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KraneShares

Putting Volatility to Work: Growth and Income From Covered Calls

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Targeted Growth & Income Through Covered Call Options On China Internet



Introduction to KraneShares

About KraneShares

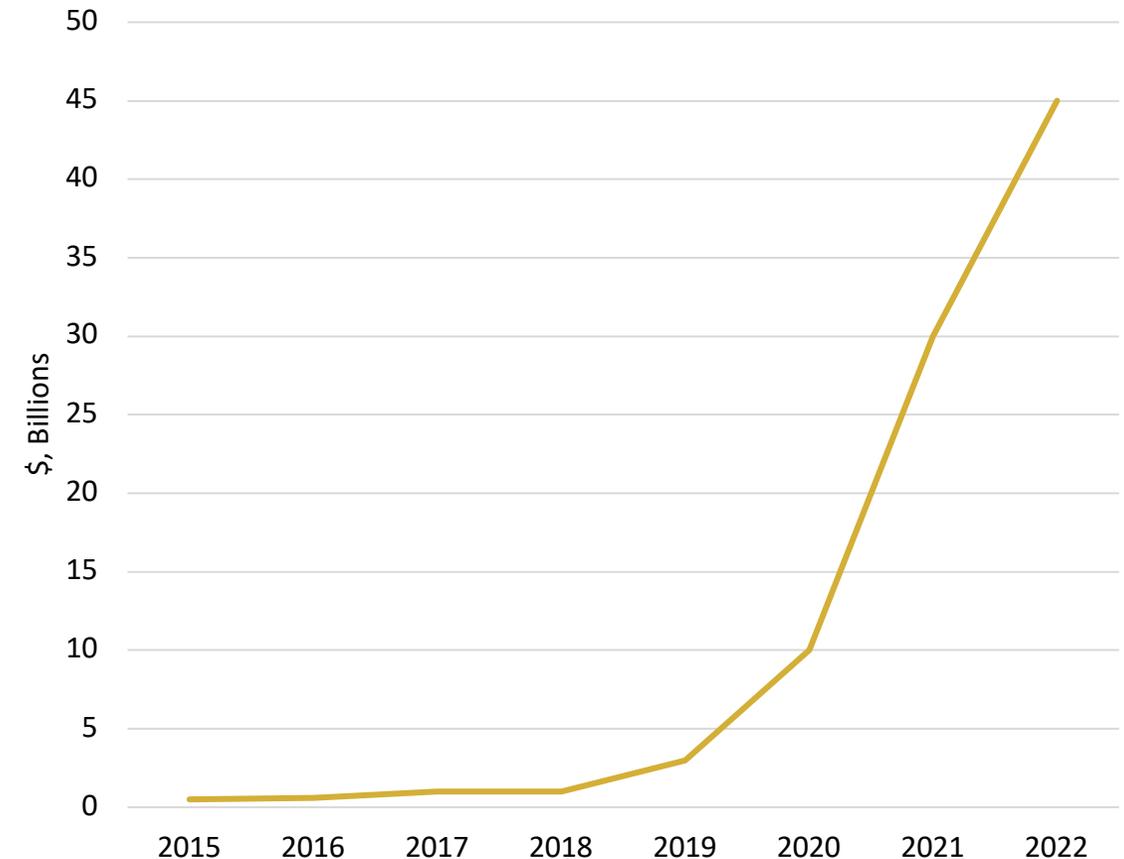
Krane Funds Advisors, LLC is the investment manager for KraneShares ETFs. Our suite of China focused ETFs provides investors with solutions to capture China's importance as an essential element of a well-designed investment portfolio. We strive to provide innovative, first to market strategies that have 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).



Why should investors consider a Covered Call Strategy?

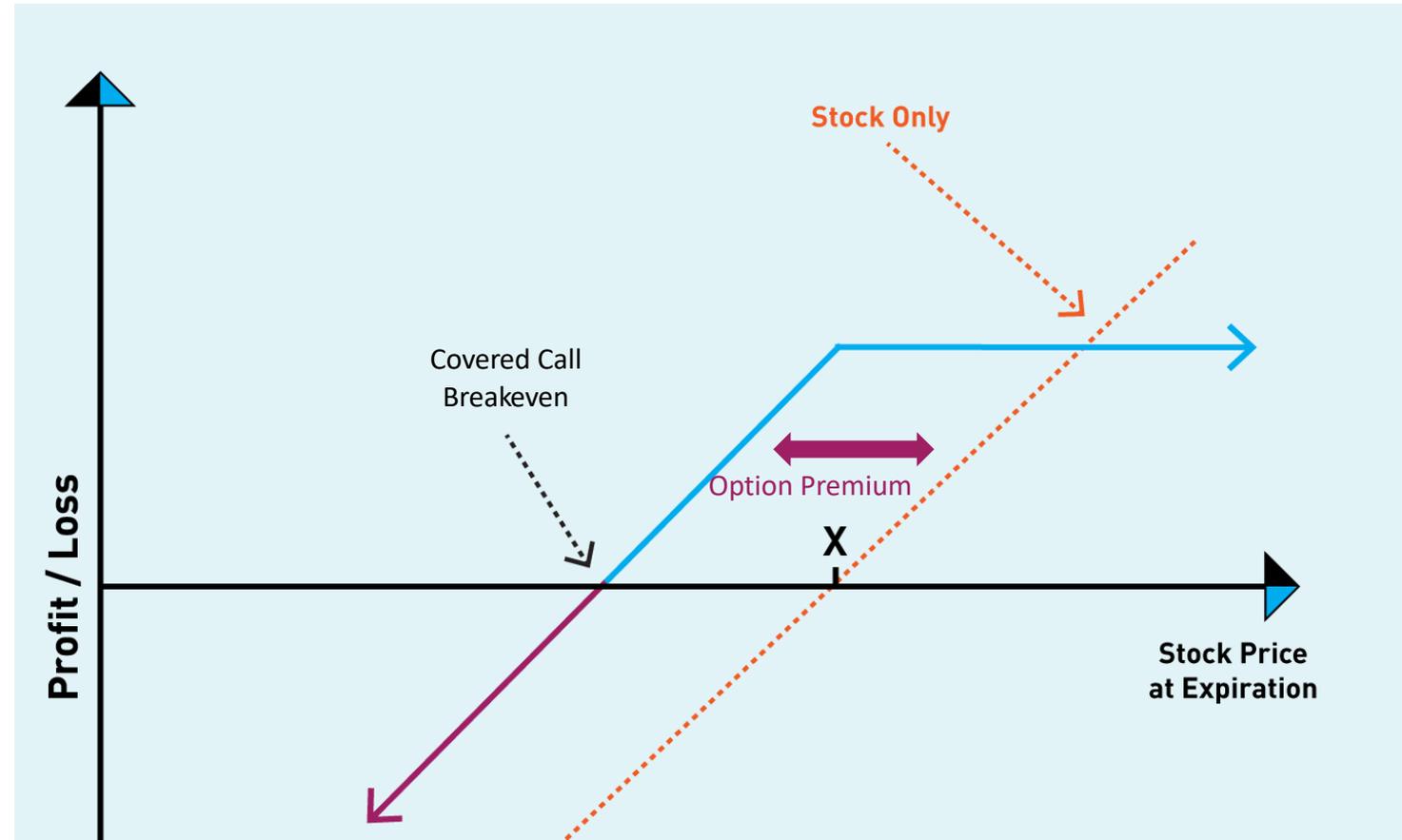
- There are now over \$45 billion in assets in options-based ETFs in the US.
- Covered call strategies can be used to generate income, enhance returns, and provide partial protection on the downside.
- Options-based ETFs democratize access for investors of all types who want to benefit from options exposure.
- Options-based ETFs take the difficulty, complexity, and restrictions out of investing in covered calls or other options strategies.
- Over 200 options-based ETFs are available in the US marketplace today.
- Covered call ETFs provide premium income with less risk than a pure options strategy.

Options-Based ETF Asset Growth



What is a Covered Call Strategy?

- An option is a financial derivative that gives buyers the right, but not the obligation, to buy or sell an underlying asset at an agreed-upon price (strike price) and date (expiration).
- A covered call option refers to the scenario in which one sells a call option on a security that he or she already owns, receiving the option premium, which may provide partial downside protection if the security declines in price.
- If the price of the ETF rises past the strike price, the seller of the call can deliver the shares of the ETF they own, rather than buying in the open market at a higher price, if the buyer chooses to exercise the option.



Introducing The China Internet Covered Call Strategy

The China Internet Covered Call Strategy exchanges the uncertain upside of China Internet for premium income that helps to shield the downside.

China Internet = (Uncertain Downside + Uncertain Upside)

Covered Call On China Internet

=

Buy China Internet (Uncertain Downside + Uncertain Upside)

+

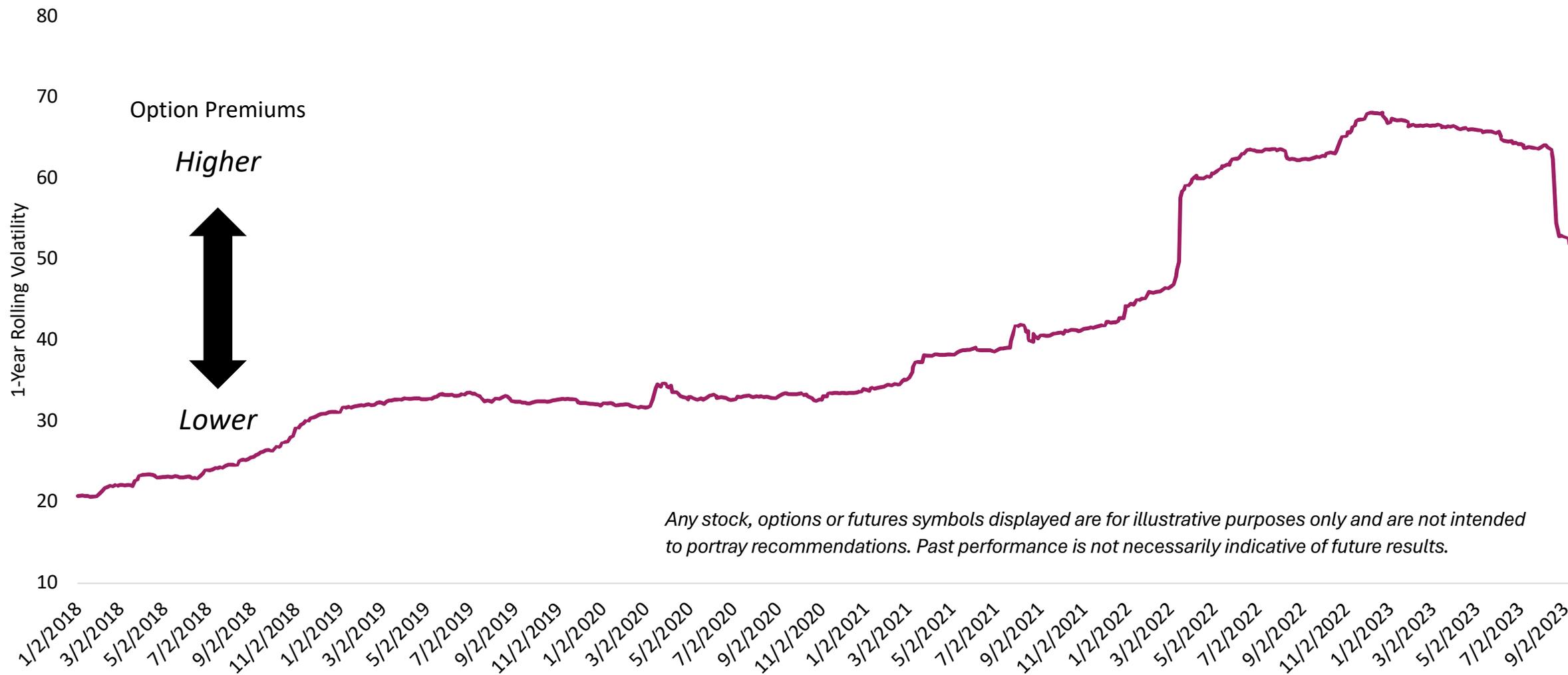
Write a Call (Premium Income – Uncertain Upside)

=

Premium Income + Uncertain Downside

China Internet has a history of heightened volatility, which can lead to higher option premiums.

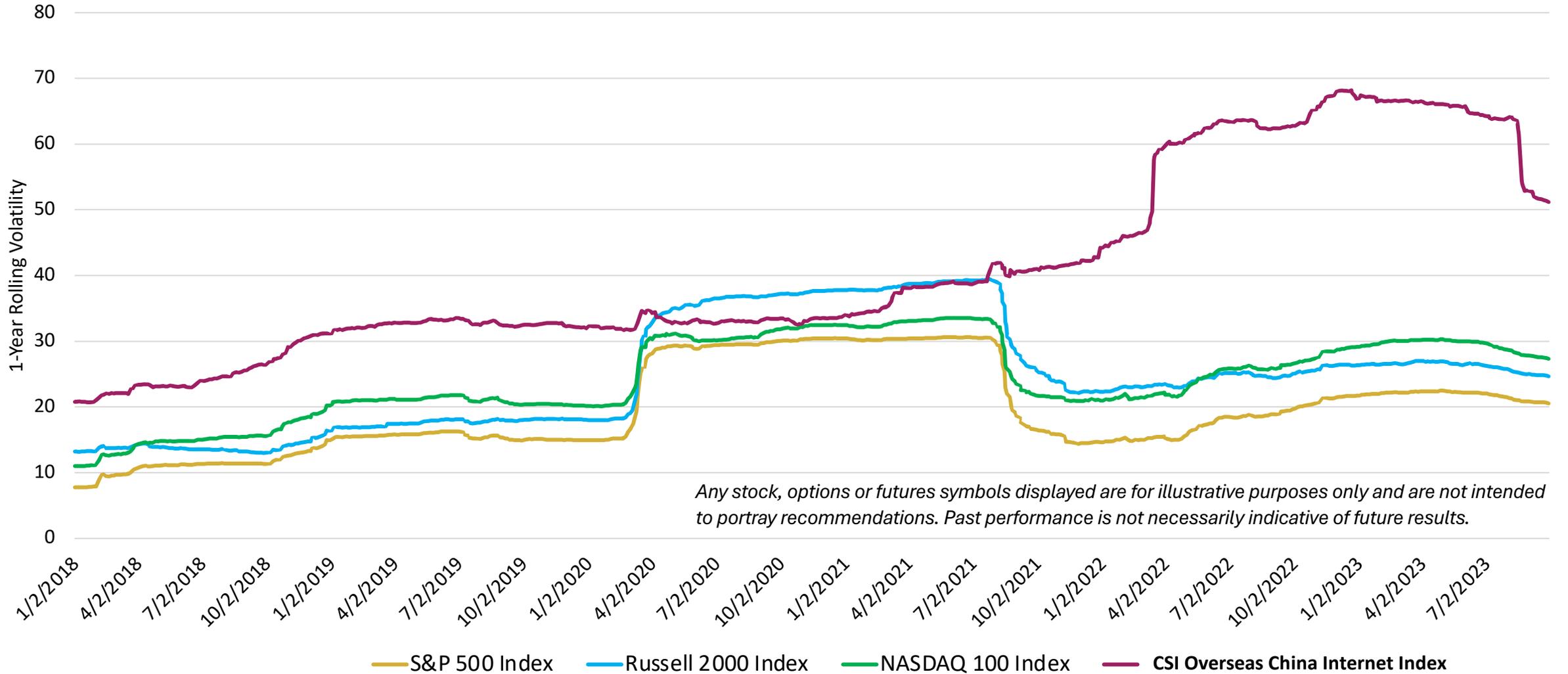
CSI Overseas China Internet Index Volatility



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The CSI Overseas China Internet Index is more volatile than most major US equity indexes, based on historical data.

Historical Volatility: CSI Overseas China Internet Index vs. Major Equity Indexes



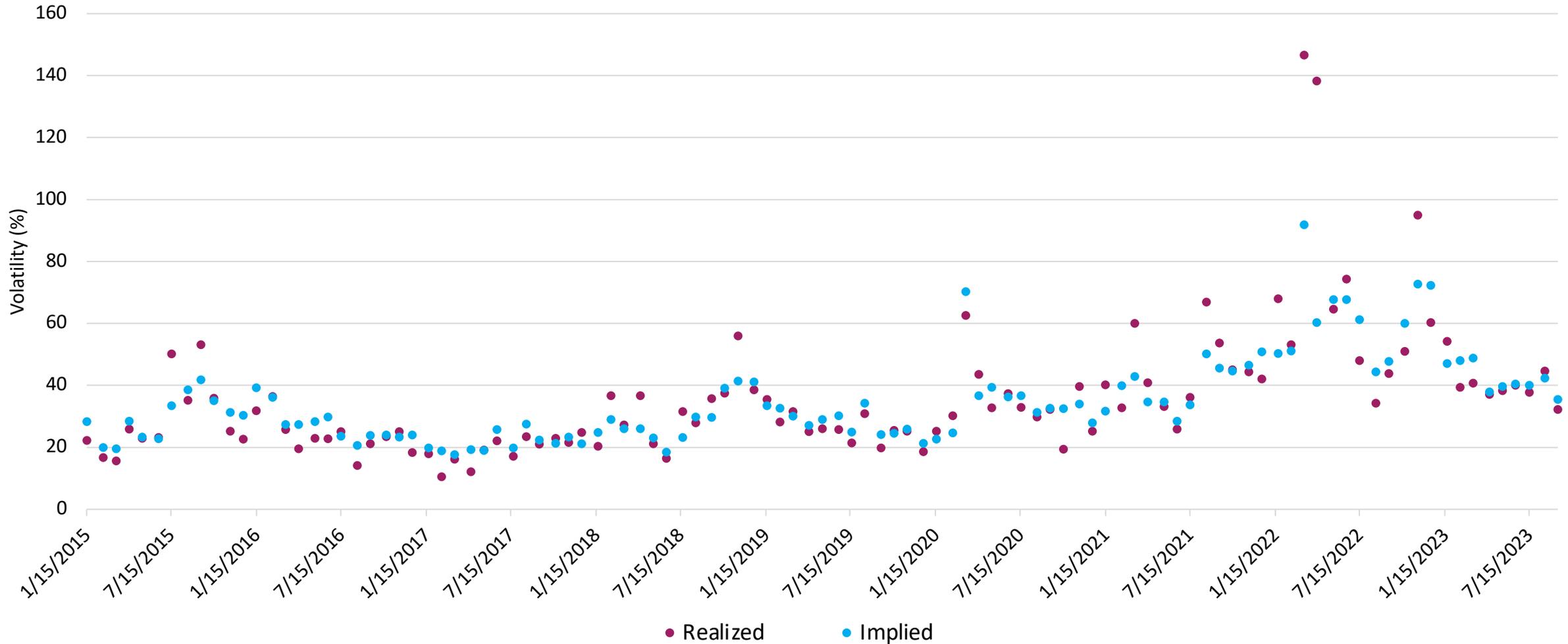
The CSI Overseas China Internet Index has exhibited low correlations to several asset categories, based on historical data.

Weekly Correlation (9/30/2013 to 9/30/2023)

Correlation	S&P 500	Russell 2000	NASDAQ 100	ICE BofA US High Yield	S&P 500 Dividend Aristocrats	CSI Overseas China Internet Index
S&P 500	1					
Russell 2000	0.88	1				
NASDAQ 100	0.92	0.77	1			
ICE BofA US High Yield	0.68	0.67	0.57	1		
S&P 500 Dividend Aristocrats	0.94	0.86	0.76	0.69	1	
CSI Overseas China Internet Index	0.44	0.42	0.50	0.25	0.35	1

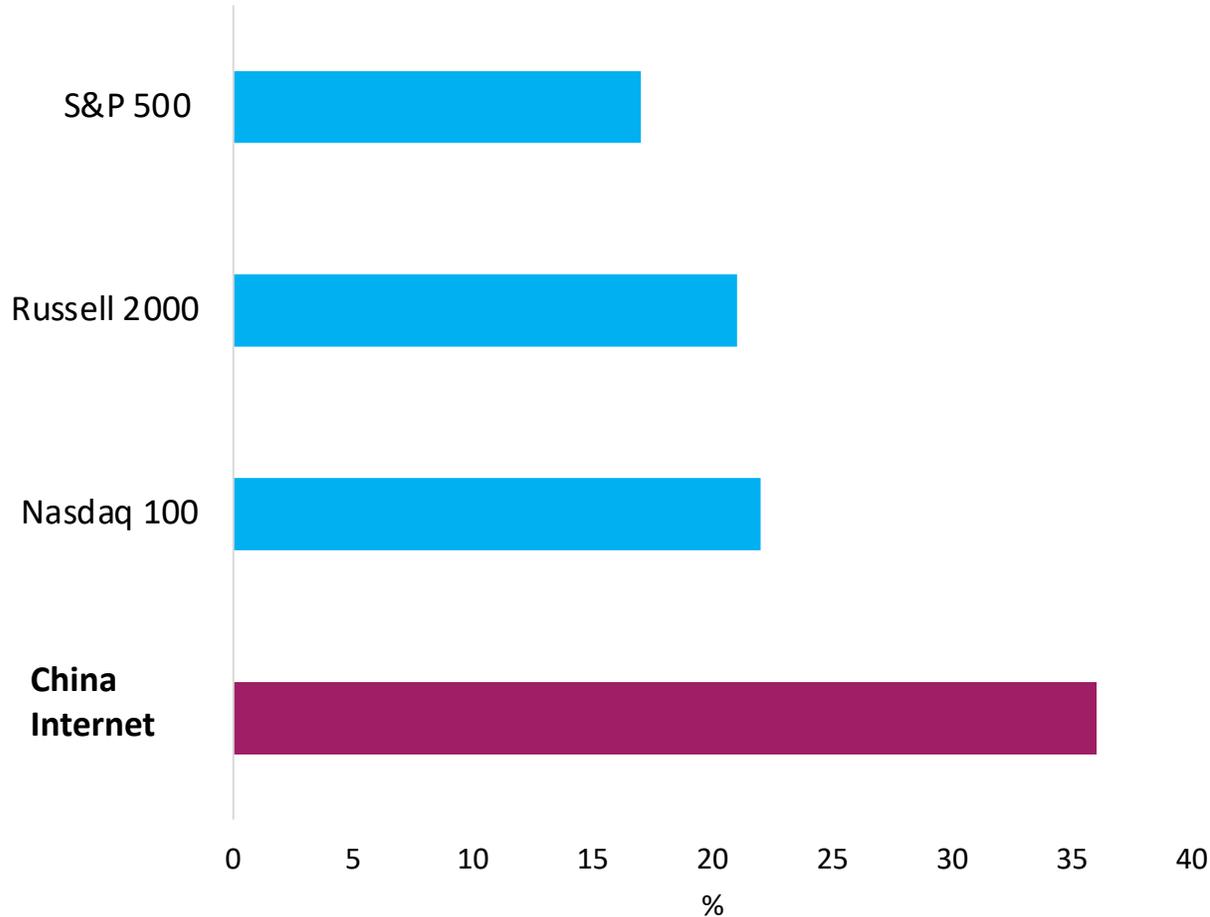
Implied volatility for China Internet options closely tracks realized volatility over time.

China Internet Representative ETF Volatility: Realized vs. Implied

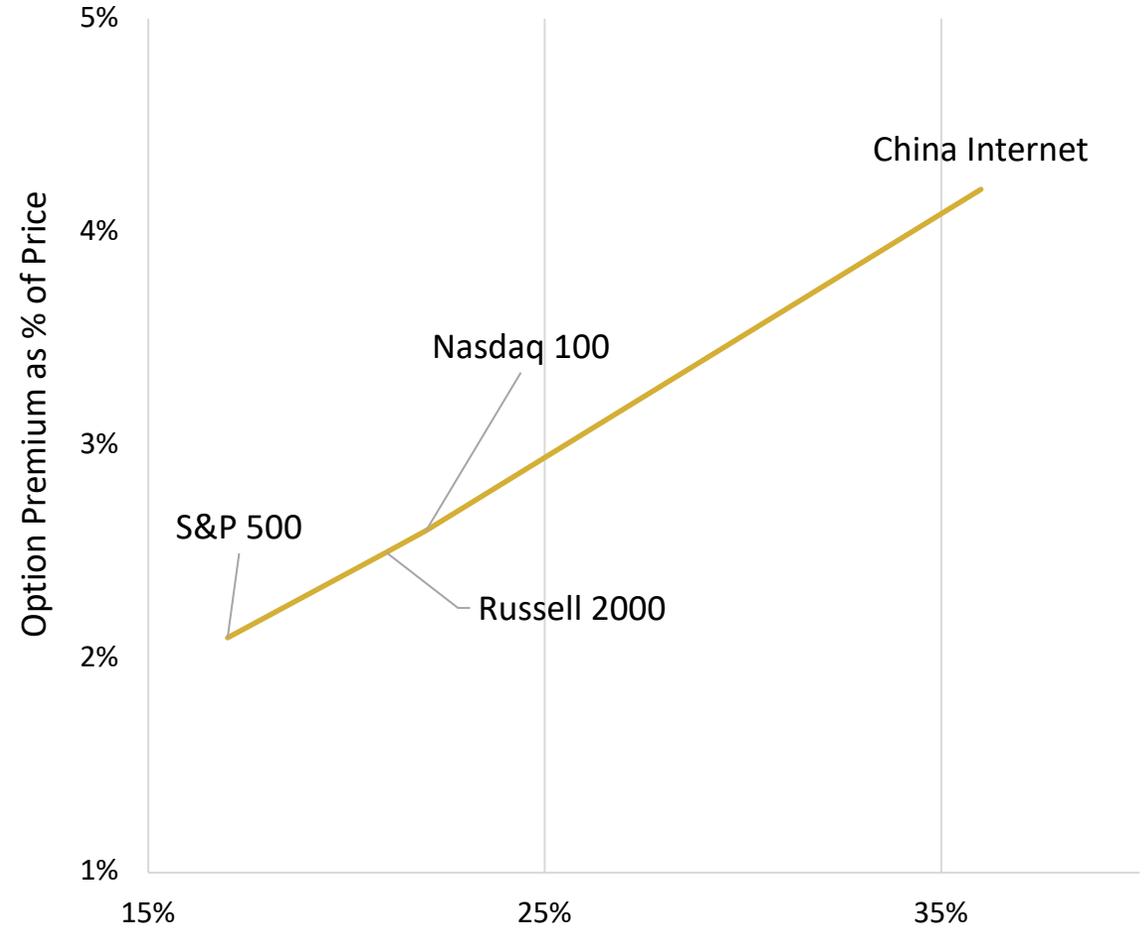


Higher implied volatility leads to higher option premiums.

**Current Implied Volatility
(As of 10/3/2023)**

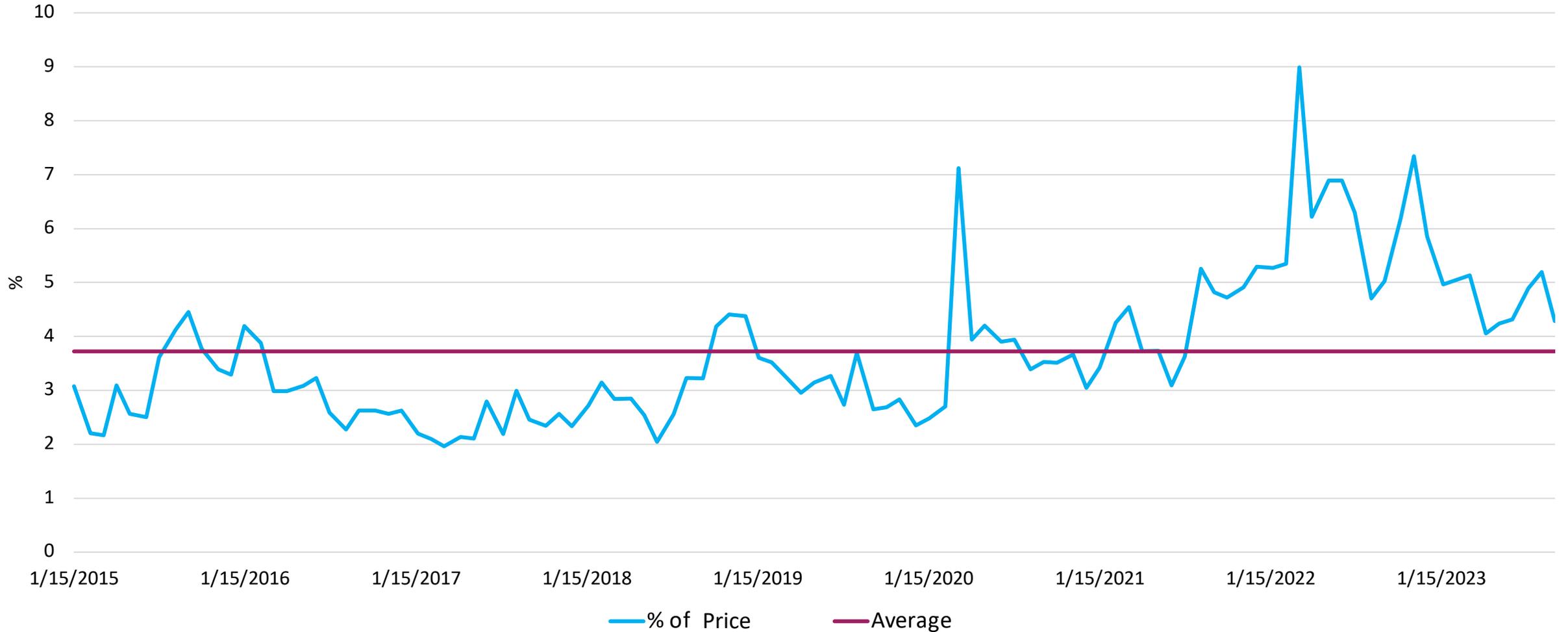


Relationship between Implied Volatility and Monthly Premium Income*



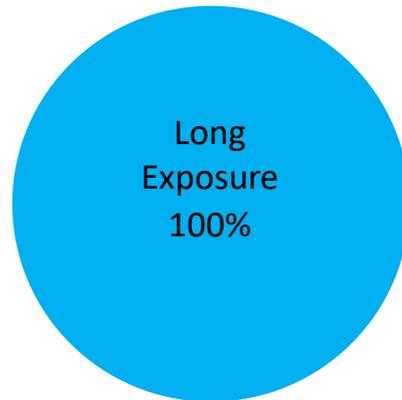
Historical option premium has varied with changes in volatility.

Monthly At-The-Money Option Premium: % of China Internet Representative ETF Price



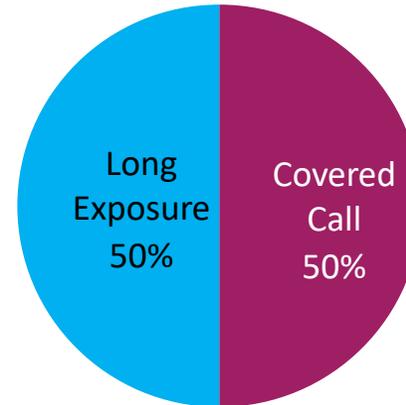
Combining allocations can help produce a targeted growth and income strategy.

100% Growth



- Comprehensive representation of China's internet industry
- Exposure to key growth equities and drivers of China's economy
- Emphasis on potential price appreciation

Growth & Income



- Combines growth exposure with meaningful monthly income
- Provides a potential cushion over pure China Internet exposure in down markets
- Maintains exposure to key growth equities and drivers of China's economy

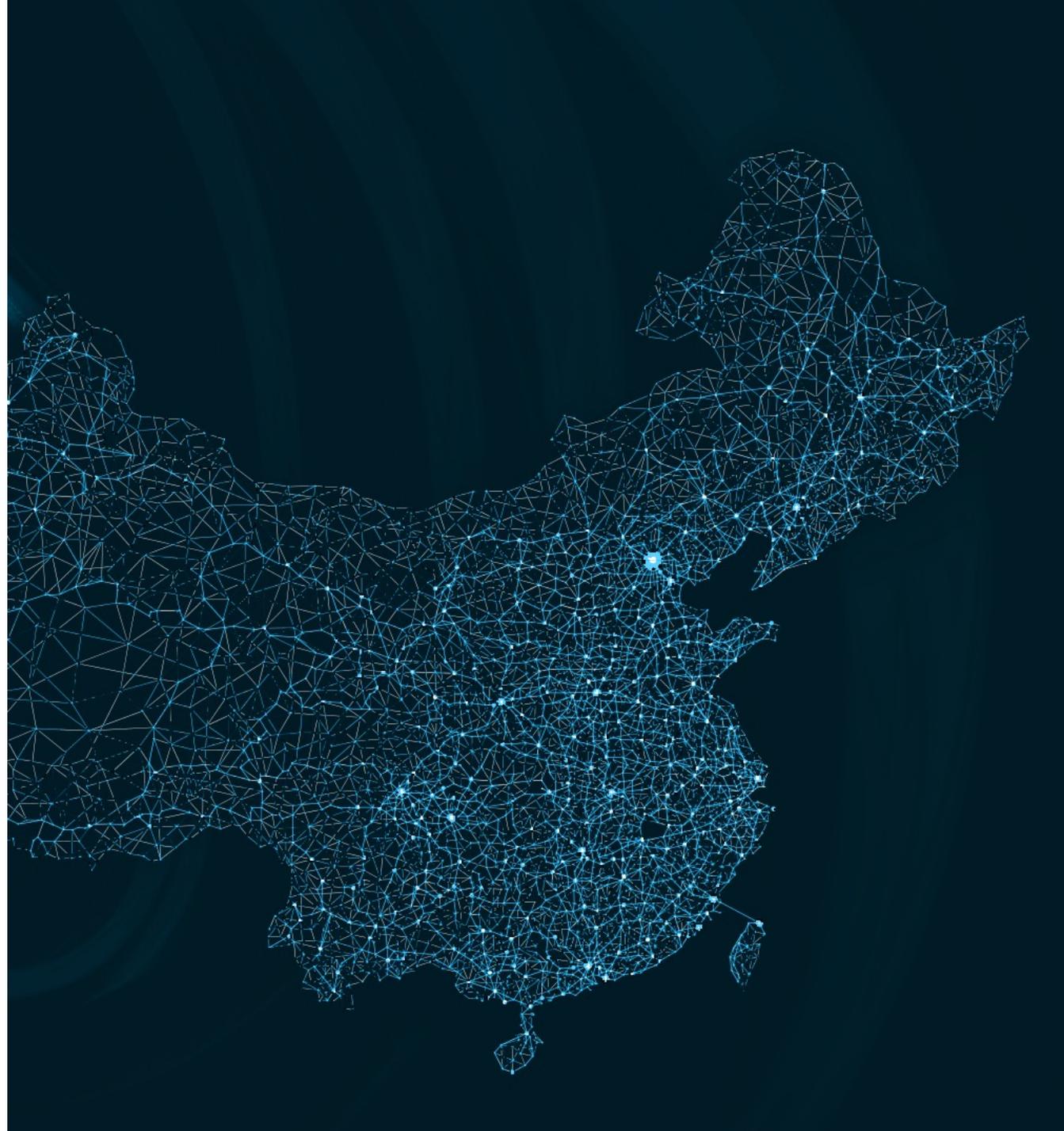
100% Income



- Meaningful premium income, distributed monthly
- Hedges against heightened China Internet volatility
- May reduce volatility by exchanging uncertain China Internet upside for more stable premium income

Conclusion

- A covered call ETF is an exchange-traded fund that provides investors with income by writing call options on stocks or ETFs.
- Covered call ETFs manage the options exposure for investors, which can be more economical and time efficient than buying individual stock options.
- Yields from covered call strategies rise with the volatility of the underlying securities. China's internet/technology sector, is significantly more volatile than US and global growth and technology stock markets, based on historical data.
- Combining allocations consisting of both long exposure and covered call exposure can potentially take some of the risk out of investing in China by trading uncertain upside for more stable income.



Index Definitions

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.

The NASDAQ 100 Index: The NASDAQ 100 Index is a stocks market index made up of 101 equity securities issued by 100 of the largest non-financial companies listed on the NASDAQ stock market. It is a modified capitalization-weighted index. The index was launched on January 31, 1985.

The Russell 2000 Index: The Russell 2000 Index measures the performance of the small-cap segment of the US equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The index was launched on January 1, 1984.

The S&P 500 Index: The S&P 500 Index is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 9.9 trillion indexed or benchmarked to the index, with indexed assets comprising approximately USD 3.4 trillion of this total. The index includes 500 leading companies and covers approximately 80% of available market capitalization. The index was launched on March 4, 1957.

ICE BofA US High Yield Index: The ICE BofA US High Yield Index provides a comprehensive, accurate representation of the US high yield market and its components. The index was launched on October 3, 2011.

S&P 500 Dividend Aristocrats Index: The S&P 500 Dividend Aristocrats Index measures the performance of S&P 500 companies that have increased dividends every year for the last 25 consecutive years. The Index treats each constituent as a distinct investment opportunity without regard to its size by equally weighting each company. The index was launched on May 2, 2005.

Term Definitions

Volatility: The degree of variation of a trading price series over time as measured by the standard deviation of returns. Standard deviation is a quantity calculated to measure the extent of deviation for a group as a whole. A low standard deviation indicates that the data points tend to be closer to the mean (also called the expected value) of the set, while a high standard deviation indicates that the data points are spread out over a wider range of values.

Implied Volatility: The future volatility that the market is pricing in currently. Implied volatility is based on option prices in the open market and is a key feature in the Black Scholes option pricing model.

Realized Volatility: The actual volatility, or standard deviation, of a security based on historical data over some time period.

Option Premium: The cost of an option relative to the price of the underlying security. Option premiums rise with volatility.

Strike Price: The price at which an option can be exercised.

Black Scholes: The Black-Scholes model is the mathematical equation that estimates the theoretical value of derivatives based on other investment instruments, considering the impact of time and other risk factors. Since being developed in 1973, the model continues to be regarded as one of the best ways to price options contracts.