金瑞基金 KraneShares™

2021 China Outlook: Full Steam Ahead

info@kraneshares.com +1 (212) 933 0393

Table of Contents

2021 China Outlook: Full Steam Ahead	3-30
Economy	4-6
14th Five Year Plan	7-8
Capital Markets	9-11
Currency	11-13
Fixed Income	13-14
Theme 1: China's A Share Market	15-17
Theme 2: China Internet and Technology	17-22
Theme 3: Health care	23-25
Theme 4: Environment and Clean Technology	26-30
Conclusion	30
Summary	31
Citations	32
Company ETF Weight	32
Definitions	32-33
Disclosures	34

2021 China Outlook: Full Steam Ahead

With 2020 finally behind us, we have prepared an outlook for the state of China's economy, capital markets, politics, and favorite themes for 2021. China's first-in/first-out experience with the coronavirus pandemic resulted in a robust economic rebound and stock market rally in the latter part of 2020. The MSCI China All Shares Index ended the year up 33.6%, as opposed to 18.4% for the S&P 500 Index. While the Western world had not experienced a pandemic in almost 100 years, China's experience with the 2003 SARS outbreak led to the development of containment policies, including quarantines, social distancing measures, and mask-wearing. Each of these policies was introduced in China in January 2020, and now, China is a full three quarters removed from quarantine. We believe that China can serve as a model for what may occur in other countries in 2021, as they also work to defeat the pandemic. While China's strong economic performance in 2020 will face year-over-year (YoY) comparisons beginning in the second quarter of 2021, the pace of economic growth should remain robust throughout the year.

Economy

The coronavirus pandemic had a strong, negative effect on China's economy in the first quarter of 2020 as China implemented a strict quarantine that led to a precipitous fall in GDP. Asian countries have unfortunately dealt with several pandemics over the last two decades that taught policymakers the most effective tools to control viral spread. These policy measures, which were also put into effect in several North Asian countries, such as Taiwan and Vietnam, effectively controlled coronavirus's spread in China.

These controls helped China to lift its quarantine in Q2 2020 and maintain a V-shaped economic recovery. This recovery continues today, as evidenced by economic data and the results of publicly traded companies. China implemented monetary and fiscal policy support while taking further measures, such as providing credit for businesses impacted and issuing bonds for infrastructure projects. These measures were very different from how China responded after the Global Financial Crisis (GFC) when it issued large amounts of debt to stimulate the economy.

This time, China's economy is apt not to suffer from a debt-induced hangover as it did post GFC. It is crucial to note that interest rates were not cut in 2020, which is exceedingly rare across developed and emerging market countries. China's rate environment aided the renminbi's performance versus the US dollar, euro, and other major currencies. The renminbi's strength is likely to continue to benefit from its conservative interest rate policy. It is feasible that monetary policy measures could tighten in late 2021 to prevent the economy from overheating, though we believe the current support will be scaled back incrementally. Chinese exports will also face a high hurdle in YoY comparisons in 2021, having been driven by strong demand for health care exports such as Personal Protective Equipment (PPE) and ventilators while work from home (WFH) drove demand for computers, laptops, and iPhones. Exports of health care and WFH goods are likely to decrease in 2021 while demand for traditional exports picks up.

Projections (real GDP, annual % change)

	2019	2020	2021
World Output	2.8	-4.4	5.2
Advanced Economies	1.7	-5.8	3.9
United States	2.2	-4.3	3.1
Euro Area	1.3	-8.3	5.2
Germany	0.6	-6.0	4.2
France	1.5	-9.8	6.0
Italy	0.3	-10.6	5.2
Spain	2.0	-12.8	7.2
Japan	0.7	-5.3	2.3
United Kingdom	1.5	-9.8	5.9
Canada	1.7	-7.1	5.2
Other Advanced Economies	1.7	-3.8	3.6
Emerging Markets and Developing Economies	3.7	-3.3	6.0
Emerging and Developing Asia	5.5	-1.7	8.0
China	6.1	1.9	8.2
India	4.2	-10.3	8.8
ASEAN-5	4.9	-3.4	6.2
Emerging and Developing Europe	2.1	-4.6	3.9
Russia	1.3	-4.1	2.8
Latin America and the Caribbean	0.0	-8.1	3.6
Brazil	1.1	-5.8	2.8
Mexico	-0.3	-9.0	3.5
Middle East and Central Asia	1.4	-4.1	3.0
Saudi Arabia	0.3	-5.4	3.1
Sub-Saharan Africa	3.2	-3.0	3.1
Nigeria	2.2	-4.3	1.7
South Africa	0.2	-8.0	3.0
Low-Income Developing Countries	5.3	-1.2	4.9

Source: IMF, World Economic Outlook, October 2020
For India, data and forecasts are presented on a fiscal year basis, with FY 2020/21 starting in April 2020. India's growth is -8.6% in 2020 and 6.8% in 2021 based on the calendar year.

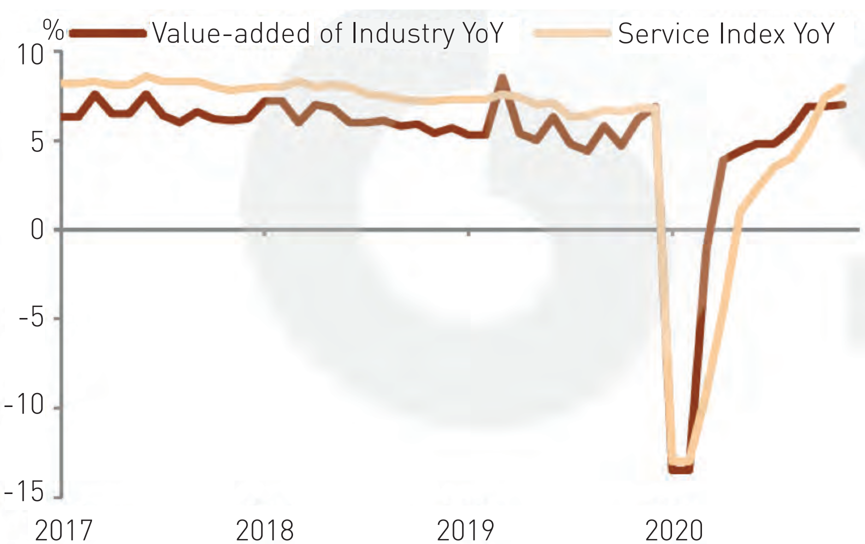
14th Five Year Plan

By far the most important economic policy in 2021 will be the 14th Five Year Plan, which was drafted in November 2020 with its approval coming in the spring of 2021. While we do not know the exact specifics, several areas of focus are clear, which are marked in bold below, while investable themes are italicized:

- Raising **domestic consumption** will take center stage as the term "Dual Circulation" refers to a pivot from China's economy being focused on globalizing to now being focused on domestic demand. We believe that *internet* and *E-Commerce* are the transmission engines for domestic consumption as it increasingly occurs online. Additionally, consumption-related industries such as *home appliance makers* that produce refrigerators, dishwashers, washing machines, dryers, and air conditioners may be beneficiaries.
- Renewed focus on raising **technology** adoption and domestic manufacturing across several sub-themes such as *5G*, *semiconductor*, digital currency, artificial intelligence, and Internet of Things (IoT). Ensuring reliable supply chains in light of US technology export bans is apt to benefit domestic companies at the expense of US suppliers.
- Being the world's factory has had a negative effect on the **environment.** Raising renewable energies such as *solar and wind production* while supporting *electric vehicle* adoption should help China meet its goal of being carbon neutral by 2060.

- **Health care** remains in focus as both the standard of care and the level of health care digitization will be raised in a post-COVID world. The goal is to make health care accessible, affordable, and of high quality. There will be continued support for *the development of the biotechnology and healthTech industries*, among others.

With China's economy recovering, a big question is whether the monetary and fiscal stimulus will be pulled as the economy recovers. The policy support we saw in 2020 was targeted to help specific impacted industries versus being a broad-based economic stimulus, as evidenced by the lack of an interest rate cut. We do not believe the "proverbial punch bowl" will be pulled until the global economy recovers, allowing China's impacted industries to fully recover.



Source: CICC, Bloomberg. Data as of December of 2020

Capital Markets

Chinese stocks have enjoyed a strong 2020 following an equally robust 2019. Much attention has been given to the strength of the US stock market over the last decade versus non-US stock markets, particularly emerging markets (EM). The consensus view has been that EM stocks are "out of favor." The reality is that investors' preference for growth companies over value companies is a global phenomenon. EM growth sectors have performed equally as well as US growth companies but with lower valuations. 2021 could see a rebound in EM equity allocations as the dollar's decline, lower valuations, and a commodity rebound could drive investment flows into broad EM ETFs. EM indices are no longer dominated by commodity-driven stocks and countries like in the past. Hence, flows into broad EM ETFs should ultimately filter into China and its growth leaders.

While we anticipate a value catch up is likely long overdue, China provides a strong indication of what may occur globally since China is three full quarters removed from its quarantine. It is clear that the habits formed in the quarantine, such as utilizing E-Commerce and food delivery, have persisted. WFH sectors such as online education could see a post-quarantine drop in usage as schools resume in person, but largely speaking, the strong earnings highlighted in our

China Internet Q3 Report may persist. Stocks are forward-looking, so an element of China's continued economic rebound is assumed to be priced in. Future earnings will confirm the extent of China's first-in/first-out experience with coronavirus. Quality growth stocks that provide strong revenue growth and net income look to remain in investors' focus.

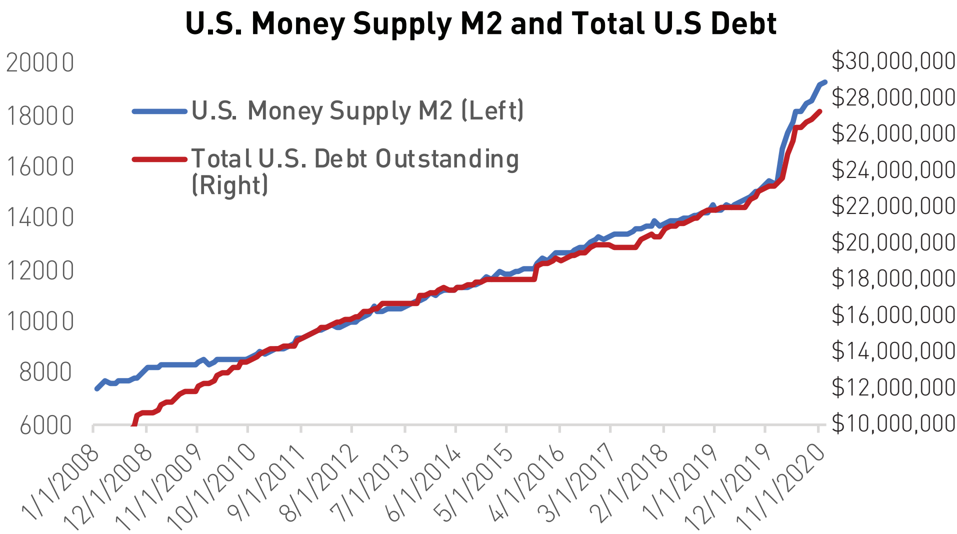
One catalyst for Chinese equities is likely a reallocation of Chinese household savings to stocks from housing. It is clear that policymakers would like to see housing speculation, driven by continued urbanization, play a smaller role in China's savings. The drumbeat of "housing is for living and not for speculating" is apt to continue in 2021. Even a small reallocation of Chinese savings could have a dramatic effect on the market. Despite this, Bloomberg noted that the twenty largest emerging market-focused active mutual funds were all underweight China. Following a year of outperformance, a re-rating of China in these portfolios could lead to further inflows into China.

MSCI has added 20% of the potential weight of Chinese A shares, represented by the 475 stocks within the MSCI China A Index, to broader indexes such as the MSCI Emerging Markets Index. Currently, Chinese A shares make up less than 5% of MSCI Emerging Markets. However, through full inclusion, the stocks within the MSCI China A would represent 20% of the MSCI EM Index on their own, which would raise China's weight to over 50%. A more communicative US-China relationship could see the inclusion re-introduced in 2021, though a number of technical issues remain outstanding, which could prevent a full inclusion from occurring until resolved. A potential surprise in 2021 is the possibility of South Korea being upgraded to a developed market. Korea's GDP per capita is aligned with a developed market status; however, certain trading restrictions have prevented it from being upgraded by MSCI despite FTSE Russell upgrading the country to developed markets in 2009 and S&P Dow Jones in 2001. If an upgrade were to occur, China would be a significant beneficiary, which could lead to its weight increasing above 40%.

Currency

A tailwind for foreign investors in mainland China has been the strong performance of the renminbi. A significant driver of currency performance is interest rate differentials. Look at China's interest rate versus other major economies (Chart 3). A factor affecting the US/renminbi price has been the rapid rise of the US debt along with the rapid rise in the number of US dollars available as exhibited by M2, a measure of liquidity in the economy.

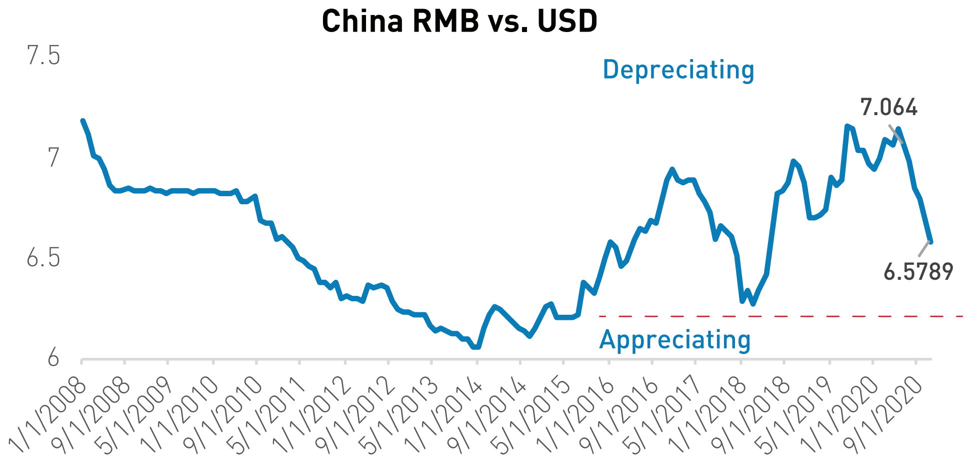
Chart 1: US liquidity and total outstanding debt



Source: Bloomberg. Data as of December of 2020

Quite simply, the renminbi's rise is driven mainly by China's stable interest rate and the debasement of the US dollar. The conditions for continued renminbi appreciation may remain in 2021, potentially ending the year closer to RMB6.25 per USD (Chart 2).

Chart 2: Chinese RMB

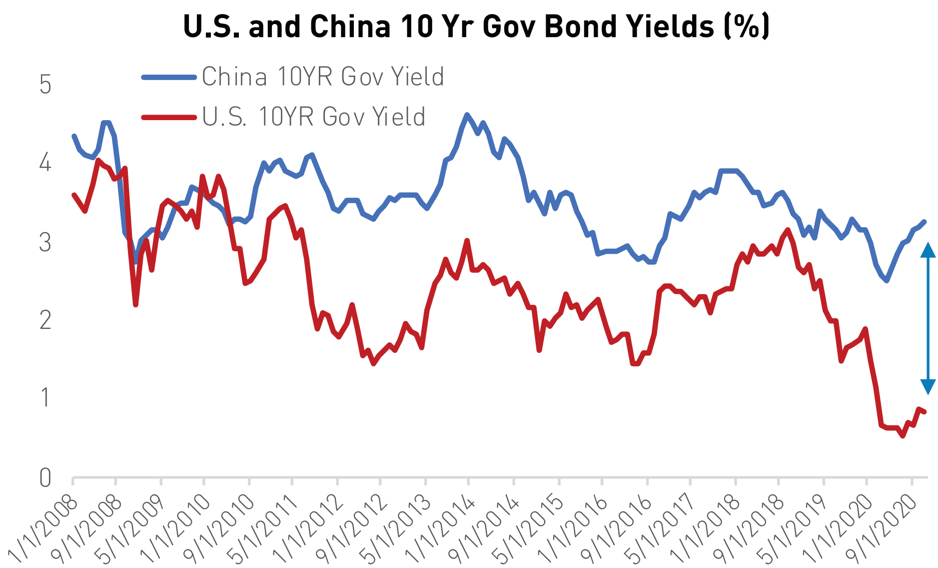


Source: Bloomberg. Data as of December 2020

Fixed Income

China's bond market, along with stocks, have benefited from the renminbi's performance in 2020. The reality is that Chinese government bonds provide a positive real yield, which is becoming an increasingly rare phenomenon globally. The majority of foreign investors' interest has come from negative yielding markets such as Japan and Europe and has been focused on Chinese Treasury and policy banks. Corporate bonds have seen a smaller percentage of inflows, though there is an argument that Chinese companies are more likely to make coupon and principal payments due to China's V-shaped economic recovery. We have been surprised by the lack of interest in corporate bonds considering the attractive yields they offer.

Chart 3: US and China 10-year Gov Yield



Source: Bloomberg. Data as of December 27, 2020

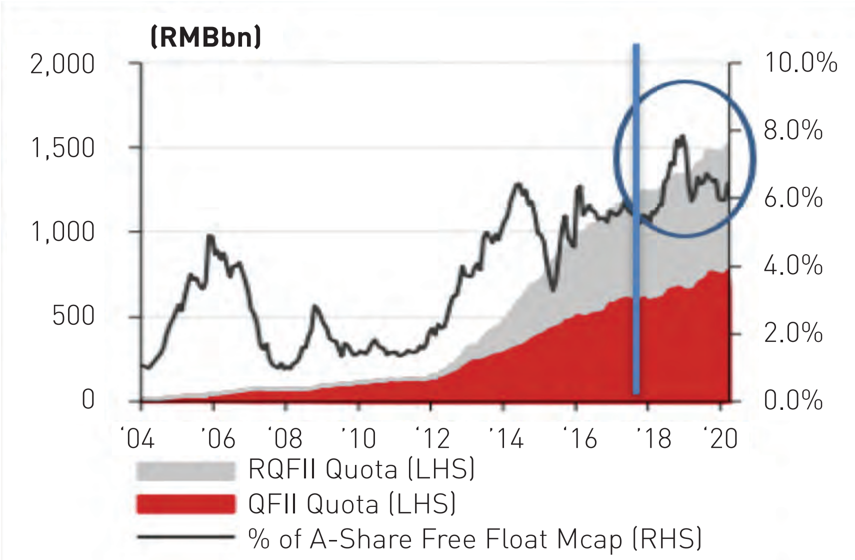
The pandemic may have accelerated multi-year trends. Together, with the policy direction set by the Chinese government, some sectors and themes are bound to perform better than others. We outline these themes below, including potential risks and opportunities in 2021.

Theme 1: China's A Share Market

A subdued geopolitical environment is positive for China's A share market, which reacted favorably to the results of the US election. The A share market is expected to grow 18%[1] in 2021, driven by the 5G upgrade, health care, and consumer spending. However, we believe there is a real upside potential for the A share market stemming from the possible resumption of index inclusions, which may lead to strong flows akin to 2017 following MSCI's first inclusion announcement (Chart 4). We expect the government to continue to utilize policies that are supportive of growth. The Chinese government seeks to meet the long-term goal of doubling GDP / income per capita by 2035 based on the recommendation of China's party leadership during its Fifth Plenum in October. This implies an average annual growth of 4.7% for the next 15 years. As a result, expecting an average GDP growth target of 5.5% for the next five years is not far-fetched (Chart 5).

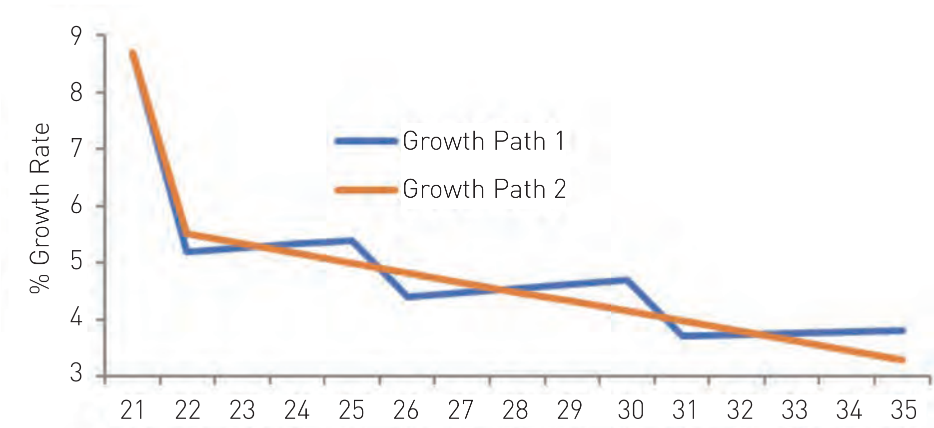
On the other hand, the expected pullback in liquidity in the second half of 2021 as the pandemic begins to recede may put pressure on stocks. It may be a decision the Politburo Standing Committee will take as they meet in July of 2021 to evaluate the economy and potentially adjust fiscal and monetary policies.

Chart 4: A share flows and % of foreign ownership



Source: HSBC and Bloomberg. Data as of March 2020

Chart 5: China's potential GDP growth rate path by 2035



Source: JP Morgan. Target announced by China's Party Leadership on October 29th, 2020.

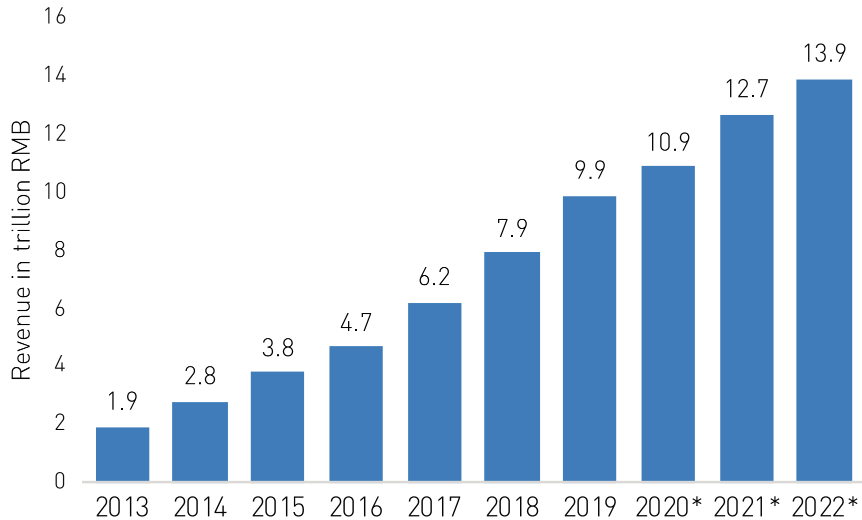
The KraneShares Bosera MSCI China A Share ETF (KBA) tracks China's mainland stocks. We believe KBA is well positioned to potentially benefit from the mainland's performance drivers such as enhanced 5G infrastructure, and the consumer, in addition to any future inclusion announcements by global indices.

Theme 2: China Internet and Technology

China internet benefited from COVID-19 as consumers flocked online for their daily needs. We believe this structural change will likely continue in 2021. Post pandemic data in China suggests that internet usage will keep its momentum. Time Spent on Apps will likely remain at 5 - 6 hours per day in 2021[1]. **China's Generation-Z has an online lifestyle** that is more apparent than any previous generation, and they are becoming mainstream consumers.

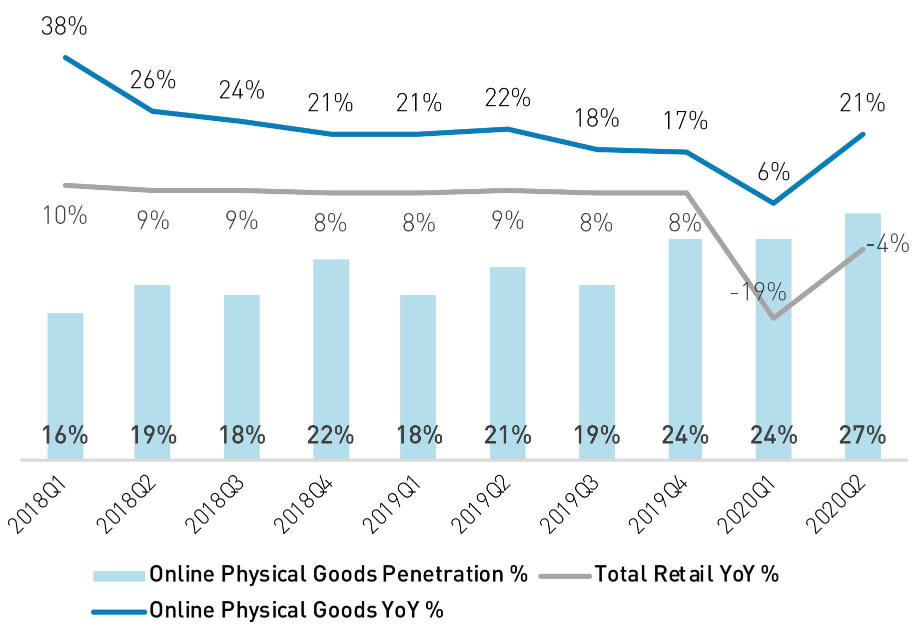
In 2020, E-Commerce companies saw tremendous growth in Gross Merchandise Value (GMV): Alibaba hit over 6 Trillion RMB ($928B), JD over 2 Trillion RMB ($309B), and Pinduoduo over 1 Trillion RMB ($155B). Total China online GMV is projected to reach **12.7 Trillion RMB ($1.96T) in 2021[2]**. Online retail sales could account for 30% of total retail sales, up from 24% pre-COVID[2]. With increasing Monthly Active Users (MAU) and online spending, HSBC expects the communication services sector in the FTSE China Index will contribute more than half the growth in Asia ex-Japan, with an expected growth rate of 45%.

Chart 6: China Online GMV Growth (Trillion RMB)



Source: Statista. Data as of December 2020

Chart 7: China Online retail growth vs offline retail growth



Source: NBS, CRSUS compiled (left chart). Data as of June 2020

Many verticals may continue to digitize, and lower-tier cities (300 to 400 million users) could continue to increase internet penetration in 2021. **Community group-buying** could become the next billion-dollar market in China. Community buying involves having a designated community leader who maintains a WeChat (messaging app owned by Tencent) group of up to 500 people and collectively buys and picks up for the community. **Livestreaming E-Commerce** has also been gaining steam in China and Korea. We could see "community group-buying" and livestreaming E-Commerce driving another round of user growth and engagement for internet companies. Pinduoduo got its start offering online group-buying and has risen to become China's second largest E-Commerce company in terms of users in just five years.

2020 saw a rise in **Antitrust** actions against technology giants in China (as well as the US and Europe). There will be some detailed rules coming in 2021. However, we believe China internet companies' core businesses are unlikely to be severely impacted as China's economy heavily depends on these services. The new regulations are likely to focus on monopolistic behaviors and exclusivity, especially with regards to payment-bound merchants and users. The antitrust actions could give smaller players a fighting chance. This makes diversification key in 2021 as the whole internet pie will keep growing, but the slices may be reshuffled. (Diversification does not ensure a profit or guarantee against a loss.) The KraneShares CSI China Internet ETF's (KWEB) **basket approach** captures the whole internet market.

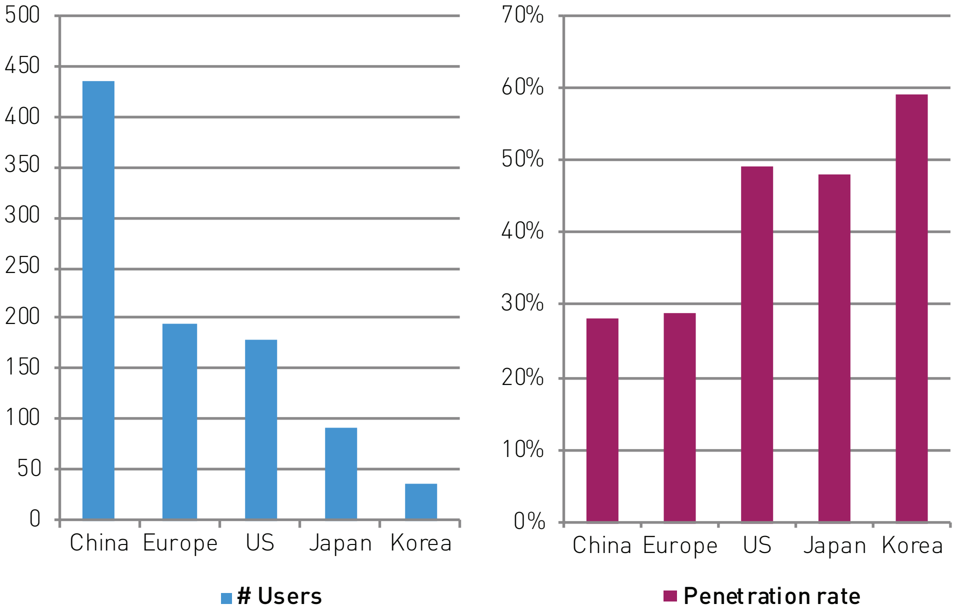
As for Ant Group, a subsidiary of Alibaba, the situation seems to be more complicated as the government's endgame remains unclear. Ant Group has grown to be a self-sufficient financial ecosystem with the sourcing of funds, distribution mechanism, and clients all under one umbrella. That makes the Chinese government concerned about the potential for a "too big to fail" type of event. The resolution remains elusive for now.

Could the Government ask Ant Group to break up? Or could the Lufax model be a good solution? Lufax is a subsidiary of Ping An with a similar financial ecosystem as Ant Group but with a government ownership stake. China's history with reforms tells us that the regulators are tough in the beginning, but they always succeed in finding common ground that can benefit the consumer, industry, and investors.

We may see big IPOs in 2021. There are many Chinese internet "unicorns" that are still private. Short-form video platforms are rising stars to watch in the space. Both MAU and time spent on Douyin (the Chinese version of TikTok) and Kuaishou (TikTok's main competitor in China) rose dramatically in 2020. With a maturing business model and user growth, the IPO of Bytedance (TikTok's parent company) and Kuaishou could happen in 2021. Other potential IPOs may include Didi, JD Finance, Alibaba's Cainiao logistic network, and others.

2021 could be another big year for China's **5G development.** China has already built over 690,000 5G base stations compared to 50,000 5G base stations in the US[3]. In 2021, China plans to build another 1 million 5G base stations and establish 5 million 5G stations by 2025[4]. The rising demand for 5G infrastructure and 5G smartphones/ devices stands to benefit 5G related companies like ZTE and Xiaomi. As 5G gradually changes the internet industry's foundation, there will be more new business models that become mainstream, such as live streaming, E-Commerce, cloud gaming, augmented reality (AR), virtual reality (VR), telehealth, etc.

Forecast of 5G Mobile User and Penetration in 2025



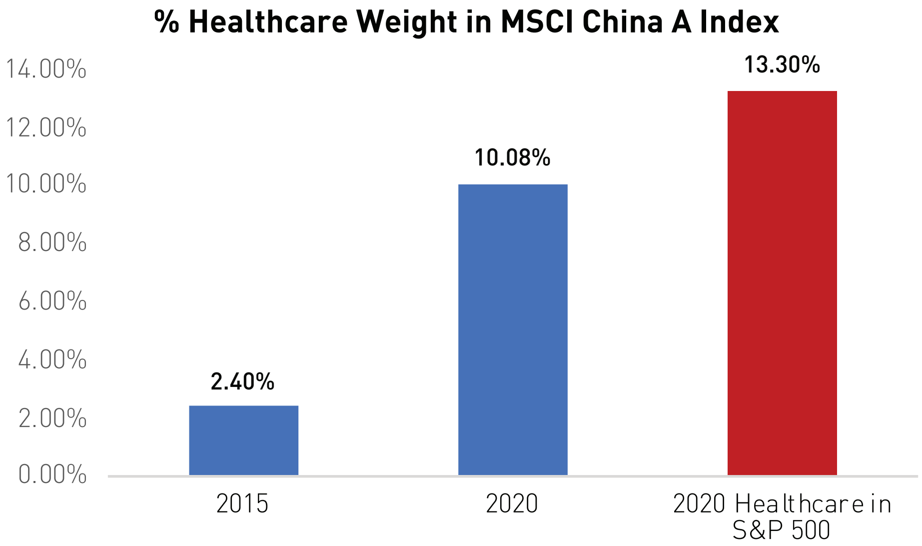
Data from CICC Research, "5G – Opportunities and Challenges", last updated October 2019.

Both the **KraneShares CSI China Internet ETF (KWEB)** and the **KraneShares CICC China 5G & Semiconductor ETF (KFVG)** can help investors capture China's technological and digital revolutions. The first provides a basket approach to China's internet companies listed in the US and Hong Kong and offers exposure to the rising consumption from the emerging Chinese middle class. The second captures the 5G and semiconductor-related technology companies in China, which are leading innovators in the new era of 5G and the internet of things.

Theme 3: Health care

The pandemic shined a light on China's health care sector – a forgotten sector that has been in transformation for years. Together with the emergence of green shoots of innovations within biotech, health care companies in China had a strong year. According to Bloomberg, China's health care sector is expected to grow by 27% in 2021 and 25% in 2022. Although the pandemic exposed some of the weaknesses of the system, it also showcased the blooming **pharma industry** through vaccine research and biological drug approvals. Global demand for Chinese **medical devices** also surged in 2020, resulting in a jump in medical exports.

Chart 8: China vs. US Health care weight in Indices

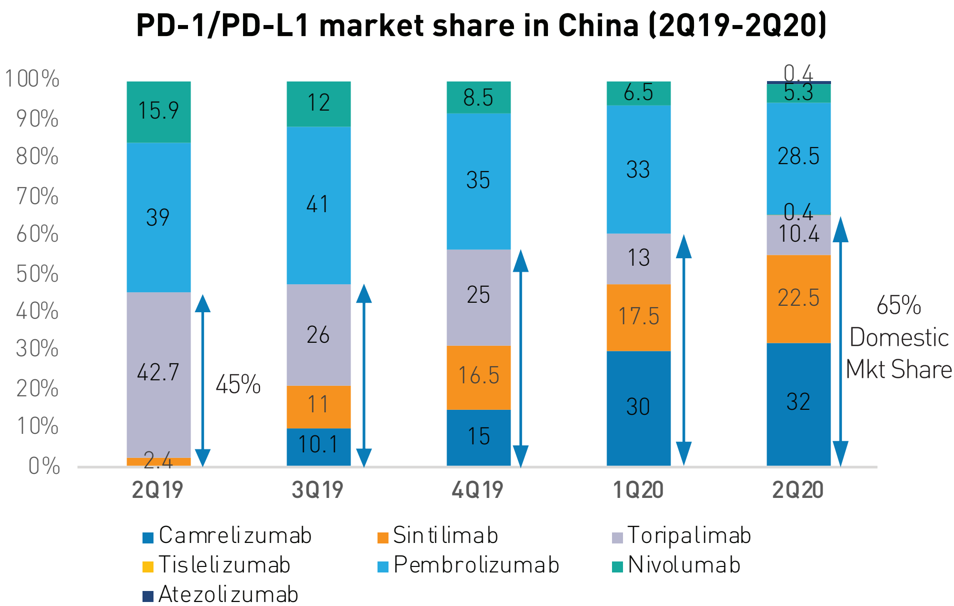


Source: Bloomberg. Data as of December 2020

In 2021, we expect China to further develop its **health care infrastructure.** This means more hospital beds, Patient Monitors and Live Support (PMLS) equipment, and more data integration. The **HealthTech** industry should continue to develop and expand and make internet hospitals, telemedicine, and online pharmacies available in more provinces. China's National Health care Security Administration released a communique in December of 2020 recognizing the positive impact of HealthTech during the pandemic and provided recommendations to organize and expand the use of "internet + medical services."

Negotiations between China's pharma companies and the National Drug Reimbursement List (NDRL) committee are currently happening and will likely put pressure on generic drug prices. The central procurement program, which launched two years ago, has forced many pharma companies to **transition from generic to innovative drugs** leading to a surge in R&D investments. We expect the transition to pick up pace in 2021 with more innovative drugs coming to market and taking market share from foreign drug makers. Three examples are Chinese drug companies, Innovent, BeiGene, and Junshi (private), which took market share from Merck and Roche in 2020 following the approval of their Programmed Cell Death – 1 and L1 (PD-1 and PD-L1) immunotherapy drugs used in cancer treatment. The pickup in R&D may also continue to benefit **life sciences and research companies** such as Wuxi Biologics and WuXi Apptec, who offer pharma companies end-to-end solutions from molecule discovery to commercialization.

Chart 9: China's Immunotherapy Drugs domestic vs. foreign market share



Source: CLSA, PDB, Company report and McKinsey analysis. Data as of June 2020

The KraneShares MSCI All China Health Care Index ETF (KURE) experienced an exceptional year despite the pandemic. China's health care is a nascent industry with big potential for growth, in our opinion. It continues to develop and is on path to becoming more sophisticated and inclusive.

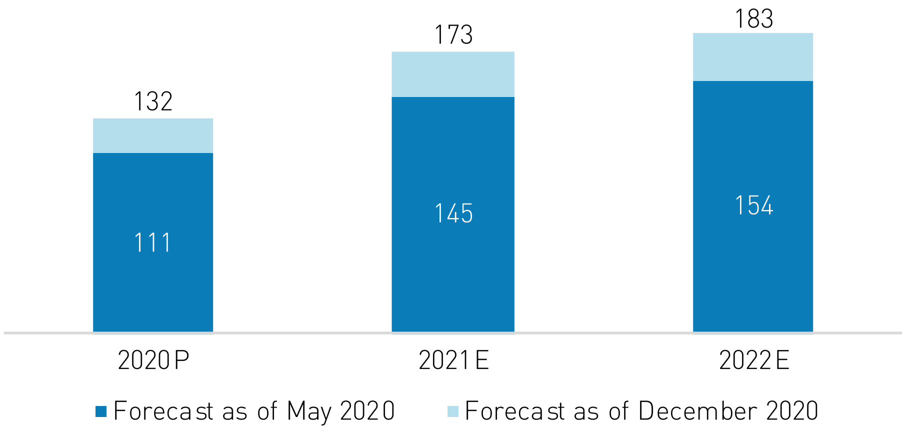
Theme 4: Environment and Clean Technology

President Xi Jinping's speech in December of 2020 during the UN Climate Ambition Summit summed up China's resolve to improve its environment. The president renewed China's commitment to the principles of the Paris Agreement and added multiple commitments to be achieved by 2030, including:

- The reduction of carbon dioxide emission per unit of GDP by 65% from the 2005 level (up from 60%)
- Increasing the share of renewables in primary energy consumption to 25% (up from 20%),
- Increasing forest stock volume by 6bn cubic meters from 2005 levels (up from 4.5bn).

Solar and Wind: Another commitment announced by President Xi is to bring total solar and wind capacity to 1,200GW by 2030 from the current approximate level of 455GW capacity. This means that China will initiate an average of 70-80GW of new solar and wind installations per year over the next 9 years. Solar and wind are the favorites in the race toward renewables as R&D and technological improvements have allowed cost to approach grid-parity with fossil fuels. Analysts believe China will overachieve these targets as it has in the previous five years.

Chart 10: Global Solar Demand vs. Initial Projections

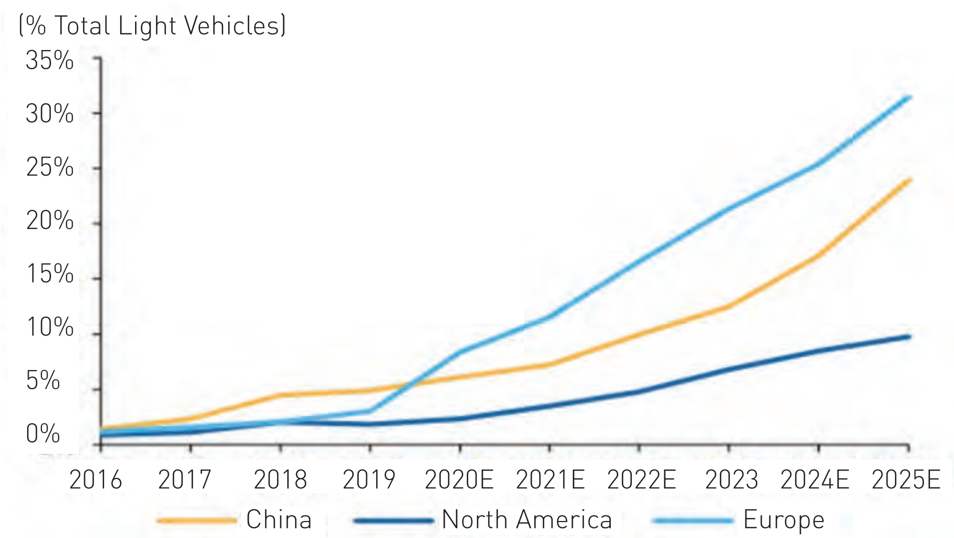


Many countries have announced additional solar plans that exceed previous goals 2020 solar demand surpassed forecasts by 21 GW

Source: JinkoSolar. Data as of December 2020

Electric Vehicles (EV): We believe mass electric vehicle adoption will continue to pick up pace globally in 2021. Europe's EV sales tripled during the first ten months of 2020, and China's EV sales reached 1.25M cars. A combination of policy support and a drop in EV cost, especially batteries, is helping propel the EV industry into the second phase of growth, a phase that is less reliant on government subsidies.

Chart 11: EV Adoption accelerates



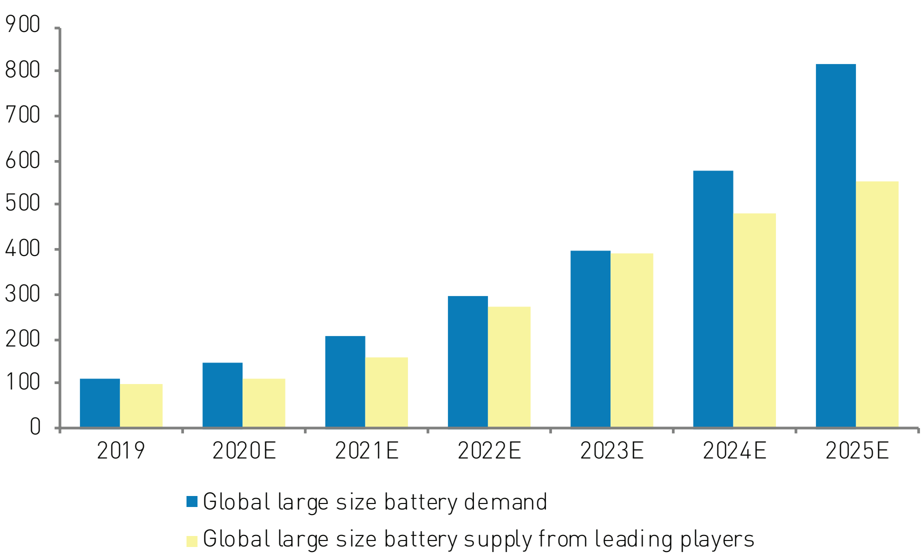
Source: Macquarie. Data as of December 2020

The US is likely to rejoin the Paris Agreement on Climate Change next year and announce favorable policies as outlined in US president-elect Joe Biden's campaign. EV sales growth is expected to be 50% and 60% according to analysts' projections, with strong growth in the EU, US, and China. Battery companies globally have shifted into cost reduction and efficiency modes. According to Tesla's battery day in September, the company expects to reduce its battery cost by ~50% over the next three years, mainly by improving cell design, factory innovation, battery recipe shifts, and cell vehicle integration.

Chart 12: China's EV Sales Growth

Source: CAAM, Macquarie. Data as of December 2020.

Chart 13: Shortage of EV Battery Supply likely to deepen



Source: Macquarie. Data as of December 2020.

Both the **KraneShares MSCI China Environment ETF (KGRN)** and the **KraneShares Electric Vehicles & Future Mobility ETF (KARS)** can provide exposure to China's clean technology industry. KGRN seeks to invest in companies in the clean technology sector, including electric vehicles, solar, wind, waste management, and real estate, among others. KARS is focused on the global electric vehicle industry. Chinese companies are global leaders in EV growth and innovation.

Conclusion

As we enter 2021 with high hopes of the pandemic gradually receding, there are signs of economic progress happening around the world. Moreover, fields such as health care, clean technology, electric vehicle, consumer technology, and fintech seem to have experienced an inflection point in 2020. We are certainly encouraged by the return of diplomacy between the world's largest economies in 2021. Political stability and a mindset of cooperation and inclusion could certainly help spur global growth and innovation. We believe this year looks even brighter than last year, and China could serve as a model for what may occur in other countries in 2021.

Key Themes for 2021

Diplomacy Return

Biden Administration

- Domestic Agenda
- Career Diplomats

14th Five Year Plan Implementation

Highlighted Sectors

- Domestic Consumption
- Clean Energy
- Electric Vehicle
- 5G
- Technology/Semiconductor
- Health Care

Emerging Markets In Focus

- Can EM Equities Outperform US Equities?
- Will a Cyclical Rebound Cause a Value Rebound Versus Growth?

Citation

1. Data from Bloomberg as of 12/22/2020.
2. Data from Statista as of December 2020.
3. Dan Strumpf, "US vs. China in 5G: The Battle Isn't Even Close," WSJ, Nov 9, 2020
4. Nikkei Asia, "China's digital plan will help it leapfrog US as tech leader", June 11, 2020.

Company ETF Weight* (as of 12/22/2020):

1. Alibaba - KWEB 8.60%
2. Tencent - KWEB 9.41%
3. JD - KWEB 7.30%
4. Pinduoduo - KWEB 7.90%
5. ZTE - KFVG 3.76%
6. Xiaomi - KFVG 12.90%
7. Innovent Biologics - KURE 2.72%
8. BeiGene - KURE 2.16%
9. WuXi Biologics - KURE 9.29%
10. WuXi Apptec - KURE 3.61%

*Holdings are subject to change.

Definitions:

MSCI China A: 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".

MSCI Emerging Markets Index: The MSCI Emerging Markets Index captures large and mid cap representation across 27 Emerging Markets (EM) countries*. With 1,397 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

Value-Added of Industry YOY: Industrial production measures the output of industrial establishments in the following industries: mining and quarrying, manufacturing, and public utilities (electricity, gas and water supply). Production is based on the volume of the output. These figures are based on the value-added output of industry measured in constant prices.

Service Index: tracks changes in the output prices of goods or services for companies in the services sector (i.e. prices received by domestic producers for their outputs either on the domestic or foreign market). The services sector generally includes economic activities such as transportation and storage, accommodation and food services, information, and communication, professional or scientific activities, administrative services, etc.

Tesla Battery Day: Tesla's 2020 Annual Meeting of Stockholders and Battery Day

FTSE China Index: The FTSE China Index Series is designed to represent the performance of the global Chinese equity investment opportunity set covering constituents listed outside of mainland China.

The Fifth Plenum: The elite Central Committee of China's ruling Communist Party will hold a closed-door meeting from Monday to Thursday to set the major policies for the year ahead and beyond

GDP: is the monetary value of all finished goods and services made within a country during a specific period. GDP provides an economic snapshot of a country, used to estimate the size of an economy and growth rate.

M2: is a calculation of the money supply that includes all elements of M1 as well as "near money." M1 includes cash and checking deposits, while near money refers to savings deposits, money market securities, mutual funds, and other time deposits. These assets are less liquid than M1 and not as suitable as exchange mediums, but they can be quickly converted into cash or checking deposits.

GDP per Capita: GDP per capita stands for Gross Domestic Product (GDP) per capita (per person). It is derived from a straightforward division of total GDP (see definition of GDP) by the population.

PD-1 and PD-L1: A protein found on T cells (a type of immune cell) that helps keep the body's immune responses in check. When PD-1 is bound to another protein called PD-L1, it helps keep T cells from killing other cells, including cancer cells. Some anticancer drugs, called immune checkpoint inhibitors, are used to block PD-1.

Renminbi Qualified Foreign Institutional Investor (RQFII) is a policy initiative of mainland China, which allows qualified RQFII holders to channel renminbi funds raised in Hong Kong to invest in the Mainland securities markets. RQFII holders may issue public or private funds or other investment products using their RQFII quotas.

Qualified Foreign Institutional Investor (QFII) is a program that allows specified licensed international investors to participate in mainland China's stock exchanges.

Carefully consider the Funds' investment objectives, risk factors, charges and expenses before investing. This and additional information can be found in the Funds' full & summary prospectus, which may be obtained at www.kraneshares.com. Read the prospectus carefully before investing. Please note these links also contain the Funds' top ten holdings, performance, and other important information.

Risk Disclosures:

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 funds may invest in derivatives, which are often more volatile than other investments and may magnify the Funds' gains or losses.

Narrowly focused investments typically exhibit higher volatility. The Funds' assets are expected to be concentrated in an industry or group of industries to the extent that the Underlying Index concentrates in a particular industry or group of industries. The securities of companies in an industry or group of industries could react similarly to market developments. Thus, the Funds are subject to loss due to adverse occurrences that affect one industry or group of industries or sector. KWEB, KURE, KGRN, KARS, and KFVG are non-diversified.

The ability of KBA, KARS, and KURE to achieve their 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 a 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.

KGRN may underperform other similar funds that do not consider conscious company/ESG guidelines when making investment decisions.

Indices are unmanaged and do not include the effect of fees. One cannot invest directly in an index.

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Diversification does not ensure a profit or guarantee against a loss.

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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 up to date on global market trends and aim to provide meaningful diversification. Krane Funds Advisors, LLC is majority owned by China International Capital Corporation (CICC).

ABOUT CICC

In 2017, China International Capital Corporation (CICC) formed a strategic partnership with Krane Funds Advisors, LLC, becoming the largest shareholder. CICC is a leading, publicly traded, Chinese financial services company with expertise in research, asset management, investment banking, private equity and wealth management. Founded as the first Sino-US joint venture investment bank in 1995 with Morgan Stanley and China Construction Bank as the largest initial shareholders. Today CICC is majority owned by China Investment Corporation (CIC), the second largest sovereign wealth fund with over $900 billion AUM. In 2018, The CICC Research Team ranked #1 in Institutional Investor's All-China Research Category for the seventh year in a row. CICC has over 200 branches across Mainland China, with offices in Hong Kong, Singapore, New York, San Francisco, and London.

info@kraneshares.com +1 (212) 933 0393