



Product Notice 2021-123

Date: June 8, 2021

Re: KraneShares Trust

Pursuant to the Rules of MEMX LLC ("MEMX or the "Exchange"), this Product Notice is being issued to advise you that the following securities have been approved for trading pursuant to unlisted trading privileges ("UTP") on the Exchange as UTP Derivative Securities pursuant to MEMX Rule 14.1.

<u>Securities (the "Fund" or the "ETF")</u>	<u>Symbol</u>
KraneShares Bloomberg Barclays China Bond Inclusion Index ETF	KBND

Issuer/Trust: KraneShares Trust

Issuer Website: <https://kraneshares.com>

Primary Listing Exchange: NYSE Arca

Compliance and supervisory personnel should note that, among other things, this Product Notice discusses the need to deliver a prospectus to customers purchasing shares of the exchange-traded fund. Please forward this Product Notice to interested persons within your organization.

The purpose of this Product Notice is to outline various rules and policies that will be applicable to trading in these new products pursuant to the Exchange's unlisted trading privileges, as well as to provide certain characteristics and features of the securities. For a more complete description of the Issuer, the securities, and the underlying market instruments or indexes, visit the Issuer Website, consult the Prospectus available on the Issuer Website or examine the Issuer Registration Statement, or review the most current information bulletin issued by the Primary Listing Exchange.

Background Information on the Fund

Under normal circumstances, the Fund will invest at least 80% of its total assets in components of the Underlying Index or instruments that have economic characteristics similar to securities included in the Underlying Index. The Underlying Index seeks to track the performance of Chinese onshore renminbi ("RMB")-denominated fixed-income market. The Underlying Index includes RMB-denominated fixed-income securities ("RMB Bonds") issued into the China Interbank Bond Market ("CIBM"). Onshore RMB Bonds are traded in the CIBM or the Chinese exchange-traded bond market ("Exchange-Traded Bond Market"). Currently, the CIBM, which is a quote-driven over-the-counter market for institutional investors, is much larger with respect to trading volume and is generally considered more liquid than the Exchange-Traded Bond Market, which is an electronic automatic matching system where securities are traded on the Shanghai and Shenzhen Stock Exchanges. The Underlying Index includes debt issued by: (1) the Chinese government and Chinese government-related entities, including certain Chinese policy banks, with par values of at least RMB 5 billion; and (2) corporations with par values of at least RMB 1.5 billion.

The Underlying Index includes only debt that pays fixed interest rates. The weightings of the Underlying Index components are weighted so that, as of each reconstitution date: (1) RMB Bonds issued by the People's Republic of China ("PRC") represent approximately 25% of the weight of the Underlying Index; (2) RMB Bonds issued by policy banks (the Agricultural Development Bank of China, China Development Bank and Export-Import Bank of China) represent approximately 25% of the weight of the Underlying Index; and (3) RMB Bonds issued by corporations or other government-related entities represent approximately 50% of the Underlying Index, with the weight of any individual such issuer capped at 4.5%

For RMB Bonds issued by corporations or other government-related entities, to qualify for inclusion in the Underlying Index as of each reconstitution, such components must be rated by Fitch Ratings, Ltd. ("Fitch"), Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Financial Services LLC ("S&P") as BBB-, Baa3 or BBB-, respectively, or higher. The following methodology will be used to determine such component's rating: if three ratings are available, then the highest and lowest ratings will be disregarded and the middle rating will be used; if two ratings are available, then the lowest rating will be used; and if only one rating is available, then that rating is used. Bonds not rated by Fitch, Moody's or S&P are excluded from the Underlying Index.

The following are excluded from the Underlying Index: floating rate and zero coupon securities, bonds with equity features (i.e. convertible bonds and warrants), derivatives, structured products, securitized bonds, private placements, retail bonds, inflation-linked bonds, bonds issued on the Shanghai and Shenzhen Stock Exchanges, bonds classified as "Financial Institutions" and special bonds issued directly by the Ministry of Finance of the People's Republic of China. Additionally, bonds issued by the following are excluded from the Underlying Index: Agricultural Bank of China, Bank of China, China Cinda Holdings Company, China Citic Bank International, China Construction Bank Corporation, China Huarong Asset Management and Industrial and Commercial Bank of China Limited.

To gain exposure to the Underlying Index, the Fund will invest directly in RMB Bonds traded in the CIBM. The Fund may invest in the CIBM through: a People's Republic of China ("PRC") program that permits foreign investors to invest in RMB Bonds traded in the onshore market ("CIBM Program"); a Bond Connect Company Limited program ("Bond Connect") that allows foreign investors, such as the Fund, to invest in RMB Bonds through a Hong Kong account; or through a Renminbi Qualified Foreign Institutional Investor ("RQFII") or Qualified Foreign Institutional Investor ("QFII") license that may be or has been obtained by the Fund's adviser, Krane. The Fund currently intends to invest directly in RMB Bonds traded in the CIBM through Bond Connect or the CIBM Program, but Krane may choose to use a RQFII or QFII license in the future. © 2021 Miami International Holdings, Inc. and its subsidiaries.

The Fund may invest up to 20% of its assets in instruments that are not included in the Underlying Index, but that Krane believes will help the Fund track its Underlying Index. These may include: RMB-denominated securities principally traded in the off-shore RMB (or "CNH") market, which is an over-the-counter ("OTC") market located in jurisdictions outside of Mainland China, such as Hong Kong and Singapore; RMB Bonds traded in the Exchange-Traded Bond Market; debt securities issued in any currency denomination in other political jurisdictions, including Hong Kong and Singapore; variable and floating rate securities; unrated and high yield securities (or "junk bonds"); and derivatives (including swaps, futures, forwards and options). The Fund may also hold cash in a deposit account in China or invest in U.S. money market funds or other U.S. cash equivalents. Foreign investment companies in which the Fund may invest include RMB-denominated short-term bond funds domiciled in the PRC ("PRC Investment

Companies”). The other investment companies in which the Fund may invest may be advised, sponsored or otherwise serviced by Krane and/or its affiliates. The Fund will not purchase shares of an investment company or deposit cash in a Chinese deposit account if it would cause the Fund to (i) own more than 3% of such investment company’s voting shares; (ii) invest more than 5% of its total assets in such investment company or such deposit account; or (iii) invest more than 10% of its total assets in investment companies and such deposit accounts.

Principal Risks

Interested persons are referred to the discussion in the prospectus for the Fund of the principal risks of an investment in the Fund. These include tracking error risk (factors causing a Fund’s performance to not match the performance of its underlying index), market trading risk (for example, trading halts, trading above or below net asset value), investment style risk, sector risk, investment approach risk, non-diversification risk, issuer-specific risk, management risk, concentration risk, equity securities risk, sector risk and passive investment risk.

Exchange Rules Applicable to Trading in the Shares

Trading in the Shares on MEMX is subject to MEMX trading rules.

Trading Hours

The value of the Index underlying the Shares will be disseminated to the data vendors every 15 seconds during the Regular Trading Session.

The Shares will trade on MEMX between 7:00 am and 5:00 pm (EST). Please note that trading in the Shares during the Exchange’s Pre-Market and Post-Market Sessions (“Extended Market Sessions”) may result in additional trading risks which include: (1) that the current underlying indicative value may not be updated during the Extended Market Sessions, (2) lower liquidity in the Extended Market Sessions may impact pricing, (3) higher volatility in the Extended Market Sessions may impact pricing, (4) wider spreads may occur in the Extended Markets Sessions, and (5) because the indicative value is not calculated or widely disseminated during the Extended Market Sessions, an investor who is unable to calculate an implied value for the Shares in those sessions may be at a disadvantage to market professionals.

Dissemination of Data

The Consolidated Tape Association will disseminate real time trade and quote information for the Shares to Tape B.

<i>Name</i>	<i>Listing Market</i>	<i>Trading Symbol</i>	<i>IOPV Symbol</i>	<i>NAV Symbol</i>
KraneShares Bloomberg Barclays China Bond Inclusion Index ETF	NYSE Arca	KPND	KPND.IV	KPND.NV

Delivery of a Prospectus

Exchange Members should be mindful of applicable prospectus delivery requirements under the federal securities laws with respect to transactions in the Fund. Prospectuses may be obtained through the Fund's website. The Prospectus for the Fund does not contain all of the information set forth in the Fund's Registration Statement (including the exhibits to the Registration Statement), parts of which have been omitted in accordance with the rules and regulations of the SEC. For further information about the Fund, please refer to its Registration Statement.

In the event that the Fund relies upon an order by the SEC exempting the Shares from certain prospectus delivery requirements under Section 24(d) of the 1940 Act and in the future make available a written product description, Exchange Rules require that Exchange Members provide to all purchasers of Shares a written description of the terms and characteristics of such securities, in a form prepared by the Issuer of the Fund, no later than the time a confirmation of the first transaction in the Shares is delivered to such purchaser. In addition, Exchange Members shall include such a written description with any sales material relating to the Shares that is provided to customers or the public. Any other written materials provided by a MEMX member to customers or the public making specific reference to the Shares as an investment vehicle must include a statement in substantially the following form: "A circular describing the terms and characteristics of [the UTP Derivative Securities] has been prepared by the [open-ended management investment company name] and is available from your broker. It is recommended that you obtain and review such circular before purchasing [the UTP Derivative Securities]."

An Exchange member carrying an omnibus account for a non-member broker-dealer is required to inform such non-member that execution of an order to purchase Shares for such omnibus account will be deemed to constitute agreement by the non-member to make such written description available to its customers on the same terms as are directly applicable to such Exchange member under this rule.

Upon request of a customer, Exchange Members also shall provide a copy of the Prospectus.

Suitability

Trading in the securities on the Exchange will be subject to MEMX Rule 3.7 and other applicable suitability rules. Members recommending transactions in the securities to customers should make a determination that the recommendation is suitable for the customer.

Trading Halts

The Exchange will halt trading in the Shares of a security in accordance with the Exchange's Rules. The grounds for a halt include a halt because the intraday indicative value of the security and/or the value of its underlying index are not being disseminated as required, a halt for other regulatory reasons or due to other conditions or circumstances deemed to be detrimental to the maintenance of a free and orderly market. In addition, MEMX will stop trading the Shares of a security if the primary market de-lists the security.

Exemptive, Interpretive and No-Action Relief Under Federal Securities Regulations

The Securities and Exchange Commission (the "SEC") has issued letters granting exemptive, interpretive and no-action relief from certain provisions of rules under the Securities Exchange Act of 1934 for

exchange- traded securities listed and traded on a registered national securities exchange that meet certain criteria.

AS WHAT FOLLOWS IS ONLY A SUMMARY OF THE RELIEF OUTLINED IN THE NO-ACTION LETTERS REFERENCED ABOVE, THE EXCHANGE ADVISES INTERESTED PARTIES TO CONSULT THE NO-ACTION LETTERS FOR MORE COMPLETE INFORMATION REGARDING THE MATTERS COVERED THEREIN AND THE APPLICABILITY OF THE RELIEF GRANTED IN RESPECT OF TRADING IN SECURITIES. INTERESTED PARTIES SHOULD ALSO CONSULT THEIR PROFESSIONAL ADVISORS.

Regulation M Exemptions

Generally, Rules 101 and 102 of Regulation M prohibit any “distribution participant” and its “affiliated purchasers” from bidding for, purchasing, or attempting to induce any person to bid for or purchase any security which is the subject of a distribution until after the applicable restricted period, except as specifically permitted in Regulation M. The provisions of the Rules apply to underwriters, prospective underwriters, brokers, dealers, and other persons who have agreed to participate or are participating in a distribution of securities.

The SEC has granted an exemption from Rule 101 under Regulation M to permit persons participating in a distribution of shares of the above-mentioned Fund to engage in secondary market transactions in such shares during their participation in such a distribution. In addition, the SEC has granted relief under Regulation M to permit persons who may be deemed to be participating in the distribution of Shares of the above-mentioned Fund (i) to purchase securities for the purpose of purchasing Creation Unit Aggregations of Fund Shares and (ii) to tender securities for redemption in Creation Unit Aggregations. Further, the SEC has clarified that the tender of Fund Shares to the Fund for redemption does not constitute a bid for or purchase of any of the Funds’ securities during the restricted period of Rule 101. The SEC has also granted an exemption pursuant to paragraph (e) of Rule 102 under Regulation M to allow the redemption of Fund Shares in Creation Unit Aggregations during the continuous offering of Shares.

Rule 10b-10 (Customer Confirmations for Creation or Redemption of Fund Shares)

Broker-dealers who handle purchases or redemptions of Fund Shares in Creation Unit size for customers will be permitted to provide such customers with a statement of the number of Creation Unit Aggregations created or redeemed without providing a statement of the identity, number and price of Shares of the individual securities tendered to the Fund for purposes of purchasing Creation Unit Aggregations (“Deposit Securities”) or the identity, number and price of Shares to be delivered by the Trust for the Fund to the redeeming holder (“Redemption Securities”). The composition of the securities required to be tendered to the Fund for creation purposes and of the securities to be delivered on redemption will be disseminated each business day and will be applicable to requests for creations or redemption, as the case may be, on that day. This exemptive relief under Rule 10b-10 with respect to creations and redemption is subject to the following conditions:

1. Confirmations to customers engaging in creations or redemptions must state that all information required by Rule 10b-10 will be provided upon request;

2. Any such request by a customer for information required by Rule 10b-10 will be filed in a timely manner, in accordance with Rule 10b-10(c); and
3. Except for the identity, number, and price of Shares of the component securities of the Deposit Securities and Redemption Securities, as described above, confirmations to customers must disclose all other information required by Rule 10b-10(a).

Rule 10b-17 (Untimely Announcement of Record Dates)

The SEC has granted an exemption from the requirements of Rule 10b-17 that will cover transactions in the Shares.

Rule 14e-5

An exemption from Rule 14e-5 has been granted to permit any person acting as a dealer-manager of a tender offer for a component security of the Fund (1) to redeem Fund Shares in Creation Unit Aggregations from the issuer that may include a security subject to such tender offer and (2) to purchase Fund Shares during such tender offer. In addition, a no-action position has been taken under Rule 14e-5 if a broker-dealer acting as a dealer-manager of a tender offer for a security of the Fund purchases or arranges to purchase such securities in the secondary market for the purpose of tendering such securities to purchase one or more Creation Unit Aggregations of Shares, if made in conformance with the following:

1. Such bids or purchases are effected in the ordinary course of business, in connection with a basket of 20 or more securities in which any security that is the subject of a distribution, or any reference security, does not comprise more than 5% of the value of the basket purchase; or
2. Purchases are effected as adjustments to such basket in the ordinary course of business as a result of a change in the composition of the underlying index; and
3. Such bids or purchases are not effected for the purpose of facilitating such tender offer.

Section 11(d)(1); Rule 11d1-2 (Customer Margin)

The SEC has taken a no-action position under Section 11(d)(1) that will permit broker-dealers that do not create Shares but engage in both proprietary and customer transactions in such Shares exclusively in the secondary market to extend or maintain or arrange for the extension or maintenance of credit on the Shares, in connection with such secondary market transactions. For broker-dealers that engage in the creation of Shares, the SEC has also taken a no-action position under Rule 11d1-2 that will cover the extension or maintenance or the arrangement for the extension or maintenance of credit on the Shares that have been owned by the persons to whom credit is provided for more than 30 days.

SEC rule 15c1-5 and 15c1-6 (Disclosure of Control and Interest in Distributions)

The SEC has taken a no-action position under Rule 15c1-5 that will permit a broker-dealer to execute transactions in Shares without disclosing any control relationship with an issuer of a component security. In addition, the SEC has taken a no-action position under Rule 15c1-6 that will permit a broker-dealer to

execute transactions in the Shares without disclosing its participation or interest in a primary or secondary distribution of a component security.

This Product Notice is not a statutory prospectus. Members should consult the Prospectus for a security and the security's website for relevant information.

Please contact MEMX Regulation at regulation@memx.com with any inquiries regarding this Product Notice.