

SEVENS REPORT *alpha*

Alpha Webinar #40

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Thursday March 7th, 2019

Presenter: Tom Essaye

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Goals for Today's Webinar

- The index rebalance opportunity in KBA (how much forced buying will there be?)
- Why KBA is uniquely positioned in the market to benefit from this announcement.
- His views on the Chinese economy (is the bottom in?)
- U.S./China Trade – Does he think we get a deal?



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).

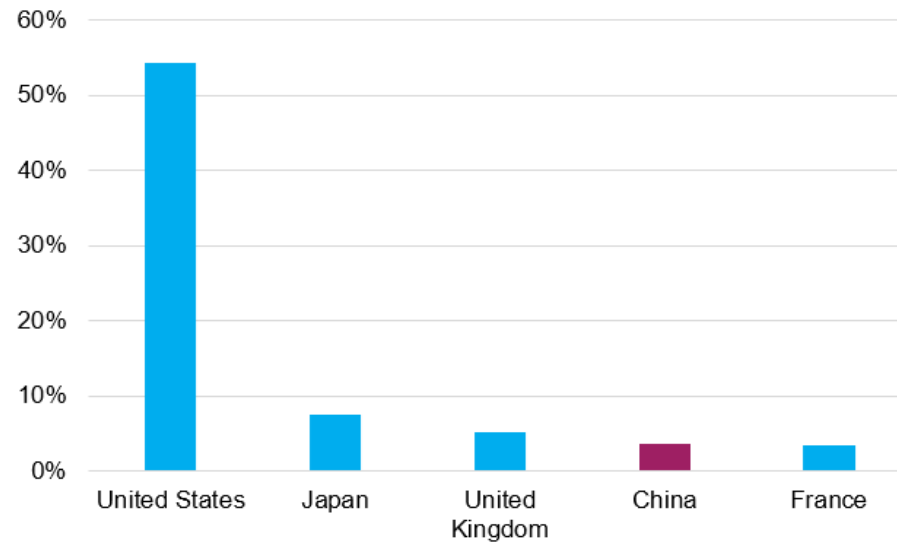




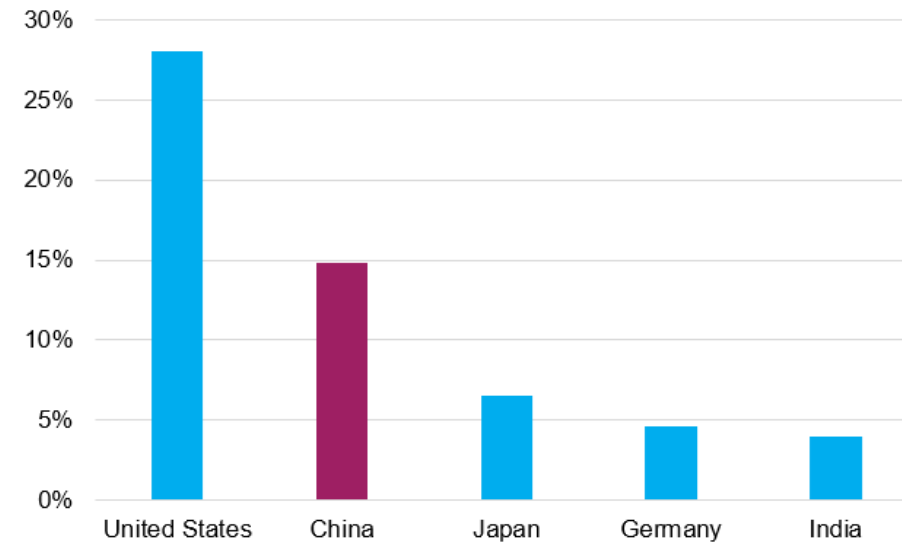
The China A-Share market is too big to ignore

As the world's second largest economy and stock market, investment in China A-Shares is still underrepresented in global capital markets

Top 5 Country Weights in MSCI All Country World Index (Market cap weighted)¹



Top 5 Country Weights in the MSCI All Country World Index (GDP Weighted)¹



1. Data from MSCI as of 12/31/2018, retrieved 12/31/2018. See page 13 for index definitions

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The Index Matters

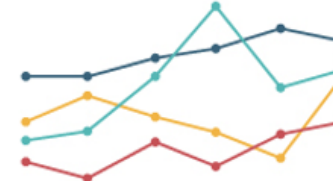
MSCI is a trusted index provider for the largest global investment managers



>\$14.8 trillion
in equity assets are
estimated to be
benchmarked to
MSCI indexes¹



99 of top 100
global investment
managers are
MSCI clients²



1040+
ETFs are based on
MSCI indexes, more than
any other index provider³



94%
of US pension fund
assets invested in
global equities are
benchmarked to MSCI⁴

¹ As of June 30, 2018, as reported on September 30, 2018 by [eVestment](#), Morningstar and Bloomberg, retrieved 12/31/2018.

² Based on latest P&I AUM data and MSCI clients as of March 2018, retrieved 12/31/2018

³ As of September 2018, retrieved 12/31/2018; defined as each share class of an exchange traded fund, as identified by a separate Bloomberg ticker. Only primary listings, and not cross-listings, are counted.

⁴ As of Dec 2016, according to [Intersec LLC](#), retrieved 12/31/2018.



MSCI's current Global Standard definition of China only represents a small portion of China's total market

The MSCI China Index was historically limited to Chinese companies listed on the Hong Kong Stock Exchange. Recently, MSCI expanded this definition to include US-listed Chinese companies. This definition represents only a small percentage of Chinese stocks.

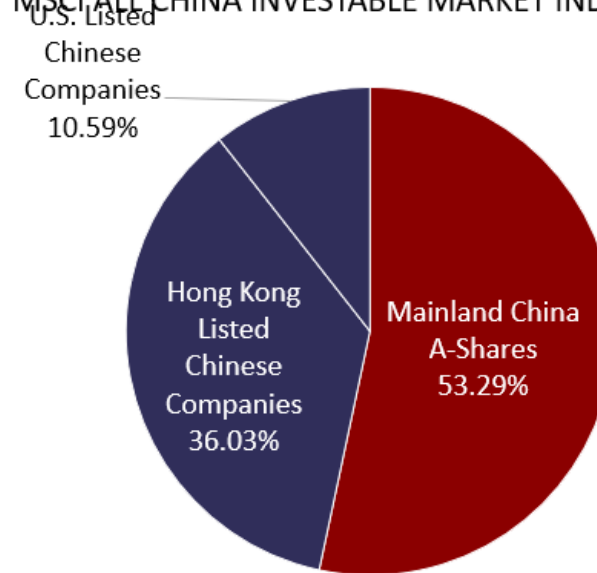
MSCI's Current Global Standard Definition of China

MSCI China Index
Hong Kong and US = 95%
China A-Shares = 5%
459 Stocks

MSCI's Definition of Entire Mainland A-Share Market

MSCI China A Onshore IMI Index
Shanghai and Shenzhen only
537 Stocks

CHINA A-SHARE CLASS BREAKDOWN OF MSCI ALL CHINA INVESTABLE MARKET INDEX (IMI)*



*Excluding Singapore listed (0.1%)
Source: MSCI as of 12/31/2018.

Source: MSCI Data as of 12/31/2018, Retrieved on 12/31/2018.



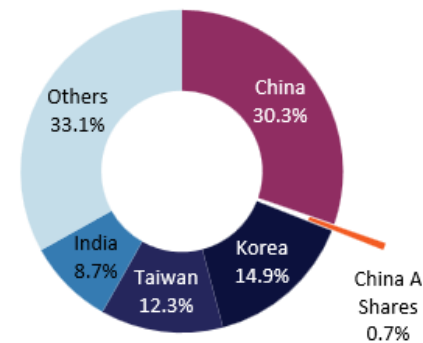
After the first 5% inclusion was completed on September 3, 2018, MSCI issued a consultation for the next round of inclusion proposing to quadruple A-Shares' current weight in 2019.

Currently, \$1.8 trillion track the MSCI EM Index. Up to \$250b are expected to be reallocated to China A-Shares after full inclusion.

- On September 3, 2018 MSCI completed the first 5% inclusion of China A-Shares within the MSCI Emerging Markets Index.
- The full proposed inclusion weight is projected to reach 14.7% of the Emerging Markets Index.
- We believe multiple inclusions could provide a sustained catalyst for the outperformance of the Mainland market.

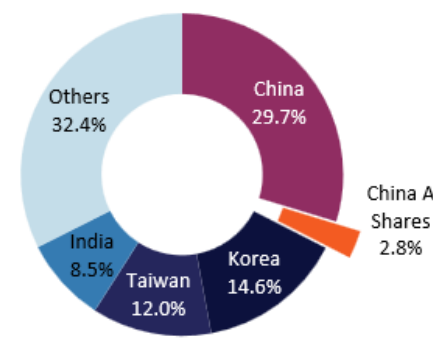
Current MSCI EM Index With 5% China A-Shares

Completed September 3, 2018



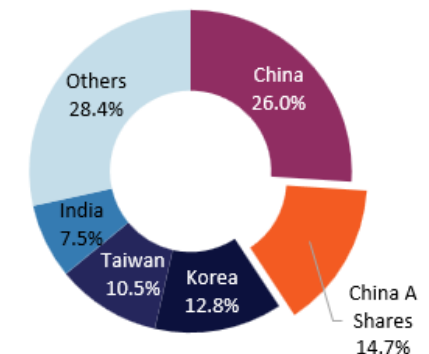
MSCI EM Index With 20% China A-Shares

Proposed Inclusion in 2019



MSCI EM Index With 100% China A-Shares

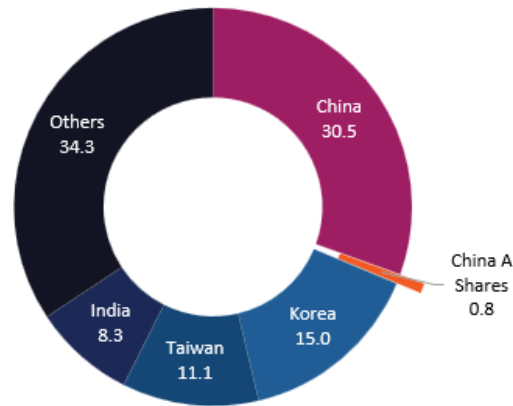
Proposed Full Inclusion



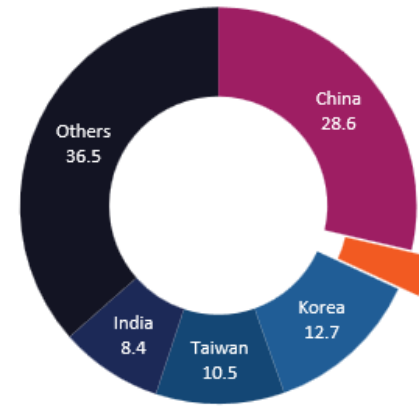
Source: MSCI, "Consultation on Further Weight Increase of China A Shares in the MSCI Indexes", September 2018. Retrieved on 12/31/2018.

China A Share Weight in MSCI Emerging Markets Index

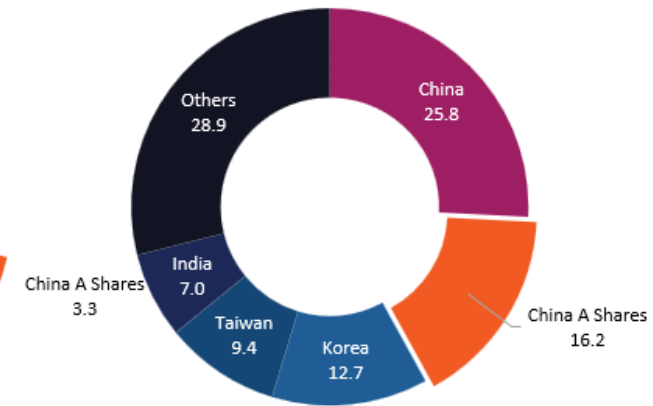
2018 Inclusion*



2019 Inclusion**



Future Proposed Inclusion*



Including large cap, mid cap,
and 27 ChiNext stocks

*Source: MSCI.com/China retrieved 2/28/2019

**Source: "MSCI Will Increase The Weight Of China A Shares In MSCI Indexes" MSCI, 2/28/2019



Up to 400 billion RMB per year could flow into the A-Share market over the next 5-10 years

Estimation of Potential Inflow to the China A-share Market

Inclusion Ratio	2.5% (Large cap)	5% (Large cap)	10% (Large cap)	15% (Large cap)	20% (Large cap)	Bear case 50% (Large cap)	Base case 100% (Large cap)	Bull case 100% (Large cap + mid cap)
Estimated weight of A-share in the indices								
MSCI China	1.3%	2.4%	4.8%	7.1%	9.2%	20.2%	33.6%	38.2%
MSCI Asia	0.5%	1.1%	2.1%	3.2%	4.2%	9.9%	18.0%	21.1%
MSCI EM	0.4%	0.8%	1.6%	2.4%	3.2%	7.5%	14.0%	16.6%
MSCI ACWI	0.05%	0.1%	0.2%	0.3%	0.4%	1.0%	1.9%	2.3%
Potential Fund Inflow (US\$ bn)								
MSCI China	0.2	0.3	0.7	1.0	1.3	2.8	4.7	5.4
MSCI Asia	2.2	4.3	8.6	12.8	16.8	39.6	72.0	84.6
MSCI EM	6.9	13.8	27.3	40.6	53.7	128.2	238.4	282.5
MSCI ACWI	1.6	3.1	6.2	9.3	12.4	30.8	61.0	74.2
Total	10.8	21.5	42.8	63.7	84.2	201.4	376.1	446.6
As % of A-share daily turnover	18%	36%	72%	107%	142%	339%	634%	753%
If inclusion factor reaches estimation in 10 yrs								
Estimated annual fund inflow (RMB bn)						137.6	257.0	305.1
As % of A-share daily turnover (2018 YTD)						33.9%	63.4%	75.3%



MSCI China A Inclusion Index and CSI 300 Index Comparison			
	MSCI China A Inclusion Index	CSI 300 Index	MSCI Advantage
Index Construction Methodology	Based on MSCI's Global Investable Market Index (GIMI) methodology	Largest 300 China A-share companies ranked by full market capitalization	Consistent with MSCI EM and MSCI ACWI which enables building and monitoring portfolios in a cohesive manner
Eligible Universe	Only A-shares that can be traded through Stock Connect	Any A-share listed in Shanghai and Shenzhen Stock Exchanges	No QFII or RQFII quota restraints
Foreign Ownership	Subject to Foreign Ownership Limits of 30%	Does not consider Foreign Ownership Limits	Tailored for foreign investors
Size Segmentation	Large Cap Size Segment targets 70%, Standard Size Segment targets 85%, and IMI Size Segment targets 99% of the coverage universe	Uses a fixed number of constituents methodology	Designed to dynamically reflect the growing China capital markets
Index Review	Semi-Annual and Quarterly Index Reviews	Semi-Annual Reviews	More timely reflection of the market

Data from MSCI as of 2/28/2019.

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KBA

KraneShares Boserá MSCI
China A-Share 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).

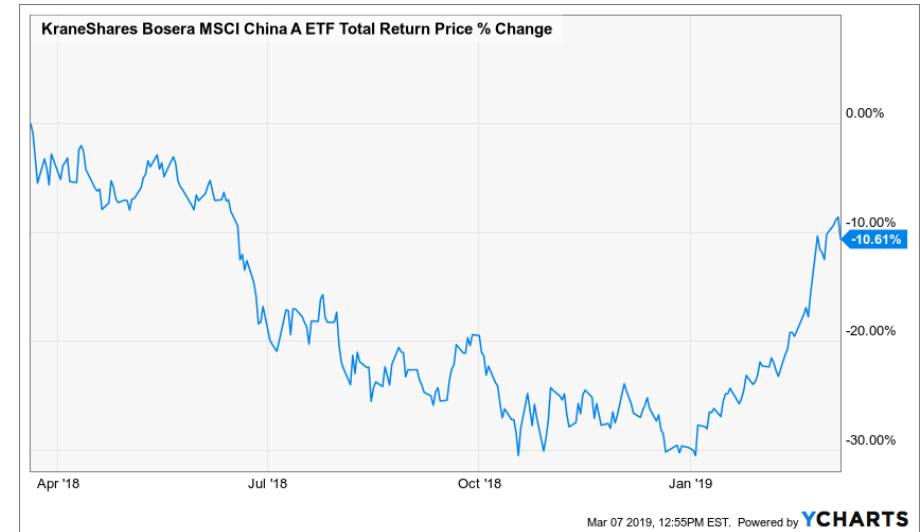
KBA features:

- Access to the Shanghai and Shenzhen Stock Exchanges - which are traditionally not available to U.S. investors - via the RQFII and Stock Connect Programs.
- KBA's holdings represent the exact Mainland Chinese equities included within broad MSCI indexes.
- With over \$1.8 trillion¹ benchmarked to the MSCI Emerging Markets Index, full inclusion of Mainland Chinese equities could see significant flows into the securities KBA owns today.
- Co-managed by Boserá Asset Management; headquartered in Shenzhen, over \$127 billion in AUM, one of the largest Chinese asset managers by assets.²

1. As of June 30, 2018, as reported on September 30, 2018 by eVestment, Morningstar and Bloomberg.

2. Boserá data is from boserá.com as of 12/31/2018, retrieved on 1/14/2018.

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- China Macro Outlook

- Economic Update:

- In 2018, China was trying to de-leverage economy, transform to a more balanced economy (away from manufacturing) and almost deliberately slowing growth. Then the trade war came and we know what happened.
 - Have they abandoned that? And, does that mean growth has inflected higher?
 - What are you hearing from your contacts?

- Trade War Update

- Your insights (from being there and boots on the ground).



Index Definitions:

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 ACWI GDP Weighted Index: is based on the flagship MSCI ACWI Index, its parent index, and includes large and mid cap stocks across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries. The index uses a different weighting scheme than its cap weighted parent index, however. The weight of each country in the index is derived from its economic size (using GDP data) rather than the size of its equity market. Over time, GDP data tends to have more stability than equity market prices.

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

The MSCI United Arab Emirates (UAE) Index: designed to measure the performance of the large and mid cap segments of the UAE market.



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.

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 Bosera 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.

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