Accessing China

An Interview with Jonathan Krane,
Founder and Chief Executive Officer, Krane Funds Advisors

EDITORS' NOTE *Jonathan Krane is the Founder and Chief Executive Officer of KraneShares, an asset management firm delivering China-focused exchange traded funds to global investors. KraneShares focuses on providing expert access and products for investors to gain exposure to China's capital markets. Krane received his M.B.A. from Columbia Business School and a B.A. from Connecticut College. He is on the board of the US-China Strong Foundation and is a member of the Young Presidents Organization (YPO).*

Jonathan Krane

COMPANY BRIEF *Krane Funds Advisors, LLC (kraneshares.com) is the investment manager for KraneShares ETFs. Krane's suite of China focused ETFs provides investors with solutions to capture China's importance as an essential element of a well-designed investment portfolio. Krane strives to provide innovative, first to market strategies that have been developed based on strong partnerships and deep knowledge of investing. Krane also helps investors stay current on global market trends and aims to provide meaningful diversification. Krane Funds Advisors, LLC is majority owned by China International Capital Corporation (CICC).*

Will you discuss your vision in creating KraneShares?

I had done business in China for the past 15 years and had lived there from 2004 to 2009. I started a company in 2004 that focused on bringing live international content such as concerts, sporting events and cultural events to China.

We brought in professional ticketing technology to sell tickets to those events and developed a sponsorship business that sold event sponsorships to corporations.

We grew that business over five years in partnership with many different Chinese government entities. We became comfortable doing business in China, and also saw incredible growth trends happening.

Urbanization was taking place with people moving to cities and making more money. This meant they had an expanded discretionary spend so we saw our business grow dramatically over that five-year period. We also ended up getting involved in the Beijing Olympics.

I had a very positive experience as an American doing business in China, but when I sold that company, I moved back to the U.S.

I was in New York figuring out what to do next, and I became interested in the money flows that were happening between the United States and China. China was diversifying globally for the first time, and U.S. investors were under-allocated to China in their portfolios.

I thought these money flows between the U.S. and China would increase significantly going forward, so I decided to build a business in the middle of those money flows.

We identified ETFs as a good focus in 2013. ETFs were then a fast-growing product type in the U.S. and remain so today. We decided to launch a U.S. ETF firm that was 100 percent focused on China and to list our products on the New York Stock Exchange. We could then help U.S. and global investors understand China, as well as provide them very innovative and thematic opportunities to access China.

We were the first to provide an MSCI China A Share ETF fund listed on the New York Stock Exchange. This allowed U.S. and global investors to buy a fund on the New York Stock Exchange that provided access to the Shanghai and Shenzhen stock markets, which had always been closed markets before.

In 2017, MSCI decided they were going to include the China Mainland capital market in their global indexes for the first time. Ninety-nine of the top 100 global institutions benchmark to MSCI indexes for international investing. For MSCI to include the mainland market is significant because it means that institutions have to buy China.

The same thing will happen on the fixed income side. China's Mainland bond market is the third largest in the world at $11.9 trillion. It's another market that has been closed and not included in global bond indexes.

China offers incredible growth opportunities. It is the second largest economy in the world, the second largest equity market and the third largest bond market globally. As such, we think that investors need to look at China as its own asset class and construct completion strategies around it.

A year ago, KraneShares sold the majority stake of its company to CICC – China International Capital Corporation. CICC is a leading financial institution in China, with expertise in research, asset management, investment banking, private equity and wealth management, so it's a full-service investment bank right under the Chinese government. They have been an incredible partner and have provided many opportunities for KraneShares to grow.

In five years, we have grown this firm to more than $3 billion in AUM and we see a lot of opportunity for more growth going forward.

At what point will China no longer be considered an emerging market?

It has emerged. Within asset allocation, China is part of the emerging market category, but with the MSCI inclusion, China is going to grow from 30 percent of emerging markets to over 40 percent and even higher, especially as market caps increase. At that point, we need to do a completion strategy around it.

We think it has emerged and that China, over the coming years, will become its own asset class, similar to what happened in Japan in the 1980s. Japan has become its own asset class. We will see a similar path for China.

Over the past 20 years, China focused a lot of investment capital into their infrastructure, and they have also proven to the world that their state-owned enterprises that focus on construction are some of the best in the world.

The high-speed rail of China has helped the economy tremendously in connecting the second and third tier cities with the major cities like Beijing and Shanghai, and it has done wonders in terms of growth for the country.

They are focused on modernizing the original Silk Road, which involves connecting 70 countries and investing trillions of dollars into infrastructure by land, which will be high-speed rail and roads, as well as by sea through its ports. This will not just help China with all of their excess capacity going forward, but will also help these 70 countries with their modernization.

When investors visit China, we have found that they quickly invest into opportunities there. They quickly recognize that this is not an emerging market anymore – it has emerged and there is so much opportunity.

How critical is it that the trade issues be worked out and that U.S./China relations remain strong?

The trade issues will work out soon. The last six months have quickly demonstrated that it's a lose-lose situation, especially with two countries so dependent on each other.

Both countries see that this needs to get resolved. In the coming months, there will be resolution around the tariffs and U.S./China issues. ●

