

Capturing Risk-Managed Exposure to High-Yield

An Overview of the KFA Dynamic Fixed Income ETF (Ticker: KDFI)

Introduction to KFA Funds

About KFA Funds

Founded in 2012, Krane Funds Advisors, LLC is the investment manager for KFA Funds and KraneShares ETFs. We believe that investors should have cost-effective and transparent tools for attaining exposure to a wide variety of asset classes.

The KFA Funds product suite delivers differentiated, high-conviction investment strategies to global investors. We are passionate about identifying groundbreaking capital market opportunities and developing them into investment vehicles that offer a source of non-traditional diversification to our clients.

Krane Funds Advisors, LLC is majority owned by China International Capital Corporation (CICC).

Krane Platform for Innovative Research & Investment Strategies



KDFI

KFA Dynamic Fixed Income ETF

Investment Strategy

KDFI is benchmarked to the FTSE US High-Yield/Treasury Rotation Index, which takes a tactical approach to investing in High-Yield Credit and US Treasuries. The index is designed to provide a benchmark for investors looking to capture risk-managed exposure to High-Yield Credit.

The FTSE US High-Yield/Treasury Rotation Index rotates between the following three underlying indexes:

- FTSE US Treasury 1-5 Years Index
- FTSE US Treasury 7-10 Years Index
- FTSE US High-Yield Market BB/B-Rated Capped Custom Index.

The cumulative quarterly return of the three indexes are compared quarterly. The index with the highest return across the previous period receives the full allocation for the coming quarter.

About Dynamic Fixed Income

- Over the long-run, we believe credit spreads are a reliable indicator for fixed income investors.
- Dynamic fixed income strategies attempt to offer equity-like returns with the low drawdown offered by fixed income.
- The risk management and tactical features of a dynamic fixed income strategy could replace and improve bond positions within traditional client portfolios.

KDFI Features

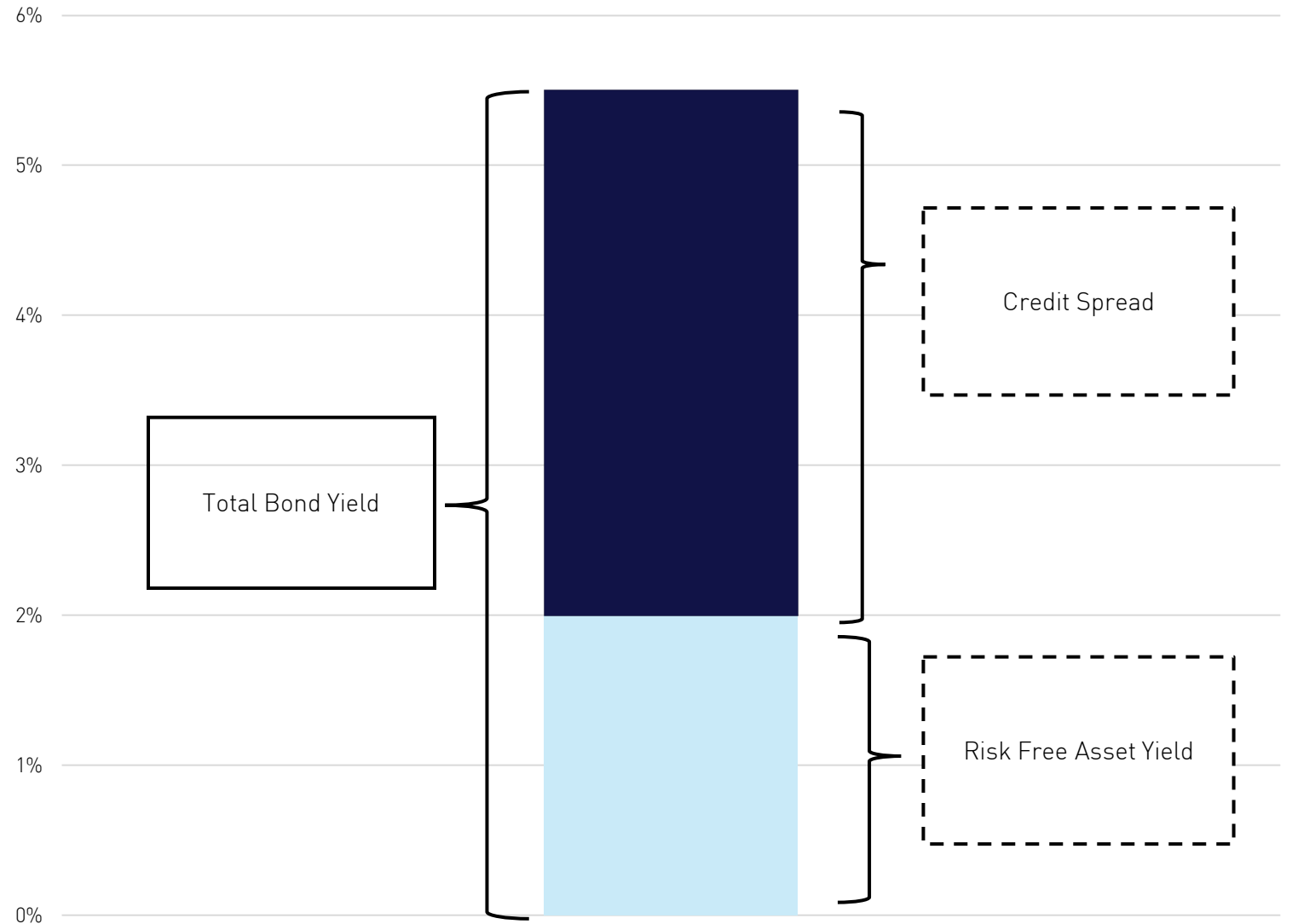
- Systematic exposure to High-Yield bonds or Treasuries.
- Smart-beta* strategy that provides the potential for yield and return enhancement.
- Disciplined risk management process based on credit spreads.

*Smart beta is an investment style where a manager follows an index designed to take advantage of perceived systematic biases or inefficiencies in the market.

What is a credit spread?

- A credit spread is the difference in yield between a risk-free bond and a bond with credit risk, all else equal. The spread measures the extra yield with which an investor is compensated for owning the risk asset instead of the risk-free asset.
- When credit spreads are tight, investors view the risk bonds as less risky than usual and require less in risk premiums.
- When credit spreads are wide, investors view the risk bonds as riskier than usual and require more in risk premiums.

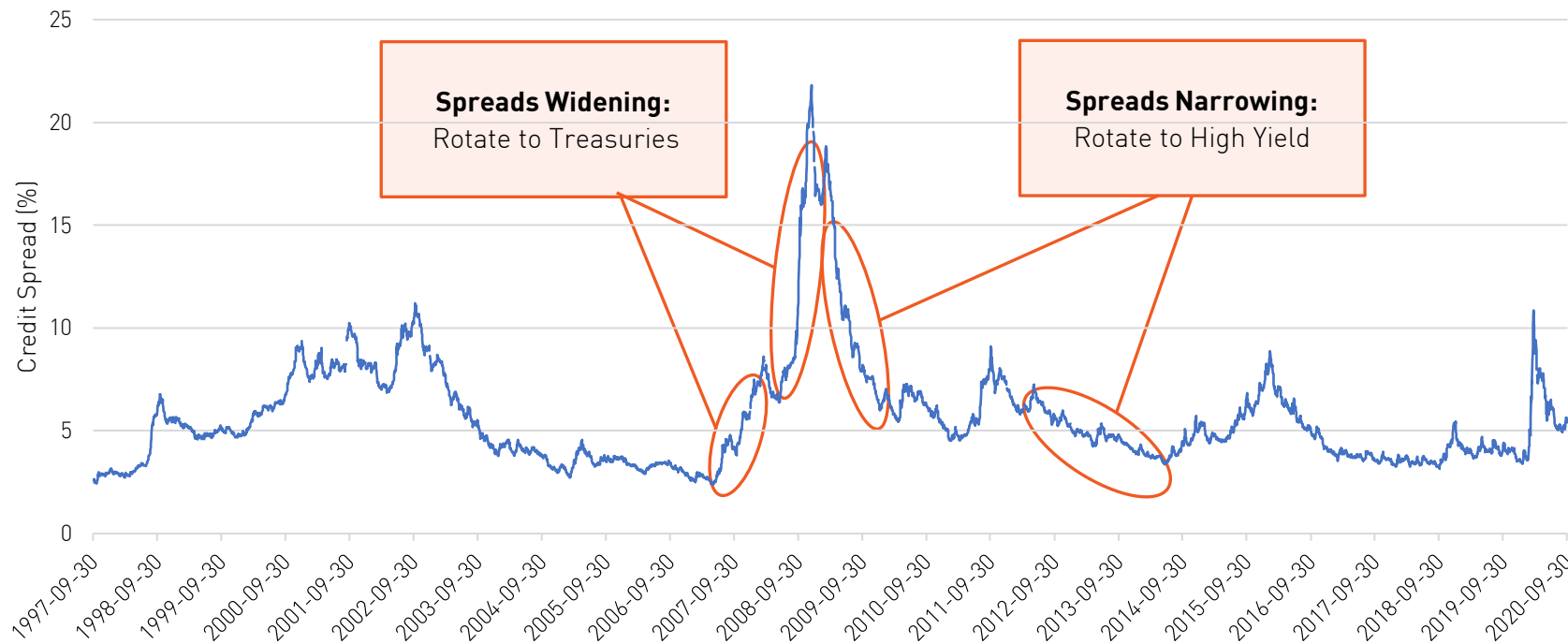
High-Yield Bond Breakdown



Why are credit spreads important?

- Spreads tend to lead the economic and market cycles. Historically, we have seen spreads widen before recessions.
- A credit spread widens when the market thinks a given stream of cash flows is riskier, meaning the chance of default is higher. Defaults occur when a borrower misses a repayment on a debt. Avoiding defaults is in the best interest of the lender.

High Yield Spreads and Corresponding Investment Action (Hypothetical)¹



How does KDFI use credit spreads?

- On a quarterly basis, KDFI evaluates credit spreads by comparing the cumulative quarterly return of the 3 sub-indexes.
- KDFI invests in Treasuries when Treasuries outperform High-Yield. In this environment credit spreads are widening, and risk is more apparent.
- KDFI invests in High-Yield bonds when spreads are static or tightening.
- The sub-index with the highest return across that period receives the full allocation for the coming quarter.

1. ICE BofA US High Yield Index Option Adjusted Spread Data, Data from Federal Reserve Economic Data as of 9/30/2020. *Indexes are unmanaged and one cannot invest directly in an index. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.*

How does a dynamic fixed income rotation strategy work?

- Using the FTSE Treasuries 1-5y Index, the FTSE Treasuries 7-10y Index and the FTSE US High Yield Market Index, the dynamic strategy will rotate based on the cumulative quarterly performance of the index with the highest return from the previous quarter.
- In 12 of 23 quarters the index with the best performance from the previous quarter outperformed the average return of the three indexes for the current quarter.

NOTE: The FTSE US High Yield Market Index is used to show a longer live historical index performance period. Unlike the high yield index used in the hypothetical model, the FTSE US High-Yield Market BB/B-Rated Capped Custom Index limits exposure to riskier high yield bonds through maintaining at least 80% of the portfolio in B- or better High-Yield credit. Limiting exposure to C rated or worse bonds lowers the volatility of the portfolio while maximizing the risk-adjusted returns.

Source: FTSE as of 9/30/2020. US High Yield: FTSE US High-Yield Market Index. Treasuries 1-5y: FTSE US Treasury 1-5 Years Index. Treasuries 7-10y: FTSE US Treasury 7-10 Years Index. See slide 10 for index and term definitions. *Index returns are for illustrative purposes only and do not represent actual Fund performance. Index returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results. For actual fund performance visit our website www.kfafunds.com.*

Quarter	Treasuries 1-5y	Treasuries 7-10y	US High Yield	Avg. return across indexes	Rotated index above or below avg. return?
Q1 2015	0.86%	2.53%	2.40%	1.93%	Above
Q2 2015	0.03%	-2.46%	0.18%	-0.75%	Below
Q3 2015	0.66%	3.00%	-5.59%	-0.64%	Below
Q4 2015	-0.65%	-1.35%	-2.48%	-1.49%	Above
Q1 2016	1.53%	4.68%	3.38%	3.20%	Below
Q2 2016	0.81%	2.79%	6.02%	3.21%	Below
Q3 2016	-0.18%	-0.53%	5.48%	1.59%	Above
Q4 2016	-1.13%	-5.58%	1.92%	-1.60%	Above
Q1 2017	0.38%	0.93%	2.42%	1.24%	Above
Q2 2017	0.40%	1.41%	2.00%	1.27%	Above
Q3 2017	0.29%	0.45%	1.92%	0.89%	Above
Q4 2017	-0.39%	-0.27%	0.54%	-0.04%	Above
Q1 2018	-0.38%	-1.89%	-0.75%	-1.01%	Above
Q2 2018	0.12%	-0.12%	1.10%	0.37%	Below
Q3 2018	0.06%	-0.78%	2.36%	0.55%	Above
Q4 2018	1.70%	3.73%	-4.71%	0.24%	Below
Q1 2019	1.22%	2.89%	7.36%	3.82%	Below
Q2 2019	1.83%	3.96%	2.36%	2.72%	Below
Q3 2019	0.75%	2.71%	0.96%	1.47%	Above
Q4 2019	0.34%	-1.25%	2.83%	0.64%	Below
Q1 2020	3.72%	10.14%	-11.85%	0.67%	Below
Q2 2020	0.43%	0.92%	8.43%	3.26%	Below
Q3 2020	0.13%	0.28%	4.62%	4.62%	Above
Annualized Return	2.51%	4.81%	5.72%	Total Rotations	23
Annualized Volatility	2.01%	0.06%	8.58%	# of rotations above the avg. return	12
Maximum Drawdown	1.31%	6.37%	11.85%	# of rotations below the avg. return	11

The case for High-Yield

- **Diversification:** High-Yield bonds have been effective diversifiers for stock and bond portfolios because they helped to reduce volatility and enhance returns on both a relative and risk-adjusted basis.
- **Negative correlations:** High-Yield bonds are negatively correlated with Treasuries and have historically shown low correlations to investment grade bonds and to equities.
- **Lower sensitivity to rates:** High-Yield bonds have exhibited lower sensitivity to rising interest rates than Treasuries and investment grade bonds.
- **Risk mitigation:** Historically, High-Yield bonds have also been effective in mitigating the risk of rising rates.

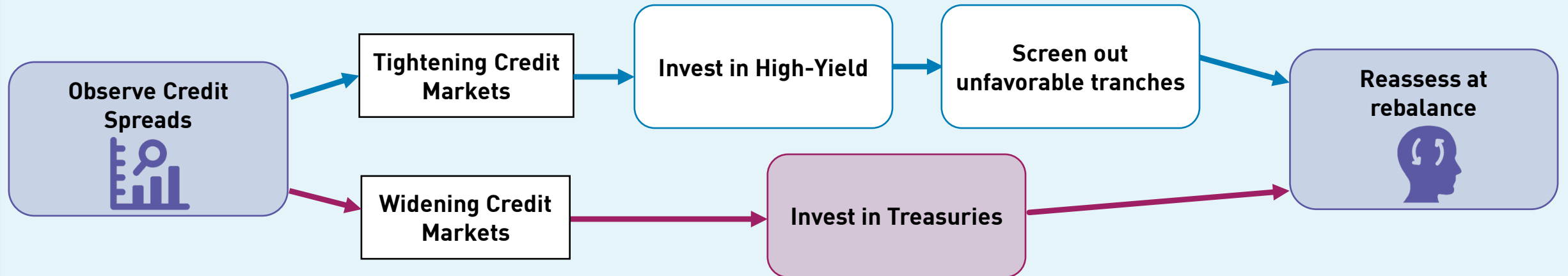
The case for B- to BB+ rated bonds

- **Lower default rates:** In both the short and long term, there have been significant differences in the default rates for BB-rated issues, B-rated issues, and CCC-C rated issues. According to Moody's, over a series of rolling five-year periods from 1994-2017, BB-rated issues defaulted 4.5% on average and B-rated issues defaulted 14.3% on average, while CCC-C issues defaulted 35.8% on average.
- **Better Sharpe ratio:** In fact, over that time period, BB-rated issues had Sharpe ratios (the average return earned in excess of the risk-free rate per unit of volatility or total risk) that were more than twice those of CCC-C issues.
- **Lower volatility:** KDFI, when positioned in High-Yield, will take a rules-based approach to ensure that at least 80% of the portfolio is invested in B- or better High-Yield Credit to lower the volatility of the portfolio while seeking to maximize the risk-adjusted returns.

Conclusion

- Over the long-run, we believe credit spreads are a reliable indicator for helping investors allocate to fixed income markets.
- KDFI's target benchmark has historically offered equity like returns, with fixed income like drawdown.
- The risk management and tactical features of KDFI could replace and improve bond positions within traditional client portfolios.

Dynamic Fixed Income Process Map





KFA Dynamic Fixed Income ETF

Investment Strategy:

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The FTSE US High-Yield/Treasury Rotation Index rotates between the following three underlying indexes: FTSE US Treasury 1-5 Years Index, FTSE US Treasury 7-10 Years Index, or the FTSE US High-Yield Market BB/B-Rated Capped Custom Index. During quarterly reviews, the cumulative quarterly return of these three indexes is compared, and the index with the highest return across that period receives the full allocation for the coming quarter.

KDFI Performance History as of 09/30/2020:

	Cumulative %			Average Annualized %			
	3 Mo	6 Mo	Since Inception	1 Yr	3 Yr	5 Yr	Since Inception
Fund NAV	0.69%	-0.03%	-14.79%	-	-	-	-
Closing Price	0.35%	0.78%	-14.84%	-	-	-	-
Index	4.62%	5.59%	-7.67%	-	-	-	-

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 investors 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 visit www.kfafunds.com.

For more information on the FTSE US Broad Investment-Grade Bond Index and the FTSE US High-Yield Market Index, please see the [FTSE Fixed Income Index Guide](#).

Index returns are for illustrative purposes only. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index.

Fund Details	Data as of 9/30/2020
Primary Exchange	NYSE
CUSIP	500767686
ISIN	US5007676860
Total Annual Fund Operating Expense	0.46%
Inception Date	12/9/2019
Distribution Frequency	Annual
Index Name	FTSE US High-Yield/Treasury Rotation Index
Net Assets	\$32,063,007
Number of Holdings	184

Top 10 Holdings as of 9/30/2020 Holdings are subject to change.	Ticker	%
SPDR BBG BARC HY	JNK	4.95
ISHARES IBOXB HI	HYG	4.21
CASH	-	3.22
GME 6 3/4 03/15/21	-	2.47
MLTHCO 8 1/2 12/01/22	-	1.97
MTG 5 1/4 08/15/28	-	1.93
XXR 5 08/15/25	-	1.91
URI 3 7/8 02/15/31	-	1.90
GME 10 03/15/23	-	1.84
OXY 0 10/10/36	-	1.71

Key Metrics	Data as of 9/30/2020
30-day SEC Yield	5.18%
Unsubsidized 30-day SEC Yield	5.18%

Index Definitions

FTSE US High-Yield/Treasury Rotation Index (Inception date 11/1/19) is designed to provide a benchmark for investors looking to capture risk-managed exposure to High-Yield Credit and US Treasuries. The FTSE US High-Yield/Treasury Rotation Index rotates between the following three underlying sub-indexes: FTSE US Treasury 1-5 Years Index, FTSE US Treasury 7-10 Years Index, or the FTSE US High-Yield Market BB/B-Rated Capped Custom Index. During quarterly reviews, the cumulative quarterly return of these three indexes is compared, and the index with the highest return across that period receives the full allocation for the coming quarter.

FTSE US Treasury 1-5 Years Index (Inception date 10/1/85; Inception date for sub-index 11/1/19) is designed to track the performance of US dollar-denominated bonds issued in the US investment-grade bond market. Please note data on slide 6 uses FTSE US Treasury 1-5 Years Index with inception date of 10/1/85. Index and sub-index methodologies are the same.

FTSE US Treasury 7-10 Years Index (Inception date 10/1/85; Inception date for sub-index 11/1/19) is designed to track the performance of US dollar-denominated bonds issued in the US investment-grade bond market. Please note data on slide 6 uses FTSE US Treasury 7-10 Years Index with inception date of 10/1/85. Index and sub-index methodologies are the same.

FTSE US High-Yield Market BB/B Rated Capped Custom Index (Inception date 11/1/19) is a US Dollar-denominated index which measures the performance of high-yield debt issued by corporations domiciled in the US or Canada. Recognized as a broad measure of the North American high-yield market, the index covers cash-pay, deferred-interest securities, and debt issued under Rule 144A in unregistered form.

FTSE US High Yield Market Index (Inception date 12/31/1988) The FTSE US High-Yield Market Index is a US Dollar-denominated index which measures the performance of high-yield debt issued by corporations domiciled in the US or Canada.

ICE BoA US High Yield Index (Inception date 8/31/1986) The ICE BofA Option-Adjusted Spreads are the calculated spreads between a computed OAS index of all bonds in a given rating category and a spot Treasury curve. An OAS index is constructed using each constituent bond, weighted by market capitalization. The ICE BofA High Yield Master II OAS uses an index of bonds that are below investment grade (those rated BB or below).

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 indicate the extent of deviation for a group as a whole. A low standard deviation indicates that the data points tend to be close 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.

Maximum Drawdown: The maximum loss possible resulting from holding a security over a period of time, i.e. the loss that would have been incurred from purchasing the security at its highest level for the period and selling it at its lowest period.

Important Notes

Carefully consider the Funds' investment objectives, risk factors, charges and expenses before investing. This and additional information can be found in the Funds' full and summary prospectus, which may be obtained by visiting www.kfafunds.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. The Fund can invest in bonds generally and high-yield bonds specifically. Bonds are subject to interest rate risk and will decline in value as interest rates rise. High yield bonds involve greater risks of default or downgrade and are more volatile than investment grade securities. 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. The Fund may invest in derivatives, which are often more volatile than other investments and may magnify the Funds' gains or losses. The fund is non-diversified.

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 stockbroker. 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 pm Eastern Time (when NAV is normally determined).

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

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