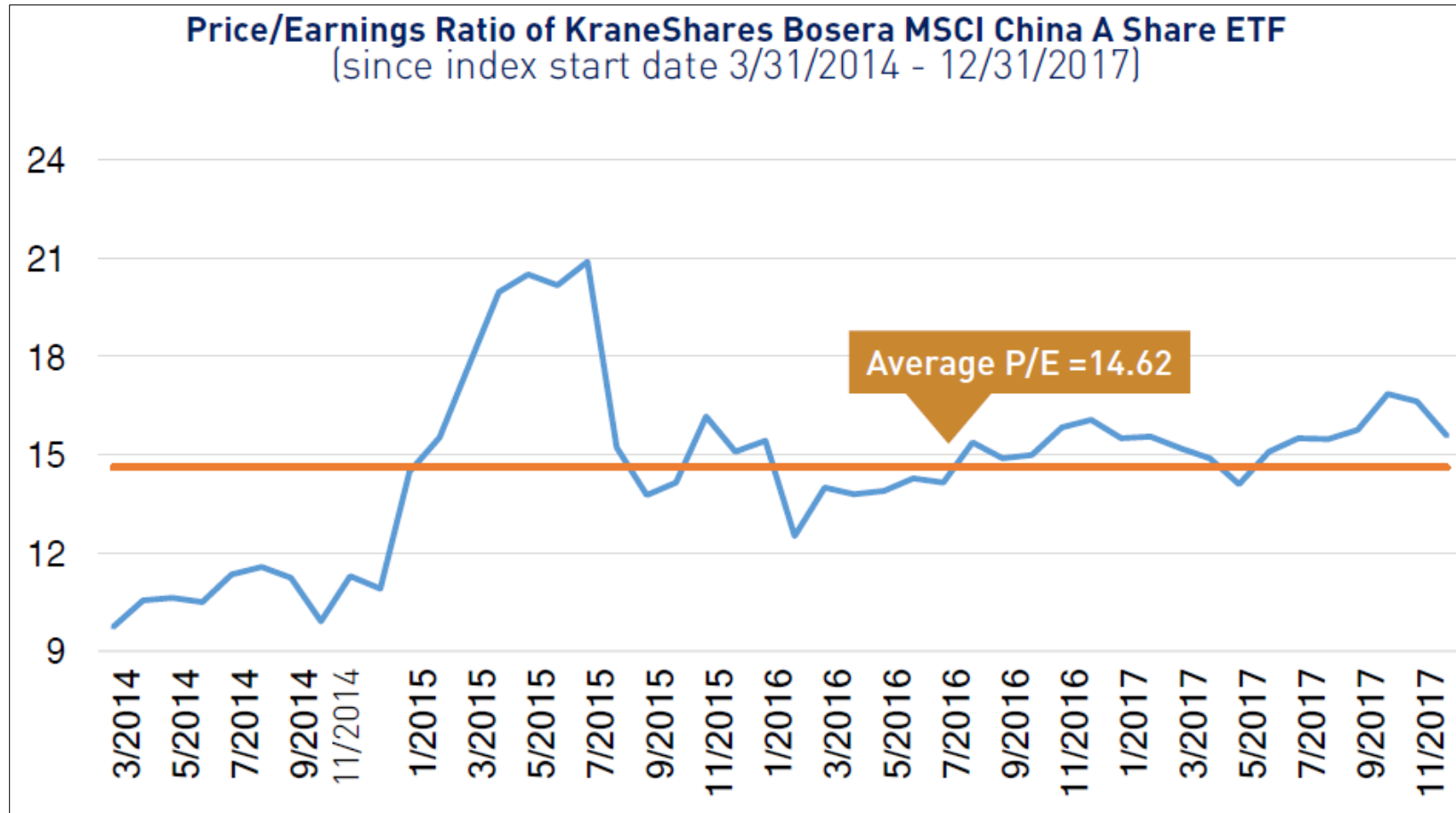
3.U.S. Department of Commerce, "Quarterly Retail E-commerce Sales 4th Quarter 2017" 2/16/2018.

## KWEB Index Arbitrage Play





## Case for KraneShares Boserá MSCI China A Share ETF (KBA)



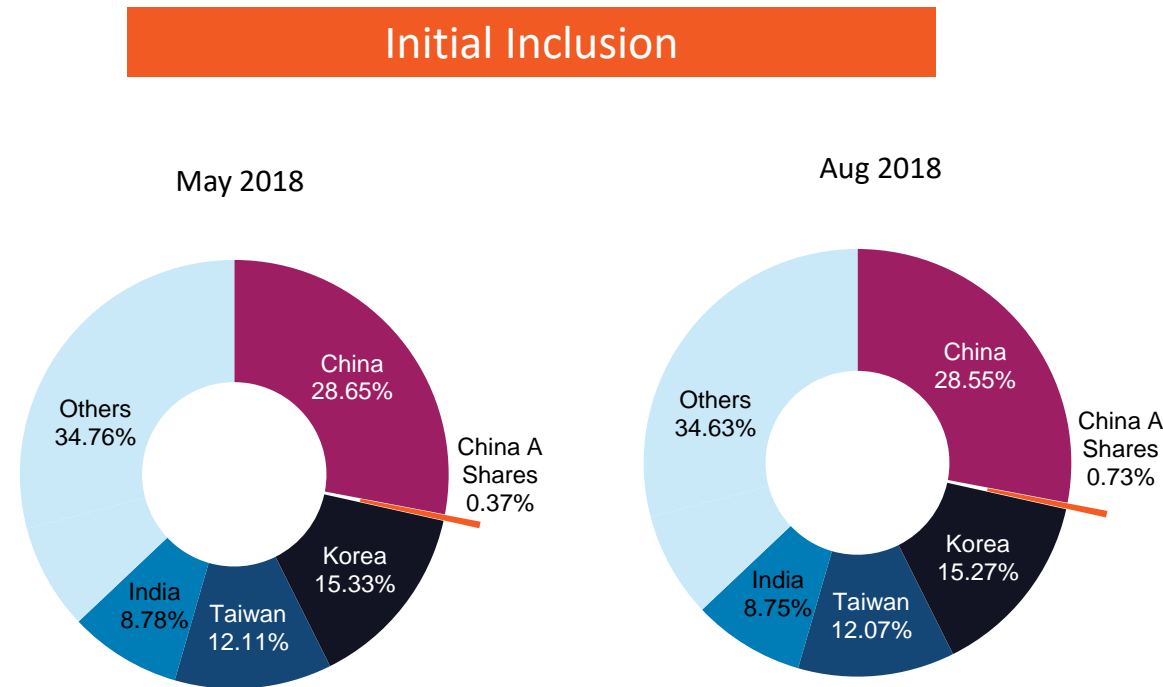
Source: Morningstar as of 12/31/2017

## KBA Index Arbitrage Play

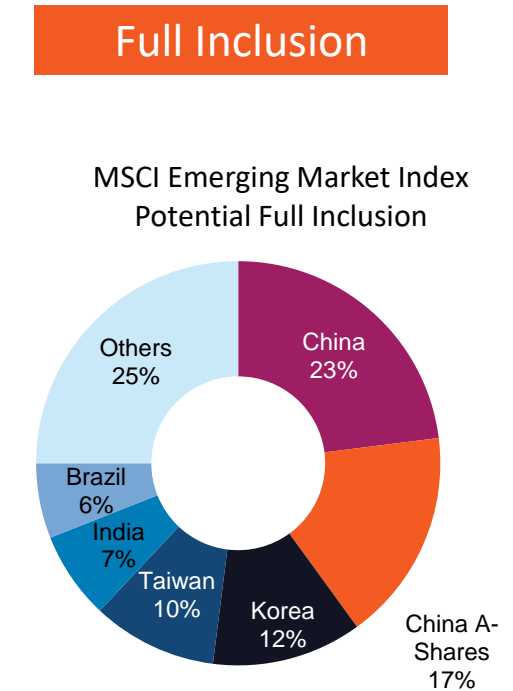
Following MSCI's announcement on June 20, 2017, China A Shares will be included into their Global Standard Indexes starting in May 2018. We believe full inclusion could take up to five years.

According to MSCI as of 9/30/2016, \$1.6 trillion track the MSCI EM Index. \$272b are expected to be reallocated to China A Shares after full inclusion.

- The March 2017 MSCI "Consultation On China A-shares Potential Inclusion" changed the initial proposed A-share inclusion weight
- The full proposed inclusion weight remains unchanged
- We believe multiple inclusions could provide a sustained catalyst for the outperformance of the Mainland market.



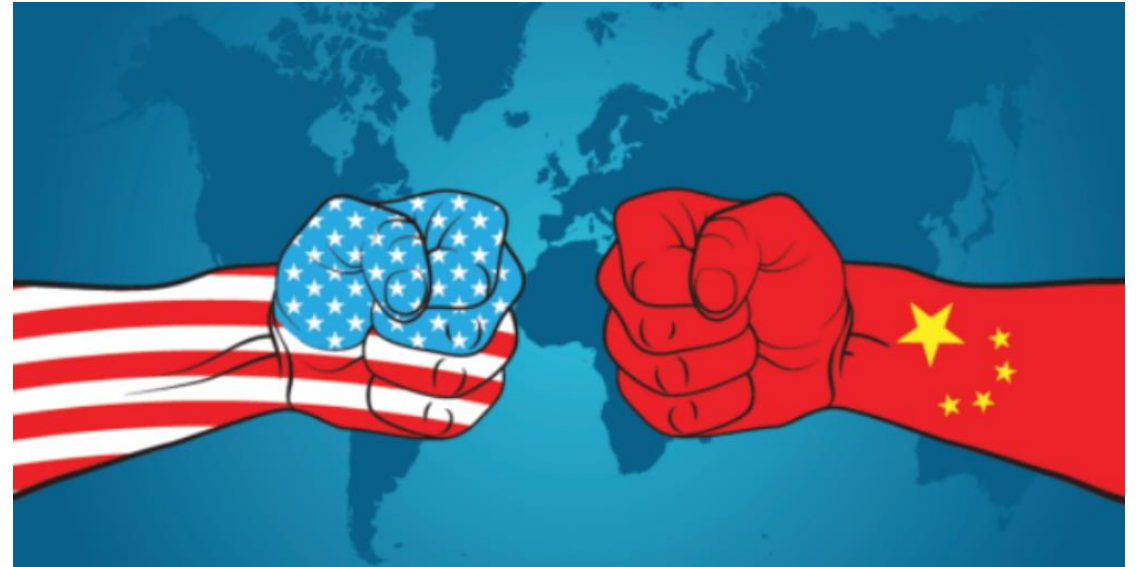
Source: MSCI Research, as of 6/19/2017



Source: MSCI Research, as of 9/30/2016

## Trade War Effects?

- KWEB: Roughly 4% of companies derive revenues outside of China.
- KBA: Approximately 8% of companies derive revenues outside of China.
- Bottom line: Headline risk is a lot worse than the actual economic impact.



## Want to Learn More? Attend an Upcoming Event...

- These educational events are geared towards institutions and financial advisors. Experts from KraneShares, Bosera, CICC, and MSCI will be presenting. Click [here](#) to sign up.

<b>Monday</b> <b>April 23, 2018</b>	<b>Boston</b>
	The Langham Hotel (Madison Room) <a href="#">250 Franklin Street Boston, MA 02110</a> 8:00 – 9:30 am Continental breakfast will be served
<b>Tuesday</b> <b>April 24, 2018</b>	<b>New York</b>
	New York Stock Exchange (Freedom Hall) <a href="#">11 Wall Street, New York, NY 10005</a> 8:30 – 10:45am Breakfast will be served with photo opportunity on the trading floor afterward
<b>Thursday</b> <b>April 26, 2018</b>	<b>San Francisco</b>
	The Olympic Club, City Clubhouse <a href="#">524 Post Street, San Francisco, CA 94102</a> 8:00 – 10:00am Breakfast will be served
<b>Monday</b> <b>April 30, 2018</b>	<b>Chicago</b>
	W Chicago - City Center <a href="#">172 West Adams Street, Chicago, IL 606037</a> 12:00 – 2:00pm Plated lunch will be served

<b>Tuesday</b> <b>May 1, 2018</b>	<b>Washington D.C.</b>
	The Ritz-Carlton, Washington DC <a href="#">1150 22nd Street, N.W. Washington D.C. 20037</a> 12:00 – 2:00pm Plated lunch will be served
<b>Wednesday</b> <b>May 2, 2018</b>	<b>Miami</b>
	InterContinental Miami <a href="#">100 Chopin Plaza, Miami, FL 33131</a> 11:30 – 1:00pm Lunch will be served
<b>Thursday</b> <b>May 3, 2018</b>	<b>Houston</b>
	The St. Regis Hotel (The Colonnade Room) <a href="#">1919 Briar Oaks Lane, Houston, TX 77027</a> 11:30 – 1:00pm Lunch will be served
<b>Tuesday</b> <b>May 8, 2018</b>	<b>Los Angeles</b>
	The Beverly Hills Hotel <a href="#">9641 Sunset Boulevard, Beverly Hills, CA 90210</a> 8:00 – 10:00am Breakfast will be served