金瑞基金 KraneShares™

Alibaba on the Move

Fall 2022

China Internet Quarterly Earnings Report

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Table of Contents

China Internet Recent Highlights

- On August 26, 2022, the Securities and Exchange Commission (SEC), Public Company Accounting Oversight Board (PCAOB), the China Securities Regulatory Commission (CSRC), and the Ministry of Finance announced the signing of a Statement of Protocol, allowing the PCAOB to conduct full audit reviews of US-listed companies in China. We believe this represents a major positive development and increases the likelihood that US-listed internet firms will be able to comply with the Holding Foreign Companies Accountable Act (HFCAA).
- Also in August, Alibaba announced a partnership between Ele.me, the company's food delivery service, and short-video platform TikTok, which is known as Douyin in China. The collaboration will allow viewers of content on the popular platform to place orders directly from the app. The partnership represents the first-ever direct collaboration between an E-Commerce company and the short-video platform and is evidence of a new collaborative tone in China's internet ecosystem following the internet regulatory cycle.
- 73 new games were approved in September from multiple developers including Tencent and NetEase.[1]
- China internet continues to trade at a steep discount to US internet, despite the severe market downturn in the latter so far this year, with a current price to earnings (P/E) ratio of 17.3 versus 31.2 for US internet.

- The share prices of companies in China's internet sector have been under pressure recently due to a surge in short-selling activity on the Hong Kong Stock Exchange (HKSE). Over the last six months, short sale turnover as a percentage of total turnover on the HKSE has averaged 18%, representing a +50% increase from the ten-year average.[2] We believe short selling could abate with further clarity on the HFCAA, which could relieve pressure on share prices.
- The removal of quarantine requirements for visitors to Hong Kong and Macau[3] provides further evidence of the loosening of China's COVID zero or "lives first" policies.

KraneShares CSI China Internet ETF (Ticker: KWEB) Performance

Cumulative %	Data as of: 09/30/2022		
	Fund NAV	Closing Price	Index
1 Month	-17.92%	-17.70%	-17.75%
3 Month	-24.30%	-24.79%	-24.16%
6 Month	-16.53%	-13.57%	-16.06%
Since Inception	13.39%	13.39%	15.78%

Avg Annualized %	Data as of quarter end: 09/30/2022		
	Fund NAV	Closing Price	Index
1 Year	-43.76%	-43.98%	-43.39%
3 Year	-13.72%	-13.65%	-13.17%
5 Year	-13.37%	-13.44%	-12.82%
Since Inception	1.38%	1.38%	1.61%

KWEB's gross expense ratio is 0.69%. Inception Date: 7/31/2013.

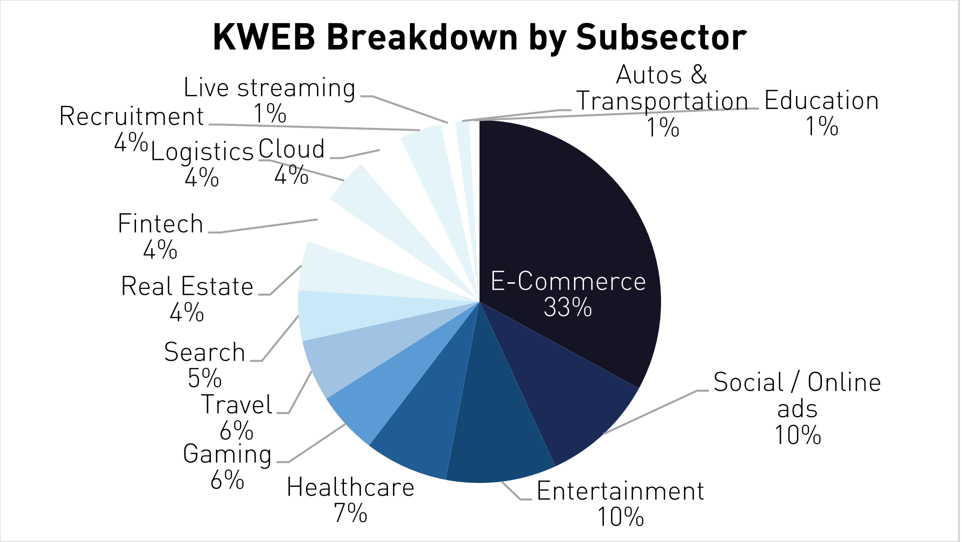
The performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than their original cost, and current performance may be lower or higher than the performance quoted. For performance data current to the most recent month end, please call +(1) 855 8KRANE8 or visit our website at www.kraneshares.com.

KWEB Top 10 Holdings Financials Summary

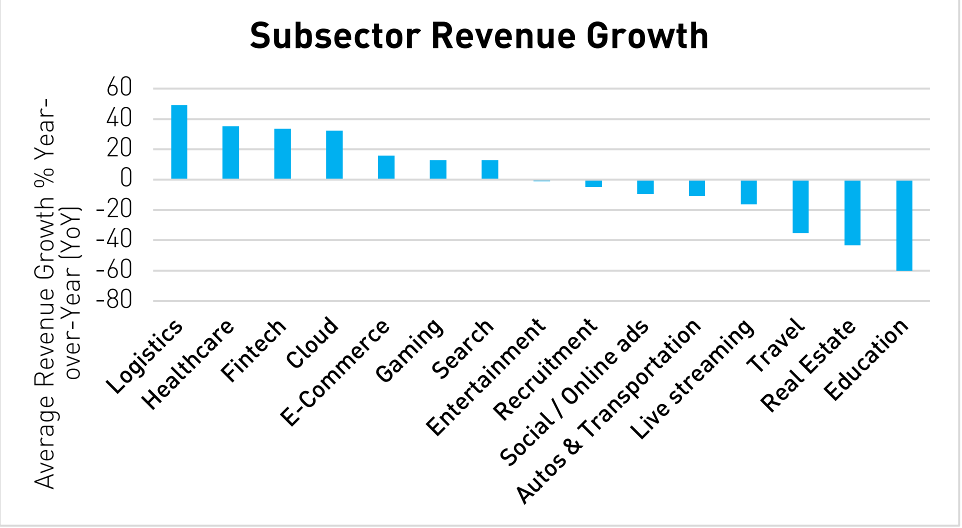
Data from Bloomberg as of 6/30/2022. Percent changes are year-over-year unless otherwise indicated. Revenue figures are adjusted (non-GAAP). Holdings are subject to change. Data for JD Health is for the six months ended 6/30/2022; all others are for the three months ended 6/30/2022.

Top 10 KWEB Holdings	KWEB Weight (%)	Revenue ($ B)	Net Income ($ B)	Revenue Growth (%)	Net Margin (%)	Earnings per Share ($)
ALIBABA	10	31.1	4	0	13	1.5
TENCENT	9	20.3	3.3	-3	16	0.3
MEITUAN	8	7.7	-0.1	16	-1	0
JD.COM	7	40.4	0.7	3	2	0.4
NETEASE	5	3.7	0.9	15	24	1.1
JD HEALTH	5	3.1	0	48	0	0
KE HOLDINGS	4	2.1	-0.2	-43	-10	-0.2
PINDUODUO	4	4.8	1.3	36	27	0.9
TRIP.COM	4	0.6	-0.1	-32	-17	-0.2
FULL TRUCK ALLIANCE	4	0.25	0.0	50	0	0.0
	Total			Weighted Average		
	60	114.1	9.8	8.1	7	0.5

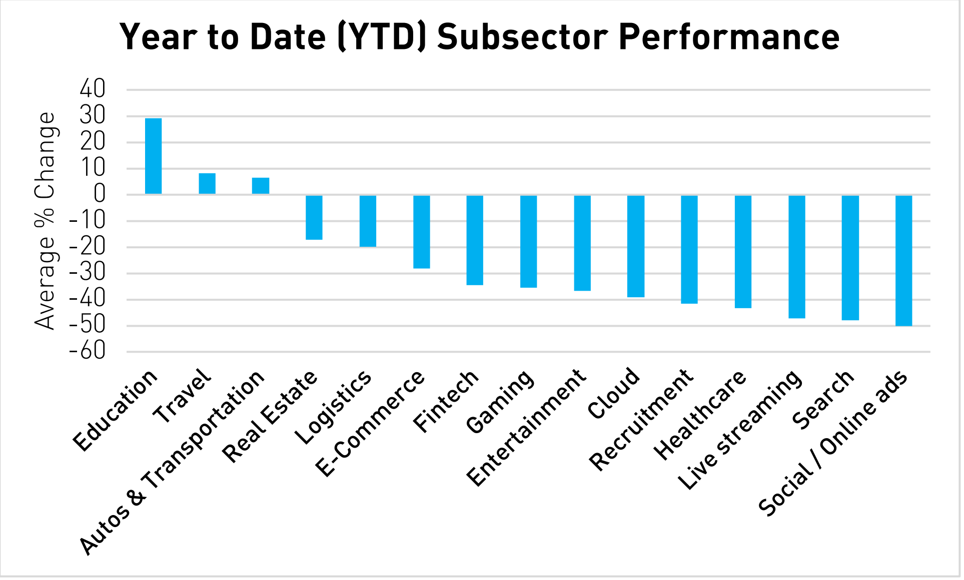
KWEB Key Metrics



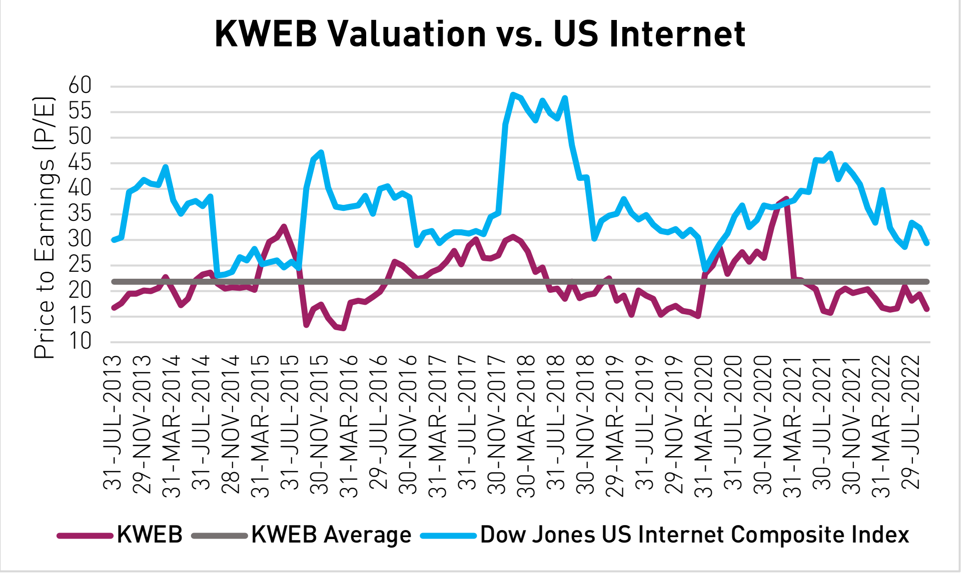
Data from Bloomberg and KraneShares as of 9/21/2022.



Data from Bloomberg as of 9/21/2022. Past performance does not guarantee future results.



Data from Bloomberg as of 9/21/2022. Past performance does not guarantee future results.



Data from FactSet as of 9/30/2022. See the end of the report for definitions.

Subsector Analysis

The **logistics** subsector saw the highest revenue growth rate year-over-year in the second quarter as Full Truck Alliance continues to find success in reducing dead weight loss in the shipping industry.

Travel names had a difficult second quarter but have seen their prospects improve lately upon the reopening of Hong Kong and Macau to visitors without a quarantine requirement. Trip.com issued positive forward guidance for the third quarter thanks to this positive development for the travel industry in China. This has helped move share prices of companies in the online travel industry move higher so far this year.

Education names have gained the most this year after being written down to near zero by many investors following a regulatory hollowing of the online tutoring industry in 2021. These companies have been able to find other sources of revenue as some have moved into the education technology or "edtech" industry while others have transitioned to tutoring in non-core subjects and adult education.

JD Health was one of KWEB's top ten holdings as of the end of the second quarter, demonstrating the company's ability to grow its share of online **healthcare** revenues.

Search, **social**, and **entertainment** names were within the middle range among KWEB holdings in terms of both year-over-year revenue growth and share price performance. All three of these subsectors are heavily exposed to the health of China's consumer, which has been under pressure from lockdowns and declines in real estate prices. However, the consumer is gradually recovering, and we believe that these companies should soon see a recovery in their core businesses as a result.

Games approvals have picked up significantly after a multi-quarter slowdown as 73 new games were approved in September from multiple developers including Tencent and NetEase.[1]

In September, the National Development and Reform Commission (NDRC) of China announced new policies to stimulate consumption, offering particularly favorable treatment for big-ticket items such as **autos**. Such pro-consumption policies may help consumer sentiment recover following lockdowns.

KE Holdings' revenues have been under pressure due to low turnover in China's **real estate** market this year. While the $1 trillion government bailout fund for prepaid projects could be sufficient to resolve issues surrounding unfinished projects and shore up buyer confidence, the timing of the fund's launch is uncertain. Oversupply is also an issue weighing on the real estate market driven by an overestimation of demand, which has slumped recently. Analysts from Nikko Asset Management believe this will normalize over time as China's urbanization rate, despite having increased remarkably over the past decade, still lags behind developed countries.

E-Commerce firms would like to see consumer sentiment improve further following the initial reprieve from major city lockdowns. Nonetheless, Alibaba, Meituan, and Pinduoduo were able to beat pessimistic analyst estimates in their second-quarter results.

Fintech firms saw positive year-over-year revenue growth as of the second quarter. The Renminbi has surpassed the Yen as the fourth most used currency in global payments, after the US dollar, the Euro, and the Pound,[9] which bodes well for the international expansion of China-based payments firms.

Cloud services firm Chindata reported revenue growth of +51% year-over-year in the second quarter and the construction of two new hyperscale projects in Northern China with a total capacity of 73 megawatts.

Live streaming platforms have had a challenging year, as evidenced by their negative revenue growth and share price performance. Huya and Joyy have seen intense competition from larger companies participating in the space such as Tencent and ByteDance. These companies have also had to contend with increasing censorship of live events. Regulators are pushing to require live streams to be delayed to allow for content reviews,[10] which may increase costs for platforms. We believe the industry is promising as the popularity of live streaming in China is growing at a fever pitch, though it may take time for a more stable regulatory environment to take hold.

Theme Highlight – Alibaba on the Move

Alibaba has been a top holding in KWEB since its initial public offering (IPO) on the New York Stocks Exchange (NYSE) in 2014. The company has evolved quite remarkably over nearly a decade since then. Despite its flat stock price performance, the company has increased revenues by 20 times since listing.[11]

After reporting better-than-expected earnings for the second quarter of 2022, two key positive attributes for the company's business fundamentals became clear: it is increasing cost efficiency without sacrificing growth and turning obstacle into opportunity through its burgeoning grocery and food delivery service Ele.me. Furthermore, the company will soon be open to the broadest possible set of investors after achieving dual primary listings in New York and Hong Kong.

We had the pleasure of meeting with Jing Wang from Alibaba's investor relations team. Pictured here: Henry Greene (left), Jing Wang (Center), and Brendan Ahern (right).

Cost Optimization

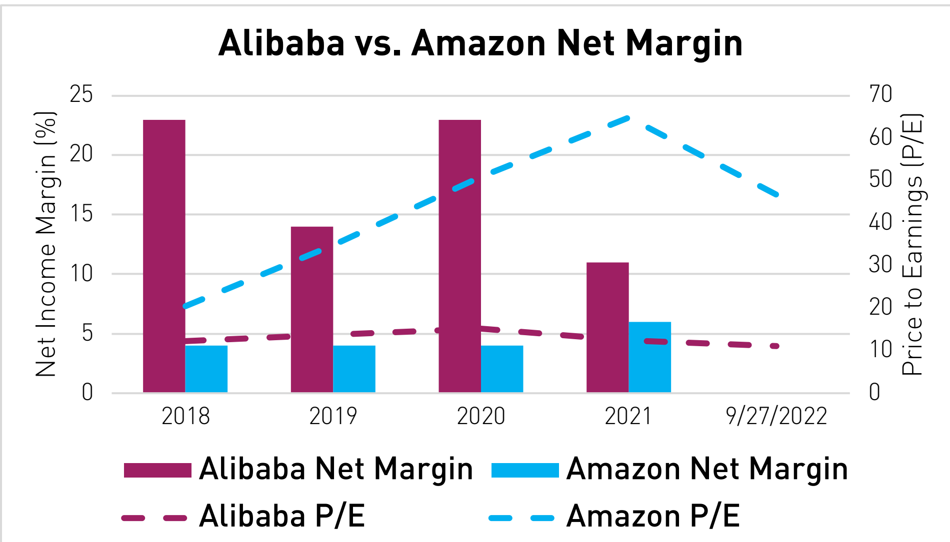
Cost cutting in tech is all over the news today in the US as "growth at all costs" has become too expensive as interest rates rise and the country braces for a real recession. 41,000 workers in the US technology sector have been laid off this year.[4] The companies downsizing the most include Snap, which recently said it would reduce staff by 20%, Netflix, Microsoft, Google, and Apple. Meta reported its first-ever decline in revenue as a public company in the second quarter and issued lower guidance for Q3. Meanwhile, many US internet companies are declining to provide any forward guidance at all.

While Alibaba has also been cutting costs, it has been doing so in a more measured and transparent way that requires little sacrifice in the way of future growth.

As China is in a different position economically, we can expect divergent results from China's internet firms. Alibaba is a prime example when compared to its US peers. The company has been experiencing macroeconomic headwinds for at least the past three quarters. In response, the company has focused on increasing the average value extracted per existing user and optimizing the costs of operations.

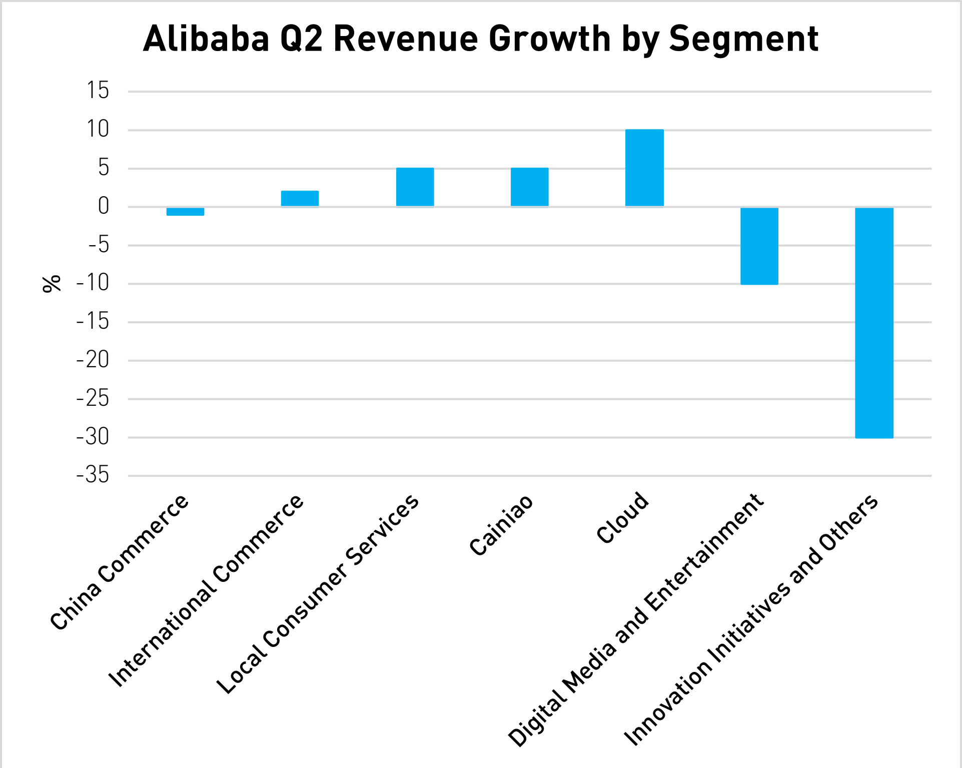
Notably, the company lowered sales and marketing expenses in the second quarter while continuing to grow its overseas E-Commerce business. At the same time, the company's local consumer services segment, which includes all on-demand delivery services, saw a loss reduction of 36% due to improving unit economics and Alibaba's "ongoing focus on optimizing user acquisition spending and reducing delivery cost per order."

Efficient cost management is not new for the company. We can see this reflected in the company's balance sheet over time as margins have remained relatively stable despite the changing macroeconomic environment. Alibaba has impressively maintained higher margins than its US peer Amazon over the past four years.[6]

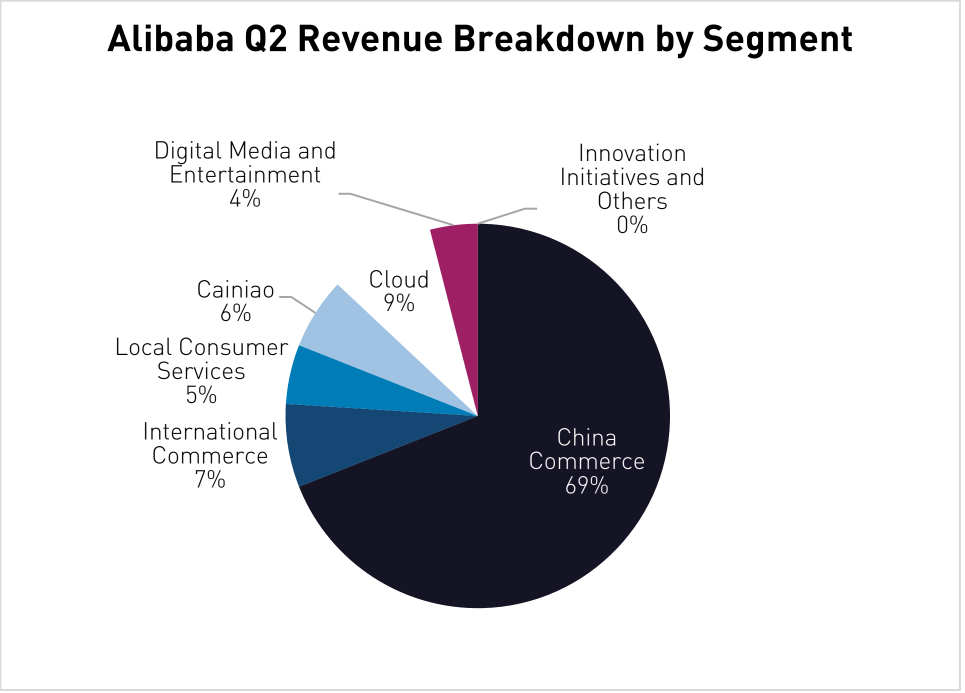


Data from Bloomberg as of 9/27/2022.

Facing a difficult macroeconomic environment, we believe Alibaba is cutting costs without sacrificing growth. According to the company, cuts have mostly been to what it calls "innovation initiatives," which include Alibaba's Alexa-like voice assistant "Tmall Genie" and research labs. Crucially, the company is not cutting investment or staff in its cloud division, which, although still unprofitable, has been a significant growth driver for the company and an important component of Alibaba's long-term strategy.



Data from Alibaba Q2 2022 Earnings Release.



Data from Alibaba Q2 2022 Earnings Release.

Ele.me: Turning Obstacle into Opportunity

China's sporadic lockdowns were a drag on consumer confidence, leading to less revenue for E-Commerce companies. However, Alibaba has been able to adapt to unpredictable conditions and come up with solutions to meet the moment.

Acquired by Alibaba in 2018, "Ele.me," which means "Are you hungry?'" is a food and grocery delivery service in Mainland China and is included under Alibaba's "local consumer services" segment. The service has also expanded to include pharmaceutical goods and other household items.

A screenshot of the Ele.me app for iPhone.

The platform is one of many operated by Alibaba and has largely flown under the radar, overshadowed by delivery powerhouse, Meituan. That is, until 2021 and into 2022 when the delivery service was put to the test during lockdowns in many of China's major cities.

Lockdowns were initially a pain point for the service as restrictions on movement and warehouse operations could change daily. However, Ele.me was eventually able to provide much-needed support to those who were temporarily unable to leave their homes. Throughout April, Ele.me had to adjust to the sudden shuttering of Shanghai. Following an initial dip, the platform was able to fulfill 100,000 daily orders in the city by the end of the month. Throughout the Shanghai lockdown, the app was able to complete over 2 million deliveries in the city.[7]

Furthermore, meeting the moment during lockdown also created a significant opportunity to cultivate goodwill and increase brand recognition of the Ele.me platform. The platform partnered with the Shanghai Children's Hospital to deliver medicines to children in need during the lockdown.

These efforts paid off. At +5% year-over-year, local consumer services revenue growth was more than double that of Alibaba's international commerce division, which was the only other E-Commerce segment to see growth in the twelve-month period ended June 30, 2022.[6]

Another obstacle that Alibaba has overcome through its Ele.me platform is the rollout of new internet regulations that have forced E-Commerce companies to dismantle their "walled gardens" and open themselves up to more competition.

In August, Ele.me announced a partnership with short-video platform TikTok,[8] which is known as Douyin in China. Douyin had been ramping up the pressure on E-Commerce platforms, especially since new regulations required platforms to scrap merchant exclusivity contracts, allowing some merchants to operate their own stores and advertise through media such as Douyin.

Alibaba has leaned into this regulation and worked to sign a partnership deal with Douyin. The partnership will enable viewers of content on Douyin to purchase the products that are being shown to them and have them delivered by Ele.me. This is a win-win proposition for both Alibaba, which is too late to the game to develop meaningful video content infrastructure, and Douyin's parent company Bytedance, which does not possess the warehousing or delivery infrastructure to fulfill orders by itself.

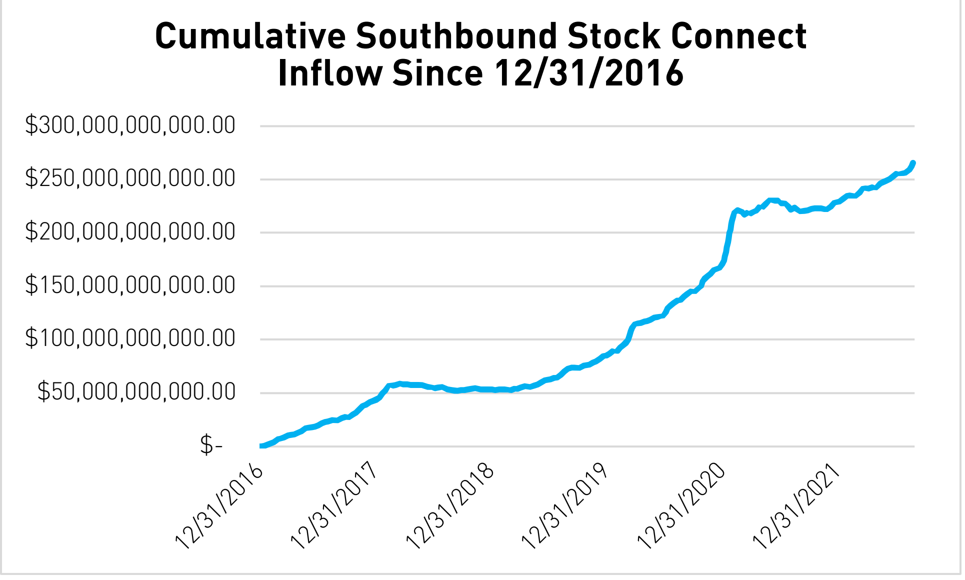
Dual Primary Listing

In August, among other positive developments for China's internet sector, the Hong Kong Stock Exchange (HKSE) announced that it had accepted Alibaba's application to make its Hong Kong listing one of two primary listings for the company's publicly traded shares. Alibaba's Hong Kong shares are due to become a primary listing by the end of this year.

Market reaction to this announcement was muted as most investors are taking a wait-and-see approach. However, we believe this development will have a positive impact on the company's share price performance over the long term. Becoming a primary listing in Hong Kong will open Alibaba's shares to inclusion in Southbound Stock Connect, making them accessible to Mainland Chinese investors who know the company best.

Since its inception in 2014, Southbound Stock Connect has dramatically altered the investor base of Hong Kong's stock market.

Mainland China-based investors now own over 7% of Tencent's free float market capitalization[11] and account for approximately 9% of Hong Kong's tradable market capitalization overall.[5] Assuming there is similar interest from Mainland China-based investors in Alibaba, another internet stock, this could meaningfully impact how Alibaba's shares are traded.



Data from Bloomberg as of 8/31/2022.

Making Hong Kong a primary listing location also means that index providers will be more likely to use the company's Hong Kong listing in their indexes. China Securities Index (CSI) has already migrated to Alibaba's 9188 HK listing.

Conclusion

Alibaba is on the move in many ways, and we believe investors ought to take notice. The company is keeping costs low during a difficult macroeconomic environment, maintaining its margin edge over its US peer Amazon, turning obstacle into opportunity with its delivery app Ele.me, and actively seeking a broader investor base by making its Hong Kong listing a primary listing. As pandemic and regulatory concerns subside, we believe Alibaba's attractive valuation and strong revenue growth could provide a powerful catalyst for future stock performance.

Top 10 KWEB Holdings: Quarterly Earnings Update

Data as of 6/30/2022. Top 10 Holdings as of 6/30/2022. Sources: CICC Research, Bloomberg, Company Releases & Filings. % changes are year-over-year (YoY) unless otherwise indicated. Revenue figures are adjusted (non-GAAP). RMB to USD Exchange Rate used is as of 9/29/2022

Alibaba

Alibaba is a conglomerate primarily engaged in the E-Commerce industry. The company operates an online marketplace offering a wide variety of consumer goods. The company has also branched out into new industries including cloud computing, logistics, grocery, and entertainment. The company offers its services to over one billion users globally.

Alibaba By The Numbers (Q2 2022)

- Revenue -0.1% to RMB 221.9B ($31.1B)
- Net Margin 13%
- Net income RMB 28.5B ($4.0B)
- Earnings per Share RMB 10.7 ($1.5)

Alibaba management believes the end of China's internet regulatory cycle and the relaxation of China's Zero COVID policy could drive higher growth in coming quarters.

During the company's earning call, CEO Daniel Zhang outlined Alibaba's plans to strengthen their digital infrastructure and focus on creating long-term value for their customers. Both elements are key to maintaining their multi-engine growth strategy. CFO Toby Xu highlighted their focus on sustainable, high-quality revenue growth and optimizing their operating cost structure to reinforce total return during times of uncertainty, such as those the company has experienced in recent quarters. The company was able to reduce their capital expenditure by 46% quarter-over-quarter thanks to improving margins in Ele.me among operational improvements.

Tencent

Tencent is a diversified consumer technology company with businesses in social media, cloud computing, payments, and online advertising. Tencent's most well-known product is WeChat, which is one of China's premier social media platforms with over one billion monthly active users (MAUs).

Tencent By The Numbers (Q2 2022)

- Revenue -3.1% to RMB 144.8B ($20.3B)
- Net Margin 16%
- Net income RMB 23.5B ($3.3B)
- Earnings per Share RMB 2.1 ($0.3)

Sales and marketing expenses fell by a whopping -21% year-over-year. In their investor presentation for Tencent's second quarter results, management outlined how exposed the company could be to China's consumer recovery, with an estimated 46% of revenues reliant on consumer demand, such as advertising revenue. It is thus likely that any recovery in consumer demand will lead to a significant revenue increase quarter-over-quarter for the social media and gaming giant.

Meituan

Meituan is an E-Commerce company that specializes in food delivery. Meituan is the final product of the 2015 merger between Meituan, which was known as the "Groupon of China," and Dianping, which was known as the "Yelp of China." The company now operates many business lines including general retail and domestic travel booking services, serving over 600 million registered users.

Meituan By The Numbers (Q2 2022)

- Revenue +16.4% to RMB 54.9B ($7.7B)
- Net Margin -1%
- Net income RMB -0.71B (-$0.1B)
- Earnings per Share RMB 0 ($0)

Meituan beat estimates handily in the second quarter as the company unexpectedly broke even. The breakeven can be attributed to a multitude of factors including the closure of some restaurants during lockdowns, which resulted in a reduction in smaller-ticket orders on which the company makes less, and the reduction of user retention subsidies. CICC analysts believe this quarter's results demonstrate the firm's ability to achieve sustainable profitability. However, the company is seeing increased competitive pressures, especially from Ele.me's partnership with Douyin (TikTok).

JD.com

JD.com is one of the largest E-Commerce platforms in China. JD owns a large and growing marketplace for a wide variety of goods and offers its own logistics service. JD offers its services to over 500 million users.

JD.com By The Numbers (Q2 2022)

- Revenue +3.2% to RMB 288.2B ($40.4B)
- Net Margin 2%
- Net income RMB 5.0B ($0.7B)
- Earnings per Share RMB 2.9 ($0.4)

JD experienced a divergence between the performance of different product categories during the second quarter. Healthcare, skincare, fast moving consumer goods (FMCGs), and industrial products all saw stable demand. Meanwhile, demand for big ticket items such as computers and appliances slumped. This is likely due to consumers' higher propensity to purchase daily necessities online during lockdowns, the restarting of industrial production, and the reality that consumers have already stocked up on household electronics and appliances. The firm is also seeing a recovery in advertising revenue and sales by third-party merchants.

NetEase

NetEase is a consumer information technology company primary dealing in online, PC, and mobile games. It is one of the largest gaming companies in the world and has partnered with Blizzard to launch numerous titles in China, including *World of Warcraft* and *Star Craft II*.

NetEase By The Numbers (Q2 2022)

- Revenue +14.8% to RMB 26.4 ($3.7B)
- Net Margin 24%
- Net income RMB 6.4B ($0.9)
- Earnings per Share RMB 8.6 ($1.1)

On August 31, NetEase announced that it had acquired French game developer Quantic Dream, an established video game studio with globally popular titles such as *Detroit: Become Human* and *Heavy Rain*. This acquisition represents NetEase's first foray into the European market through an acquisition. NetEase has already acquired other game developers in other regions, such as Asia ex China. Expanding NetEase's global presence has been a priority for management recently as game approvals have slowed in Mainland China. However, NetEase saw multiple new approvals in September.

JD Health

JD Health is the largest online healthcare platform in China. The company offers online pharmacy services and health consultations. JD Health seeks to encompass all health needs through a single platform, easing the burden on China's hospital and brick-and-mortar healthcare system.

JD Health By The Numbers (1H 2022)

- Revenue +48.3% to RMB 22.1 ($3.1B)
- Net Margin 0%
- Net income RMB 0B ($0B)
- Earnings per Share RMB 0 ($0)

JD Health beat analyst estimates for the first half of 2022 as the company saw its profit rise thanks to key cost reductions and efficiency gains. The company saw growth in all segments and its stellar results reflect the demand for health care products seen in JD.com's second quarter results. Furthermore, the repeat purchase rate and the value per user increased in the first half of 2022 from the second half of 2021.

KE Holdings

KE Holdings is China's leading housing transaction and services platform. After years as a brick-and-mortar real estate brokerage, Beike expanded into an integrated online and offline ecosystem, providing solutions for everything from property sales to rentals to home renovation to mortgages. The company's agent cooperation network (ACN) is a platform that facilitates information sharing among service providers and encourages collaboration between its extensive network of agents, stores, and brands.

KE Holdings By The Numbers (Q2 2022)

- Revenue -43% to RMB 15.0B ($2.1B)
- Net Margin -10%
- Net income RMB -1.4B (-$0.2B)
- Earnings per Share RMB -1.4 (-$0.2)

KE Holdings' earnings continue to suffer year-over-year due to a major slowdown in China's real estate market since the second quarter of 2021. The government has announced plans for a bailout fund to ensure that prepaid projects are completed and shore up buyer confidence. However, the launch of the fund has been delayed. Despite the decline in revenue, KE Holdings' results were in line with the market consensus, benefiting from the end of lockdowns in Beijing and Shanghai and that the number of agents and stores on the platform has remained stable year-over-year. CICC analysts expect a rebound in new home transaction services in the second half of 2022.

Pinduoduo

Pinduoduo's platform is a hybrid of E-Commerce and social media. The company allows users to share deals with one another and then form "shopping teams" to drive down the prices they pay for goods.

Pinduoduo By The Numbers (Q2 2022)

- Revenue +36.4% to RMB 34.3B ($4.8B)
- Net Margin 27%
- Net income RMB 9.3B ($1.3B)
- Earnings per Share RMB 6.4 ($0.9)

Pinduoduo's asset-light business model was on full display in the second quarter as the company continued to outpace its E-Commerce peers on net margin. CICC analysts believe the company's second quarter beat on top line revenue represents a sustainable profit level. The company's marketing service saw growth from brands' willingness to invest in marketing on Pinduoduo's platform during the 6/18 shopping festival. Meanwhile, FMCG stood out among other categories, mirroring JD.com's experience during lockdowns.

Trip.com

Trip.com is a travel booking site that is widely recognized as the Expedia of China. It provides search and full booking services for flights, hotels, trains, car rentals, tours, and more to Chinese travelers. The company provides booking services for both international and domestic travel to both Chinese and global customers.

Trip.com By The Numbers (Q2 2022)

- Revenue -31.9% to RMB 4.3B ($0.6B)
- Net Margin -17%
- Net income RMB -0.7B (-$0.1B)
- Earnings per Share RMB -1.4 (-$0.2)

While Trip.com's revenue was well off levels from a year ago, the firm saw promising recoveries in certain segments in the second quarter. Domestic travel bookings were a bright spot compared to last quarter and were up +30% year-over-year thanks to improved COVID conditions in larger cities. Meanwhile, international air booking revenue doubled from last year. The firm is currently pursuing a content-forward strategy, recruiting key opinion leaders (KOLs) to partner with Trip.com to produce travel-related content. This should serve the booking site well as travel to and within Greater China picks up. The Hong Kong and Macau special administrative regions (SARs) have already scrapped quarantine requirements for visitors.

Full Truck Alliance

Logistics app Full Truck Alliance, which has been called the "Uber of trucking," is leading the way in its field with a mission of removing empty trucks from the roads. The company went public through a listing on the New York Stock Exchange (NYSE) on June 21, 2021.

Full Truck Alliance By The Numbers (Q2 2022)

- Revenue +49.3% to RMB 1.8B ($0.25B)
- Net Margin 0%
- Net income RMB 0B ($0B)
- Earnings per Share RMB 0 ($0)

Full Truck alliance led the China's internet sector in terms of revenue growth in the second quarter, benefitting from increasingly strained global supply chains and despite the pause of new user registration, which resumed in the third quarter and was due to an investigation by the Cyberspace Administration of China (CAC). CICC analysts believe that the platform's extensive national network and market leadership may enhance its competitiveness and lead to customer loyalty. Thus, we may see even stronger growth in the company's third-quarter results as new user registration has resumed.

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KWEB Top 10 Holdings as of 9/30/2022:

1. Alibaba (9.18% of KWEB Net Assets as of 9/30/2022)
2. Tencent (9.00% of KWEB Net Assets as of 9/30/2022)
3. Meituan (8.24% of KWEB Net Assets as of 9/30/2022)
4. JD.com (7.49% of KWEB Net Assets as of 9/30/2022)
5. KE Holdings (5.83% of KWEB Net Assets as of 9/30/2022)
6. Pinduoduo (5.64% of KWEB Net Assets as of 9/30/2022)
7. NetEase (5.55% of KWEB Net Assets as of 9/30/2022)
8. Trip.com (5.30% of KWEB Net Assets as of 9/30/2022)
9. JD Health (4.45% of KWEB Net Assets as of 9/30/2022)
10. Baidu (3.97% of KWEB Net Assets as of 9/30/2022)

Holdings are subject to change.

Term Definitions:

Price to Earnings Ratio (P/E): A company's price per share divided by its earnings per share. P/E is a commonly used method for evaluating whether a company's shares are cheap or expensive relative to the company's cash flow.

Gross Merchandise Value (GMV): Gross merchandise value (GMV) is the total value of merchandise sold over a given period through a customer-to-customer (C2C) exchange site. It is a measure of the growth of the business or use of the site to sell merchandise owned by others.

Revenue: The money generated from normal business operations, calculated as sales price times the number of units sold.

Net Margin: Net margin measures how much net income or profit is generated as a percentage of revenue. It is the ratio of net profits to revenues for a company or business segment.

Net Income: Sales minus cost of goods sold, selling, general and administrative expenses, operating expenses, depreciation, interest, taxes, and other expenses.

Revenue Growth: Revenue growth measures the increase in a firm's sales from one period compared to another.

Earnings per Share: The portion of a company's profit allocated to each share of common stock, serving as a profitability indicator.

Index Definitions:

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 of 30 September 2018. The index was launched on September 20, 2011.

The Dow Jones US 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.

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. 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; the material is as of the dates noted and is subject to change without notice.

The Fund may invest in derivatives, which are often more volatile than other investments and may magnify the Fund's gains or losses (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 subject to counterparty risk. The Fund is 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 fund 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 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. 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.

The KraneShares ETFs, KFA Funds ETFs, and KraneShares Mutual Funds are distributed by SEI Investments Distribution Company (SIDCO), 1 Freedom Valley Drive, Oaks, PA 19456, which is not affiliated with Krane Funds Advisors, LLC, the Investment Adviser for the Funds, or any sub-advisers for the Funds.

ABOUT KRANESHARES

Krane Funds Advisors, LLC is the investment manager for KraneShares ETFs. KraneShares is a premier platform for developing and delivering differentiated, high-conviction investment strategies to global investors.

Since 2013, KraneShares has become one of the largest China ETF providers. This focus continues with product launches worldwide and a constant stream of China-focused research. Given China's importance in addressing the global climate crisis, our entrance into broader climate ETFs in 2020 was a natural extension of our focus on China. KraneShares is now one of the largest global carbon/climate ETF providers.

KraneShares strives to deliver innovative first-to-market strategies based on strong partnerships and deep investing knowledge. KraneShares helps investors stay current on global market trends and provides 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 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 roughly $1 trillion AUM. In 2020, The CICC Research Team ranked #1 in Institutional Investor's All-China Research Category for the eighth year in a row. CICC has over 200 branches across Mainland China, with offices in Hong Kong, Singapore, New York, San Francisco, and London.

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