



Article 10 (SFDR)

Website disclosure for an Article 8 fund

Version 1 (12.30.2022)

KRANESHARES ICAV
KraneShares Electric Vehicles & Future Mobility ESG Screened UCITS ETF
KraneShares MSCI China ESG Leaders UCITS ETF

A) Summary

The KraneShares Electric Vehicles & Future Mobility ESG Screened UCITS ETF ("KARS") & KraneShares MSCI China ESG Leaders UCITS ETF ("KESG") (together "Sub-Funds") do not have a Sustainable Investment objective. They are both classified as an Article 8 financial product under the SFDR.

B) No sustainable investment objective

The KraneShares Electric Vehicles & Future Mobility ESG Screened UCITS ETF & KraneShares MSCI China ESG Leaders UCITS ETF are aware of the 'No sustainable investment objective' disclosure, which is required under the SFDR Level 2.

KARS and KESG promote environmental or social characteristics, but do not have as their respective objective sustainable investment.

Through its exposure to the respective Indices, KARS and KESG do not commit to making any sustainable investments but, subject to the screening process and eligibility for inclusion, may hold investments considered to be sustainable investments on an incidental basis.

C) Environmental or social characteristics of the financial product

Through tracking the KESG Index (defined below), KESG promotes the following environmental/social characteristics:

- Investment in environmentally and socially responsible companies; and
- Avoidance of investment in companies which show a qualifying involvement from controversial activities including the production of alcohol and tobacco or gambling

Through tracking the KARS Index (defined below), KARS promotes the following environmental/social characteristics:

- Investment in companies that are engaged in or expected to derive significant revenues from the production of electric vehicles or their components or in other initiatives that may change the future of mobility; and
- Avoidance of investment in companies which are involved in ESG controversies and controversial business activities, based on data from ESG data provider, Sustainalytics.

D) Investment strategy

What is the investment strategy used to meet the environmental or social characteristics promoted?

KESG

The objective of KESG is to provide investment results that, before fees and expenses, correspond generally to the price and yield performance of the investable universe Chinese companies listed on the Shanghai, Shenzhen or Hong Kong Stock Exchanges with high environmental, social and governance (“ESG”) performance relative to their sector peers. The investment policy of KESG is to track the performance of the MSCI China ESG Leaders 10/40 Index (USD) (or such other index determined by the Directors from time to time as being able to track substantially the same market as the Index and which is considered by the Directors to be an appropriate index for the Sub-Fund to track, in accordance with the Prospectus) (the "KESG Index"), as closely as possible, regardless of whether the KESG Index level rises or falls, while seeking to minimise as far as possible the tracking error between the Sub-Fund’s performance and that of the KESG Index.

The KESG Index, which is constructed using inclusion and exclusion criteria, which are binding.

In determining the ESG requirements for inclusion in the KESG Index, the KESG Index Provider utilises a three step process.

First, an overall rating is provided based on how well companies manage ESG risks and opportunities such as climate change, product liability and corporate behaviour, with scores and percentiles also indicating how well a company manages each individual ESG element relative to their industry peers. Companies must have an ESG Rating of 'BB' or above to be eligible for inclusion in the KESG Index.

Secondly, an assessment of any negative ESG controversies for the relevant company is undertaken. The ESG controversies framework of the Index Provider is designed to be consistent with international norms represented by the UN Declaration of Human Rights, the International Labour Organization Declaration on Fundamental Principles and Rights of Work, and the UN Global Compact. Companies that are not existing constituents of the KESG Index must have an ESG Controversies Score of 3 or above to be eligible to be added to the KESG Index. Current constituents of the KESG Index must have an ESG Controversies Score of 1 or above to be eligible to be retained in the KESG Index.

Thirdly, an exclusion list is applied where companies showing the following qualifying involvement in thermal coal, tobacco, alcohol, gambling, nuclear power and weapons, conventional weapons, controversial weapons, civilian firearms, fossil fuel extraction and thermal coal power are excluded from the KESG Index

- **Controversial Weapons**

All companies with any tie to Controversial Weapons (cluster munitions, landmines, depleted uranium weapons, biological/chemical weapons, blinding lasers, non-detectable fragments and incendiary weapons), as defined by the methodology of the MSCI Ex-Controversial Weapons Indexes available at <https://www.msci.com/index-methodology>

- **Nuclear Weapons**

- All companies that manufacture nuclear warheads and/or whole nuclear missiles
- All companies that manufacture components that were developed or are significantly modified for exclusive use in nuclear weapons (warheads and missiles)
- All companies that manufacture or assemble delivery platforms that were developed or significantly modified for the exclusive delivery of nuclear weapons
- All companies that provide auxiliary services related to nuclear weapons
- All companies that manufacture components that were not developed or not significantly modified for exclusive use in nuclear weapons (warheads and missiles) but can be used in nuclear weapons

- All companies that manufacture or assemble delivery platforms that were not developed or not significantly modified for the exclusive delivery of nuclear weapons but have the capability to deliver nuclear weapons
- All companies that manufacture components for nuclear-exclusive delivery platforms
- **Civilian Firearms**
 - All companies deriving 5% or more revenue from the production of firearms and small arms ammunitions for civilian markets. It does not include companies that cater to the military, government, and law enforcement markets
 - All companies deriving 15% or more aggregate revenue from the production and distribution (wholesale or retail) of firearms or small arms ammunition intended for civilian use
- **Tobacco**
 - All companies deriving 5% or more revenue from the production of tobacco related products
 - All companies deriving 15% or more aggregate revenue from the production, distribution, retail, supply and licensing of tobacco-related products
- **Alcohol**
 - All companies deriving 10% or more revenue from the production of alcohol related products
- **Conventional Weapons**
 - All companies deriving 10% or more revenue from the production of conventional weapons and components
- **Gambling**
 - All companies deriving 10% or more revenue from ownership of operation of gambling-related business activities
- **Nuclear Power**
 - All companies deriving 10% or more aggregate revenue from nuclear power activities
- **Fossil Fuel Extraction**
 - All companies deriving 5% or more aggregate revenue (either reported or estimated) from thermal coal mining and unconventional oil and gas extraction.
 - Thermal Coal Mining: Revenue from the mining of thermal coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties. It does not cover revenue from metallurgical coal; coal mined for internal power generation (e.g. in the case of vertically integrated power producers); intra-company sales of mined thermal coal; and revenue from coal trading
 - Unconventional Oil & Gas Extraction: Revenue from oil sands, oil shale (kerogen-rich deposits), shale gas, shale oil, coal seam gas, and coal bed methane. It does not cover all types of conventional oil and gas production including Arctic onshore/offshore, deep water, shallow water and other onshore/offshore.
- **Thermal Coal Power**
 - All companies deriving 5% or more revenue (either reported or estimated) from thermal coal-based power generation

KARS

The objective of KARS is to provide investment results that, before fees and expenses, correspond generally to the price and yield performance of companies that are engaged in or expected to derive significant revenues from the production of electric vehicles or their components or in other initiatives that may change the future of mobility. The investment policy of KARS is to track the performance of

the Bloomberg Electric Vehicles ESG Screened Index (Total Return version (BBVET)) (or such other index determined by the Directors from time to time as being able to track substantially the same market as the Index and which is considered by the Directors to be an appropriate index for the Sub-Fund to track, in accordance with the Prospectus) (the "KARS Index" and together with the KESG Index, the "Indices"), as closely as possible, regardless of whether the KARS Index level rises or falls, while seeking to minimise as far as possible the tracking error between the Sub-Fund's performance and that of the KARS Index.

There are two core criteria of the KARS Index used to select the investments, both of which are binding.

First, to be included in the KARS Index, a security must be classified as belonging to vehicles, electric vehicle components, batteries, hydrogen fuel cells, or raw materials sector classifications as determined by the KARS Index Provider.

Second, companies involved in ESG controversies and controversial business activities based on data from ESG data provider, Sustainalytics, are excluded from the KARS Index, as summarised in the table below.

Controversial Categories	Criteria
Extreme Event Controversies	<p>Companies:</p> <ul style="list-style-type: none"> • which are considered to be the bottom of their peer group or sector in this regard; • whose controversies have severe and irreversible impact and risk; • which are a highly exceptional case within the peer group; • whose misconduct has an impact on a broad range of stakeholders over a long duration and imposes a clear cost on society; • which are subject to serious ongoing risk as a result of their controversies; • which are directly responsible for the controversies; • which have a level of involvement in controversies which is exceptional among peers in numerous respects; • which have controversies that are recurring and have not been addressed adequately or at all; • which fail to demonstrate the ability to remediate controversies; and • which refuse to address controversies and / or have tried to conceal the wrongdoing and / or their involvement.
Controversial Weapons	All companies classified as being involved in the core controversial weapon system or components and services that are considered tailor-made and essential for the lethal use of a controversial weapon system.
UNGC Violation	Companies that have breached a principle of the UN Global Compact .
Civilian Firearms	<p>All companies classified as generating 5% or more of their revenue from</p> <ul style="list-style-type: none"> • the manufacture and sale of weapons to civilian customers. • the distribution and retail sale of weapons. • the manufacture and sale of key components of weapons.
Thermal Coal Extraction	All companies classified as generating 5% or more of their revenue from the extraction of thermal coal.
Tobacco	<p>All companies classified as generating 5% of their revenue from the production of tobacco or tobacco-related products and services.</p> <p>All companies classified as deriving 10% or more of their revenue from</p>

	the distribution and retail sale of tobacco products.
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What is the policy to assess good governance practices of the investee companies?

KESG

The KESG Index Provider assesses controversies concerning the negative environmental, social, and/or governance impact of company operations, products and services.

The framework used is designed to be consistent with international norms represented by the UN Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, and the UNGC and scores controversies on a 0-10 scale, with "0" being the most severe controversy.

Specific areas of Governance covered by these assessments include controversies related to bribery & fraud, governance structures, controversial investments, labour management relations, collective bargaining & unions, discrimination & workforce diversity.

The KESG Index (i) excludes all companies with a controversy score of 0 and (ii) will not add any company to the KESG Index with a controversy score of 2 or lower, as they are considered to have insufficient governance.

KARS

The KARS Index excludes all companies which have been assessed by ESG data provider, Sustainalytics as being subject to Extreme Event Controversies or which have that have breached a principle of the UN Global Compact.

E) Proportion of investments

0% of KARS' & KESG's net asset value is invested in sustainable investments that have an environmental objective aligned with the EU Taxonomy.

99% of KARS' & KESG's net asset value is invested directly in assets which are aligned with the environmental or social characteristics promoted by the Sub-Funds.

The remaining 1% of KARS' & KESG's net asset value includes the remaining investments of the Sub-Funds which are not aligned with the environmental or social characteristics, such as securities issued by companies which are not included in the Indices which are held to help the Sub-Funds replicate the relevant Index, e.g. securities which provide similar price and yield performance and risk profiles to constituents of that index. Such securities will be subject to good governance requirements.

Additionally, the Sub-Funds may hold other assets, such as units in other funds for the purposes of efficient portfolio management, liquidity management or hedging purposes and cash, for ancillary liquidity purposes. No minimum environmental or social safeguards are applied to such assets.

F) Monitoring of environmental or social characteristics

How are the environmental or social characteristics and the sustainability indicators monitored throughout the lifecycle of the financial product?

To ensure that environmental and social characteristics are met throughout the lifecycle of the Sub-Funds, the ESG process above is applied and monitored on an ongoing basis, at least once a quarter by the Index Provider. In case a security no longer meets this requirement, the security will be sold within the next regular rebalancing of the Indices, which is quarterly in respect of the KARS Index and annually in respect of the KESG Index. This ensures that securities which no longer meet the requirements will be held for a defined maximum period after they have been identified as no longer meeting the requirements.

The following sustainability indicators are used to measure the attainment of KESG's social and environmental characteristics.

- ESG Ratings provided by the KESG Index Provider – securities must be rated average (BB) or above to be included in the KESG Index.
- ESG Controversy Rating provided by the KESG Index Provider – securities must not be rated in the two lowest categories to be included in the Index; and
- Companies showing qualifying involvement in thermal coal, tobacco, alcohol, gambling, nuclear power and weapons, conventional weapons, controversial weapons, civilian firearms, fossil fuel extraction and thermal coal power are excluded from the KESG Index

For KARS, the following indicators are used to measure the attainment of KARS' social or environmental characteristics.

- Sector classifications – securities must be classified as belonging to the vehicles, electric vehicle components, batteries, hydrogen fuel cells, or raw materials sector classifications, as determined by the KARS Index Provider, to be included in the Index; and
- ESG controversies and controversial business activities data from KARS' ESG data provider, Sustainalytics.

G) Methodologies for environmental or social characteristics

The Sub-Funds are passive and seek to achieve the social or environmental characteristics which they promote by tracking the Indices with minimal tracking error. The Indices are re-balanced periodically in accordance with their respective methodologies. The Investment Manager reviews the Indices periodically to ensure that they remain aligned with the strategy of the Sub-Funds. The methodologies used for the calculation of the Indices can be found here:

KESG

https://www.msci.com/eqb/methodology/meth_docs/MSCI_10_40_Indices_Methodology_Aug2021.pdf

https://www.msci.com/eqb/methodology/meth_docs/MSCI_ESG_Leaders_Methodology_Nov2020.pdf

KARS

<https://assets.bbhub.io/professional/sites/10/Bloomberg-Electric-Vehicles-ESG-Screened-Index-Methodology.pdf>

H) Data sources and processing

Data sources used to attain each of the environmental or social characteristics promoted by the Sub-Funds

The Investment Manager will mainly rely on the designated indexes Bloomberg Electric Vehicles ESG Screened Index & MSCI China ESG Leaders 10/40 Index (USD).

Measures taken to ensure data quality

Krane obtains KESG Index data directly from MSCI (index provider), and KARS Index data directly from Bloomberg (index provider). Compliance rules are set up in Bloomberg AIM to ensure that the Funds are tracking the Indices; otherwise, an alert will trigger.

How data are processed

The index provider will provide a proforma data set ahead of any rebalance. Krane ensures the Funds continue to track the Indices pursuant to a rebalance by uploading the proforma into the Bloomberg AIM system and comparing the new index to the funds' current holdings, and then trade accordingly to align with the effective date of the rebalance.

Proportion of data that are estimated

Krane does not estimate any holdings in either fund. Both KESG and KARS fully replicate the Indices to the best of our abilities, with the exception of any sell-only restrictions on A-shares or trading halts.

Limitations to methodologies and data

The MSCI China ESG Leaders 10/40 Index uses specific MSCI ESG Research products – MSCI ESG Ratings, MSCI ESG Controversies, MSCI Business Involvement Screening Research and MSCI Climate Change Metrics - to determine eligibility for index exclusions, which are not a feature of the Parent Index.

I) Due Diligence

In the course of its investment process, the Investment Manager conducts an initial due diligence on the designated index provider for each Sub-Fund and periodically thereafter. This due diligence process assesses the quality of each index provider and the services rendered to the Sub-Funds.

J) Engagement policies

The Investment Manager does not systematically engage with investee companies as part of its investment process. The Sub-Funds are passive and seek to track the Indices in the manner described above. The Investment Manager may occasionally engage management teams of investee companies

via in-person meetings and conference calls for research purposes. The Investment Manager views this direct engagement with investee companies as an essential part of its research process to cover event-driven and company-specific issues.

K) Designated reference benchmark

Has an index has been designated as a reference benchmark to meet the environmental or social characteristics promoted by the Sub-Funds?

The Indices have been designated as reference benchmarks to meet the environmental or social characteristics promoted by the Sub-Funds.

How is this index aligned with the environmental and / or social characteristics promoted by the Sub-Funds?

KESG

The KESG Index is re-balanced annually, the eligible universe is updated, and the composition of the KESG Index is reassessed in order to target 50% free float-adjusted cumulative market capitalisation of each sector of its parent index.

Existing constituents of the KESG Index are maintained in the eligible universe if they meet all of the following conditions:

- MSCI ESG Rating of 'BB' or above;
- MSCI ESG Controversies Score of 1 or above; and
- Not screened by the business involvement criteria.

The Investment Manager reviews the KESG Index periodically to ensure that it remains aligned with KESG's strategy.

KARS

The KARS Index is rebalanced quarterly in March, June, September, and December. The administrator of the KARS Index periodically reviews the KARS Index (both the rules of construction and data inputs) on a periodic basis, not less frequently than annually, to determine whether it continues to reasonably measure the intended market interest, the economic reality, or otherwise align with its stated objective.

The Investment Manager reviews the KARS Index periodically to ensure that it remains aligned with KARS' strategy.

Where can information with regards to input data, methodologies used to select those data, the rebalancing methodologies and index calculations be found?

The methodologies used for the calculation of the Indices can be found here:

KESG

[https://www.msci.com/eqb/methodology/meth_docs/MSCI 10 40 Indexes Methodology Aug2021.pdf](https://www.msci.com/eqb/methodology/meth_docs/MSCI_10_40_Indexes_Methodology_Aug2021.pdf)

[https://www.msci.com/eqb/methodology/meth_docs/MSCI ESG Leaders Methodology Nov2020.pdf](https://www.msci.com/eqb/methodology/meth_docs/MSCI_ESG_Leaders_Methodology_Nov2020.pdf)

KARS

<https://assets.bbhub.io/professional/sites/10/Bloomberg-Electric-Vehicles-ESG-Screened-Index-Methodology.pdf>

SECTION 2: Entity Level Disclosure headings (All Funds)

The following Funds have been classified as Article 8/9 products for the purposes of SFDR:

- **KARS**
- **KESG**

The remaining Funds are classified as Article 6 for the purpose of SFDR i.e. they do not promote Environmental or Social Characteristics or have sustainable investment objectives.

1. Sustainability risk policy statement:

We do not deem sustainability risks to be relevant and the reasons for this determination as outlined in the prospectus are accurate. However, we perform this sustainability risk assessment and prospectus review on an annual basis and will inform the AIFM promptly if the results of this assessment changes.

2. No Consideration of Principal Adverse Impact Statement

Unless otherwise stated in the Relevant Supplement, the principal adverse impacts ("PAIs") of investment decisions on sustainability factors are not currently considered for the Sub-Funds as the Manager, in consultation with the Investment Manager, is of the view that, given the nature and activities of the Sub-Funds as Index Tracking Sub-Funds, PAIs are not relevant to the management of the Sub-Funds.

3. Remuneration Policy Summary:

We do not currently consider sustainability factors in our remuneration process and the reasons for this determination as outlined in the prospectus are accurate. However, we perform this sustainability risk assessment and prospectus review on an annual basis and will inform the AIFM promptly if the results of this assessment changes