

MSCI China A-Share Inclusion: A Long Term Catalyst For The Mainland Chinese Equity Market

Overview of the KraneShares MSCI
China A Share UCITS ETF (ticker: KBA)



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 majority owned by China International Capital Corporation (CICC).



The KraneShares MSCI China A Share UCITS ETF Lists on the London Stock Exchange

On 28 June 2019, KraneShares launched the KraneShares MSCI China A Share UCITS ETF (ticker: KBA) on the London Stock Exchange. The fund tracks the MSCI China A Index which captures large and mid-cap equities listed on the Shanghai and Shenzhen stock exchanges (A-shares). KraneShares has managed the same strategy through a New York Stock Exchange-listed ETF since 2014. KBA US has the longest track record for an MSCI-linked China A Share ETF in the United States¹.



1. Data from Morningstar as of 30/Sept/2019

KBA

**KraneShares MSCI
China A Share UCITS
ETF**

Investment Strategy:

KBA is benchmarked to the MSCI China A Index which captures large and mid-cap representation across China securities listed on the Shanghai and Shenzhen exchanges (A-shares). Over the coming years, MSCI will complete the incremental inclusion of China A-shares into their Global Standard Indexes, including the MSCI Emerging Markets Index, which may potentially benefit the securities KBA holds today. The MSCI China A Index is designed for global investors accessing the A-share market using the Stock Connect framework and is calculated using China A Stock Connect listings based on the offshore RMB exchange rate (CNH).

MSCI China A-Share Inclusion Overview:

- China A-Shares are vastly underrepresented in global indexes. While the United States has a weight of 55.83% in the MSCI All Country World Index, China only has a weight of 3.66%¹.
- MSCI is incrementally realigning China's overall weight in their Global Standard Indexes through the inclusion process, and by the end of 2019, MSCI's definition of China will include 264 large-cap and 172 mid-cap A-Share securities, including 30 securities from the ChiNext board².
- Upon completion, China A-Shares are predicted to account for about 17% of the MSCI Emerging Market (EM) Index³.

MSCI China A Index Overview:

- The Index captures large and mid-cap equities listed on the Shanghai and Shenzhen stock exchanges and reflects the full 2019 inclusion of China A-Shares in the MSCI Emerging Markets Index.
- On March 11, 2019, the Hong Kong Stock Exchange announced a license agreement with MSCI to introduce futures contracts on the MSCI China A Index⁴.
- There are a total of 443 constituents¹ giving investors diverse exposure to A-Shares.

1. Data from MSCI as of 30/Sept/2019.

2. MSCI, "MSCI Will Increase the Weight of China A Shares in MSCI Indexes", 28/Feb/2019.

3. MSCI, "China and the future of equity allocations", June 2019.

4. HKEx, MSCI China A Index Futures, 11/Mar/2019.

The Evolution of China's Capital Markets and KraneShares



Oct 2016 China's currency, the RMB, designated a reserve currency by the International Monetary Fund



1990 Shanghai and Shenzhen Stock Exchanges launch

2011

RQFII is established

- Allowing international access to A-share market with daily liquidity
- First international funds with Interbank Bond Market exposure approved

Mar 2014

KraneShares Boserá MSCI China A-Share ETF (Ticker: KBA) launches
KraneShares partners with Boserá Asset Management to list KBA, the first MSCI-linked China A-Share ETF in the U.S.

MSCI puts China A-Shares up for inclusion within their Global Standard Indexes

Nov 2014

Shanghai Hong Kong Stock Connect launches
Eligible Shanghai listed stocks now freely tradable through international brokerage accounts

Jun 2017

MSCI announces inclusion of A-Shares in Global Standard Indexes starting June 1st, 2018

Oct 2017

CICC (China International Capital Corporation) acquires a 50.1% majority stake in Krane Funds Advisors, LLC

March 2019

HKEX launches futures contracts for the MSCI China A Index

1990

2002

QFII is established allowing the first international access to A-share market

2013

KraneShares launches its first U.S. listed China ETF



Dec 2014

KraneShares E Fund China Commercial Paper ETF (Ticker: KCONY) Launches
KraneShares partners with E Fund Asset Management to list KCONY, giving investors exposure to China's Interbank Bond Market

Aug 2016

Shenzhen Hong Kong Stock Connect launches
Eligible Shenzhen listed stocks now freely tradable through international brokerage accounts

Mar 2018

Bloomberg announces it will add China's Interbank Bond Market to the Bloomberg Barclays Global Aggregate Indices starting April 2019

Sep 2018

First phase of China A-Share Inclusion completed

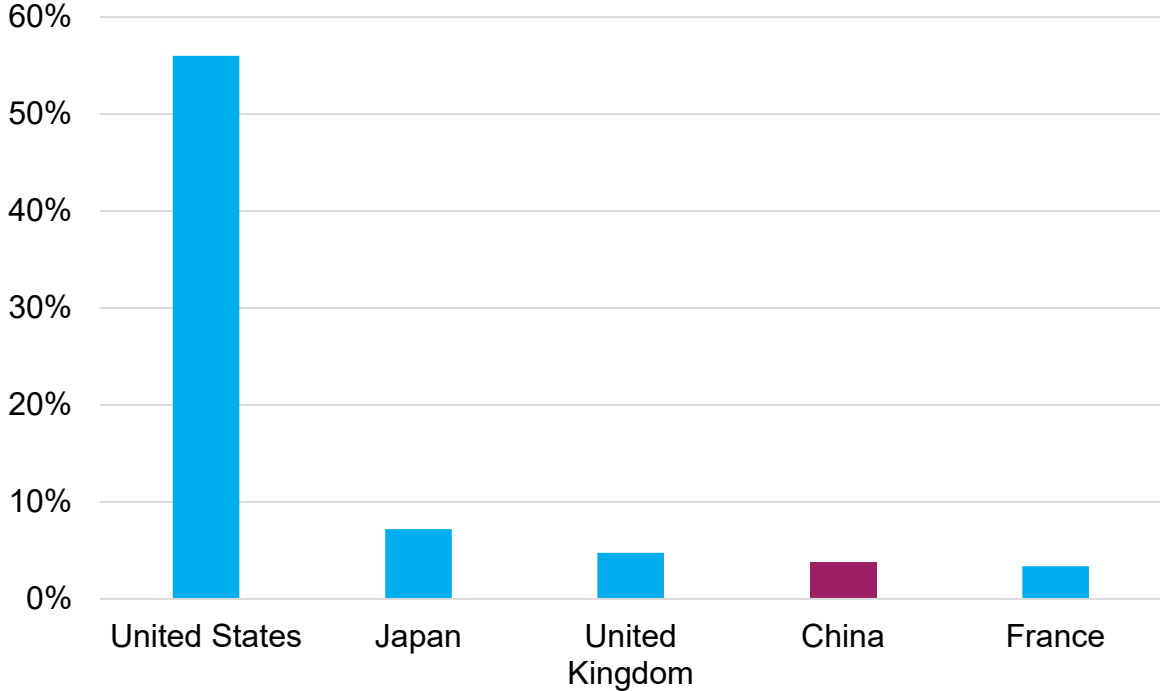
Second phase of China A-Share Inclusion scheduled for completion

Nov 2019

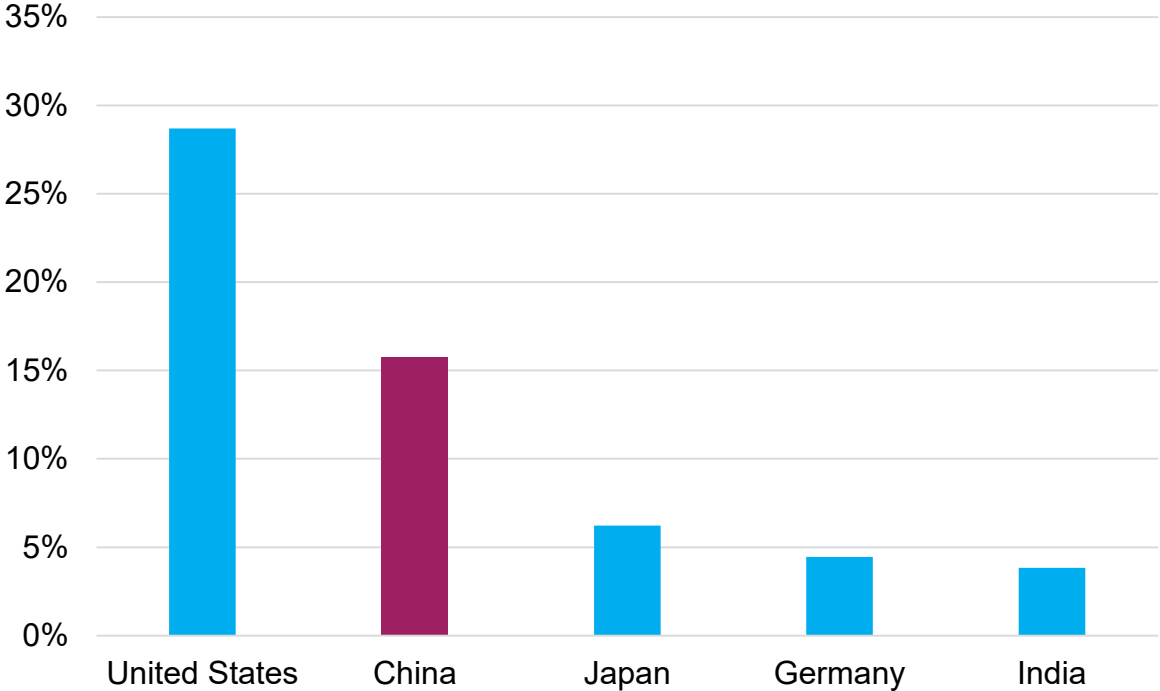
The China A-Share market is too big to ignore.

Even though China is the world's second largest economy and stock market, China A-Shares are 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

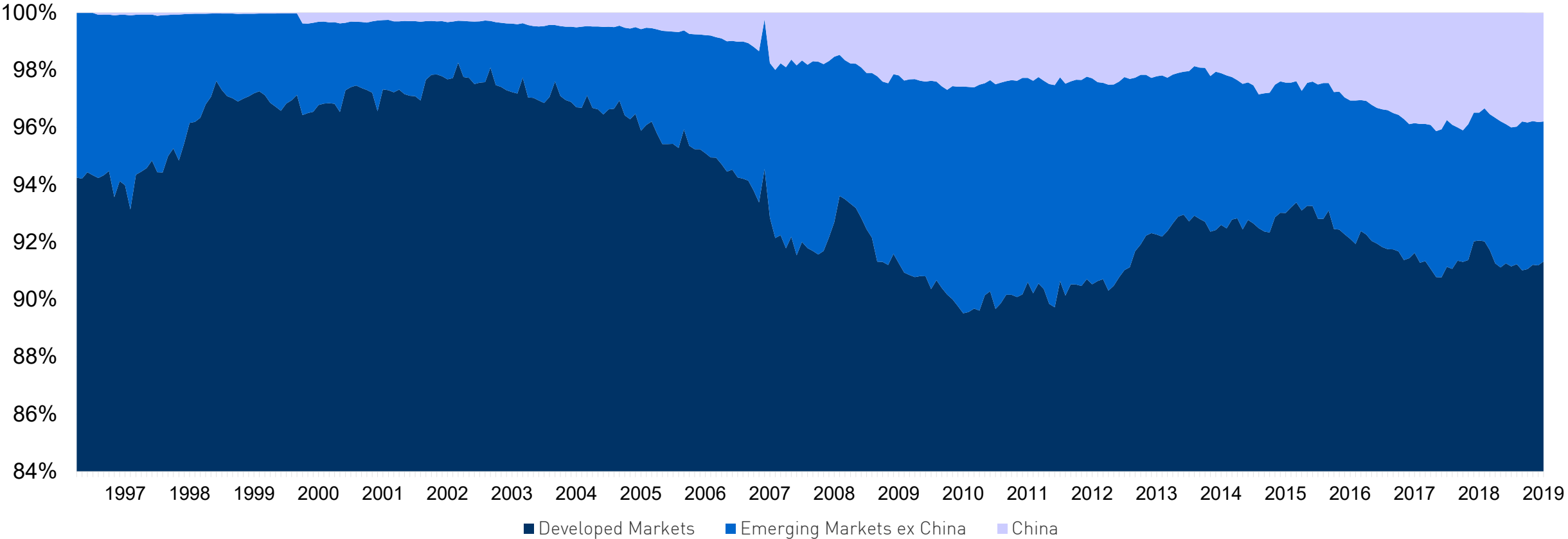


1. Data from MSCI as of 30/Sept/2019, retrieved 30/Sept/2019. See page 17 for index definitions

Emerging Market Evolution

- China’s weighting in the MSCI ACWI Index has grown since 2000 but is a small percentage overall.
- We believe China will occupy a larger portion of both the MSCI All Country World Index and investors’ portfolios in general as its markets continue to open up.

Historical Developed and Emerging Market Allocations within the MSCI ACWI Index



Data from Morningstar as of 30/Sept/2019. See page 17 for index definitions.

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 30/Sept/2019.

² Based on latest P&I AUM data and MSCI clients as of March 2018, retrieved 30/Sept/2019.

³ As of September 2018, retrieved 30/Sept/2019; 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 30/Sept/2019.

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

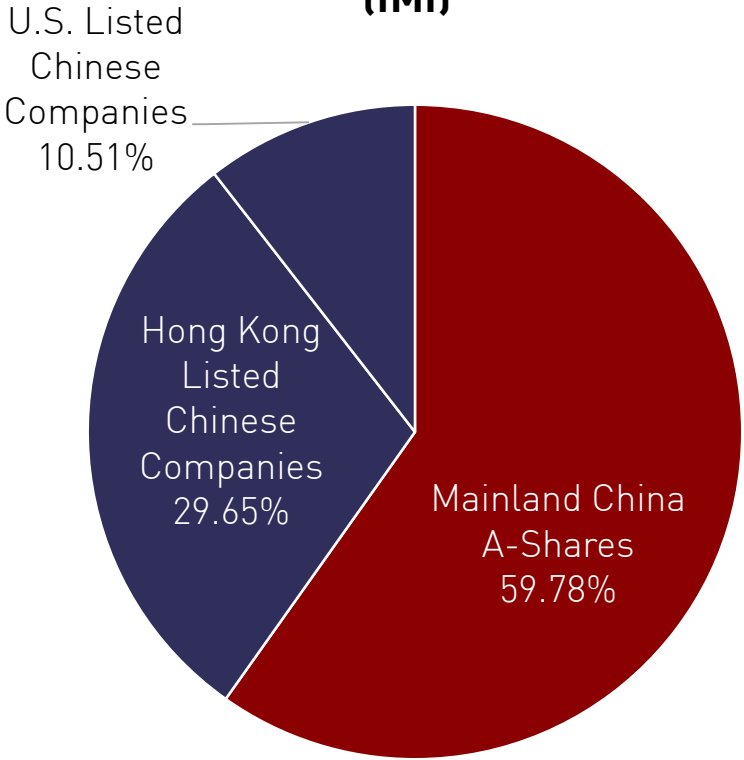
Hong Kong and US = 92.1%
 China A-Shares = 7.9%
 501 Stocks

MSCI’s Definition of Entire Mainland A-Share Market

MSCI China A Onshore IMI Index

Shanghai and Shenzhen only
 2,411 Stocks

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



*Excluding Singapore listed (0.1%)
 Source: MSCI as of 30/Sept/2019.

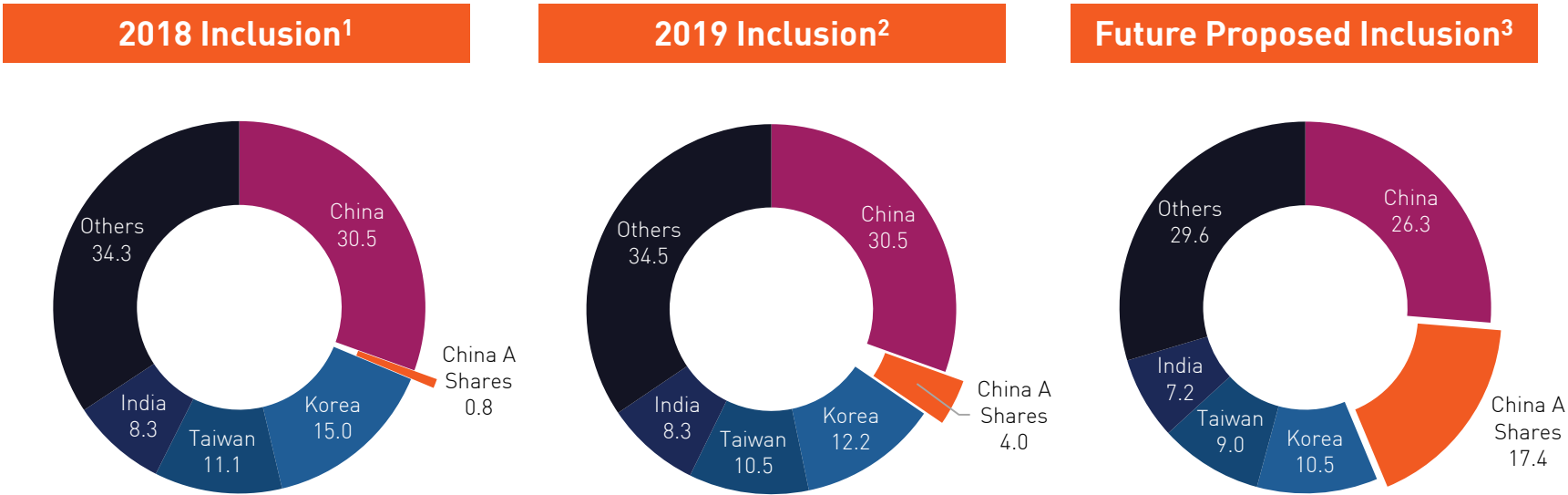
Source: MSCI Data as of 30/Sept/2019.
 See page 17 for index definitions.

On February 28, 2019, MSCI made a larger than expected China A-Share inclusion announcement. MSCI will increase the inclusion factor of China A-Shares in their Global Standard Indexes from 5% to 20% in 2019.

Currently, **\$1.8 trillion** track the MSCI EM Index. **Up to \$300b** 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.
- Then, on February 28, 2019, MSCI announced they will increase the inclusion factor of China A-Shares from 5% to 20% in 2019.
- The full proposed inclusion weight is projected to reach 17.4% of the Emerging Markets Index.
- We believe multiple inclusions could provide a sustained catalyst for the outperformance of the Mainland market.

China A-Share Inclusion in MSCI EM



1. MSCI.com/China retrieved 30/Sept/2019
 2. "MSCI Will Increase The Weight Of China A Shares In MSCI Indexes" MSCI, 30/Jun/2019
 3. MSCI, "China and the future of equity allocations", June 2019.

We believe that the MSCI China A Index has distinct advantages over the CSI 300 Index.

- The CSI 300 Index, originally built for domestic Chinese investors, consists of the 300 largest China A-Share stocks ranked by market capitalization.
- In comparison, the MSCI China A Index currently tracks 443 securities deemed most suitable for international investors by MSCI.
- The constituent count overlap of these indexes is around 53%¹.
- We believe gaining exposure to China A-Shares through an MSCI index provides international investors with several distinct advantages.

MSCI China A Index and CSI 300 Index Comparison ²			
	MSCI China A 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	Takes into account Chinese regulator’s foreign ownership limits of 30%	Does not consider foreign ownership limits, creating potential for tracking error	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

1. Data from Bloomberg as of 30/Sept/2019, calculated by KraneShares.
 2. Data from MSCI as of 30/Sept/2019. See page 17 for index definitions.

The MSCI China A Index stocks are the largest and most liquid stocks in the A-Share market.

- There are currently 3,931 A-Shares listed in Mainland China.
- A-Shares contain predominantly mega cap and large cap securities in the top decile of the Mainland market in terms of market capitalization and 30 day average trading volume.

China Mainland Market Capitalization and 30 day Average Trading Volume Decile Breakdown as of 30/Sept/2019

		Average Market Cap	30 Day Average Daily Volume
91% KBA Net Assets	1	13.1 B	35.2 M
8% KBA Net Assets	2	2.3 B	20.4 M
1% KBA Net Assets	3	1.4 B	21.8 M
	4	1.0 B	15.4 M
	5	762.2 M	15.7 M
	6	613.9 M	11.7 M
	7	503.8 M	8.0 M
	8	417.5 M	7.3 M
	9	357.8 M	6.7 M

Mainland China A-Share equities exhibit low correlation to other global markets.

As Emerging Markets (EM) have become more correlated with Developed Markets over the years, the diversification benefits of EM investing have largely diminished.

- Frontier Markets, countries whose stocks are less mature than those in EM, still have relatively low correlations with the rest of the world.
- Remarkably, China A-Shares exhibit an even lower correlation to the MSCI All Country World Index than Frontier Markets.

MSCI Indexes Correlation to MSCI China A Index

	ACWI	EAFE	EM	USA	China	Frontier	China A
ACWI	1	0.947	0.819	0.947	0.703	0.434	0.348
EAFE	0.947	1	0.798	0.811	0.679	0.433	0.319
EM	0.819	0.798	1	0.662	0.868	0.436	0.404
USA	0.947	0.811	0.662	1	0.568	0.383	0.299
China	0.703	0.679	0.868	0.568	1	0.373	0.596
Frontier	0.434	0.433	0.436	0.383	0.373	1	0.226
China A	0.348	0.319	0.404	0.299	0.596	0.226	1

- MSCI ACWI Index (ACWI) - All Country World Index
- MSCI EAFE Index (EAFE) - Europe, Australasia and Far East
- MSCI Emerging Markets Index (EM) - Emerging Markets
- The MSCI USA Index (USA) - United States of America
- MSCI China Index (China) - Chinese companies listed in Hong Kong & USA
- MSCI Frontier Markets Index (Frontier) - Frontier Markets
- MSCI China A Index (China A) - Chinese companies listed on Shanghai and Shenzhen Stock Exchanges

Source: Table from Bloomberg, weekly correlation from September 30, 2009 to September 30, 2019

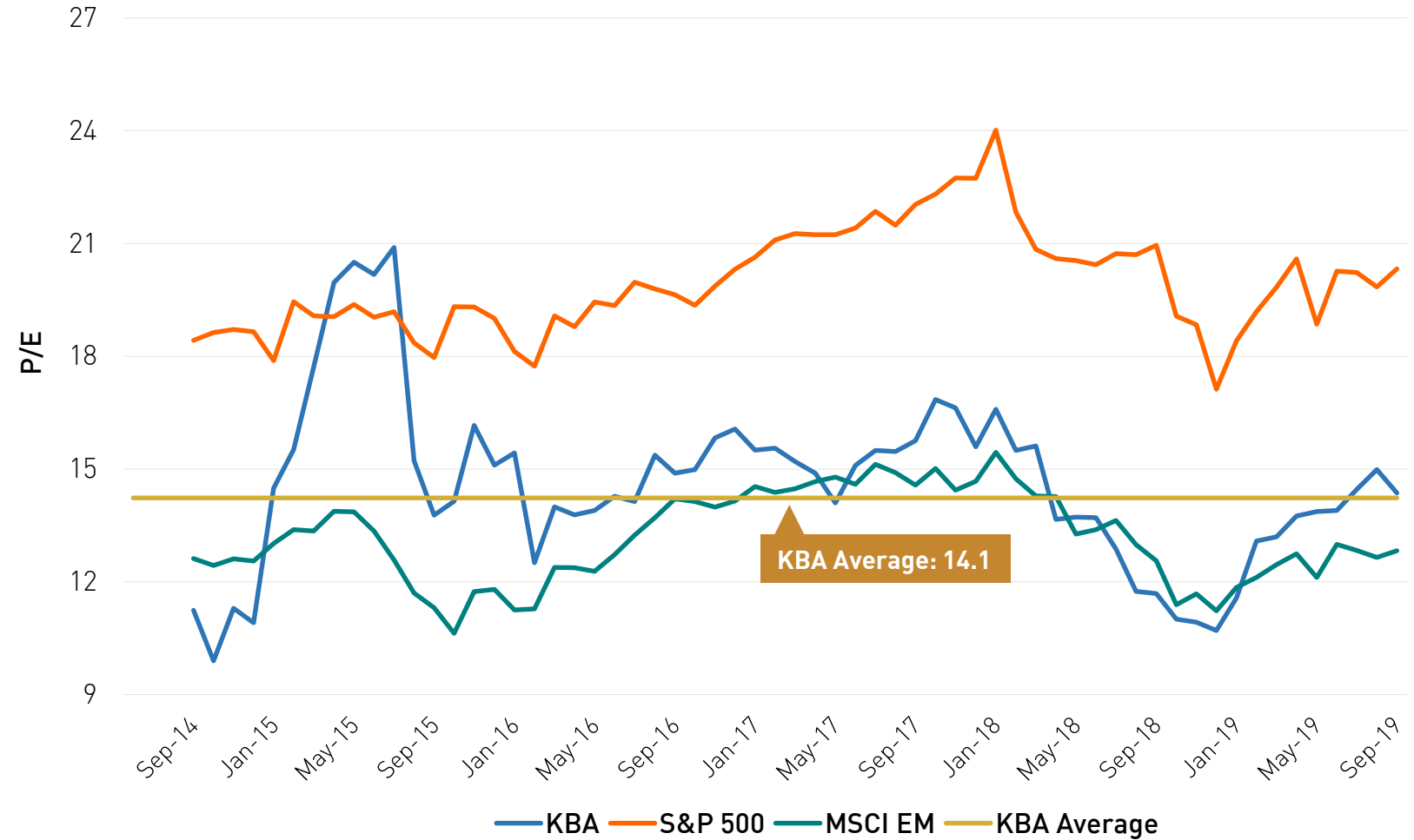
Index returns are for illustrative purposes only. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. See page 17 for index definitions.

Past performance is no guarantee of future results.

Current Valuations in the Mainland Chinese equity market are below their historic average.

KBA is currently close to its long run Price-Earnings (P/E)¹ average.

Price/Earnings Ratio of KraneShares Boserá MSCI China A Share ETF
 (since index start date 30/Sept/2014 - 30/Sept/2019)



Source: Morningstar as of 30/Sept/2019

¹The price-earnings ratio (P/E Ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings.

KraneShares MSCI China A Share UCITS ETF (LSE: KBA)

KraneShares MSCI China A Share UCITS ETF is "A sub fund of KraneShares ICAV (the "ICAV"). The ICAV is authorised as a UCITS in Ireland and regulated by the Central Bank of Ireland.

For Investors in the United Kingdom (UK). Investors should read the Key Investor Information Document and Prospectus prior to investing. The Fund seeks to track the performance of an index composed of companies from developed countries.

Investment Strategy:

KBA is benchmarked to the MSCI China A Index which captures large and mid-cap representation across China securities listed on the Shanghai and Shenzhen exchanges (A-shares). Over the coming years, MSCI will complete the incremental inclusion of China A-shares into their Global Standard Indexes, including the MSCI Emerging Markets Index, which may potentially benefit the securities KBA holds today. The MSCI China A Index is designed for global investors accessing the A-share market using the Stock Connect framework and is calculated using China A Stock Connect listings based on the offshore RMB exchange rate (CNH).

KBA Performance History as of 30/Sept/2019

	Cumulative %			Average Annualized %		
	3 Mo	6 Mo	Since KBA LN Inception 26/Jun/2019	1 Yr	3 Yr	5 Yr
Fund NAV	-2.93%	-	-2.08%	-	-	-
Index	-2.88%	-6.33%	-1.57%	-	-	-

Index returns are for illustrative purposes only and do not represent actual Fund performance. Index returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

Key Fund Information

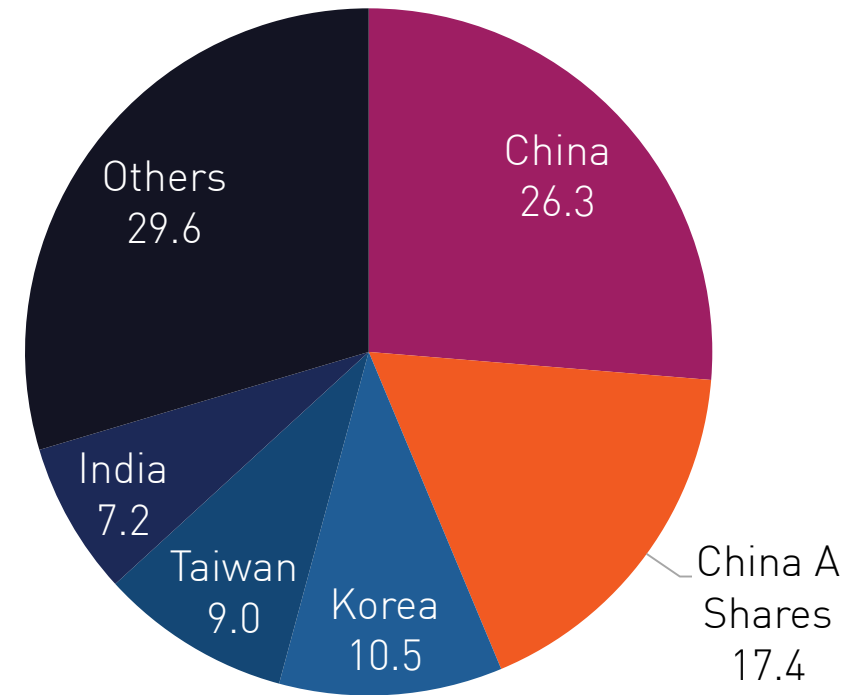
Exchange	London Stock Exchange
Management Fee	40bps
Listing Date	26/Jun/2019
Index Name	MSCI China A Index
Index Ticker	NU718708
ISIN Code	IE00BJLFK515
SEDOL	BJ9JTF8
UK Reporting Fund Status	Reporting Fund
Investment Structure	UCITS
Base Currency	USD
AUM	\$105.69mm

Top Ten Holdings as of 30/Sept/2019 The Fund's Holdings Are Subject to Change.	% of Fund
KWEICHOW MOUTAI CO LTD-A	5.98
PING AN INSURANCE GROUP CO-A	3.92
CHINA MERCHANTS BANK-A	3.01
WULIANGYE YIBIN CO LTD-A	2.08
CHINA YANGTZE POWER CO LTD-A	1.63
INDUSTRIAL BANK CO LTD -A	1.50
JIANGSU HENGRUI MEDICINE C-A	1.47
SHANGHAI PUDONG DEVEL BANK-A	1.44
HANGZHOU HIKVISION DIGITAL-A	1.26
IND & COMM BK OF CHINA-A	1.22

Conclusion:

- On June 1, 2018, MSCI commenced the multi-year process of including China A-Shares into their Global Standard Indexes.
- This rebalance has triggered what may be one of the largest asset transfers in recent history, causing hundreds of billions of dollars to be reallocated to China A-Share securities KBA holds today.
- We believe full inclusion could take up to five years, potentially providing a sustained catalyst for the performance of China's Mainland market.

Potential Full Inclusion of China A-Shares Within the MSCI Emerging Markets Index



Source: MSCI, "China and the future of equity allocations", June 2019.

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.

CSI 300 Index: consists of the 300 largest and most liquid A-share stocks. The Index aims to reflect the overall performance of China A-share 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.

This information is being communicated by KraneShares, which is an appointed representative of DMS Capital Solutions UK Limited, which is authorised and regulated by the Financial Conduct Authority in the United Kingdom under the reference number 503325.

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 Boserá 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.

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.

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