



Zacks

**INDEX
SERVICES**

**A DIVISION OF ZACKS
INVESTMENT MANAGEMENT**

ZACKS NEW CHINA INDEX

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1. Who is Zacks?

Zacks Investment Research

Zacks Investment Research was formed in 1978 to compile and analyze brokerage research for both institutional and individual investors. The guiding principle behind the work is the belief that there must be good reason for brokerage firms to spend over a billion dollars a year to research stocks to recommend to their clients. Obviously, these investment experts know something special that may be indicative of the future direction of stock prices. Zacks was determined to unlock that secret knowledge and make it available to clients to help them improve their investment results.

This massive undertaking requires Zacks to continually process reports issued by approximately 3,000 analysts from 150 brokerage firms. At any given point in time, Zacks is monitoring well over 200,000 earnings estimates and brokerage recommendation data points, looking for any change - whether it be an upgrade from a "hold" to a "buy" or a revision in an analyst's forecast for a specific quarter or fiscal year. Zacks constantly compiles and updates this information, distributing it to institutional investors and many financial web sites. Zacks ability to gather, analyze, and distribute information on a timely basis makes Zacks' research amongst the most widely used in the industry.

Zacks Investment Management

Zacks Investment Management (ZIM), a wealth management boutique, is an expert on earnings and using earnings estimates in the investment process. The firm is a wholly owned subsidiary of Zacks Investment Research. ZIM employs quantitative models that are made available to both retail and institutional clients through separately managed accounts and mutual funds. Zacks Index Services (ZIS), a division of ZIM, creates and maintains proprietary, quantitative portfolio strategies that are licensed to product sponsors and serve as the basis of investment products such as ETFs, UITs, and CEFs.

2. Index Summary

| | |
|---|--|
| Full Name | Zacks New China Index |
| Index Types | Price Appreciation Index (Ticker: ZAXKFYP) Gross Total Return Index (Ticker: ZAXKFYPG) Net Total Return Index (Ticker: ZAXKFYPN) |
| Eligible Stocks | All common stocks listed on the Hong Kong Stock Exchange, Shanghai-Hong Kong Stock Connect and all common stocks and American Depositary Receipts listed on major US exchanges |
| Number of Constituents | 40 |
| Weighting Scheme | Modified Equal Weighted |
| Rebalancing & Reconstitution Frequency | Annually |
| Calculation Frequency | Price Return: 15 seconds between 00:30 & 18:00 ET Gross Total Return: 15 seconds between 00:30 & 18:00 ET Net Total Return: 15 seconds between 00:30 & 18:00 ET |
| Base date | 04/30/2011 |
| Base level | 1000 |
| Historical Returns available since | 04/30/2011 |
| Derivatives and Linked Products | KraneShares Zacks New China ETF |

3. Index Methodology

3.1. Overview

The Zacks New China Index (“the Index”, hereafter) is designed to offer a unique strategy for gaining exposure to China. The Index measures the performance of publicly-traded, China-based companies operating in targeted industries of China’s 13th Five-Year Plan. The Index constituent selection methodology utilizes multi-factor, proprietary selection rules to determine the optimal mix of securities that offer the greatest potential from a risk/return perspective. The approach is specifically designed to enhance investment applications and investability. The Index is adjusted annually, or as required, to assure timely stock selections.

3.2. Selection Criteria

Investable universe:

- Common stocks listed on the Hong Kong Stock Exchange, Shanghai-Hong Kong Stock Connect, and common stocks and ADRs listed on major US exchanges
- The business country of the company is mainland China
- 3-month average daily trading volume must be greater than US\$1 million
- Security price must be greater than US\$0.1

Selection Rules:

- Companies operating in the following industries are selected from the investable universe:
 - Commercial Services & Supplies
 - Independent Power and Renewable Electricity Producers
 - Biotechnology
 - Life Sciences Tools & Services
 - Aerospace & Defense
 - Machinery
 - Electric Utilities
 - Independent Power and Renewable Electricity Producers
 - Chemicals
 - Construction Materials
 - Auto Components
 - Automobiles
 - Food & Staples Retailing
 - Food Product
 - Insurance and Information Technology

| Strategic Industries | GICS Industry Code | GICS Industry Name | GICS Sector |
|--|---------------------------|---|--------------------|
| Energy saving and environmental protection | 202010 | Commercial Services & Supplies | Industrials |
| | 551050 | Independent Power and Renewable Electricity Producers | Utility |
| New Generation of Information Technology | 45 | Information Technology | Technology |
| Biology | 352010 | Biotechnology | Health care |
| | 352030 | Life Sciences Tools & Services | Health care |
| High-end equipment making | 201010 | Aerospace & Defense | Industrials |
| | 201060 | Machinery | Industrials |
| New energy | 551010 | Electric Utilities | Utility |
| | 551050 | Independent Power and Renewable Electricity Producers | Utility |
| New materials | 151010 | Chemicals | Materials |
| | 151020 | Construction Materials | Materials |
| New-energy powered automobiles | 251010 | Auto Components | Consumer Discern |
| | 251020 | Automobiles | Consumer Discern |
| Food safety | 301010 | Food& Staples Retailing | Consumer Staples |
| | 302020 | Food Product | Consumer Staples |
| Insurance | 403010 | Insurance | Finance |

- Rank the selected companies by Price to Cash Flow (P/C) in ascending order and Free Cash Flow (FCF) per share in descending order. Equally weight P/C and FCF per share to construct a value score. Rank the securities by the value score in ascending order. Eliminate 50% of the securities from the universe with lower value scores.
- Rank the companies by 3 month return momentum in descending order and rank the companies by recent 6 month volatility in ascending order.
- Equally weight 3 month return momentum and the 6 month volatility to construct the technical score. Rank the remaining securities by the technical score in ascending order.
- Select 40 companies with highest technical scores.

(Note: 3 month momentum is defined as trailing 3 month total return; 6 month volatility is defined as trailing 6 month standard deviation of monthly total return)

Weighting Scheme:

Grouped weighting by market capital – modified equal weight

- Equally weight each constituent
- Divide the portfolio into 4 groups based on market capital
- The tranche with largest market cap should be one and a half (1.5) times the weight of the middle tranche
- The tranche with smallest market cap should be half (0.5 times) the weight of the middle tranche

3.3. Rebalancing Frequency

The Index is rebalanced annually. Special rebalancing can occur due to corporate actions such as mergers and acquisitions.

4. Index Calculation & Dissemination

Solactive AG (“the Agent”, hereafter) has been selected as the Index calculation agent acting on behalf of ZIS. Agent shall calculate, maintain and disseminate the Index. In so doing, Agent may be supported by third parties. Calculation of the Index is automatically generated and monitored by an employee of the Agent during the trading hours of the New York Stock Exchange between 7:30 AM – 4:30 PM EST.

Agent shall disseminate the price appreciation and total return index values to entities such as U.S. exchanges or other Zacks authorized third parties most notably Bloomberg

Agent shall also maintain the Index, which includes necessary adjustments to the Index according to capital changes such as stock splits, capital increases/decreases, dividend payments and/or other index adjustments necessary in the framework of extraordinary or ordinary adjustments.

5. DISCLAIMER

Cases uncovered by the rules provided in this document

Should ZIS encounter cases that are not covered by the rules provided in this document, ZIS reserves the right to apply an adjustment to the rules that are believed to be along the lines of the purpose of the index.

Index Rule Changes

ZIS reserves the right to amend or withdraw the index rules in whole or in part at any time. ZIS and its affiliates (Zacks Investment Management and Zacks Investment Research) are not liable for any losses resulting from the index rule changes.

Liability

Although ZIS will do its best to ensure the accuracy of all the data and the calculations involved in the periodic index updates, it is not liable for any unforeseen outcomes caused by any inaccuracy in data or human errors.

Ownership

Zacks Index Services is the owner of all intellectual and other property rights to the Index, including the name and the composition.