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July 21, 2021

KraneShares

A Tutorial on Carbon Credit Allowances

Luke Oliver

KraneShares

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KraneShares[™]

CLIFI
CLIMATE FINANCE PARTNERS

A Tutorial on Carbon Credit Allowances

Wednesday, July 21, 2021

12:00 pm - 1:00 pm EDT



Luke Oliver
Head of Strategy
KraneShares



About KraneShares and Partners for the first global carbon ETF (KRBN)

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 a signatory of the United Nations-supported Principles for Responsible Investing (UN PRI). The firm is majority owned by China International Capital Corporation (CICC).



About Climate Finance Partners

KRBN is sub-advised by Climate Finance Partners (CLIFI). CLIFI delivers innovative climate finance solutions and investment products to address capital needs for emerging environmental challenges. CLIFI is led by a team of investment professionals with deep experience in the fields of traditional investment and environmental finance.



About IHS Markit

KRBN's index was created by IHS Markit, global index provider and three-time winner of Index Product Creator & Developer of the Year. IHS Markit brings together the deepest intelligence across the widest set of capital-intensive industries and markets, including leading positions in energy and green finance.

“One of the most powerful ways to reduce emissions... is to move toward carbon pricing that puts basic, free-market economics to work.”

– Secretary of State, John Kerry

“I’m a Republican. I believe that the greenhouse effect is real, that CO₂ emissions generated by man is creating our greenhouse gas effect that traps heat, and the planet is warming. A price on carbon—that’s the way to go in my view.”

– Senator Lindsey Graham

“My position is unchanging and unequivocal: international carbon markets— that put a price on carbon— are absolutely crucial if we’re to have any chance of stabilizing global temperature rise and avoid runaway climate change.”

– UN Climate Change Executive Secretary, Patricia Espinosa

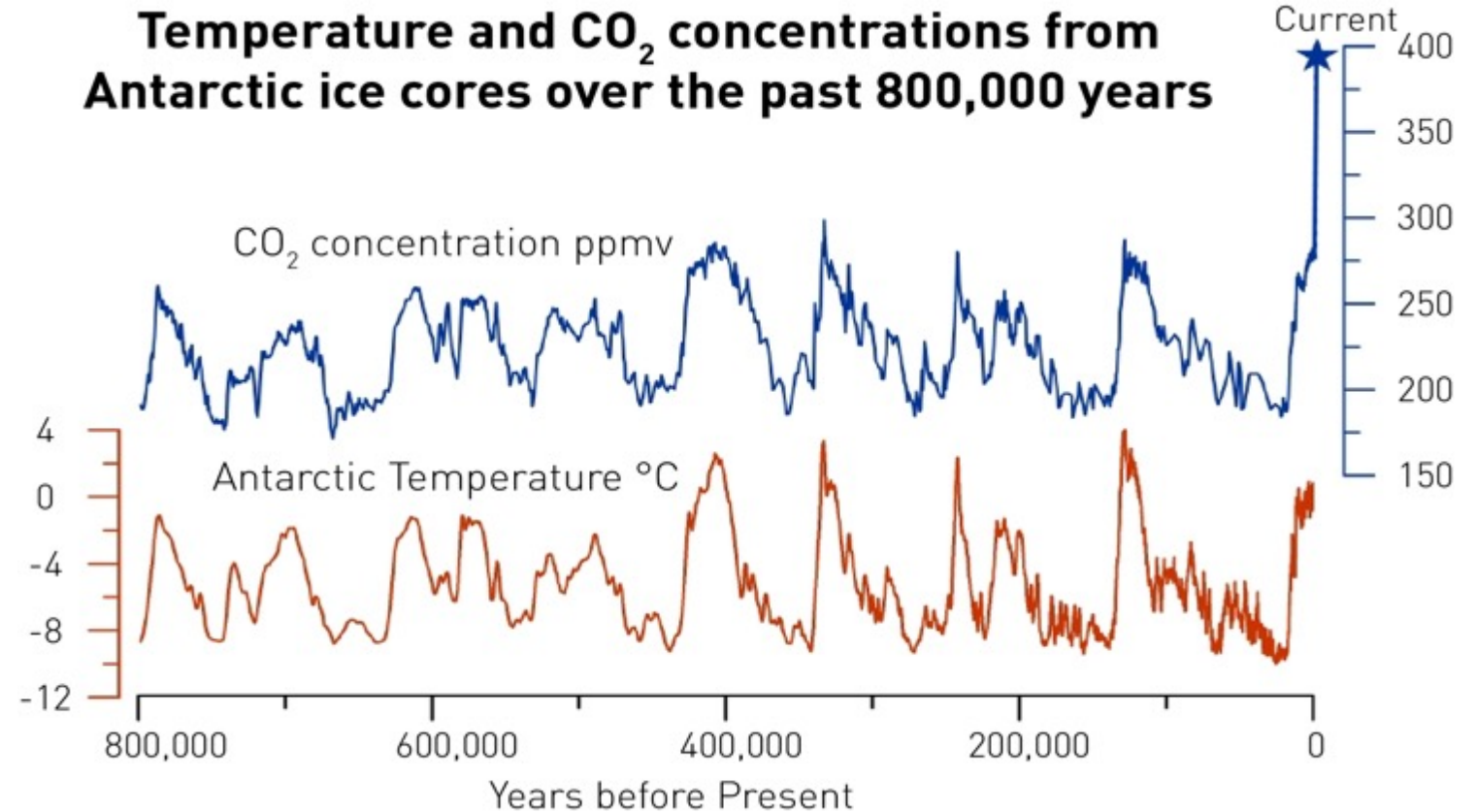


Secretary of State John Kerry, with his two-year-old granddaughter on his lap, signs the Paris Agreement on Climate Change on April 22, 2016 at the United Nations headquarters in New York.

A climate change crisis? A key indicator is signaling a million-year anomaly...

Scientists are confident that humans are the primary cause of climate change:

- According to the Fourth National Climate Assessment, the US government's official report on the impact of climate change:
 - Many independent lines of evidence support the finding that human activities are the dominant cause of recent (since 1950) climate change.
 - Atmospheric carbon dioxide (CO₂) levels have increased from approximately 270 parts per million by volume (ppmv) during preindustrial times to the current 408 ppmv observed in levels that exceed any observed over the past 800,000 years.
 - A 40% increase in atmospheric CO₂ levels since the Industrial Revolution is due mainly to human activities (primarily the combustion of fossil fuels).



Using Antarctic ice cores scientists can measure past concentrations of gases in the atmosphere. Antarctic ice cores contain distinct layers from snowfall accumulated over thousands of years. Using the air captured in the layers, scientists measure historic atmospheric concentrations.

How emissions trading systems work to reduce carbon emissions

- Economists generally believe if there is an appropriate price of carbon emissions, the free market may optimally adjust to provide the best mix of goods and services while accounting for environmental damage caused by pollution from carbon emissions.¹

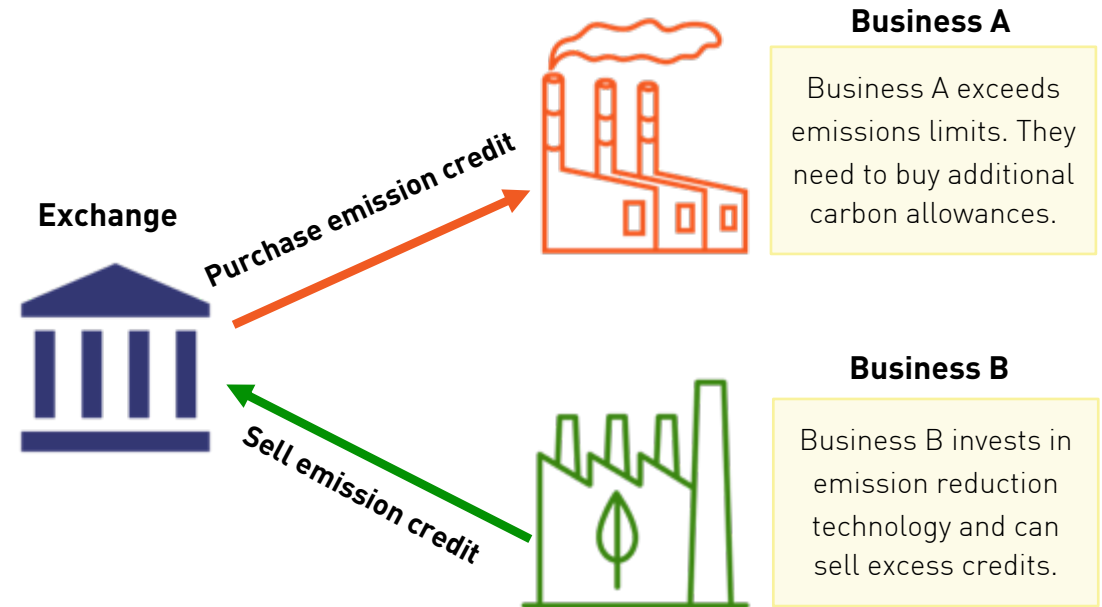
Mechanics of Emissions Trading Systems (ETS)

- A carbon Emissions Trading Systems (ETS), also referred to as Cap and Trade, is a market for trading carbon allowances which are regulated by governmental organizations such as the European Union Emissions Trading System (EUA), the California Cap and Trade (CCA) and the Regional Greenhouse Gas Initiative (RGGI). The price of carbon is driven by emissions limits and the number of carbon allowances within circulation. A regulated entity must comply with emissions limits within its jurisdiction by buying carbon allowances. Emissions Trading Systems (ETS) create a price for the negative impact of carbon emissions while incentivizing investment into cleaner technology.

Characteristics of Top 3 Emissions Trading Systems

Regional Bodies	European Union ETS	California Cap and Trade	Regional Greenhouse Gas Initiative (RGGI)
Logo			
# of Entities ¹	11,000+	450	165
Exchanges*			
Entity examples	Power plants, industrial plants and refineries, transportation and agricultural businesses. Sector coverage continues to expand as these exchanges mature.		

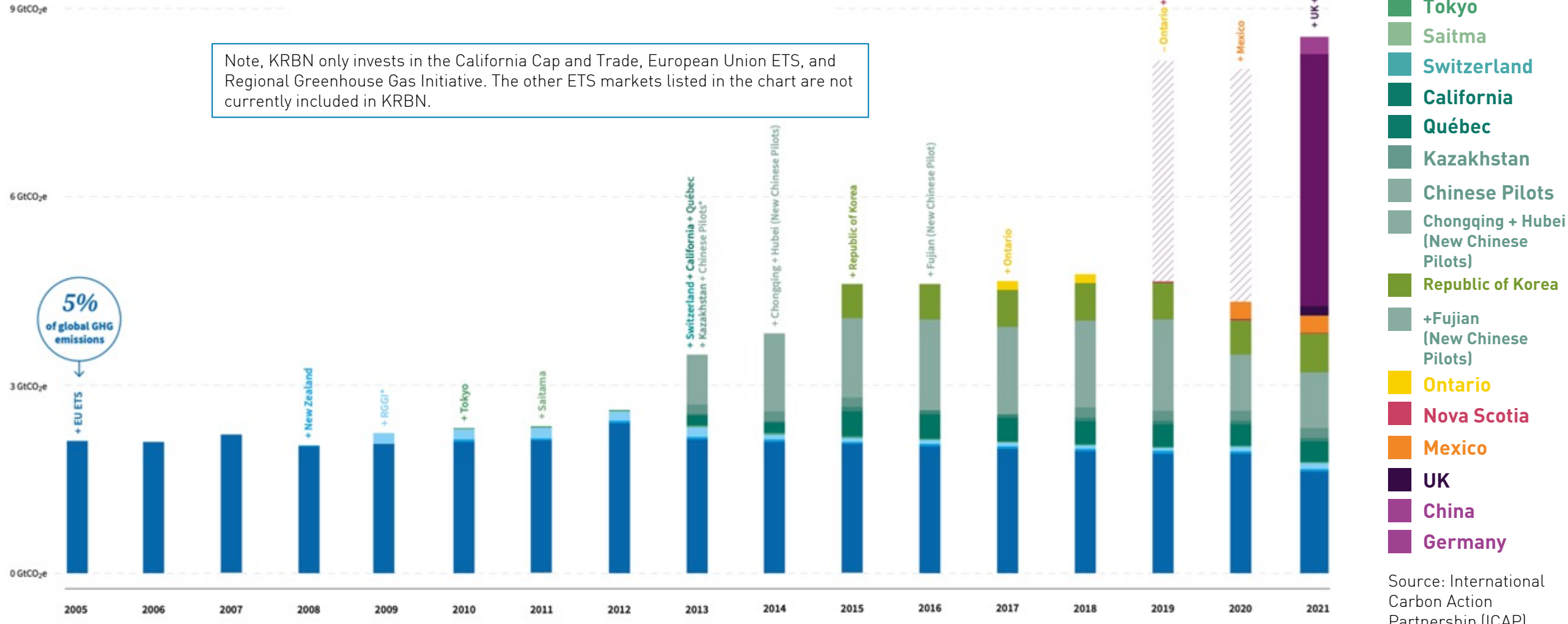
How Emissions Trading Systems Work



1. Robert Engle, A Financial Approach to Climate Change Risk, March 2019 *See end of presentation for definitions.

Global expansion of ETS

The share of global greenhouse gases (GHGs) under an ETS tripled since 2005



Note, KRBN only invests in the California Cap and Trade, European Union ETS, and Regional Greenhouse Gas Initiative. The other ETS markets listed in the chart are not currently included in KRBN.

16% of global GHG emissions

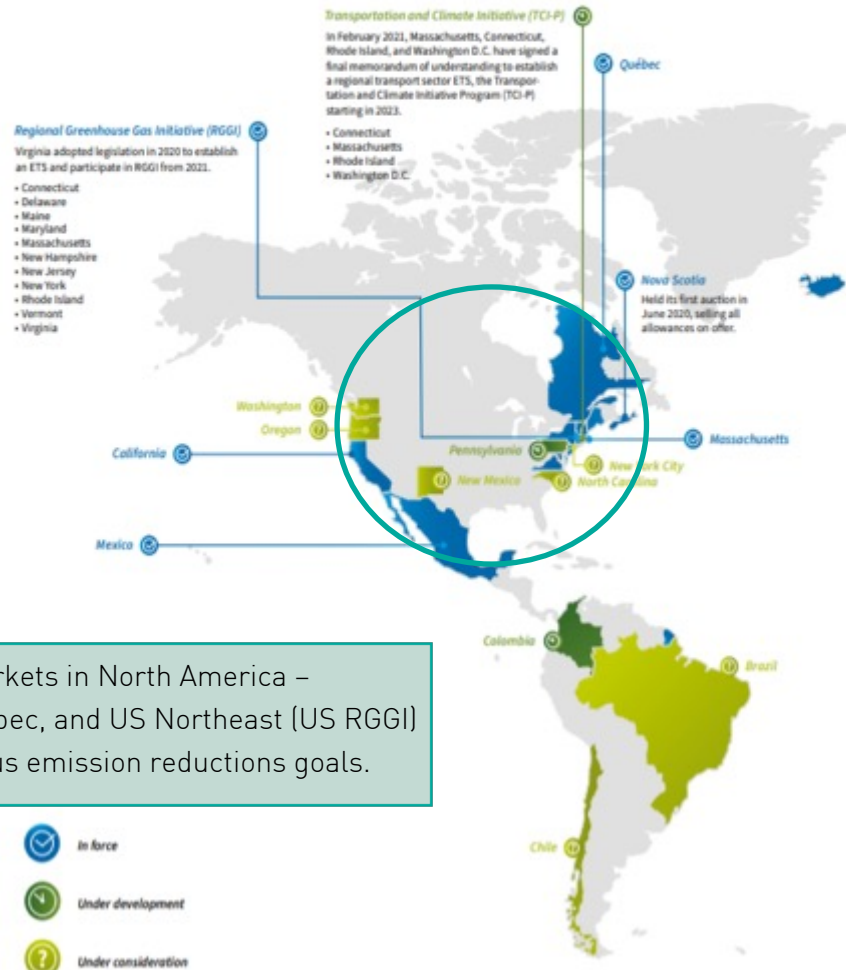
5% of global GHG emissions

- Key
- EU ETS
 - New Zealand
 - RGGI
 - Tokyo
 - Saitama
 - Switzerland
 - California
 - Québec
 - Kazakhstan
 - Chinese Pilots
 - Chongqing + Hubei (New Chinese Pilots)
 - Republic of Korea
 - +Fujian (New Chinese Pilots)
 - Ontario
 - Nova Scotia
 - Mexico
 - UK
 - China
 - Germany

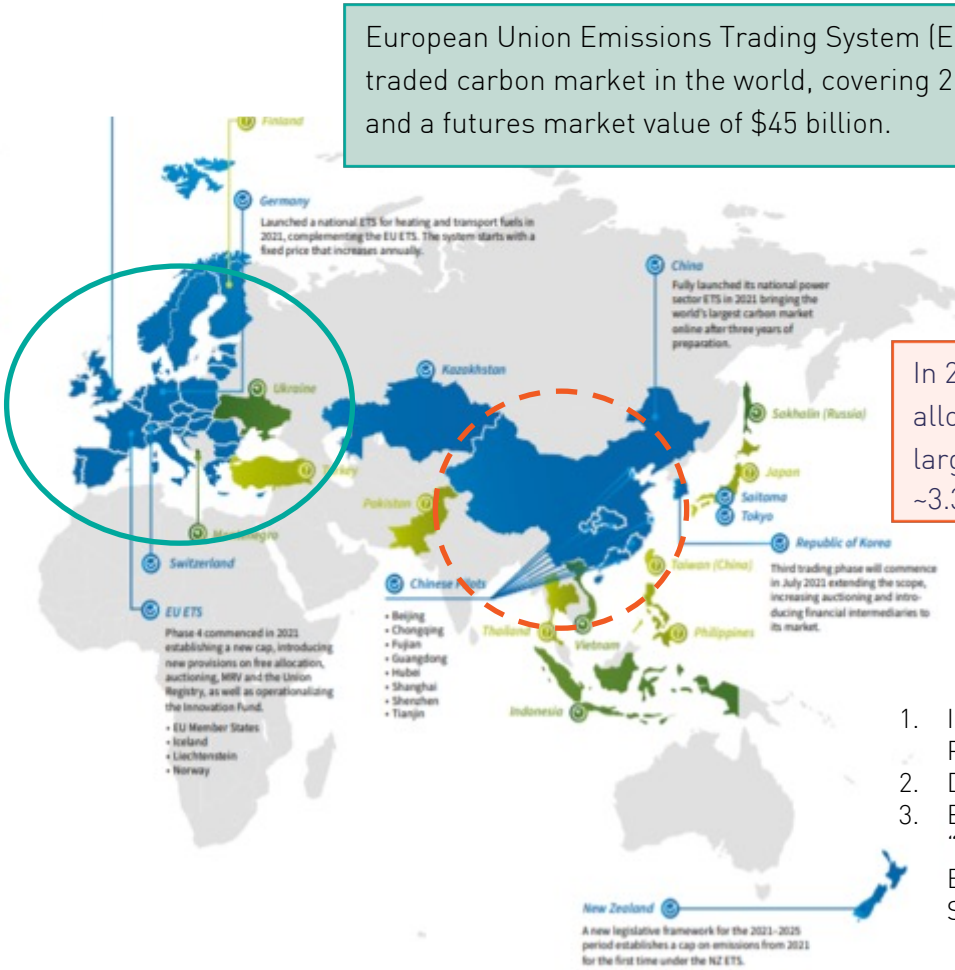
Source: International Carbon Action Partnership (ICAP), 2021

The global carbon allowance market

- Global emissions covered by an ETS nearly doubled in 2021, from 9% to 16%, as the number of systems in force grew from 21 to 24.¹
- In 2019 the top 3 emissions trading systems grew 41% and in 2020 they grew 65% by trading volume.²



Most liquid markets in North America – California, Quebec, and US Northeast (US RGGI) – have ambitious emission reductions goals.

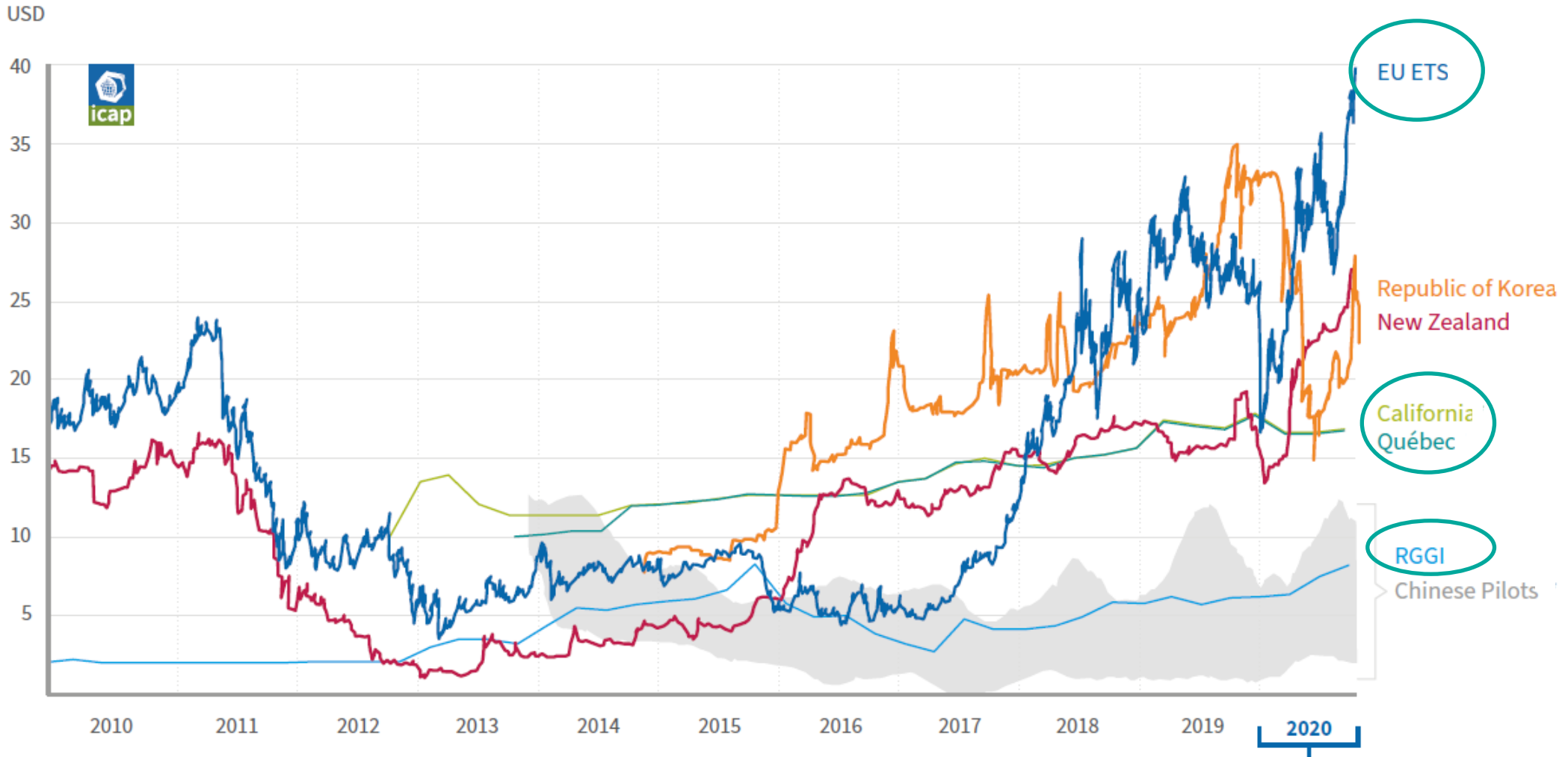


European Union Emissions Trading System (EUA) is the most traded carbon market in the world, covering 2 billion tons CO₂ and a futures market value of \$45 billion.

In 2021, China launched its carbon allowance market, expected to be the largest in the world, projected to cover ~3.3 billion CO₂.³

1. International Carbon Action Partnership (ICAP), 2021
2. Data from IHS Markit as of 12/31/2020
3. Environmental Defense Fund, "China's National ETS Open for Business", Jan 5, 2021; World Bank State of Carbon Markets, June 2019

Price performance of global carbon markets



Source: International Carbon Action Partnership (ICAP), 2021

Carbon pricing

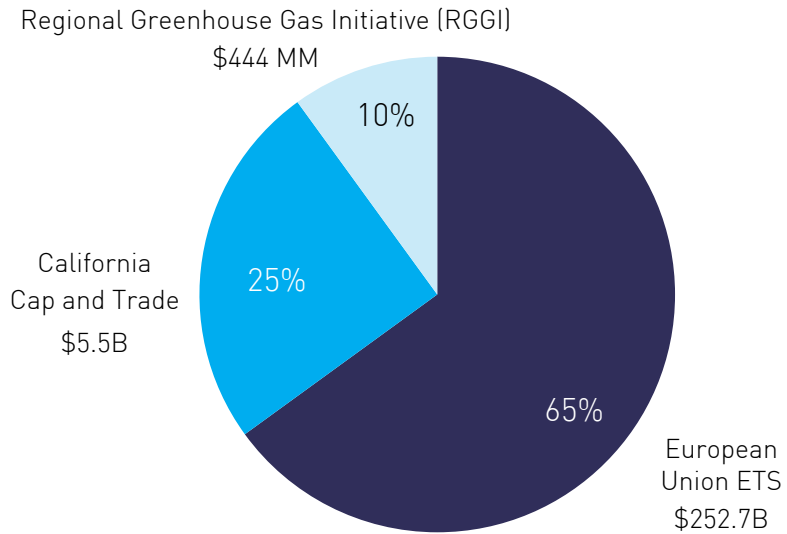
	Source	Logo	Price	Calculation
Index	IHS Markit	 IHS Markit®	\$34.30 / ton CO ₂ ¹	Price is calculated based on weighted carbon price of three largest, most-liquid segment of the tradable carbon credit futures markets.
Carbon Prices	Bloomberg New Energy Finance		100 EU / ton CO ₂ ²	Price modeled based on cost to implement industrial decarbonization in EU ETS by 2030.
	The Biden Administration		\$125 / ton CO ₂ ³	The sum of all climate damages caused by an additional ton of CO ₂ emitted right now, in today's dollars.
	Bank of England		\$100/ ton CO ₂ ⁴	Price modeled based on cost to implement industrial decarbonization in UK ETS by 2030.

1. Data from IHS Markit as of 06/15/2021
2. Carbon to Hit 100 Euros Sooner Than You Think <https://www.bloomberg.com/news/audio/2021-06-07/carbon-to-hit-100-euros-sooner-than-you-think>
3. A Tale of Two Carbon Prices to Shape Biden's Climate Policy <https://www.bloomberg.com/news/articles/2021-02-19/pushing-biden-s-climate-policy-with-new-carbon-price-risky-climate>
4. Bloomberg, "Bank of England says prepare for carbon prices to triple to 100", 1/14/2021, <https://www.bloomberg.com/news/articles/2021-01-14/bank-of-england-says-prepare-for-carbon-prices-to-triple-to-100>

Why carbon allowance futures? Liquidity and market size

- As of December 2020, the three largest global carbon futures markets tracked by IHS Markit’s Global Carbon Index, had an annual trading volume of of \$257.94 billion.¹
- In 2019 the top 3 emissions trading systems grew 41% and in 2020 they grew 65% by trading volume.¹
- Transactions in the carbon allowance market are typically reserved for regulated entities within an Emissions Trading System.
- Carbon allowance futures can be freely traded on exchange with attractive market size and liquidity characteristics.

IHS Markit’s Global Carbon Index Weighting^{1,2}



Top 3 Carbon allowance futures markets annual trading volume and market growth by annual trading volume^{1*}

July 31, 2014 – December 31, 2020

Year	EUA volume (billions)	CA volume (billions)	RGGI volume (billions)	Total volume	EUA YoY growth	CA YoY growth	RGGI YoY growth	Total growth
2020	252.7	5.5	0.44	257.94	68.71%	35.19%	13.52%	65.5%
2019	149.8	5.6	0.4	155.8	39.40%	120.38%	34.95%	41.23%
2018	107.5	2.5	0.3	110.3	348.83%	66.55%	134.80%	330.97%
2017	23.9	1.5	0.1	25.6	2.20%	36.62%	78.23%	3.99%
2016	23.4	1.1	0.1	24.6	-27.80%	3.13%	n/a	-26.57%
2015	32.5	1.1	-	33.5	-26.25%	267.38%	n/a	-24.31%
2014	44	0.3	-	44.3	n/a	n/a	n/a	-

1. Data from IHS Markit as of 12/31/2020

2. Weightings as of annual rebalance on 11/30/2020

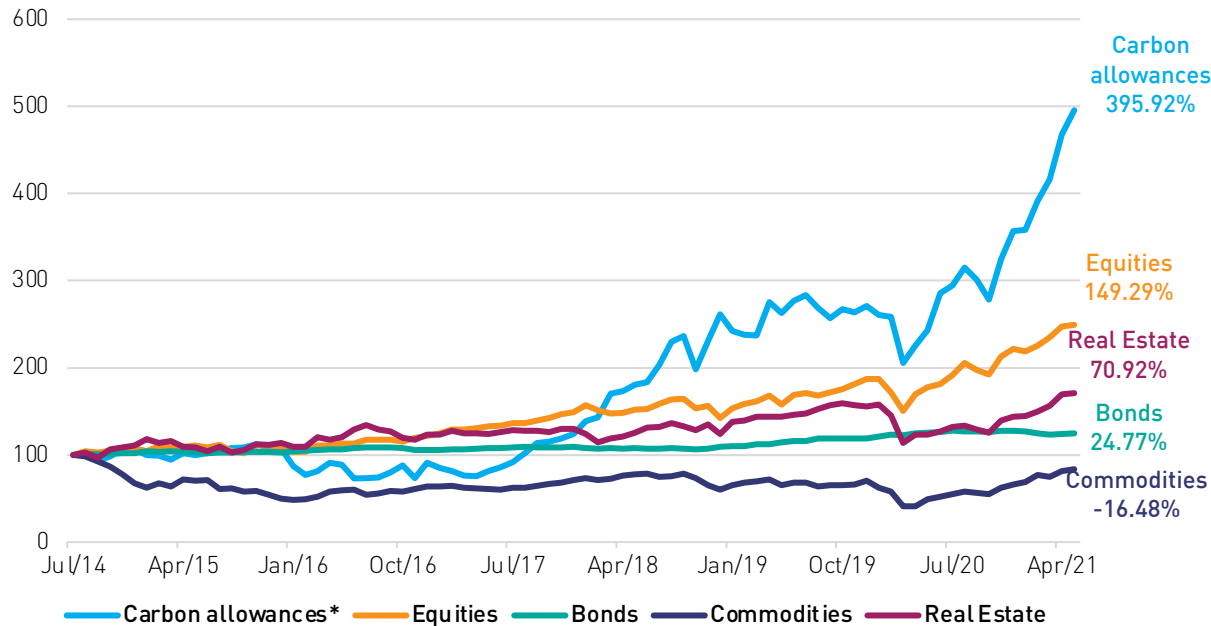
*See page 20 for definitions

The top 3 largest carbon allowance markets (weighted by volume) have exhibited strong performance

- Tightening emissions regulation may provide a positive catalyst for the performance of the global carbon allowance market.
- In April 2019, *The Financial Times* reported that European carbon allowances within the European Union Emissions Trading System were the world's top-performing commodity over the past two years.¹
- In September 2020, China pledged to have CO₂ emissions peak before 2030 and achieve carbon neutrality before 2060. China's recently launched carbon trading system is projected to be the largest carbon allowance market in the world, which may provide an additional catalyst for the performance of the global carbon allowance market.

Top 3 carbon allowance markets (weighted by volume) versus major asset classes¹

Jul 31, 2014 – May 31, 2021



Top 3 carbon allowance markets (weighted by volume) versus major asset classes¹

Jul 31, 2014 – May 31, 2021

Comparable	Carbon allowances	Equities	Bonds	Commodities	Real Estate
Annualized Return (%)	26.39%	14.30%	3.29%	-2.60%	8.16%
Annualized Volatility* (%)	29.95%	14.32%	3.15%	24.24%	16.92%
Sharpe Ratio*	0.91	0.95	0.78	-0.02	0.50

Carbon allowances: See end of presentation for material differences between asset types and definitions; Equities: S&P 500 ; Bonds: The Agg; Commodities: The S&P GSCI ; Real Estate: MSCI US REIT Index.

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.

1. Data from Bloomberg and IHS Markit as of 5/31/2021

*See page 20 for definitions

Carbon allowance futures exhibit low correlation to other asset classes

- Can provide potential portfolio diversification due to the global carbon futures markets' historically low correlation to other asset classes.^{2*}
- KRBN may be appropriate for investors who are concerned about the increase in cost of carbon emissions on their portfolios. As the cost of carbon emissions rises, KRBN typically benefits, while companies with heavy footprints typically suffer.³

Top 3 carbon allowance markets (weighted by volume) correlation' to other asset classes¹

July 31, 2014 to May 31, 2021

Correlation	Carbon allowances*	US Equities	Bonds	Commodities	Real Estate	Gold	Oil	Clean Energy Equities
Carbon allowances*	1	0.379	0.027	0.381	0.271	-0.083	0.354	0.196
US Equities	0.379	1	-0.011	0.562	0.666	0.004	0.408	0.203
Bonds	0.027	-0.011	1	-0.173	0.368	0.531	-0.174	0.046
Commodities	0.381	0.562	-0.173	1	0.311	0.030	0.896	0.237
Real Estate	0.271	0.666	0.368	0.311	1	0.065	0.246	0.214
Gold	-0.083	0.004	0.531	0.030	0.065	1	-0.061	0.248
Oil	0.354	0.408	-0.174	0.896	0.246	-0.061	1	0.178
Clean Energy Equities	0.196	0.203	0.046	0.237	0.214	0.248	0.178	1

- **US Equities:** S&P 500*
- **Bonds:** Bloomberg Barclays US Aggregate Bond Index ("The Agg")*
- **Commodities:** The S&P GSCI *
- **Real Estate:** MSCI US REIT Index*
- **Gold:** LBMA Gold Price PM Benchmark*
- **Oil:** S&P GSCI Crude Oil Index*
- **Clean Energy Equities:** S&P Global Clean Energy Index

1. Data from Bloomberg as of 5/31/2021, on a monthly basis

2. World Bank State and Trends of Carbon Pricing 2019

3. Financial Times, April 17, 2019 "Niche asset nears mainstream as investors warm to EU carbon market"

*See page 20 for definitions



What are the investment characteristics of carbon?

As an alternative investment

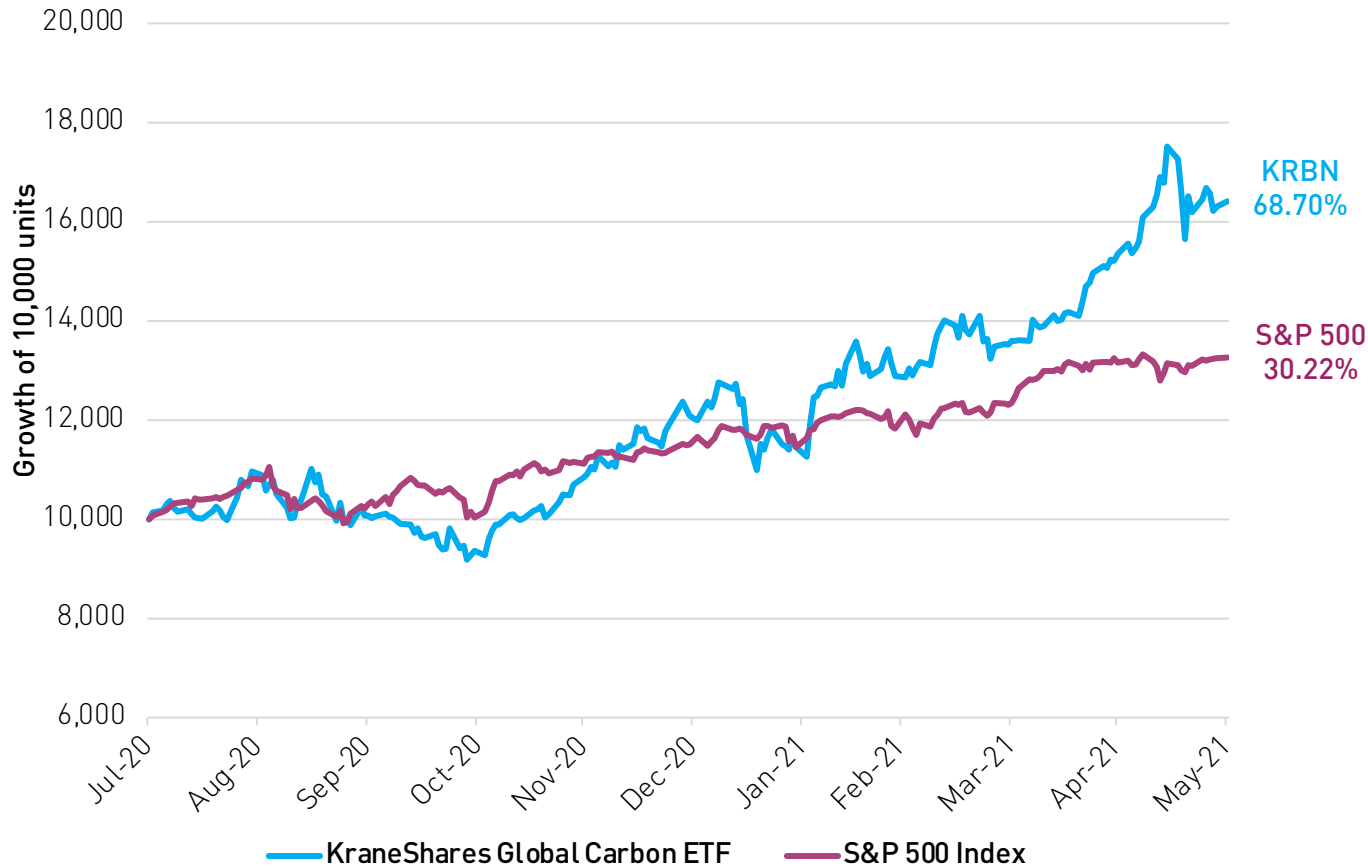
As a non-correlated commodity

As an ESG investment

Equity and fixed income hedge

Does it translate when looking at the KRBN ETF?

KRBN Performance Since Inception (7/30/2020)



KRBN Standard Performance

	Cumulative % Data as of month end: 05/31/2021			
	1 Mo	3 Mo	6 Mo	Since Inception
Fund NAV	5.04%	26.41%	53.43%	68.70%
Closing Price	6.21%	26.47%	53.09%	72.00%
Index	6.26%	28.82%	55.43%	70.68%

Inception date: 7/30/2020. 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 investors 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.com.

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.

High short-term performance for the fund is unusual, and investors should not expect such performance to be continued over the long term.

Data from Bloomberg as of 5/31/2021. See page 20 for definitions.

KRBN

**KraneShares
Global Carbon
ETF**

Investment Strategy

The KraneShares Global Carbon ETF (the “Fund”) seeks to provide a total return that, before fees and expenses, exceeds that of the IHS Markit Global Carbon Index (the “Index”) over a complete market cycle. KRBN is benchmarked to IHS Markit’s Global Carbon Index, which offers broad coverage of cap-and-trade carbon allowances by tracking the most traded carbon credit futures contracts. According to IHS Markit, the index introduces a new measure for hedging risk and going long the price of carbon while supporting responsible investing.¹

Currently the index covers the major European and North American cap-and-trade programs: European Union Allowances (EUA), California Carbon Allowances (CCA) and the Regional Greenhouse Gas Initiative (RGGI).

Global Carbon Allowance Market Highlights

- According to IHS Markit, as of December 31, 2020, the global price of carbon was \$24.05 per ton of CO₂. It is estimated that carbon allowance prices need to reach \$125 per ton of CO₂ to achieve the emissions reductions goals of The Paris Agreement.^{2,3}
- Tightening emissions regulation may provide a positive catalyst for the performance of the global carbon allowance market.
- As of December 2020, the three largest global carbon futures markets, tracked by IHS Markit’s Global Carbon Index, had a market size of \$257.94 billion.⁵
- In April 2019, *The Financial Times* reported that European carbon allowances within the European Union Emissions Trading System were the world’s top-performing commodity over the past two years.⁴
- In September 2020, China pledged to have CO₂ emissions peak before 2030 and achieve carbon neutrality before 2060. China’s recently launched carbon trading system is projected be the largest carbon allowance market in the world, which may provide an additional catalyst for the performance of the global carbon allowance market.

KRBN Features

- Going long the price of carbon may support responsible investing and incentivize pollution reduction aligned with ESG investment goals.
- Can provide potential portfolio diversification due to the global carbon futures markets’ historically low correlation to other asset classes.^{1*}
- KRBN may be appropriate for investors who are concerned about the increase in the cost of carbon emissions on their portfolios. As the cost of carbon emissions rise, KRBN typically benefits, while companies with heavy carbon footprints typically suffer.³
- May be a beneficiary of tightening carbon emissions regulation worldwide.

1.) “A Global Price for Carbon Emissions” IHS Markit April 2020

2.) Data from IHS Markit as of 12/31/2020 [*see page 14]

3.) Bloomberg Green, “A Tale of Two Carbon Prices to Shape Biden’s Climate Policy”, Feb. 19, 2021.

4.) Financial Times, April 17, 2019 “Niche asset nears mainstream as investors warm to EU carbon market”

5.) Data from IHS Markit as of 12/31/2020

Index Definitions

S&P 500: Standard & Poor's Index is a capitalization-weighted index of 500 stocks.

Bloomberg Barclays US Aggregate Bond Index ("The Agg"): A broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States. Inception date: January 1, 1986

The S&P GSCI: A composite index of commodities that measures the performance of the commodity market. Inception date: May 7, 2007

MSCI US REIT Index (daily price return USD): A free float-adjusted market capitalization weighted index that is comprised of equity Real Estate Investment Trusts (REITs). Inception date: June 20, 2005

MSCI All Country World Index (Gross USD): The MSCI All Country World Index is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. Inception date: May 31, 1990

LBMA Gold Price PM: The global benchmark price for unallocated gold delivered, IBA operates electronic auctions for spot, unallocated loco London gold.

Oil: S&P GSCI Crude Oil Index: Provides a publicly available benchmark for investment performance in the crude oil market. Inception date: May 1, 1991

S&P Global Clean Energy Index: Designed to measure the performance of 30 companies from around the world that are involved in clean energy-related businesses. Inception Date: February 22, 2007

Other Definitions.

Intercontinental Exchange (ICE): The Intercontinental Exchange is an American company that owns exchanges for financial and commodity markets and operates 12 regulated exchanges and marketplaces.

Sharpe ratio: Used to help investors understand the return of an investment compared to its risk. Generally, the greater the value of the Sharpe ratio, the more attractive the risk-adjusted return.

Standard deviation: the standard deviation is a measure of the amount of variation or dispersion of a set of values.

Carbon allowances: Top 3 carbon allowance markets by constituent trade volume. IHS Markit's Global Carbon Index is used since the index start date July 25, 2019. From 11/30/2016 to prior to the index start date, 60% and 5% were respectively assigned to EUA futures prices (current year and next year December vintages) using Intercontinental Exchange daily published settlement prices, 20% and 5% were respectively assigned to CCA futures (current year and next year December vintages) using IHS Markit OPIS's daily Carbon Market Report published prices, and 10% was assigned to RGGI (current year December vintage) using IHS Markit OPIS's daily Carbon Market Report published prices. Prior to 11/30/2016, 60% and 5% respectively were assigned to EUA futures prices (current year and next year December vintages) using Intercontinental Exchange daily published settlement prices and 35% was respectively assigned to CCA futures (current year December vintage) using IHS Markit OPIS's daily Carbon Market Report published prices. For the two ranges developed prior to the index start date, Intercontinental Exchange and IHS Markit OPIS's Daily Carbon Market Report publish daily pricing for each contract vintage for all relevant days when the futures trade.

Market Stability Reserve: The Market Stability Reserve (MSR) holds allowances out of the auction when excess volumes are available on the market and reinjects them when there is low circulation. There is no predetermined price floor or ceiling however this mechanism, creates stability in the market and improves resilience to future spikes in supply/demand.

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.

Risk Disclosures:

Investing involves risk, including possible loss of principal. There can be no assurance that a Fund will achieve its stated objectives. There is no assurance that cap and trade regimes will continue to exist, or that they will prove to be an effective method of reduction in GHG emissions. Changes in U.S. law and related regulations may impact how the way the Fund operates, increase Fund costs and/or change the competitive landscape. Funds may underperform other similar funds that do not consider conscious company/ESG guidelines when making investment decisions.

The Fund invests through a subsidiary, and is indirectly exposed to the risks associated with the Subsidiary's investments. Since the Subsidiary is organized under the law of the Cayman Islands and is not registered with the SEC under the Investment Company Act of 1940, as such the Fund will not receive all of the protections offered to shareholders of registered investment companies. The value of a commodity-linked derivative investment typically is based upon the price movements of a physical commodity and may be affected by changes in overall market movements, volatility of the Index, changes in interest rates, or factors affecting a particular industry or commodity.

The Fund and the Subsidiary will be considered commodity pools upon commencement of operations, and each will be subject to regulation under the Commodity Exchange Act and CFTC rules. Commodity pools are subject to additional laws, regulations and enforcement policies, which may increase compliance costs and may affect the operations and performance of the Fund and the Subsidiary. Futures and other contracts may have to be liquidated at disadvantageous times or prices to prevent the Fund from exceeding any applicable position limits established by the CFTC. Additionally, the Fund's investments are subject to liquidity risk, which exists when an investment is or becomes difficult to purchase or sell at a reasonable time and price.

Investments in non-U.S. instruments may involve risk of loss due to foreign currency fluctuations and political or economic instability. The Fund's assets are expected to be concentrated in an industry or group of industries to the extent that the Index concentrates in a particular industry or group of industries. The Fund is non-diversified. Diversification does not ensure a profit or guarantee against a loss.

Fund shares are bought and sold on an exchange at market price (not NAV) and are not individually redeemed from the Fund. However, shares may be redeemed at NAV directly by certain authorized broker-dealers (Authorized Participants) in very large creation/redemption units. The returns shown do not represent the returns you would receive if you traded shares at other times. Shares may trade at a premium or discount to their NAV in the secondary market. Brokerage commissions will reduce returns. Beginning 12/23/2020, market price returns are based on the official closing price of an ETF share or, if the official closing price isn't available, the midpoint between the national best bid and national best offer ("NBBO") as of the time the ETF calculates the current NAV per share. Prior to that date, market price returns were based on the midpoint between the Bid and Ask price. NAVs are calculated using prices as of 4:00 PM Eastern Time.

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Further questions?

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