



The CIBM License Process:

Interbank Bond Market Overview



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Introduction to KraneShares

About KraneShares

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

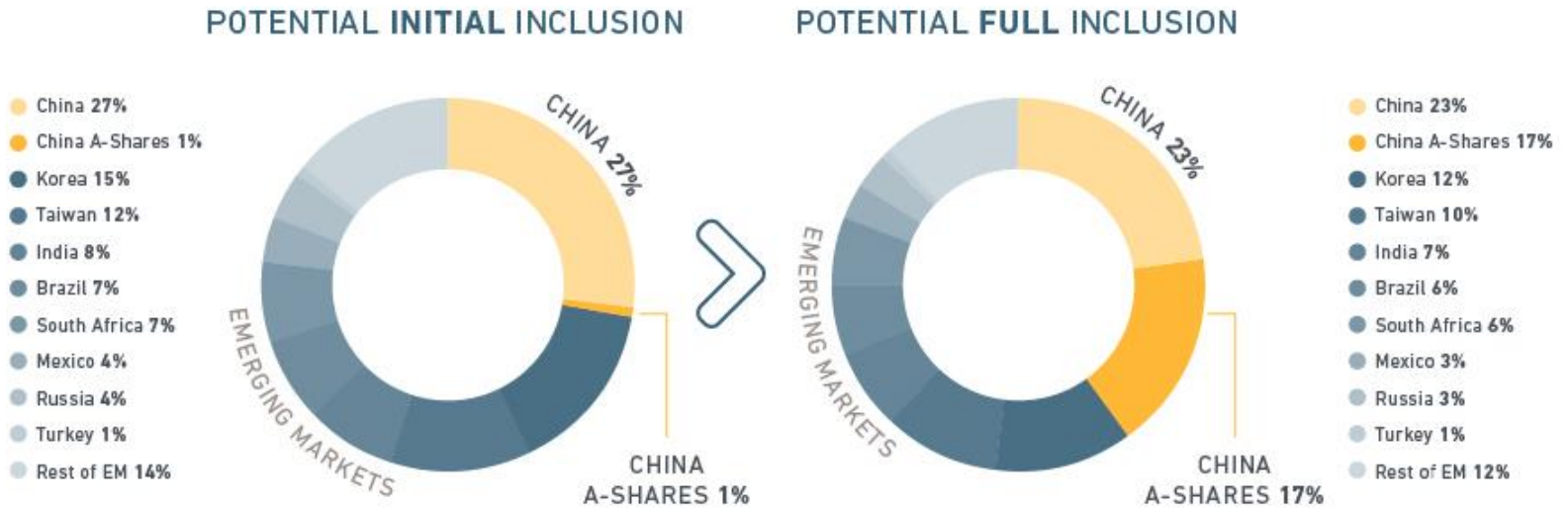




Following MSCI's annual index review in June 2016, China A Shares are still being reviewed for inclusion in broad MSCI Indexes including MSCI Emerging Market.

According to MSCI as of 6/30/2016, \$1.6 trillion track the MSCI EM Index today. \$272b in estimated China A Share flows after full inclusion.

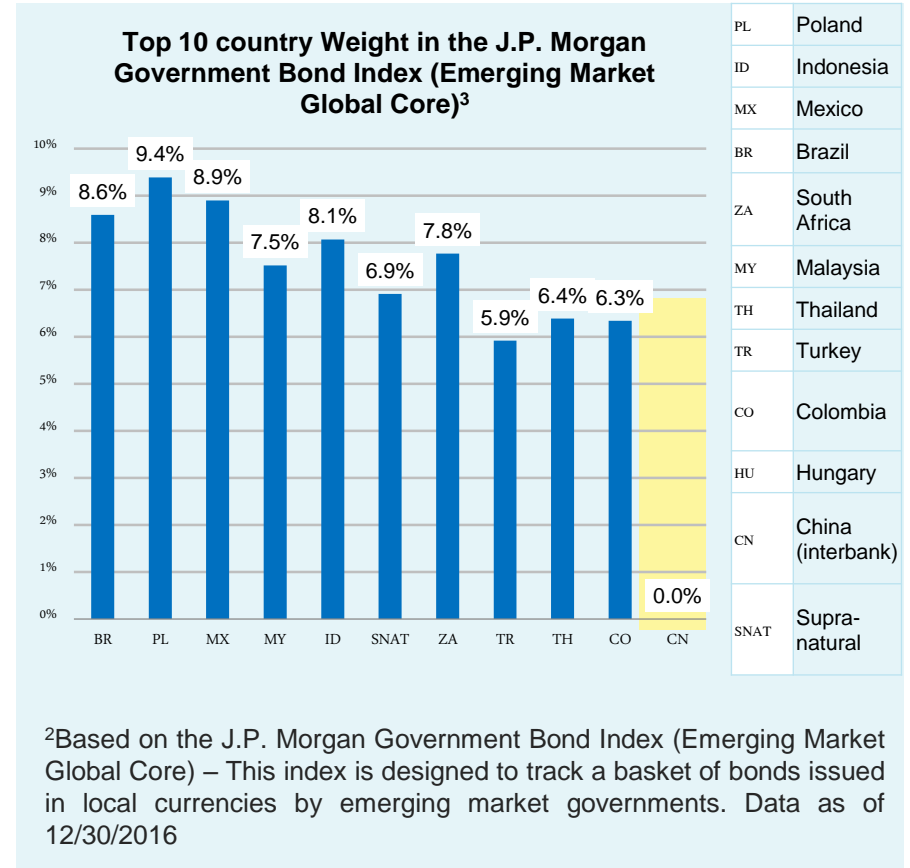
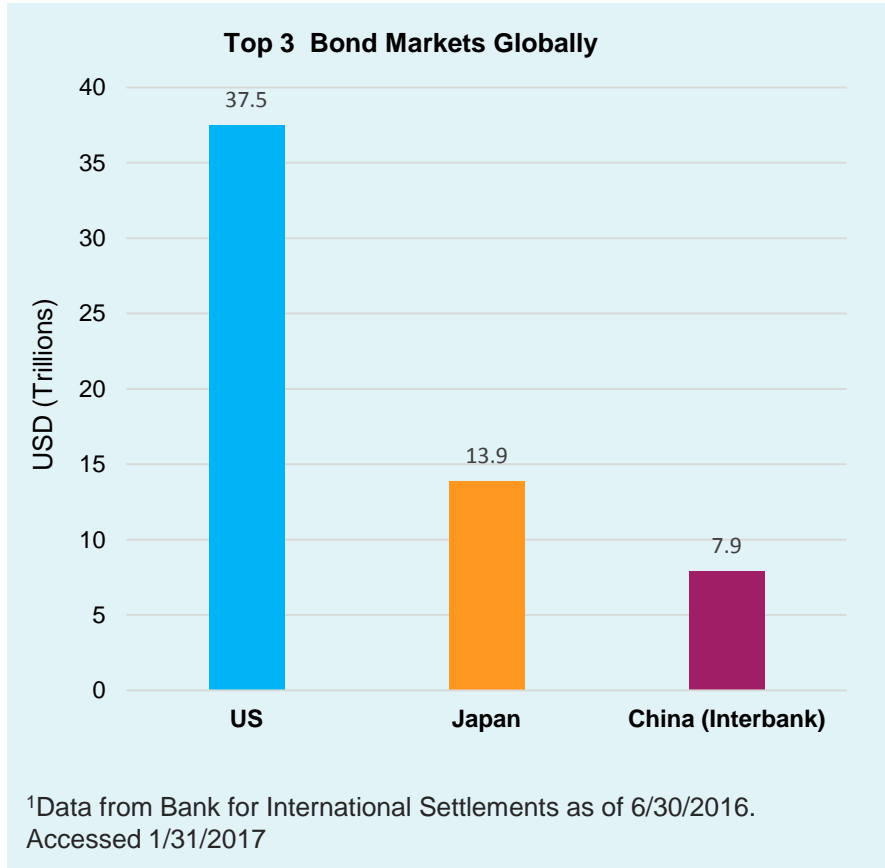
Potential Inclusion Road Map Of China A-Shares



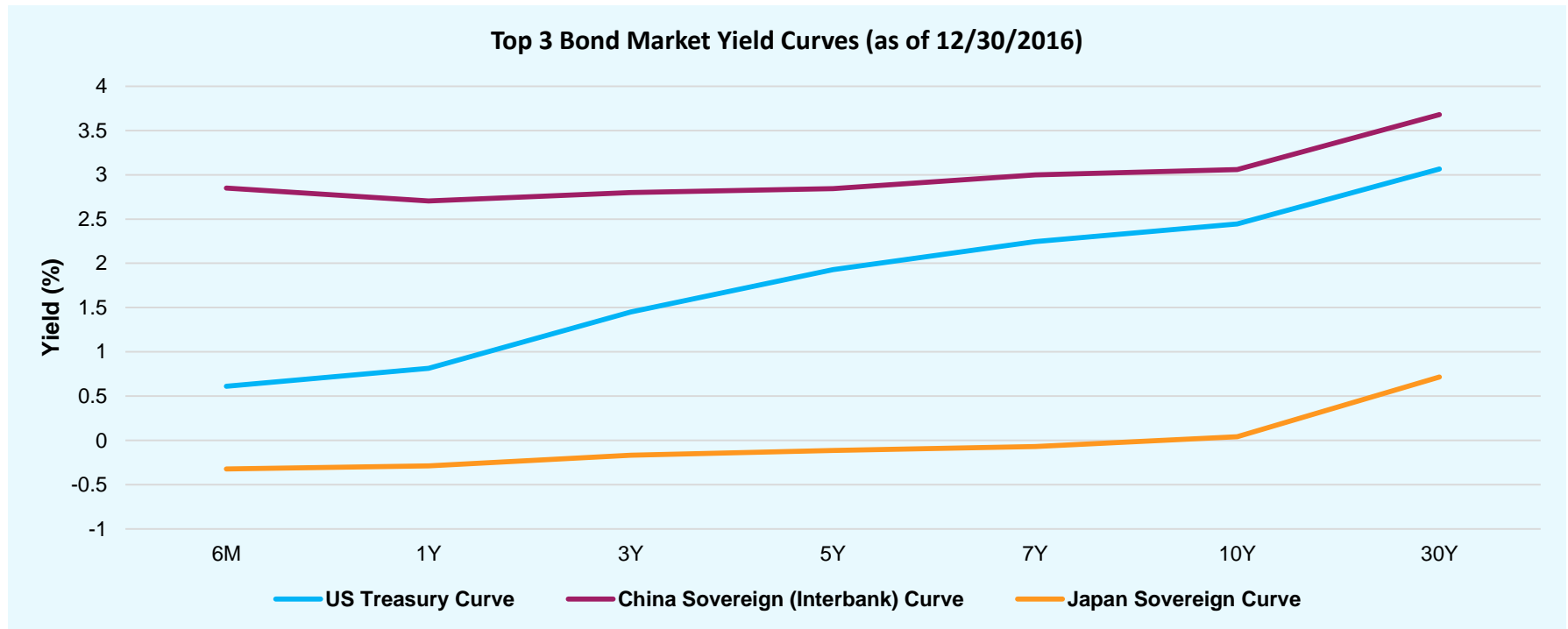
Source: MSCI Research, as of 9/30/2016



China's Interbank bond market is the third largest in the world, yet it has virtually no foreign ownership



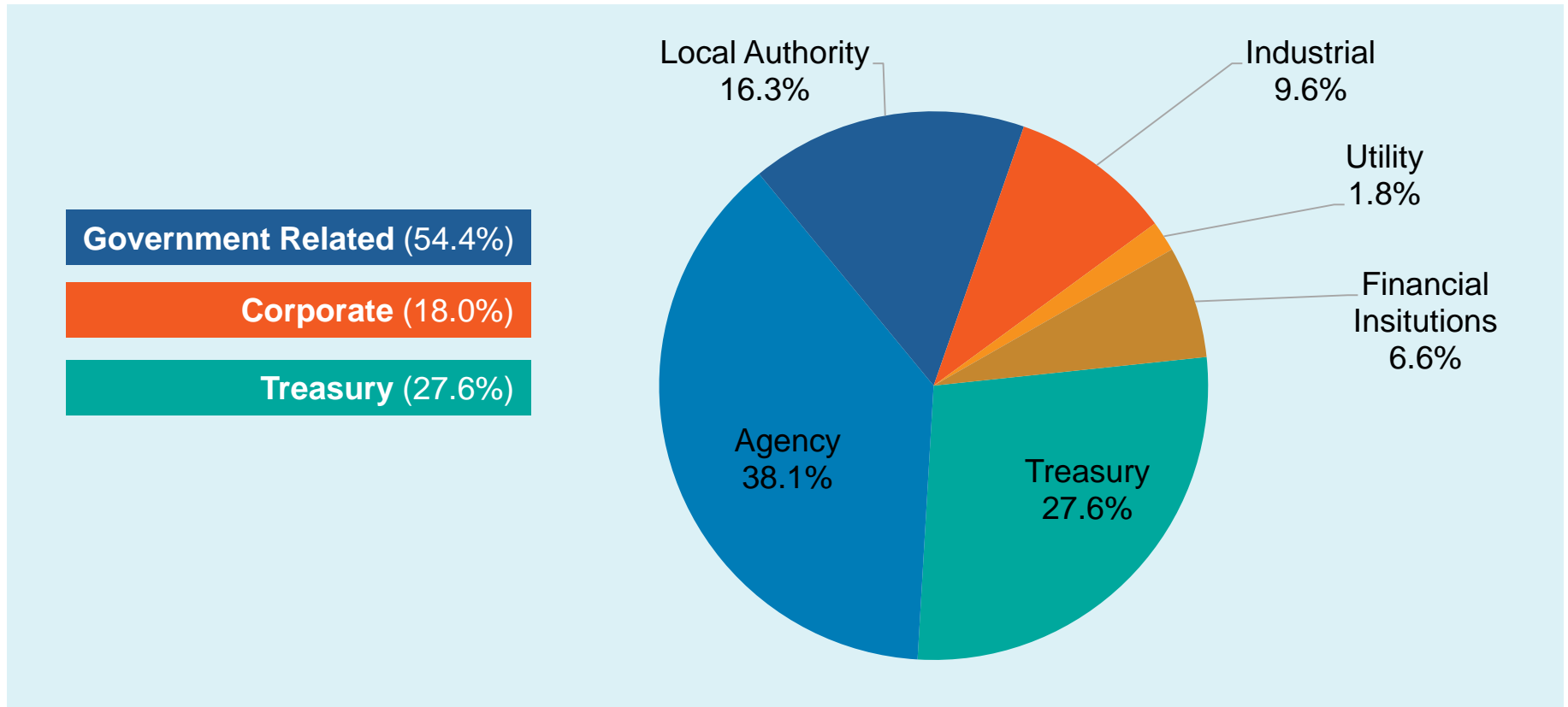
Yields in China's Interbank Bond Market are higher than elsewhere in the world



Data from Bloomberg as of 12/30/2016. A yield curve is a line that plots a set point in time of bonds having equal credit quality but differing maturity dates. For this example sovereign and treasury yield curves were chosen because they represent the highest credit quality yield curve for each respective nation.



Projected composition of the Bloomberg Barclays China Aggregate Index after CIBM inclusion



Data from Bloomberg Barclays China Aggregate Index as of 11/30/2016

The internationally accessible Offshore Bond Market (Dim Sum Bonds) is much smaller than the Mainland Interbank Bond Market

Dim Sum Bond Market has many issuers outside of China

- Air Liquide Finance SA
- Asian Development Bank
- Australia & New Zealand Banking Group
- BNP Paribas SA
- Bank Of Tokyo-Mitsubishi
- Barclays Bank
- Caterpillar
- Citigroup
- Credit Agricole
- Credit Suisse
- Export-Import Bank of Korea
- Goldman Sachs
- JP Morgan
- Lloyds Bank PLC
- Etc...

Composition of Citi Dim Sum Bond Index¹

Issues	95
Total Value	\$24.1 Billion U.S.
Avg, Coupon	3.93%
YTM	4.75%
Duration	2.90
China %	80%

CIBM paperwork process



CIBM application process

CIBM Foreign Institutions Basic Account

- Application Form
- Filing Notification
- Certificate of incorporation
- ID of Legal Representative
- Letter of Authorization
- ID of Authorized Signatory
- Settlement Agency Agreement with Custodian

RMB Special Account/FX Account

- Application Form
- Filing Notification
- Basic Account Certification
- Registration Certificate from SAFE
- Certificate of Incorporation
- ID of Legal Representative
- Letter of Authorization
- ID of Authorized Signatory
- Settle Agency Agreement with CCB

Clearing – CCDC, SHCH & CFETS

- PBOC Filing Notification
- Foreign Institution Application Form
- Commitment Letter (CCDC)
- Service Agreement (SHCH)
- Application Form (CFETS)
- Letter of Authorization
- Bond Settlement Agreement



Key takeaways:

Relationships:

CCDC, PBOC, CCB

Patience:

Coffee & Chinese Visa

Skill set:

Local Chinese colleagues

A Great Custodian Partner:

China Construction Bank



Important Notes

The information contained herein has been prepared solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell any securities, or to participate in a trading strategy, to or from any person in any jurisdiction. Any such offer or solicitation can only be made pursuant to a fund prospectus and otherwise in accordance with applicable laws. Any representation to the contrary is not permitted.

ETF shares are not redeemable with the issuing fund other than in large Creation Unit aggregations. Instead, investors must buy or sell ETF Shares in the secondary market with the assistance of a broker-dealer. In doing so, the investor may incur brokerage commissions and may pay more than net asset value when buying and receive less than net asset value when selling. The NAV of the Fund's shares is calculated each day the national securities exchanges are open for trading as of the close of regular trading on the New York Stock Exchange ("NYSE"), normally 4:00 p.m. Eastern time (the "NAV Calculation Time"). Shares are bought and sold at market price (closing price) not NAV. Market price returns are based on the midpoint of the bid/ask spread at 4:00 p.m. Eastern Time (when NAV is normally determined).

An active secondary market for the Fund's shares may not exist. Although the Fund's shares will be listed on an exchange, subject to notice of issuance, it is possible that an active trading market may not develop or be maintained. There is no guarantee that distributions will be paid.

Investing involves risk, including possible loss of principal. There can be no assurance that a Fund will achieve its stated objectives. The Funds focus their investments primarily with Chinese issuers and issuers with economic ties to China. 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. Current and future holdings are subject to risk.

Narrowly focused investments typically exhibit higher volatility. Internet companies are subject to rapid changes in technology, worldwide competition, rapid obsolescence of products and services, loss of patent protections, evolving industry standards and frequent new product productions. Such changes may have an adverse impact on performance. Diversification may not protect against market risk.