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# China Market Update: Insights From On The Ground

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# China Q2 Review: Insights From On The Ground



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Head of International



This is a marketing communication. Please refer to the prospectus of the UCITS, the KIID, and the PRIIP before making any final investment decisions.



## 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 a signatory of the United Nations-supported Principles for Responsible Investing (UN PRI).

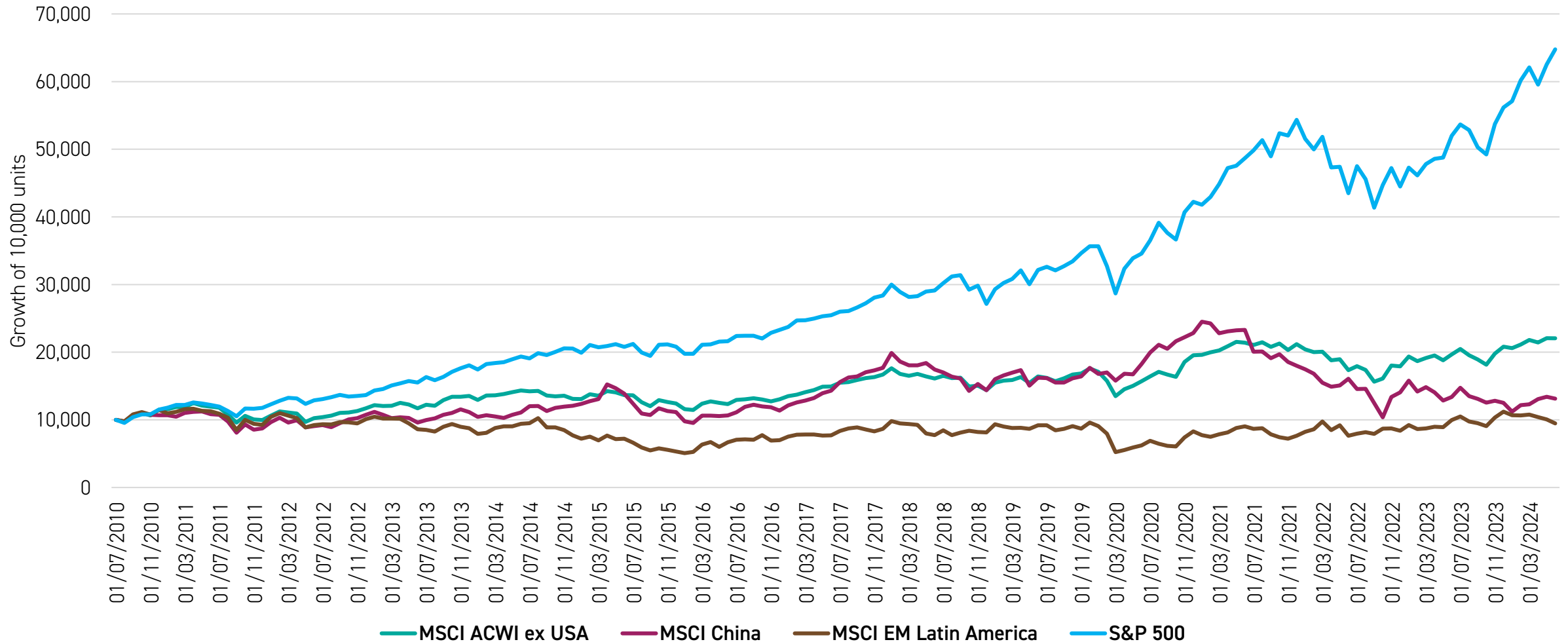
The firm is majority-owned by China International Capital Corporation (CICC). In 2018, KraneShares established operations in the United Kingdom (UK) and Europe to better deliver its renowned China-focused ETFs to investors in the region. In addition to launching UK/Europe-specific versions of its most popular US-listed funds, KraneShares also develops strategies tailored to meet the specific needs of its UK/European clients.



# Is the US the only game in town?

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## Index Performance Comparison

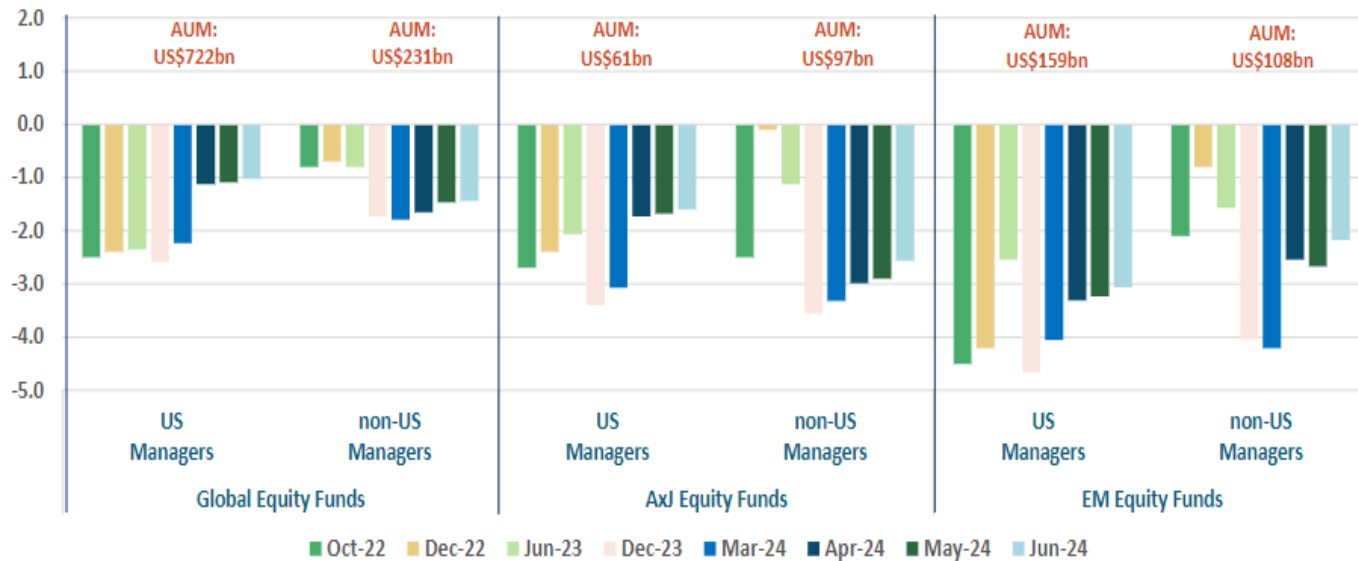


Data from Bloomberg as of 6/30/2024. Index returns are for illustrative purposes only and do not represent actual Fund performance. Index returns do not reflect fees or other costs associated with investing. Indexes are unmanaged and one cannot invest directly in an index. Past performance is no guarantee of future results. Please see the end of the presentation for definitions.

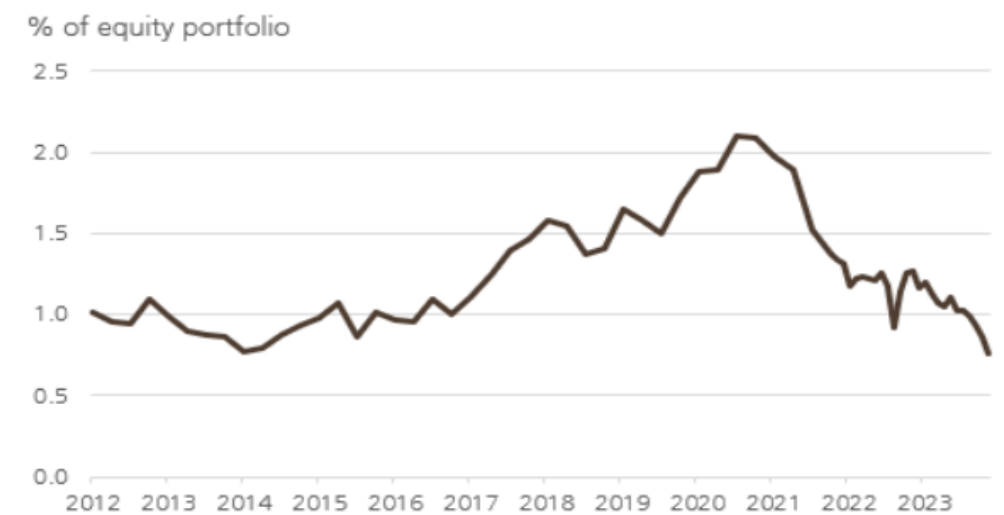
## US & Global investors are currently underweight China compared to relevant benchmarks from MSCI

- According to Copley Fund Research as of January 31, 2024, 340 global equity mutual funds managing \$1 trillion AUM now have the lowest allocation to China ever.<sup>1</sup>
- UBS China Equity Strategy Team stated “the top 40 global funds (including both passive and active holdings) show that their total equity holding in China is at the lowest level in the last 10 years, on par with levels last seen in 2014...”
- As of March 31, 2024, MSCI Canada has a larger weight than MSCI China<sup>2</sup> in MSCI All Country World Index despite Canada’s 2022 GDP was \$2.1 trillion versus China’s \$17.9 trillion according to the World Bank<sup>3</sup>.

**Active Weights of China/Hong Kong equities by Regional Fund Category & Manager Domicile**



**Figure 1: Top 40 global investors positioning in Chinese equities**



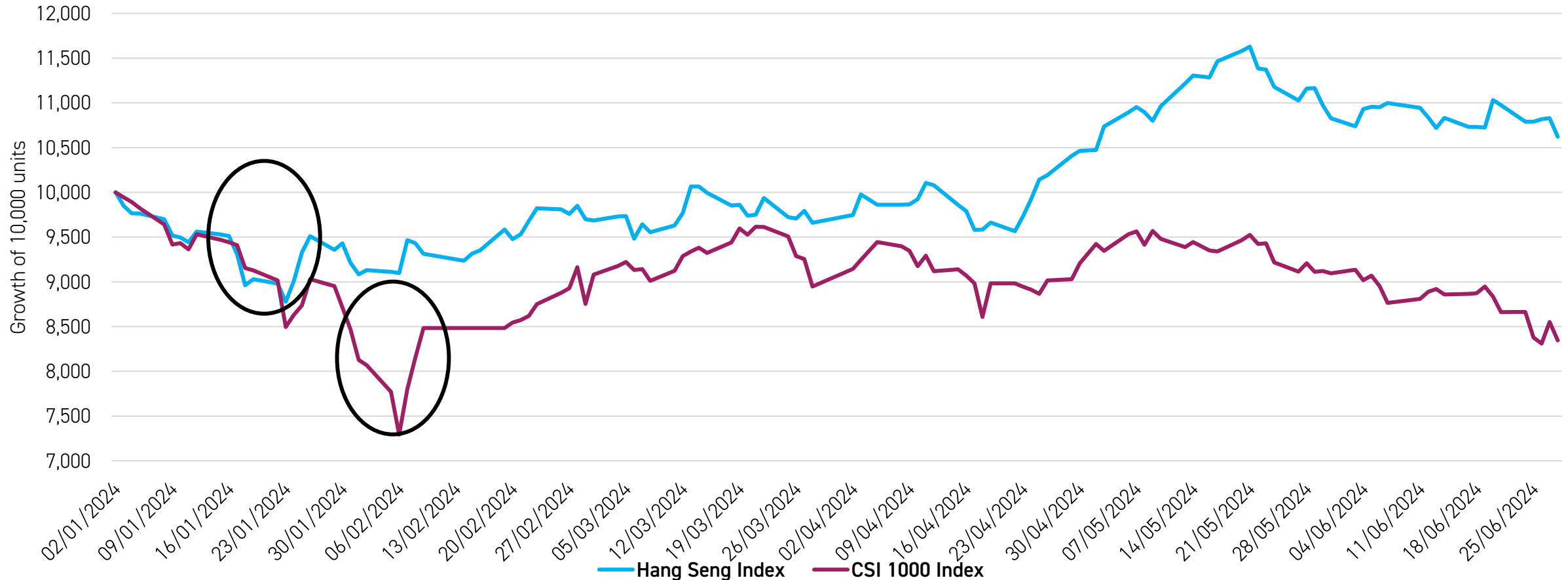
Source: FactSet, UBS Note: Last data point as of 31 Jan 2024

Source: <sup>1</sup>Copley Fund Research as of January 31, 2024, <sup>2</sup>MSCI as of February 29, 2024, <sup>3</sup>World Bank data as of Year End 2022, Chart from Morgan Stanley China Quantitative Strategy July 4, 2024, Chart from UBS China Equity Strategy February 22, 2024

## A structured product meltdown at round index levels caused steep drops in the Hang Seng and CSI 1000 (small cap) indexes at the beginning of the year.

Markets have continued to be choppy, though the Hang Seng has recovered.

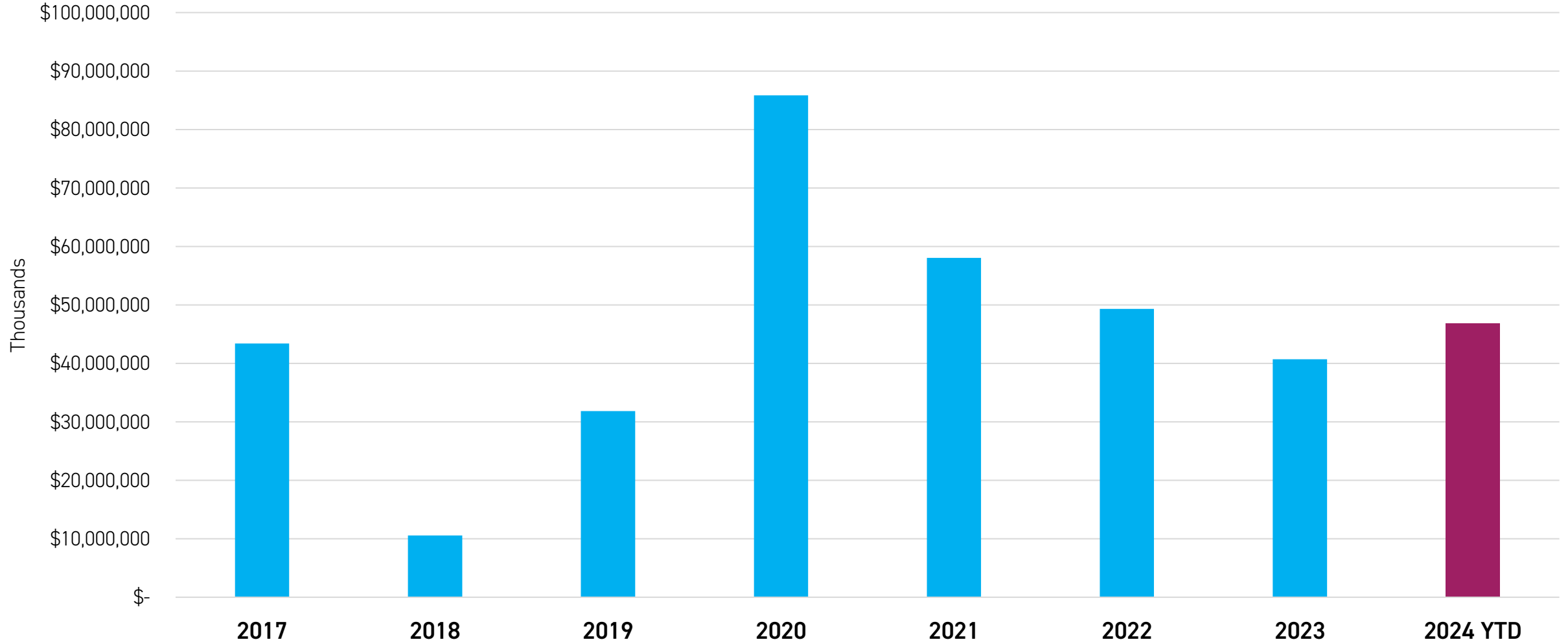
### Performance Comparison



Data from Bloomberg as of 6/30/2024. Index returns are for illustrative purposes only. Index returns do not reflect fees or other costs associated with investing. Indexes are unmanaged and one cannot invest directly in an index. Past performance is no guarantee of future results. Please see the end of the presentation for definitions.

**Year-to-date (YTD), Mainland investors' net purchases of Hong Kong-listed stocks has outpaced 2023's total inflow of ~\$40 billion.**

### Southbound Stock Connect Annual Net Inflow

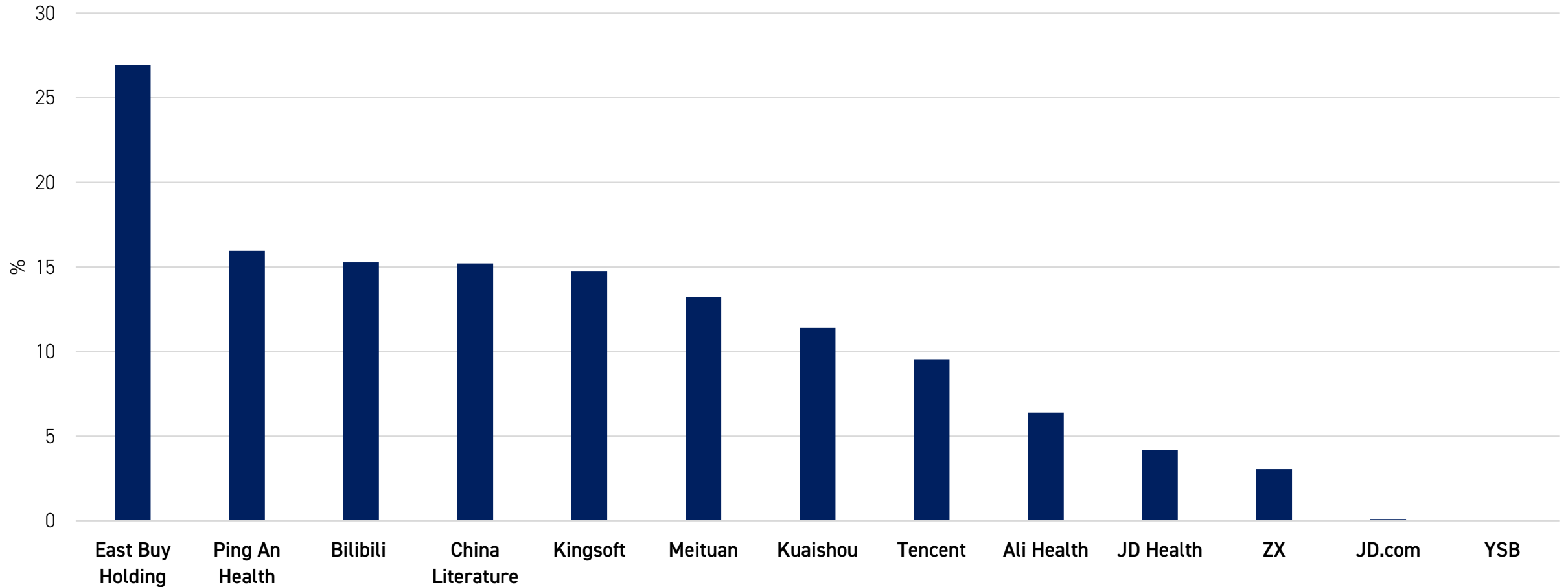







## Alibaba's Hong Kong shares could be added to Southbound Stock Connect in September, a significant catalyst.

The company must convert shares to dual-primary with US to achieve Southbound Connect eligibility in September, which is one of the semi-annual inclusion windows. Management told KraneShares this is a priority.

**CSI Overseas China Internet Index Constituents (Southbound Eligible) % Owned By Mainland Investors**



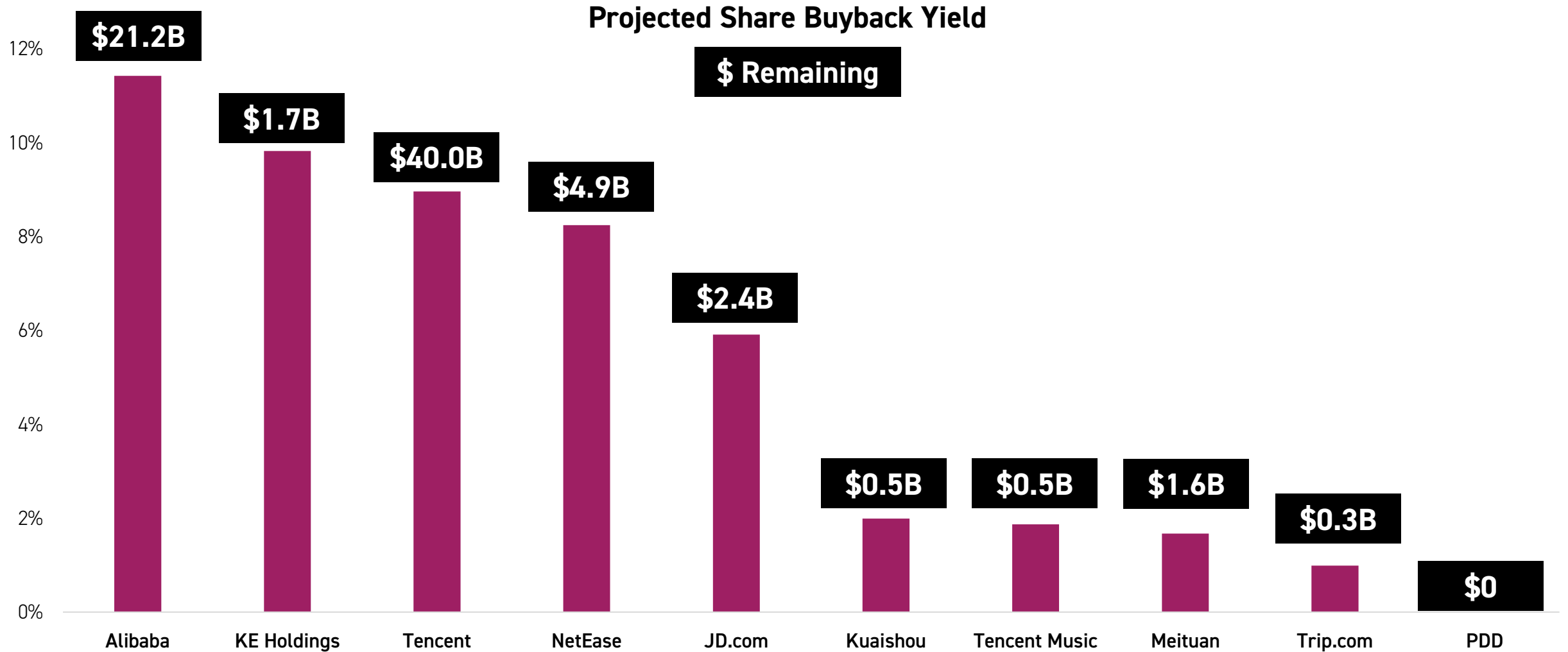
## Mainland investors know these companies best. How much Alibaba could they hypothetically buy based on Tencent's current Southbound ownership?

		Tencent (Included in Southbound)	Alibaba (Potential Future Inclusion Scenario)
App Users		 1.35 Billion	  900 Million
Current Total Market Capitalization (\$ Billions)	Total	437	368
	Hong Kong	437	184
	US	0	184
Current Southbound Ownership	%	10	0
	\$ Billions	44	0
Potential Future Southbound Ownership of Alibaba Proportionate to Tencent (\$ Billions)	Users	-	25
	% of Market Cap	-	37
	\$ Amount	-	44

Data from KraneShares, Bloomberg, and Statista as of 7/22/2024. Alibaba projections are purely hypothetical and are meant for illustrative purposes only. Not to be construed as investment advice.

## The CSI Overseas China Internet Index's top 10 holdings have strong buyback policies.

Buyback projections are based on program announcements.



## The CSI Overseas China Internet Index's top 10 holdings are predominantly managed by their founders.

Company	Founder(s)	Role(s) Today	Buyback Yield (%)
Tencent	Pony Ma	Chairman & CEO	9.28
Alibaba	Jack Ma, Joe Tsai, Eddie Wu	Advisor, Chairman, CEO	11.72
PDD	Lei Chen	Chairman & Co-CEO	0.00
Meituan	Wang Xing	Chairman, Co-CEO	1.91
JD.com	Richard Liu	Chairman	5.62
Tencent Music	(spinoff)	N/A	1.93
NetEase	William Ding	CEO	8.34
Baidu	Robin Li	CEO	12.85
KE Holdings	Peng Yongdong	Chairman & CEO	9.67
Trip.com	James Liang	Chairman	0.95

Data from Bloomberg and KraneShares as of 6/30/2024.

## Internet firms are innovating their way out of a policy-driven semiconductor shortage in China.



*“We have recently made a breakthrough by integrating GPUs from different vendors into one large scale, unified computing cluster, allowing us to use less-advanced chips for highly effective model training and inference.”*

-Robin Li, Co-Founder and Chief Executive Officer



Microsoft and Google offer China-based companies leases on advanced AI chips located outside of China through the cloud.<sup>1</sup>



Huawei Mate Pro contains 7 nm chips,<sup>2</sup> previously thought impossible without access to US technology, and SMIC is said to soon have the capacity to manufacture even more advanced 5 nm chips.<sup>3</sup>

1. Reuters. “Google, Microsoft offer Nvidia chips to Chinese companies, the Information reports,” Reuters Technology. July 17, 2024.
2. Kharal, Arjun. “Huawei’s chip breakthrough poses new threat to Apple in China – and questions for Washington,” CNBC. September 19, 2023.
3. “[News] SMIC Reportedly to Manufacture 5nm Chips for Huawei Without EUV Machinery,” TrendForce. May 16, 2024.

Please see the end of the presentation for definitions.

## Key Takeaways From The Third Plenum

- **“Housing is for living, not for speculation” removed from CCP platform.**
- “Comprehensively deepen reform for the purpose of advancing Chinese modernization.
- “The Central Committee made systematic plans for further deepening reform comprehensively.”
- “Guide the development of the non-public sector.”
- “High-quality development is our primary task.”
- “Pursue coordinated reforms in the fiscal, tax, financial, and other major sectors.”
- **“Actively expand domestic consumption”**
- “Implement various measures to prevent and resolve risks in key areas such as real estate, local government debt...”
- Only one mention of “common prosperity” in resolution letter, which consisted of 49 pages and over 17,000 words.
- The Politburo Implementation Meeting is scheduled to begin next week...



## This year's 6.18 Sales Festival was a success.

### Alibaba

- 365 brands sold more than RMB 100 million (\$13.78 million) worth of goods.
- 36,000 brands doubled their from last year's festival.
- Apple, Nike, L'Oreal, Lancome, Adidas, and Estee Lauder sold more than RMB 1 billion of goods (\$138 million).
- During the campaign period, the "88 VIP" subscription program enjoyed an increase in new members of +65% year over year.

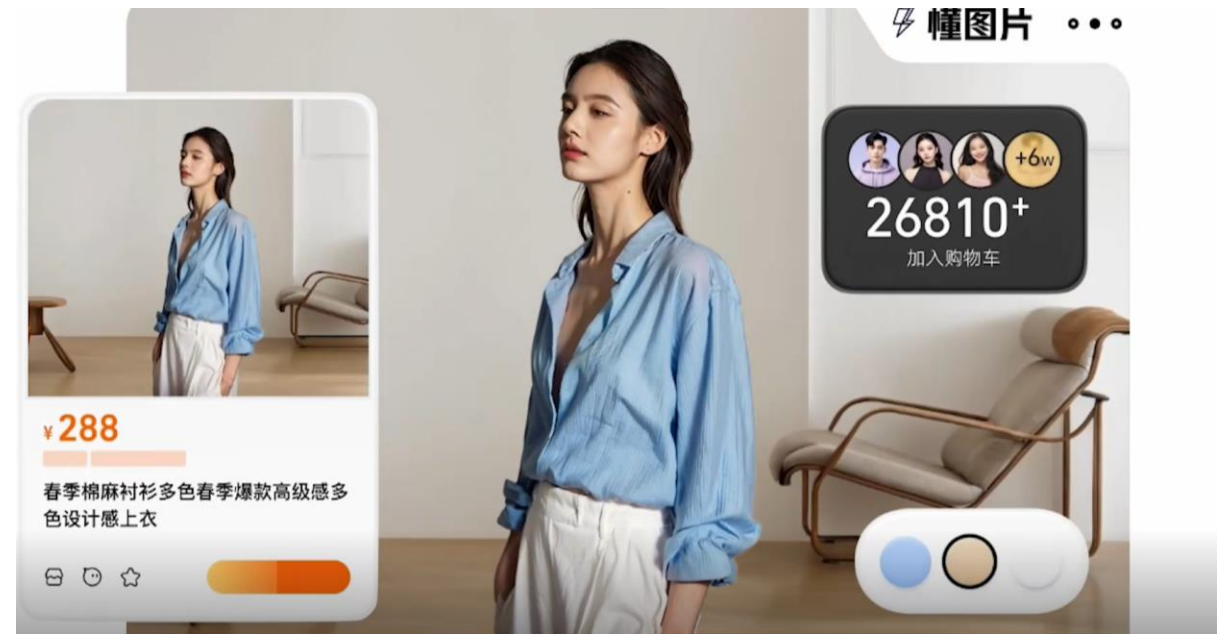
### JD.com

- 83 brands sold more than RMB 1 billion (\$139.89 million) worth of goods
- 150,000 merchants increased sales by at least 50% from last year's festival.
- Transaction volume in the categories of fashion, beauty and sports brands increased by over 100% year-over-year.
- The fastest delivery time during the festival was a record 9 minutes!

Source: Company Releases.

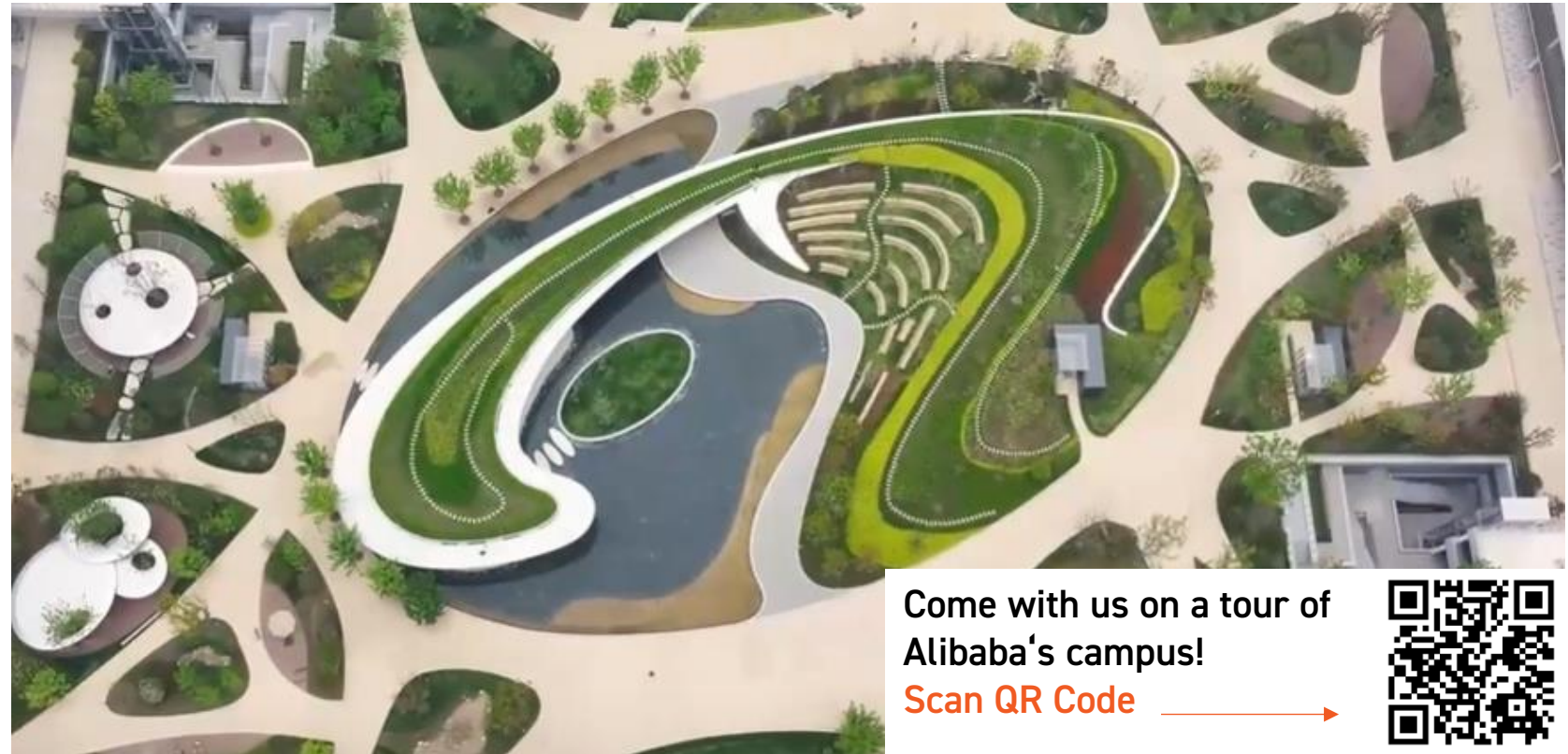
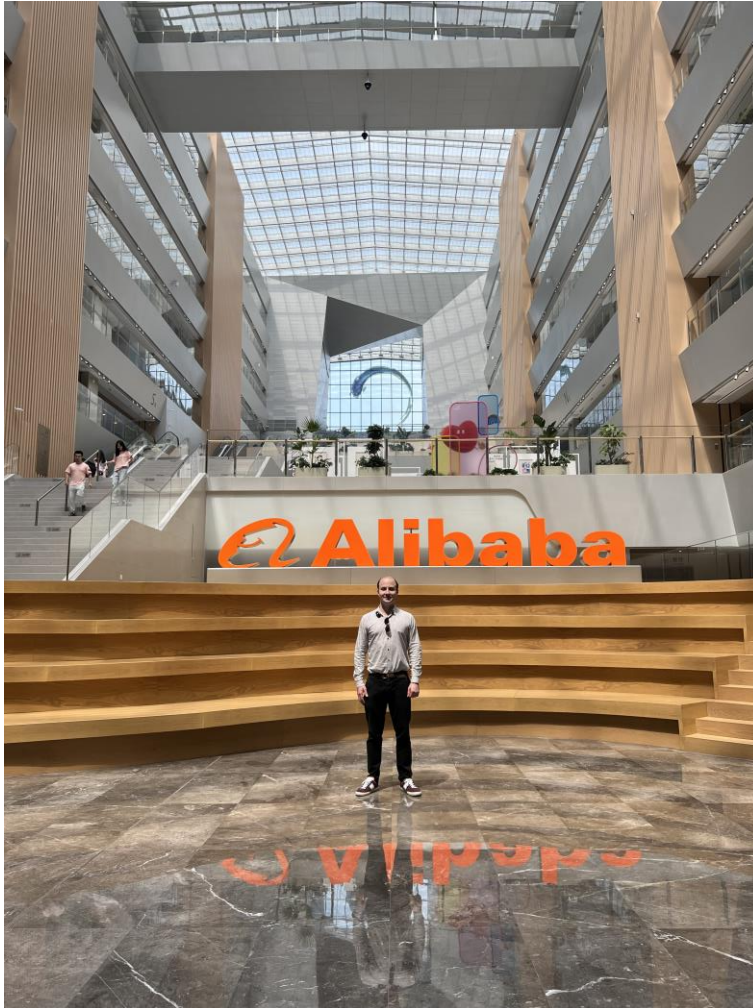
### AI Tools

For this year's festival, **Alibaba** rolled out AI-powered tools for merchants and shoppers alike. Shoppers had access to an AI chat bot personal shopper. Meanwhile, merchants had access to AI-generated advertisements, product staging, and analytics. All of this was offered free-of-charge.



## Alibaba is starting a hiring spree, in addition to share buybacks.

New campus in Hangzhou, opened in May, has desks for 30,000 employees with only ~10,000 filled.



Come with us on a tour of  
Alibaba's campus!  
Scan QR Code →



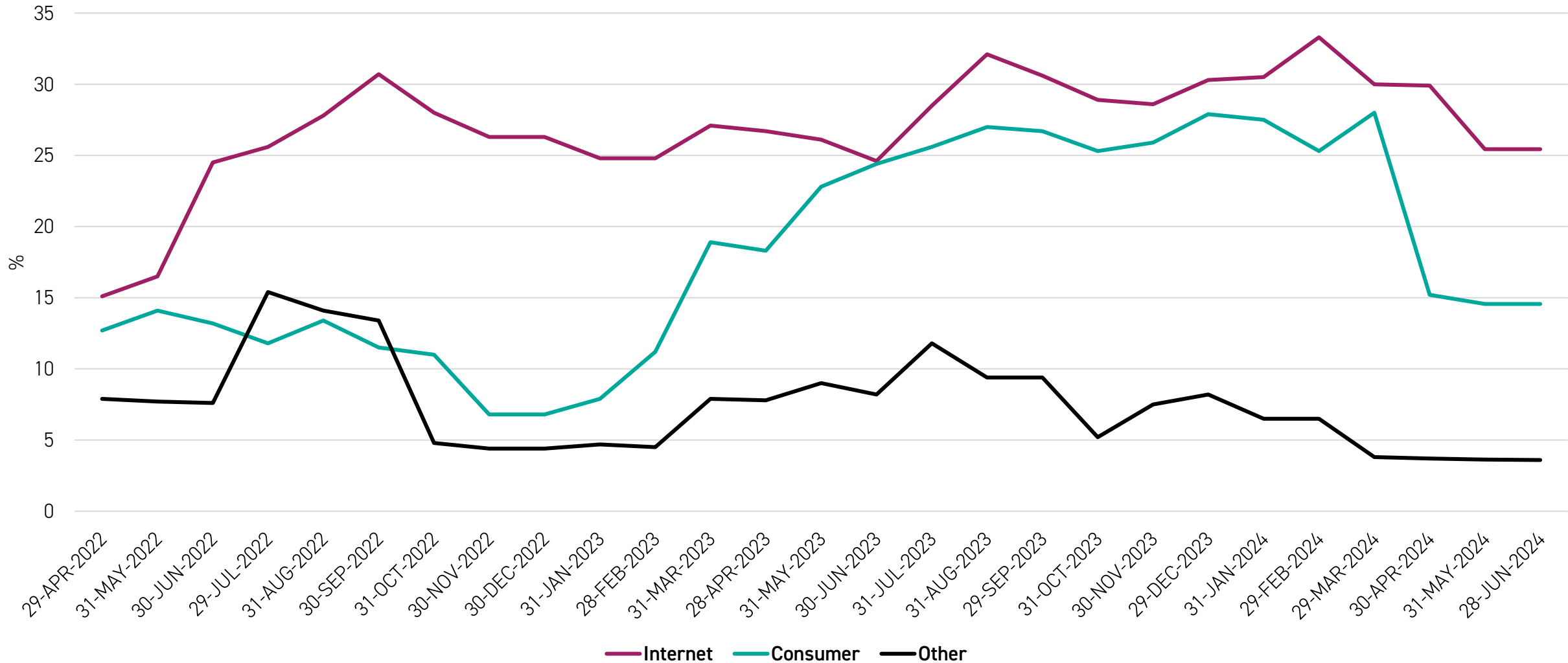


## The CSI Overseas China Internet Index's fundamentals continue to be attractive compared to broad China exposures and US stocks.

GICS Sectors	Ending Weight (%)				Price/ Earnings				P/E using FY1 Est				Est 3-5 Yr EPS Growth				PEG Ratio			
	KWEB	MSCI China	FTSE China 50	S&P 500	KWEB	MSCI China	FTSE China 50	S&P 500	KWEB	MSCI China	FTSE China 50	S&P 500	KWEB	MSCI China	FTSE China 50	S&P 500	KWEB	MSCI China	FTSE China 50	S&P 500
<b>Total/Average</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>18</b>	11	12	27	<b>13</b>	10	11	23	<b>16</b>	14	9	11	<b>1</b>	1	1	2
<b>Communication Services</b>	<b>43</b>	22	0	9	<b>20</b>	21	--	25	<b>15</b>	15	--	20	<b>21</b>	22	--	14	<b>1</b>	1	--	2
<b>Consumer Discretionary</b>	<b>42</b>	28	7	10	<b>17</b>	17	16	29	<b>12</b>	12	14	26	<b>12</b>	8	13	11	<b>1</b>	1	2	2
<b>Consumer Staples</b>	<b>4</b>	4	24	6	<b>30</b>	18	21	24	<b>28</b>	16	19	21	<b>23</b>	12	15	8	<b>1</b>	1	3	3
<b>Energy</b>	<b>--</b>	4	7	4	<b>--</b>	9	13	13	<b>--</b>	8	12	13	<b>--</b>	1	-1	6	<b>--</b>	2	1	1
<b>Financials</b>	<b>3</b>	18	31	12	<b>5</b>	5	7	17	<b>6</b>	5	6	16	<b>14</b>	12	4	16	<b>0</b>	1	1	1
<b>Health Care</b>	<b>--</b>	4	4	12	<b>--</b>	14	36	37	<b>--</b>	13	31	20	<b>--</b>	11	13	11	<b>--</b>	1	1	1
<b>Industrials</b>	<b>4</b>	5	11	8	<b>--</b>	9	13	25	<b>--</b>	9	12	21	<b>--</b>	29	12	12	<b>--</b>	1	2	2
<b>Information Technology</b>	<b>--</b>	6	5	32	<b>--</b>	21	26	41	<b>--</b>	20	23	34	<b>--</b>	30	17	14	<b>--</b>	1	2	2
<b>Materials</b>	<b>--</b>	3	4	2	<b>--</b>	14	18	24	<b>--</b>	12	15	21	<b>--</b>	10	16	7	<b>--</b>	1	1	1
<b>Real Estate</b>	<b>4</b>	2	--	2	<b>34</b>	8	--	36	<b>14</b>	7	--	36	<b>4</b>	-7	--	5	<b>1</b>	1	2	2
<b>Utilities</b>	<b>--</b>	3	5	2	<b>--</b>	12	25	19	<b>--</b>	10	21	17	<b>--</b>	17	11	7	<b>--</b>	1	2	2

## Internet names have higher expected long-term growth rates than other sectors within the MSCI China Index.

### MSCI China Index Top 30: Average Estimated 3-5 Year EPS Growth



## Geopolitics: Former Ambassadors for Trump & Obama weigh in on US-China relations in either election outcome.

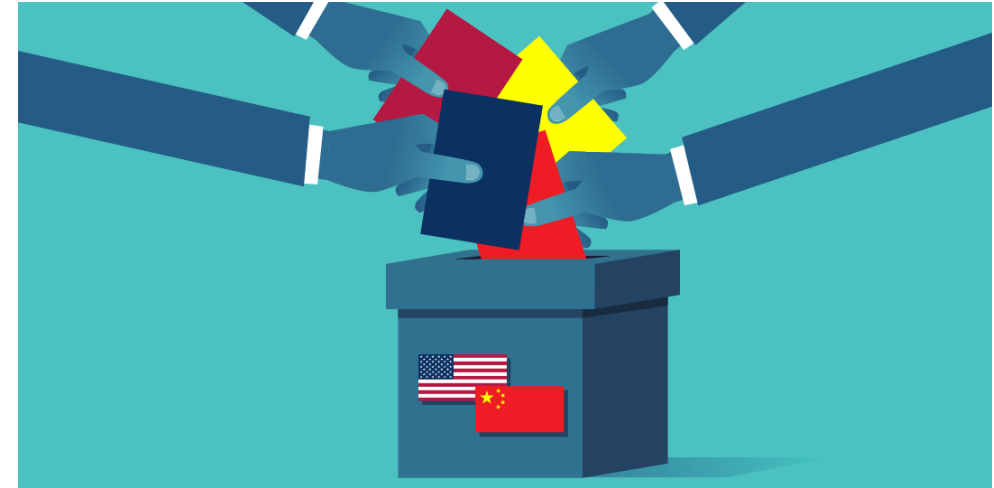
Both agree that the next term will be about legacy, which could include progress on foreign relations issues.

### **Amb. Terry Branstad** *Ambassador to China under Trump*

- Trump likely to use tariffs and restrictions as negotiating tactics
- Likely to pursue sweeping deal with China

### **Amb. David Adelman** *Ambassador to Singapore under Obama*

- Biden (now Harris) could continue existing policies/pressure
- Could seek deals in limited areas
- Status Quo



**Trump or Biden: Two Former US Ambassadors Discuss The Election & Its Likely Impact on US-China Relations**

**Replay Available!**



**Ambassador (Ret.) Terry Branstad**  
Former US Ambassador to China &  
Longest Serving Governor in US History



**Ambassador (Ret.) David Adelman**  
KraneShares  
Managing Director & General Counsel,  
Former US Ambassador to Singapore



**Brendan Ahern**  
KraneShares  
CIO

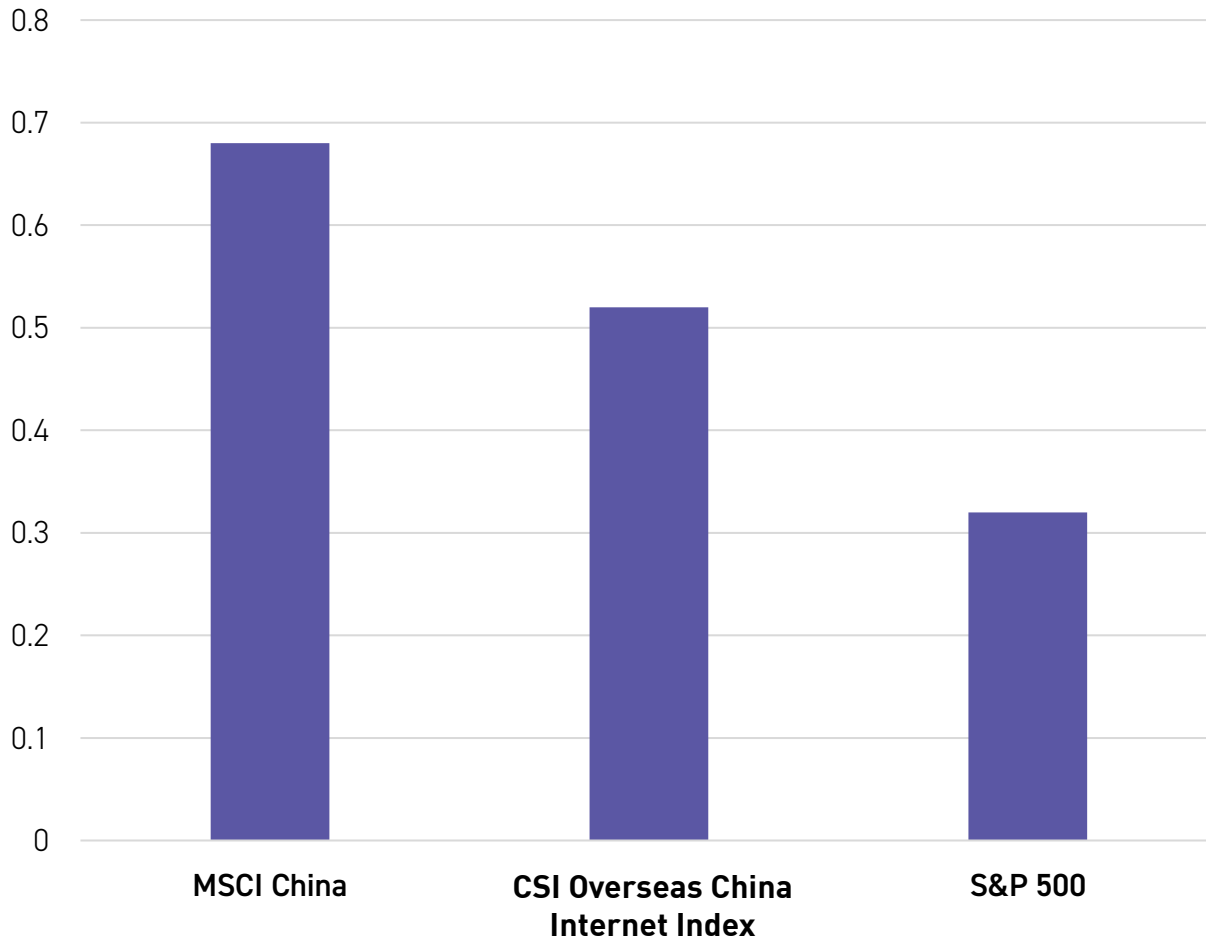
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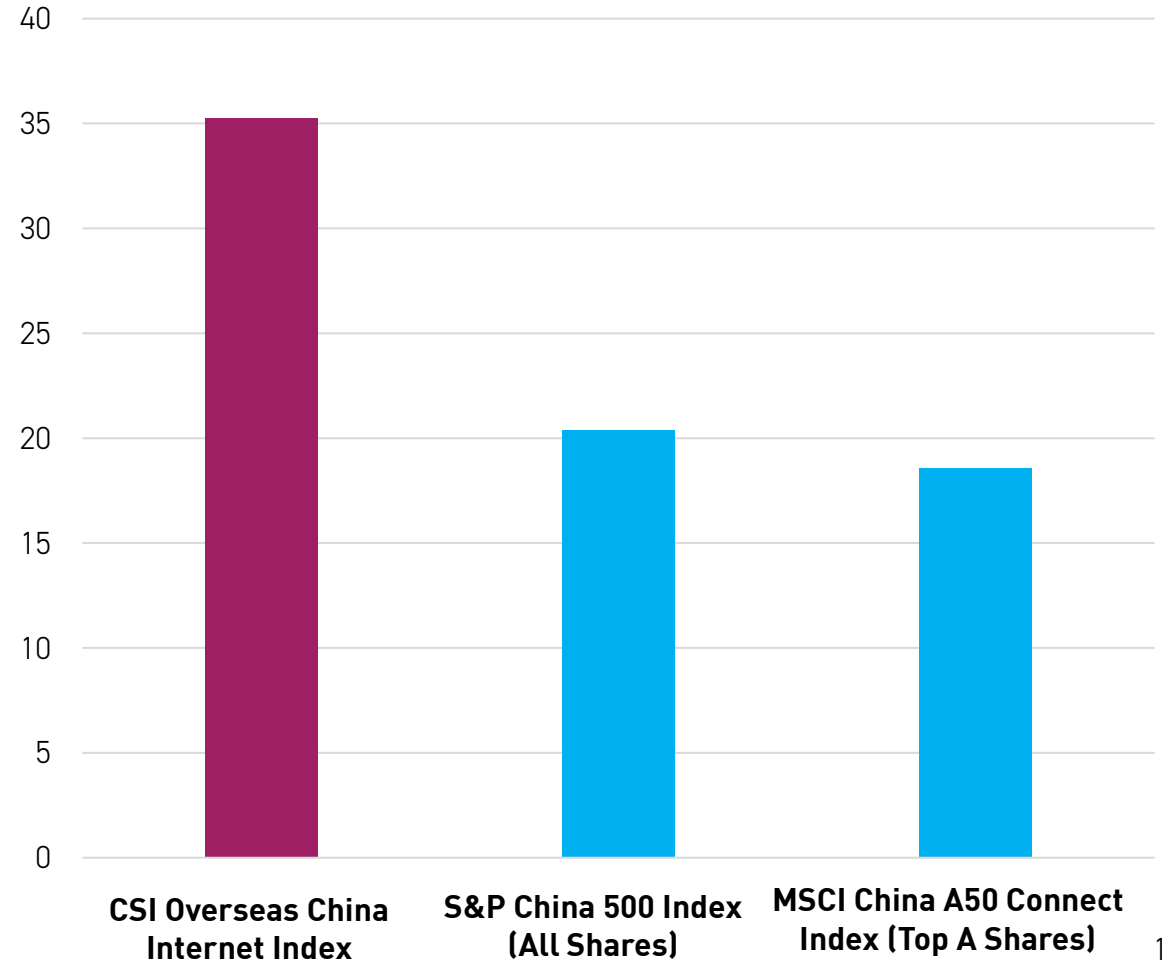
## A shares could be resilient to US-China relations and geopolitical risks considering the low correlation with offshore and US and lower volatility over the past year compared to offshore.

A falling dollar could also be a tailwind for A shares, which are denominated in CNY.

**MSCI China A 10-Year Correlation**



**360-Day Volatility**



**Domestic tourism is rebounding.**



**Hangzhou - West Lake**  
June 12<sup>th</sup>, 2024.



**Shanghai - The Bund**  
June 18<sup>th</sup>, 2024.

## Potential Catalysts

- Q2 Financial Results
- Shareholder Friendly Buybacks & Dividends, IPOs?
- Amplification of Policy Support – Third Plenum
- Southbound Stock Connect Expansion

## Offshore China

- Foreign Sentiment/Positioning Bottom
- Growth Factor
- Consumption Recovery “Green Shoots” led by Travel & Restaurants

## Onshore China

- Domestic Sentiment
- Value Factor, Government (“National Team”)
- Lower beta to geopolitical risks



## Index Definitions:

**Dow Jones US Internet Composite Index (“US Internet”):** The Dow Jones Internet Composite Index is designed to measure the performance of the 40 largest and most actively traded stocks of U.S. companies in the internet industry. To be eligible for the index, a company must derive at least 50% of cash flows from the internet. The index was launched on February 18, 1999.

**The CSI Overseas China Internet Index:** The CSI Overseas China Internet Index selects overseas listed Chinese Internet companies as the index constituents; the index is weighted by free float market cap. The index can measure the overall performance of overseas listed Chinese Internet companies. The Index is within the scope of the IOSCO Assurance Report as at 30 September 2018. The index was launched on September 20, 2011.

**MSCI Emerging Markets Index:** The MSCI Emerging Markets Index is a free-float weighted equity index that captures large and mid cap representation across Emerging Market (EM) countries. The index covers approximately 85% of the free-float adjusted market capitalization in each country. The index was launched on January 1, 2001.

**MSCI All Country World Index (MSCI ACWI):** MSCI ACWI is a stock index designed to track broad global equity-market performance. Maintained by Morgan Stanley Capital International (MSCI), the index comprises the stocks of nearly 3,000 companies from 23 developed countries and 25 emerging markets.

**S&P 500 Index:** The S&P 500 is a stock market index tracking the stock performance of 500 of the largest companies listed on stock exchanges in the United States.

**MSCI ACWI ex USA Index:** The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 24 Emerging Markets (EM) countries\*. With 2,310 constituents, the index covers approximately 85% of the global equity opportunity set outside the US. The index was launched on January 1, 2001.

**MSCI Emerging Markets (EM) Latin America Index:** The MSCI Emerging Markets (EM) Latin America Index captures large and mid cap representation across 5 Emerging Markets (EM) countries\* in Latin America. With 90 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. The index was launched on May 31, 1990.

**MSCI China Index:** The MSCI China Index captures large and mid-cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). With 703 constituents, the index covers about 85% of this China equity universe. Currently, the index includes Large Cap A and Mid-Cap A-shares represented at 20% of their free float adjusted market capitalization. The index was launched on October 31, 1995.

**MSCI China A Onshore Index:** The MSCI China A Onshore Index captures large and mid cap representation across China securities listed on the Shanghai and Shenzhen exchanges. The index was launched on May 10, 2005.

**MSCI China A Index:** The MSCI China A Index captures large and mid-cap representation across China securities listed on the Shanghai and Shenzhen exchanges. The index covers only those securities that are accessible through "Stock Connect". The index is designed for international investors and is calculated using China A Stock Connect listings based on the offshore RMB exchange rate (CNH). The index was launched on March 1, 2018.

**CSI 1000 Index:** The CSI 1000 Index selects 1000 small cap securities with good liquidity in A shares that are not included in CSI 800 Index constituents. The index was launched on December 31, 2004.

**FTSE China 50 Index:** The FTSE China 50 Index is a real-time tradable index comprising 50 of the largest and most liquid Chinese stocks (H shares, Red chips, and P chips) listed and trading on the Stock Exchange of Hong Kong (SEHK). The index is specifically designed for international investors, combining the ease of trading on SEHK with a methodology to meet fund regulatory requirements worldwide. The index was launched on April 19, 2001.

**Hang Seng Index:** The Hang Seng Index is a free-float market capitalization-weighted index of the largest companies that trade on the Hong Kong Stock Exchange. The index was launched in 1969.

## Index Definitions (continued)

**MSCI Emerging Markets ex China Index:** Captures large and mid cap representation across 23 of the 24 Emerging Markets (EM) countries excluding China. The index was launched on March 9, 2017.

**MSCI Emerging Markets Index:** The MSCI Emerging Markets Index is a free-float weighted equity index that captures large and mid cap representation across Emerging Market (EM) countries. The index covers approximately 85% of the free-float adjusted market capitalization in each country. The index was launched on January 1, 2001.

**MSCI All Country World Index (ACWI):** The MSCI ACWI captures large and mid cap representation across 23 Developed Markets (DM) and 27 Emerging Markets (EM) countries\*. With 2,978 constituents, the index covers approximately 85% of the global investable equity opportunity set. The index was launched on January 1, 2001.

**Nasdaq Composite Index:** The Nasdaq Composite Index measures all Nasdaq domestic and international based common type stocks listed on the Nasdaq Stock Market. The index was launched on February 1, 1997.

**MSCI EAFE Index:** The MSCI EAFE Index is an equity index which captures large and mid cap representation across 21 Developed Markets countries\* around the world, excluding the US and Canada. With 742 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. The index was launched on March 31, 1986.

**MSCI China IMI Environment 10/40 Index:** The MSCI China IMI Environment 10/40 Index is designed to measure the performance of securities with country of classification as China comprising of large, mid and small market cap segments. The Index is comprised of securities that derive at least 50% of their revenues from environmentally beneficial products and services. The Index is based on five Environmental Impact themes: Alternative Energy, Sustainable Water, Pollution Prevention and Energy Efficiency. The Index aims to serve as a benchmark for investors seeking exposure to companies that focus on contributing to a more environmentally sustainable economy by making efficient use of scarce natural resources or by mitigating the impact of environmental degradation. Constituent selection is based on data from MSCI ESG Research. The 10/40 concentration constraints apply investment limits where the weight of each group entity is capped at 10% and all group entities with weight of more than 5% should not exceed 40% of the Index by weight. The index was launched on August 23, 2017.

**MSCI All Shares China Health Care 10/40 Index:** The MSCI China All Shares Health Care 10/40 Index captures large and mid-cap representation across China A-shares, B-shares, H-shares, Red-chips, P-chips and foreign listings (e.g. ADRs). The index aims to reflect the opportunity set of China share classes listed in Hong Kong, Shanghai, Shenzhen and outside of China. It is based on the concept of the integrated MSCI China equity universe with China Ashares included. All securities in the index are classified in the Health Care sector according to the Global Industry Classification Standard (GICS®). The 10/40 concentration constraints apply investment limits where the weight of each group entity in the index is capped at 10% and the cumulative weight of all group entities with a weight in excess of 5% does not exceed 40% of the Index by weight. The index was launched on October 25, 2017.

**SSE STAR 50 Index:** The Shanghai Stock Exchange Science & Technology Innovation Board 50 Index is comprised of the 50 largest securities listed on SSE Science and Technology Innovation Board (STAR Market) as determined by highest market capitalization and liquidity. Constituents are weighted by a float-adjusted market capitalization with a 10% weight limit for a single constituent, and the top five constituents total weighting cannot be more than 40%. The index is adjusted and rebalanced quarterly and the adjustment will be effective end of next trading day. The index was launched on January 26, 2017.

**Hang Seng TECH Index:** The Hang Seng TECH Index represents the 30 largest technology companies listed in Hong Kong that have high business exposure to technology themes and pass the index's screening criteria. The index was launched on July 27, 2020.



## Index Definitions (Continued)

**CICC China 5G and Semiconductor Leaders Index:** The Index is designed to track the performance of companies engaged in the 5G and semiconductor related businesses, including 5G equipment, semiconductors, electronic components and big data centers. The index was launched on November 16, 2020.

**MSCI China A 50 Connect Index:** The MSCI China A 50 Connect Index is constructed from the MSCI China A Index (the 'Parent Index'), a broad-based benchmark index which captures large and mid-cap China A shares listed on the Shanghai and Shenzhen exchanges and accessible through the Northbound Stock Connect channel. The index was launched on August 20, 2021.

**Bloomberg Electric Vehicles Index:** The Bloomberg Electric Vehicles Index aims to represent the performance of a set of companies that are expected to derive significant revenues from electric vehicles, energy storage technologies, lithium, cobalt and copper mining, and hydrogen fuel cells. The index was launched on May 31, 2017.

**Solactive Emerging Markets Consumer Technology Index:** The Solactive Emerging Markets Consumer Technology Index is an Index of Solactive AG and is calculated and distributed by Solactive AG, with targeted exposure to emerging market consumer technology. The index was launched on August 23, 2017.

**S&P Global Carbon Credit Index:** The S&P Global Carbon Index is designed to measure the performance of the global carbon credit market compliant with established UCITS guidelines. The index was launched on July 25, 2019.

**S&P Carbon EU Index:** The S&P Carbon EU Index is designed to measure the performance of the European Union Allowance credit market. The index was launched on August 23, 2021.

**S&P Carbon CA Index:** The S&P Carbon CA Index is designed to measure the performance of the California Carbon Allowance credit market. The index was launched on October 5, 2021.

**Value Line® Dynamic Dividend Equity Index:** The Value Line® Dynamic Dividend Equity Index introduces a market adaptive approach to investing in US large cap companies. The index was launched on November 24, 2024.

**MSCI Global China Infrastructure Exposure Index:** The MSCI Global China Infrastructure Exposure Index is designed to represent the performance of listed companies within Developed, Emerging and Frontier markets with high revenue exposure to China infrastructure development from within a specified set of industries relevant to what has become known as the 'One Belt, One Road' ("OBOR") investment program and development strategy promoted by China. The index was launched on August 23, 2017.

**Hybrid KBA Index:** The Hybrid KBA Index consists of the MSCI China A Onshore Index from May 10, 2005 to March 4, 2014. The index then consists of the MSCI China A Index from March 4, 2014 through October 23, 2014, the MSCI China A International Index from October 23, 2014 through December 26, 2017, the MSCI China A Inclusion Index from December 26, 2017 to May 29, 2019, the MSCI China A Index from May 29, 2019 to January 5, 2022, and the MSCI China A 50 Connect Index going forward.

**MSCI China A Onshore Index:** The MSCI China A Onshore Index captures large and mid-cap representation across China securities listed on the Shanghai and Shenzhen exchanges. The index was launched on May 10, 2005.

**MSCI China A International Index:** The MSCI China A International Index captures large and mid-cap representation and includes the China A-share constituents of the MSCI China All Shares Index. It is based on the concept of the integrated MSCI China equity universe with China A-shares included. The index was launched on June 26, 2014.

**MSCI China A Inclusion Index:** The MSCI China A Inclusion Index is designed to track the progressive partial inclusion of A shares in the MSCI Emerging Markets Index over time. The index is designed for global investors accessing the A shares market using the Stock Connect framework and is calculated using China A Stock Connect listings based on the offshore RMB exchange rate (CNH). The index was launched on October 23, 2017.

**Term Definitions:**

**Est. 3-5 Year EPS Growth:** Estimates of the growth of earnings per share (EPS) over the next 3 or 5 years.

**Buyback Yield:** Buyback yield reflects the potential impact of current share repurchase programs being carried out. It is expressed as the value of the remaining share repurchases as a percentage of the company's market capitalization.

**Earnings per Share (EPS):** A company's net profits divided by the number of share outstanding

**Price-to-Earnings (P/E):** The price-to-earnings ratio (P/E ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings (EPS). The price-to-earnings ratio is also sometimes known as the price multiple or the earnings multiple.

**Forward Price-to-Earnings (P/E):** Forward price-to-earnings (forward P/E) is a version of the ratio of price-to-earnings (P/E) that uses forecasted earnings for the P/E calculation. While the earnings used in this formula are just an estimate and not as reliable as current or historical earnings data, there is still benefit in estimated P/E analysis.

**Price to Earnings to Growth (PEG):** The price/earnings to growth ratio (PEG ratio) is a stock's price-to-earnings (P/E) ratio divided by the growth rate of its earnings for a specified time period.

**Southbound Stock Connect:** A mutual market access program that allows investors located in Mainland China to access Hong Kong-listed stocks and ETFs.

**360-Day Volatility:** Standard deviation or the degree of variance in a set of datapoints over a 360-day period.

**Correlation:** The degree to which two securities move in tandem with one another. Correlation is usually measured on a scale of -1 to 1 from completely inverse (-1) to completely correlated (1).

**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/kweb](http://www.kraneshares.com/kweb) and [www.kraneshares.com/kba](http://www.kraneshares.com/kba). 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. Indices are unmanaged and do not include the effect of fees. One cannot invest directly in an index.

This information should not be relied upon as research, investment advice, or a recommendation regarding any products, strategies, or any security in particular. This material is strictly for illustrative, educational, or informational purposes and is subject to change. Certain content represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results; material is as of the dates noted and is subject to change without notice.

The Funds may invest in derivatives, which are often more volatile than other investments and may magnify the Funds' gains or losses. A derivative (i.e., futures/forward contracts, swaps, and options) is a contract that derives its value from the performance of an underlying asset. The primary risk of derivatives is that changes in the asset's market value and the derivative may not be proportionate, and some derivatives can have the potential for unlimited losses. Derivatives are also subject to liquidity and counterparty risk. The Funds are subject to liquidity risk, meaning that certain investments may become difficult to purchase or sell at a reasonable time and price. If a transaction for these securities is large, it may not be possible to initiate, which may cause the Funds to suffer losses. Counterparty risk is the risk of loss in the event that the counterparty to an agreement fails to make required payments or otherwise comply with the terms of the derivative.

The ability of the Funds to achieve their investment objectives is dependent, in part, on the continuous availability of A Shares and the ability to obtain, if necessary, additional A Shares quota. If the Funds are unable to obtain sufficient exposure due to the limited availability of A Share quota, the Funds could seek exposure to the component securities of the Underlying Index by investment in other types of securities. The Funds are subject to political, social or economic instability within China which may cause decline in value. Emerging markets involve heightened risk related to the same factors as well as increased volatility and lower trading volume. Fluctuations in currency of foreign countries may have an adverse effect to domestic currency values.

The Funds may invest in Initial Public Offerings (IPOs). Securities issued in IPOs have no trading history, and information about the companies may be available for very limited periods. In addition, the prices of securities sold in IPOs may be highly volatile. In addition, as the Funds increases in size, the impact of IPOs on the Funds' performance will generally decrease.

Narrowly focused investments typically exhibit higher volatility. The Funds' assets are expected to be concentrated in a sector, industry, market, or group of concentrations to the extent that the Underlying Index has such concentrations. The securities or futures in that concentration could react similarly to market developments. Thus, the Funds are subject to loss due to adverse occurrences that affect that concentration. In addition to the normal risks associated with investing, investments in smaller companies typically exhibit higher volatility. KWEB is non-diversified.

ETF 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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## Important Notes

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## Risk Disclosures

The views and opinions expressed in this material are those of authors of the Krane Fund Advisors. These opinions have been given in faith, but are subject to change without notice. It is the responsibility of the investor to evaluate the accuracy, completeness and usefulness of any opinions, advice or other information provided. Instead, investors must buy and sell UCITS shares in the secondary market with the assistance of a stockbroker.

UCITS shares are not individually redeemable with the issuing fund other than in large Creation Unit aggregations. 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 (NAV) when selling. The Net Asset Value per share is calculated in accordance with the "Determination of Net Asset Value" section of the prospectus, using the official closing price published by the relevant exchange. Shares are bought and sold at market price which may or may not be consistent with NAV.

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 Fund to achieve its respective investment objectives is dependent, in part, 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 to limited availability of A Share quota, the Fund could seek exposure to the component securities of the Underlying Index by investment in other types of securities. The Fund is subject to political, social or economic instability within China which may cause decline in value. Emerging markets involve heightened risk related to the same factors as well as increase volatility and lower trading volume. Fluctuations in currency of foreign countries may have an adverse effect to domestic currency values. The Fund may invest in Initial Public Offerings (IPOs). Securities issued in IPOs have no trading history, and information about the companies may be available for very limited periods. In addition, the prices of securities sold in IPOs may be highly volatile. In addition, as the Fund increases in size, the impact of IPOs on the Fund's performance will generally decrease.

Narrowly focused investments typically exhibit higher volatility. The Fund's assets are expected to be concentrated in a sector, industry, market, or group of concentrations to the extent that the Underlying Index has such concentrations. The securities or futures in that concentration could react similarly to market developments. Thus, the Fund is subject to loss due to adverse occurrences that affect that concentration. In addition to the normal risks associated with investing, investments in smaller companies typically exhibit higher volatility.

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### Risk Disclosures Continued:

In Switzerland, the Fund has appointed as Swiss Representative Waystone Fund Services (Switzerland) SA, Av. Villamont 17, 1005 Lausanne, Switzerland, Tel: +41 21 311 17 77, email: [switzerland@waystone.com](mailto:switzerland@waystone.com). The Fund's paying agent is Helvetische Bank AG. In respect of the Shares distributed in or from Switzerland, the place of performance and jurisdiction is Lausanne (Switzerland).

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