

# ESG Investing in China: A Positive Impact on the Planet and Portfolios

Overview of the KraneShares MSCI  
China ESG Leaders UCITS ETF  
(ticker: KESG)

[info@kraneshares.com](mailto:info@kraneshares.com)





# Introduction to KraneShares

## About KraneShares

Krane Funds Advisors, LLC is the investment manager for KraneShares ETFs. The firm is focused on providing investors with strategies to capture China's importance as an essential element of a well-designed investment portfolio. KraneShares ETFs represent innovative, first to market strategies that have been developed based on the firm and its partners' deep knowledge of investing. These strategies allow investors to stay current on global market trends and provide meaningful diversification.

In 2019, KraneShares established a London headquarters to better deliver its renowned China-focused ETFs to European investors. In addition to launching Europe-specific versions of its most popular US-listed funds, KraneShares also develops strategies tailored to meet the specific needs of its European clients.





**KraneShares MSCI  
China ESG Leaders  
UCITS ETF**

### Investment Strategy:

KESG seeks to track the MSCI China ESG Leaders 10/40 Index. The MSCI China ESG Leaders 10/40 Index aims to provide exposure to companies with high Environmental, Social and Governance (ESG) ratings relative to their sector peers. The MSCI China ESG Leaders 10/40 Index consists of large and mid-cap companies in China. In order to ensure diversification, the Index is designed to limit individual constituent weights to 10% and sector weights to 40% of its composition.

### China's ESG Highlights:

- Chinese domestic investors and issuers are moving fast to incorporate ESG considerations in their decision making, driven by strong regulatory initiatives to promote ESG practices and disclosures.
- China's commitment to stricter environmental mandates and conservation efforts is necessary to achieve national goals of sustained economic growth. Consequently, China now is the world leader in total renewable energy capacity, at approximately 30% of total global capacity<sup>1</sup>.
- China's economic and technological transformation drives demand for a more educated workforce. In recent years, many Chinese companies in knowledge-intensive sectors have improved their talent programs, which has in turn upgraded their MSCI ESG Rating.
- Greater inclusion of China's capital markets internationally creates more of an incentive to align shareholder rights and governance policies with global standards, paving the way for Chinese companies to develop a more diversified shareholder structure.

### KESG Features:

- MSCI China ESG Leaders 10/40 Index inclusion criteria has a track record of effectively identifying growth companies within China's new economy.
- As companies with high ESG scores have proven to consistently outperform their peers in China, investors do not necessarily have to compromise returns for investing based on beliefs.
- Benchmarked to an MSCI ESG Index: MSCI is the #1 index provider for ESG, Socially Responsible Investment (SRI), and Corporate governance indexes according to a 2018 survey of 1,300 participants conducted by SRI Connect and Extel.

## What is ESG investing?

ESG focused investing determines portfolio allocation based on environmental, social, and corporate governance standards. Sustainable and responsible business practices can have a positive impact on corporate revenues and the planet.



### Environmental

The environmental component consists of adherence to more sustainable measures. Companies that implement the following initiatives typically receive a higher “E” score:

- Energy efficiency
- Natural resource conservation
- Greenhouse gas emission reduction
- Waste management



### Social

The social component considers relations of people within the company as well as society at large. Companies that implement the following initiatives typically receive a higher “S” score:

- Product safety testing
- Employee training programs
- Employment benefits programs
- Social justice involvement



### Governance

The governance component refers to corporate structure and corporate behavior within the company. Companies that implement the following initiatives typically receive a higher “G” score:

- Good business ethics
- Transparent governance structure
- Separation of ownership and management
- A diversified board

## What is the ESG Investment Philosophy?

- ESG based investments allow investors to better tailor their portfolios to reflect their own values.
- Additionally, companies with strong ESG profiles may be better positioned for long term sustained growth. A case study by Harvard Business Review showed that<sup>1</sup>:
  - 90% of participating companies demonstrated that strong ESG standards reduces the cost of capital.
  - 88% concluded that ESG practices translate into better operational performance.
  - 80% showed stock price performance is positively correlated with sustainable practices.
  - ESG investments also experience less volatility from instances of bribery, corruption, and fraud<sup>2</sup>.

### Business Involvements that May Not Align with Investor Values



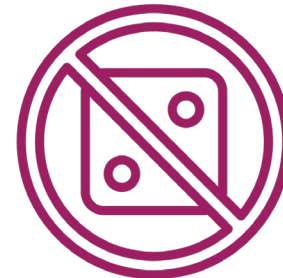
Pollution



Tobacco



Firearms

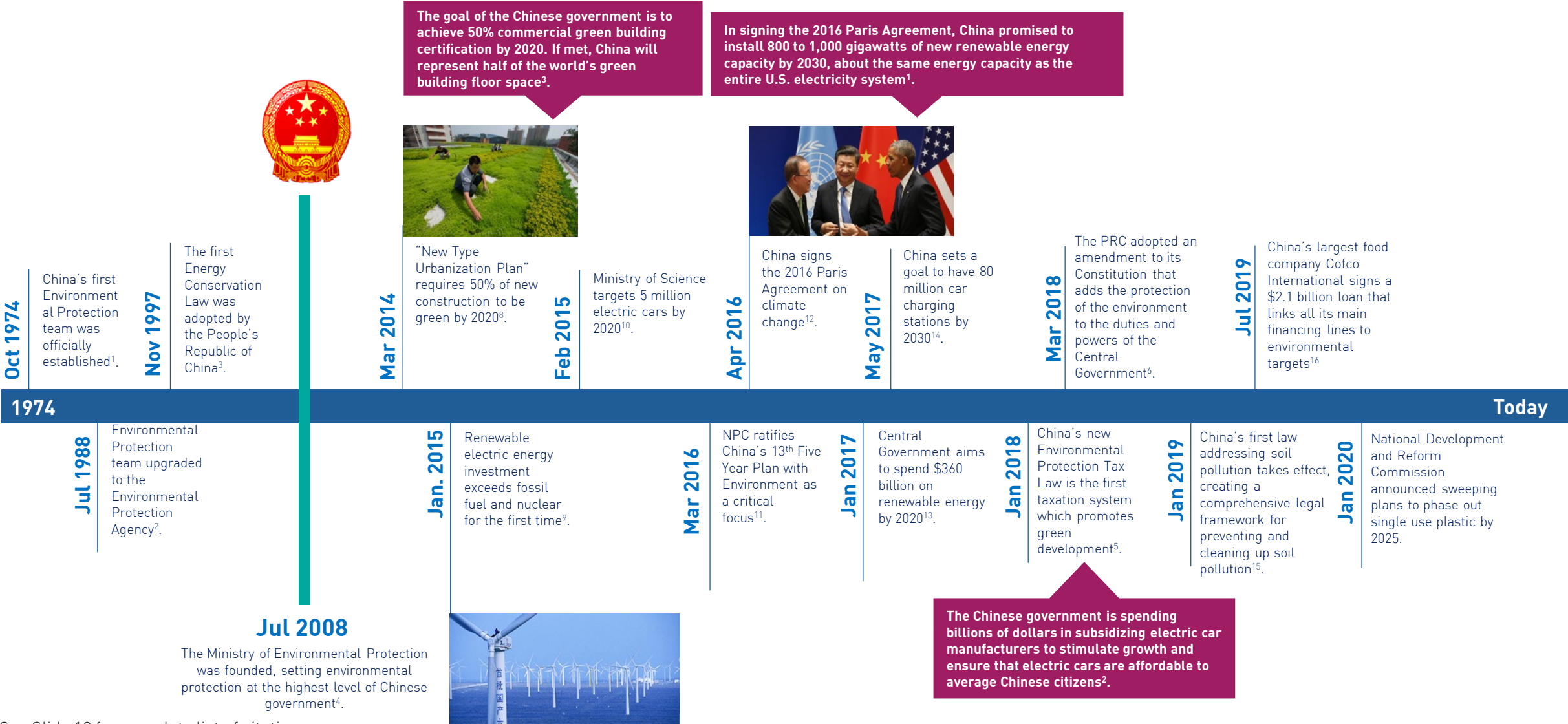


Gambling

<sup>1</sup> Harvard Business Review, "The Comprehensive Business Case for Sustainability," as of 21/Oct/2016.

<sup>2</sup> MSCI ESG Investing

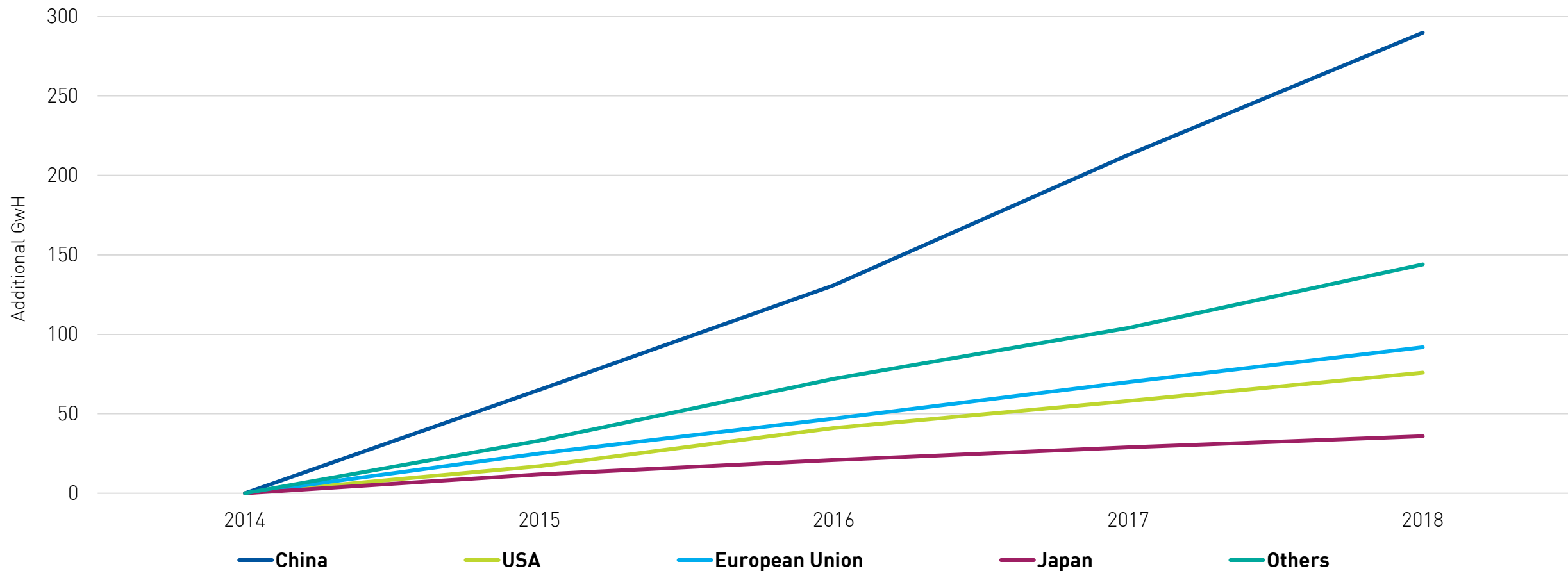
# The Chinese government has made ESG a top priority over the past decade.



See Slide 18 for complete list of citations.

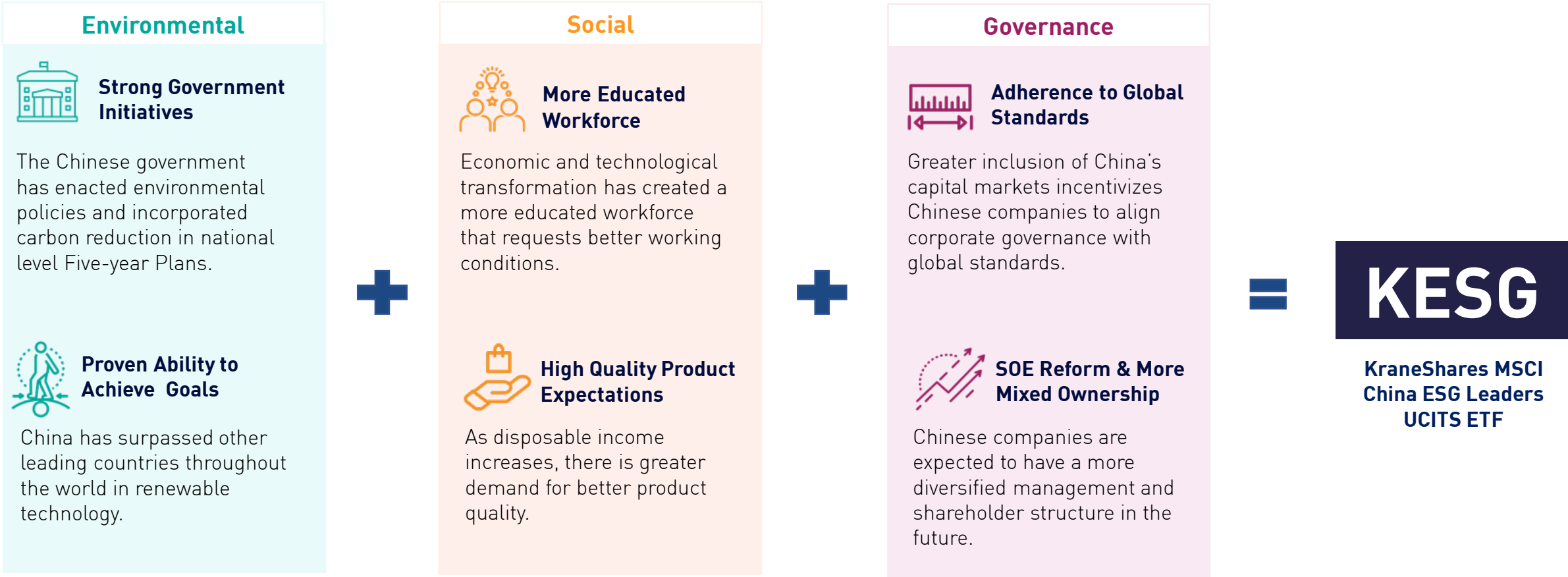
China has also outpaced other world leaders in growth of electric power capacity from renewable technologies.

Annual Growth of Electric Power Capacity From Renewable Technologies



Data from International Energy Agency as of 31/Dec/2018. Retrieved on 30/Jun/2020.

# ESG is an effective filter for selecting companies that best adhere to China's future plans for development.

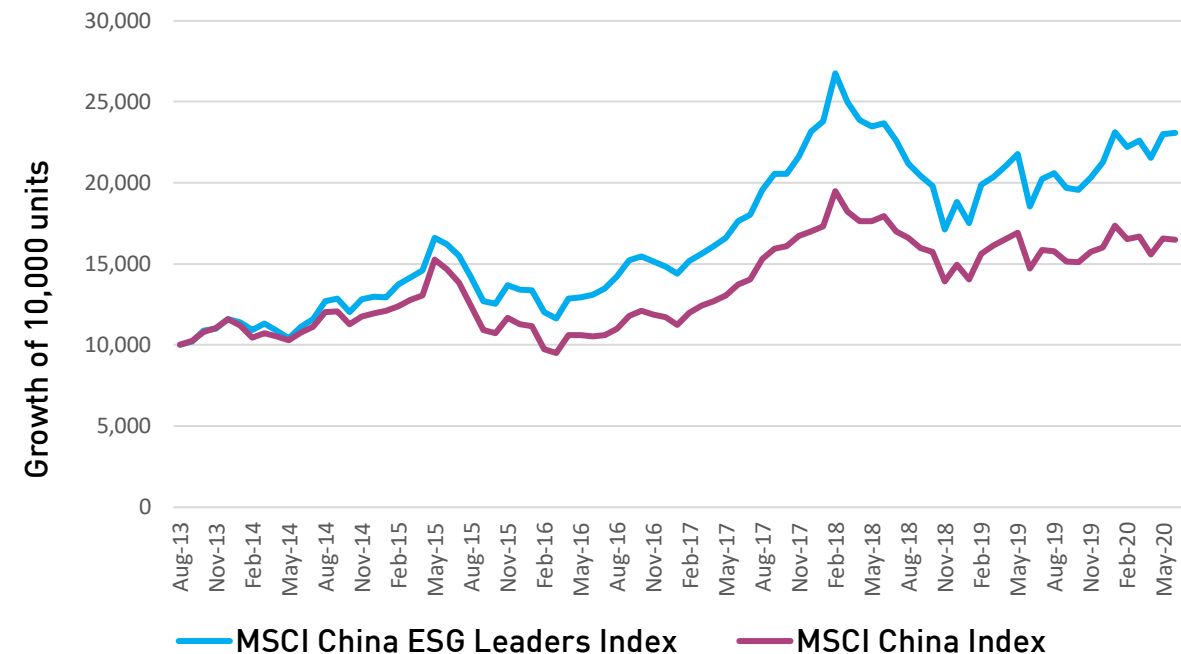




## The MSCI China ESG Leaders Index is an effective tool to identify top performing stocks in China.

- Since its inception in July 2013, the MSCI China ESG Leaders Index has outperformed the MSCI China Index by 76%.
- The annualized returns of the MSCI China ESG Leaders Index have also been greater than the MSCI China Index with similar volatility.

China ESG Leaders vs. Broad China



Annualized Return and Volatility <sup>1</sup>

	Annualized Return			Annualized Volatility		
	1-Year	5-Year	Since Inception	1-Year	5-Year	Since Inception
MSCI China ESG Leaders Index	26.02%	10.51%	14.50%	17.52%	21.98%	20.49%
MSCI China Index	13.13%	5.32%	8.83%	17.45%	21.76%	19.94%

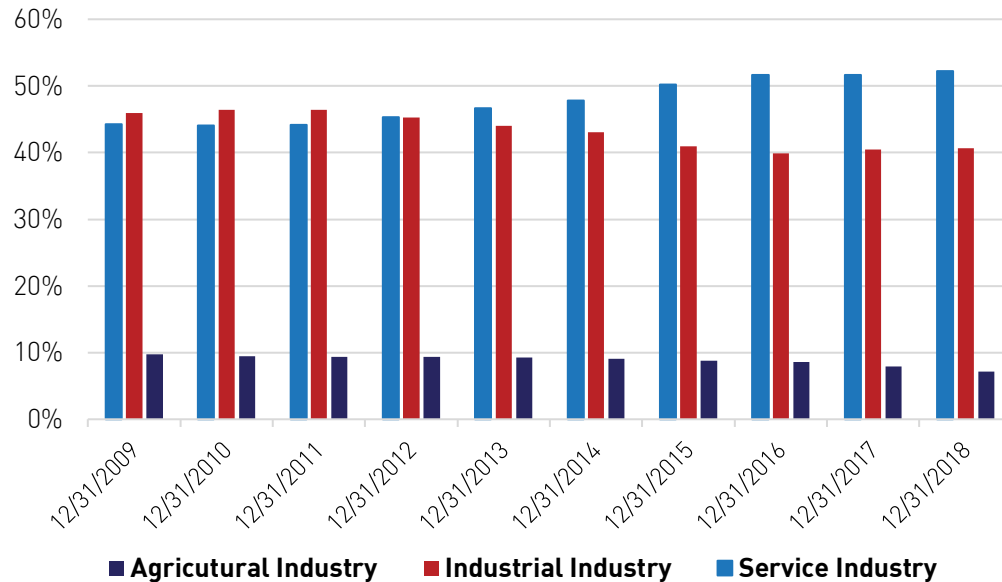
Index returns are for illustrative purposes only and do not represent actual Fund performance. Index returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results. For actual fund performance visit our website [www.kraneshares.eu](http://www.kraneshares.eu).

<sup>1</sup> Data from Bloomberg as of 30/Jun/2020. See slide 19 for index definitions.

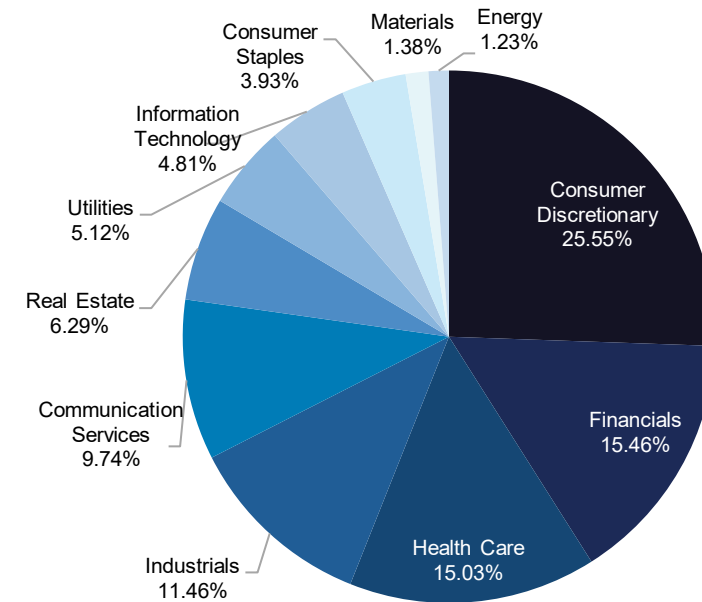
## The KraneShares MSCI China ESG Leaders UCITS ETF (ticker: KESG) reflects China's shift toward a service-oriented “New China”.

- In 2013, the services sector surpassed the industrial sector as the largest contributor to China's GDP for the first time.
- KESG tracks the MSCI China ESG Leaders 10/40 Index. With high exposure to Consumer Discretionary, Health Care and Communication Services, the Index and KESG effectively capture the growth sectors of the “New China”.

**China GDP Breakdown<sup>1</sup>**  
(2009 - 2018)



**KESG Sector Distribution<sup>2</sup>**

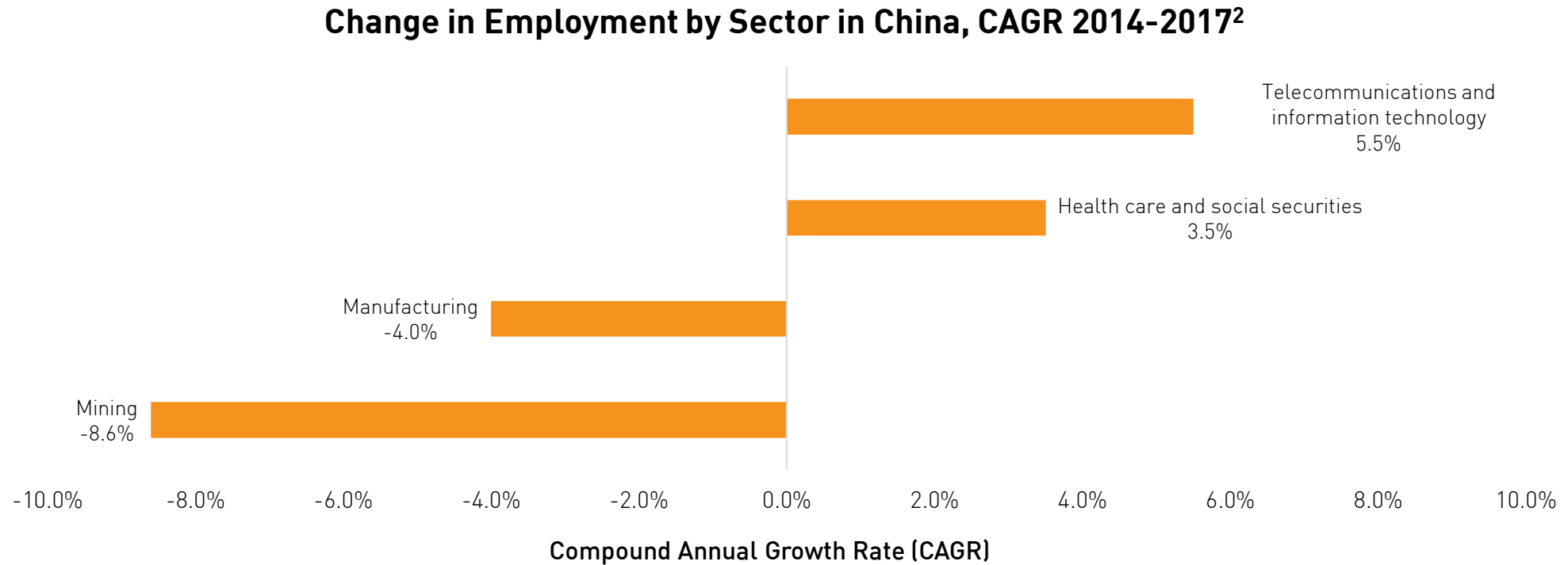


<sup>1</sup>Data from Bloomberg as of 31/Dec/2018. Retrieved on 30/Jun/2020.

<sup>2</sup>Data from Bloomberg as of 30/Jun/2020.

## “New China” sectors are transforming China’s employment practices and driving economic growth.

- Service-oriented, “New China” sectors have been rapidly creating jobs in China.
- From 2014 to 2017, the telecommunications, information technology and health care sectors saw consistent employment growth while manufacturing and mining shrank.
- Across this same time period, the average nominal wage in China nearly doubled<sup>2</sup>.

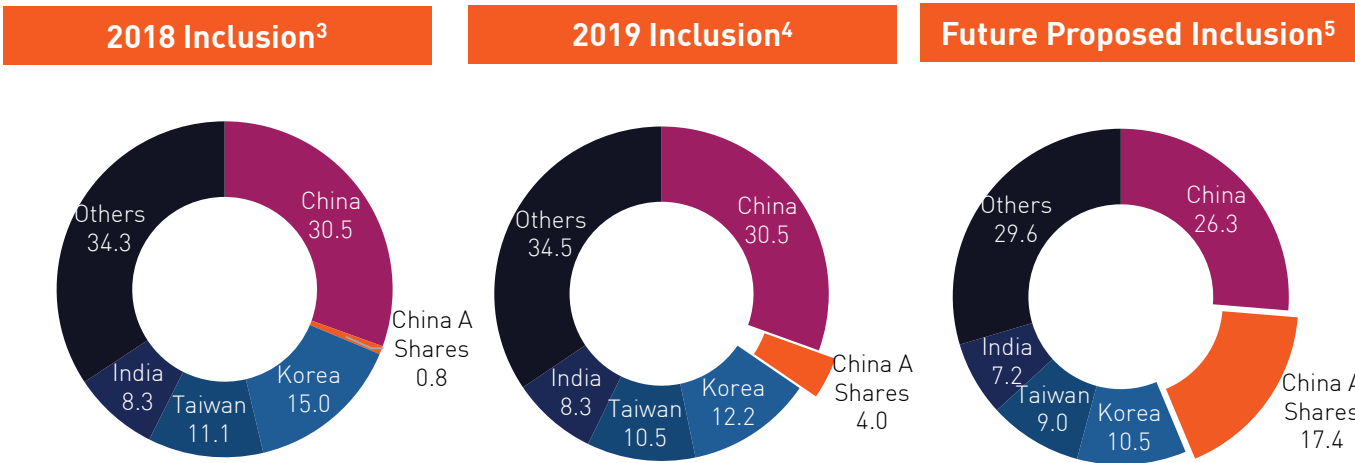


1. South China Morning Post, “What China can teach about wage growth, as workers globally continue to get a raw deal.”, 12/Dec/2018.  
 2. National Bureau of Statistics of China, CAGR 2014-2017, retrieved on 30/Jun/2020

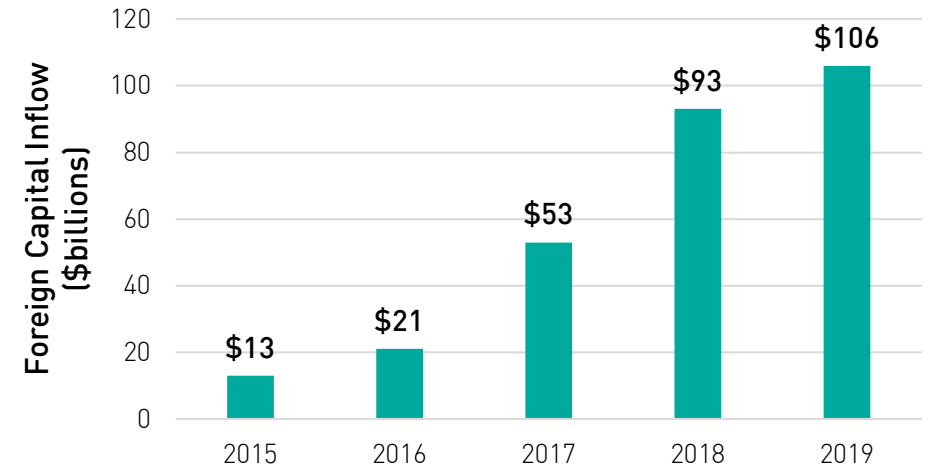
## International investors encourage further growth in China's ESG development.

- ESG investment is increasing rapidly; current estimates place total ESG investments at over \$20 trillion in assets under management (AUM).<sup>1</sup>
- International investors now have more exposure to China's capital markets as a result of the China A-Share inclusion to MSCI's Global Standard Indexes.
- Domestic and foreign investors are pushing for better Chinese ESG practices and policies now that they are more heavily invested in China.

### China A-Share Inclusion in MSCI EM



### Annual Foreign Capital Net Inflow Via Hong Kong, Shenzhen, and Shanghai Stock Connect<sup>2</sup>



<sup>1</sup> Forbes, "The Remarkable Rise of ESG.", 11/July/2019.

<sup>2</sup> MSCI ESG Reach LLC, "China Through an ESG Lens," September 2019.

<sup>3</sup> MSCI.com/China, retrieved on 30/Jun/2020

<sup>4</sup> "MSCI Will Increase The Weight Of China A Shares In MSCI Indexes" MSCI, Feb. 2019, retrieved on 30/Jun/2020

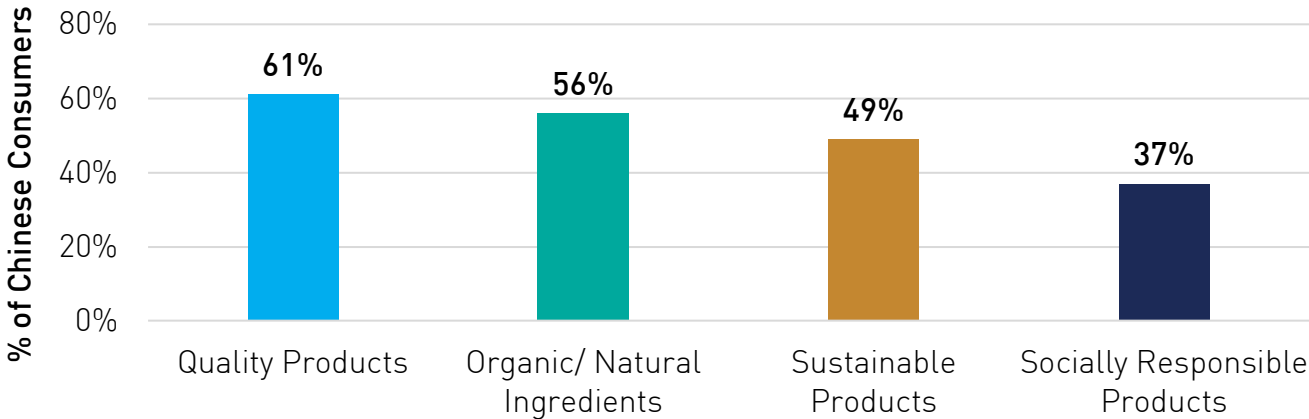
<sup>5</sup> MSCI, "China and the future of equity allocations", June 2019, retrieved on 30/Jun/2020



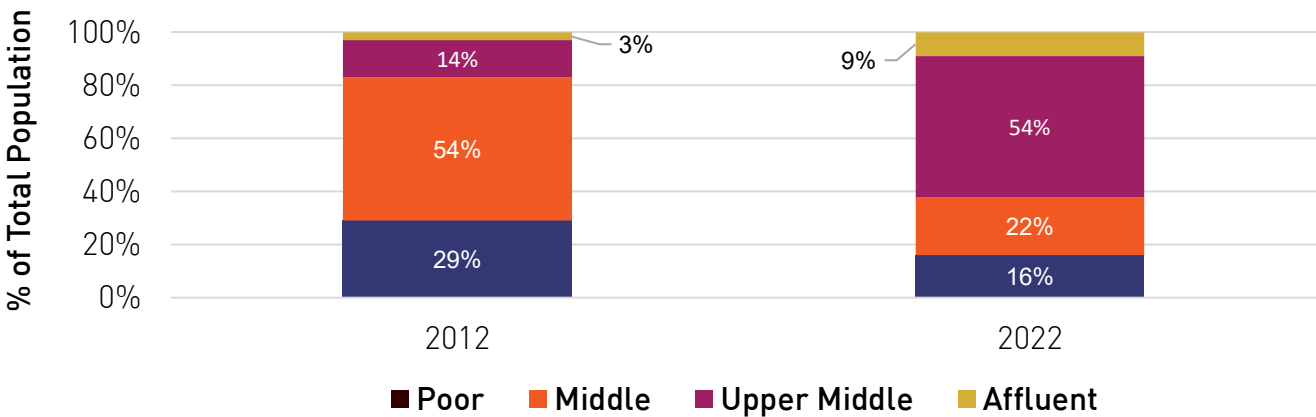
# The Chinese consumer's focus on sustainability is also driving more Chinese companies to adopt ESG practices.

- Global trends show that as a consumer's disposable income increases, their demand for more sustainable products also increases.
- At present, 61% of Chinese consumers show a strong preference for quality products, which is considerably higher than the global rate of 49%.<sup>1</sup>
- With the Chinese population becoming more health and safety conscious, their affinity for quality products is becoming stronger. These better-quality products are also desirable because they are an expression of status.<sup>1</sup>
- As the Chinese middle-class continues to expand and disposable income increases, demand for ESG focused companies is projected grow.

2019 Nielson Report on Chinese Consumer Preferences<sup>1</sup>



China's Growing Middle Class<sup>2</sup>



<sup>1</sup> Nielson, "61% of Chinese Consumers Choose premium products because of superior quality." 01/Apr/2019.

<sup>2</sup> Mckinsey 2016 Consumer Report, "The Modernization of the Chinese Consumer." March 2016.

## The Top 10 Holdings of KESG are actively furthering their ESG initiatives.

Top 10 Holdings (As of 30/Jun/2020)	Company logo	Ticker	% Weight	Company ESG Highlights
MEITUAN DIANPING-CLASS B		3690 HK	10.23	Meituan Dianping launched the Blue Mountain Project in 2017, which encourages merchants and consumers to use recycled food packaging. <sup>7</sup>
TENCENT HOLDINGS LTD		700 HK	9.44	Tencent uses energy saving measures in their offices in Beijing, including an optimized air conditioning system and building management system. <sup>3</sup>
CHINA CONSTRUCTION BANK-H		939 HK	8.48	China Construction Bank actively supports low-carbon transformation by giving green loans of 1 trillion RMB, equivalent to 69 million tons of CO2 emissions. <sup>1</sup>
ALIBABA GROUP HOLDING-SP ADR		BABA US	8.33	Alibaba uses renewable energy and water-efficient systems to makes their data centers more environmentally friendly. <sup>2</sup>
CHINA MERCHANTS BANK-H		3968 HK	3.98	China Merchants Bank has invested nearly 117 million RMB to facilitate local poverty alleviation in counties in Yunnan Province, China. <sup>4</sup>
WUXI BIOLOGICS CAYMAN INC		2269 HK	3.35	Wuxi Biologics has continuous on-the-job training to accelerate the learning progress and improve the knowledge and skill levels of its workforce. <sup>9</sup>
SINO BIOPHARMACEUTICAL		1177 HK	2.86	Sino Biopharmaceutical works with industrial elites to promote the development of social responsibility in the healthcare industry and make the Group a respected corporate citizen in the industry. <sup>10</sup>
CHINA OVERSEAS LAND & INVEST		688 HK	2.54	China Overseas Land and Investment Co. carries out quantitative quality inspections and risk checkpoint monitoring for all of their products. <sup>5</sup>
CSPC PHARMACEUTICAL GROUP LT		1093 HK	2.38	CSPC maintains high standards through comprehensive quality inspection and product recall management. <sup>6</sup>
CHINA MENGNIU DAIRY CO		2319 HK	2.20	China Mengniu Dairy's joint venture with WhiteWave Foods in 2013 has helped to develop their plant-based dairy production. <sup>8</sup>

## MSCI China ESG Leaders 10/40 Index Constituent Selection Process



## KESG is benchmarked to an MSCI index – MSCI is the world's largest provider of ESG indexes and research.<sup>1</sup>

MSCI is committed to determining which companies best match their ESG criteria



**#1** for SRI<sup>3</sup> Research,  
Corporate Governance  
and ESG Indexes  
as voted by

**1,300**

participants of the SRI Connect and  
Extel Survey,

over

**\$85bn**

in assets are benchmarked to  
MSCI ESG Indexes<sup>2</sup>



**99 of top 100**  
global investment  
managers are  
MSCI clients<sup>2</sup>

<sup>1</sup> By number of indexes and by assets tracking the indexes compared with publicly available information produced by FTSE and S&P Dow Jones

<sup>2</sup> As of March 2018, based on Bloomberg, Morningstar and MSCI data. Active AUM includes data as of December, 2017 reported in March, 2018 by eVestment. Data excludes mandate or policy benchmark related assets.

<sup>3</sup> 'SRI' - Socially Responsible Investment.



## KraneShares MSCI China ESG Leaders ETF (ticker: KESG)

KESG seeks to track the MSCI China ESG Leaders 10/40 Index. The MSCI China ESG Leaders 10/40 Index is a capitalization weighted index that provides exposure to companies with high Environmental, Social and Governance (ESG) ratings relative to their sector peers. MSCI China ESG Leaders 10/40 Index consists of large and mid-cap companies in China. In order to ensure diversification, the Index is designed to limit individual constituent weights to 10% and sector weights to 40% of its composition.

### Key Fund Information

Exchange	London Stock Exchange
Management Fee	0.40%
Listing Date	3 Feb 2020
Index Name	MSCI China ESG Leaders 10/40 Index
Index Ticker	MXCNEL40 Index
ISIN Code	IE00BKPT4N29
SEDOL	BJVRFQ3
UK Reporting Fund Status	Reporting Fund
Investment Structure	UCITS
Base Currency	USD

Top Ten Holdings as of 30/Jun/2020 The Fund's Holdings Are Subject to Change.	%
MEITUAN DIANPING-CLASS B	10.23
TENCENT HOLDINGS LTD	9.44
CHINA CONSTRUCTION BANK-H	8.48
ALIBABA GROUP HOLDING-SP ADR	8.33
CHINA MERCHANTS BANK-H	3.98
WUXI BIOLOGICS CAYMAN INC	3.35
SINO BIOPHARMACEUTICAL	2.86
CHINA OVERSEAS LAND & INVEST	2.54
CSPC PHARMACEUTICAL GROUP LT	2.38
CHINA MENGNIU DAIRY CO	2.20

### KESG Performance History as of 30/Jun/2020

	Cumulative %			Average Annualized %		
	3 Mo	6 Mo	Since Inception	1 Yr	3 Yr	Since Inception
Fund NAV	17.05%	–	9.84%	–	–	9.84%
Index	17.56%	–	10.88%	–	–	10.88%

The performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than their original cost and current performance may be lower or higher than the performance quoted. For performance data current to the most recent month end, please visit [www.kraneshares.eu](http://www.kraneshares.eu)

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.

**Slide 7 List of Citations:**

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6. Library of Congress, "China: 2018 Constitutional Amendment Adopted", May 18, 2018.
7. International Energy Agency, Policies and Measures of China, Wind Power Technology Development 12<sup>th</sup> Five Year Special Planning. Oct. 31, 2013.
8. Ernst & Young, "China: Planning for an urban future".
9. REN21 Renewables Global Status Report 2016.
10. Sino Biopharmaceutical Limited , "Environmental, Social, and Governance Report". 2018
11. Central Committee of the Communist Party of China, "The 13<sup>th</sup> Five Year Plan for Economic and Social Development of the People's Republic of China, 2016-2020".
12. United Nations Framework Convention on Climate Change, Paris Agreement – Status of Ratification. Nov. 4, 2016.
13. New York Times, "China Aims to Spend at Least \$360 Billion on Renewable Energy by 2020." Jan. 5, 2017.
14. Supchina, "Electric vehicles now 1.2 percent of car market in China." May 26, 2017.
15. Global Compliance News, "China's new Law on the Prevention and Control of Soil Pollution imposes new obligations on enterprises and landowners", October 16, 2018.
16. Bloomberg News, "Chinese Food Giant Raises \$2.1 Billion in Country's First Sustainability Loan." July 16, 2019.

**Slide 15 List of Citations:**

- 1.China Construction Bank Corporation Corporate Social Responsibility Report 2018, retrieved on 31/Dec/2019.
- 2.Alibaba Group ESG Report 2018, retrieved on 31/Dec/2019.
- 3.Tencent Holdings Limited 2018 Annual Report, retrieved on 31/Dec/2019.
- 4.2018 China Merchants Bank Corporate Social Responsibility Report, retrieved on 31/Dec/2019.
- 5.China overseas Land & Investment LTD. 2018 Environmental, Social and Governance Report, retrieved on 31/Dec/2019.
- 6.CSPC Pharmaceutical Group Corporate Social Responsibility Report2017, retrieved on 31/Dec/2019.
- 7.Meituan 2018 Corporate Social Responsibility Report, retrieved on 31/Dec/2019.
- 8.WhiteWave Foods Press Release, "The WhiteWave Foods Company to Form Joint Venture with China Mengniu Dairy Company", January 2013.
- 9.Wuxi Biologics, "2019 Annual Report", 31/Dec/2019.
- 10.Geely, "2018 Social Responsibility Report", June 2018.

## Index Definitions:

**MSCI China Index:** The index captures large and mid-cap representation across offshore listings of Chinese companies in the form of H shares, B shares, Red chips, P chips, and foreign listings such as ADRs. With 447 constituents, the index covers about 85% of this China equity universe. Currently, the index also includes Large Cap A shares, represented at 2.5% of their free float adjusted market capitalization. Inception date: Jan 1, 2001.

**MSCI Emerging Markets Index:** MSCI Emerging Markets Index captures large and mid cap representation across 23 Emerging Markets (EM) countries. With 834 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Inception date: Jan 1, 2001.

**MSCI China ESG Leaders Index:** is a capitalization weighted index that provides exposure to companies with high Environmental, Social and Governance (ESG) performance relative to their sector peers. MSCI China ESG Leaders Index consists of large and mid-cap companies in Chinese markets. Inception date: Jul 12, 2013.

**MSCI China ESG Leaders 10/40 Index:** aims to provide exposure to companies with high Environmental, Social and Governance (ESG) performance relative to their sector peers. The MSCI China ESG Leaders 10/40 Index consists of large and mid-cap companies in China. The Index is designed and maintained on a daily basis to take into consideration the 10% and 40% concentration constraints on funds subject to the UCITS III Directive. Inception date: Nov. 8, 2019.

**MSCI EM Asia ESG Leaders Index:** is a capitalization weighted index that provides exposure to companies with high Environmental, Social and Governance (ESG) performance relative to their sector peers. MSCI EM Asia ESG Leaders Index consists of large and mid-cap companies across 9 Emerging Markets (EM) countries including China, India, Indonesia, Korea, Malaysia, Pakistan, the Philippines, Taiwan and Thailand. Inception date: Jul 12, 2013.

## 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.eu](http://www.kraneshares.eu). 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.

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.

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.

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For additional fund documentation, please visit [www.DMSGovernance.com](http://www.DMSGovernance.com)