

Asset Management Market of Korea

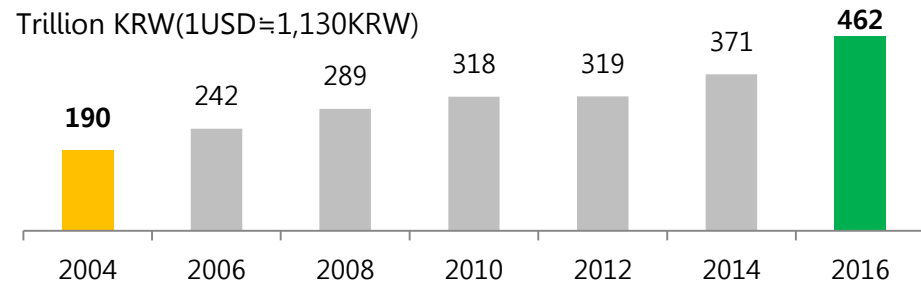
- **Nov 2, Moscow**
- **Mutual Fund Markets on AECSD landscape**



Korean Fund Market: Market Overview

■ **Market Size** (as of Sep '17, source : ICI (Investment Company Institute))

- (Fund AUM) 14th place in the world (436 billion usd)
- (No of funds registered) 3th place following Luxembourg and Brazil . More funds registered compared to market size (13,558 funds)
- CAGR of 8% (2004~2016)




■ **Participants** (as of Sep '17, source : Kofia (Korea Financial Investment Association))

- Asset Management Companies(197), Trustees(21), Distribution companies(75) and Administration companies(11).

* Authorized from FSC : AMCs, Trustees, Distribution companies, * Registration with FSC : Admin companies

- Distribution of funds : Securities firms (71%) vs Commercial banks (21%).

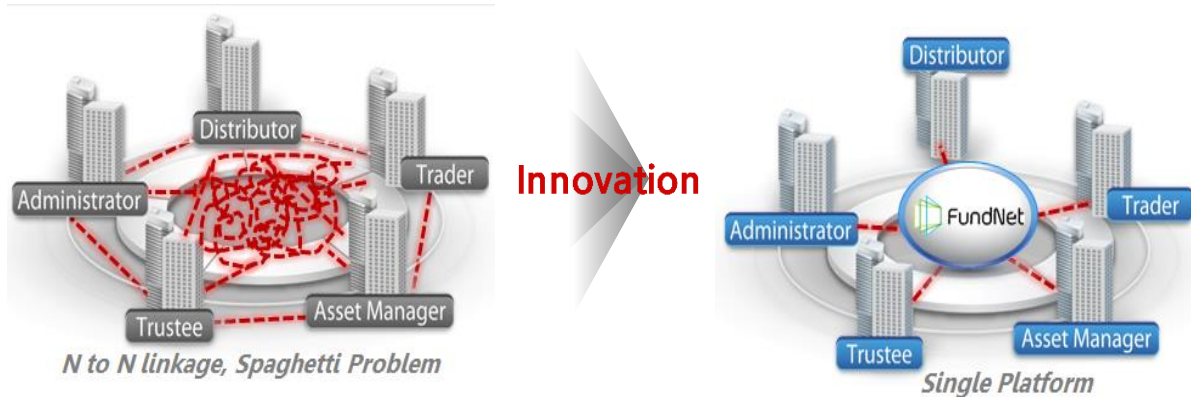
Korean Fund Market: Trend

- **Privately Placed Funds** (PPFs)  Korean Hedge Fund
 - **(AUM)** Starting from May 2016, PPFs exceeding POFs (56% vs 44%, as of Sep 2017).
 - **(No of funds)** 71% vs 29%
 - ✓ AMC's behavior of frequently making and closing down of PPFs.
- **Privately Placed Fund Managers**
 - Limited management activity only to PPFs
 - 56% of total asset managers (As of Sep 2017)
 - ✓ Regulation change about qualification procedure for PPFs managers
 - ✓ From authorization from FSC to registration with FSC.

Fund Infrastructure: KSD as fund infrastructure institution

■ FundNet

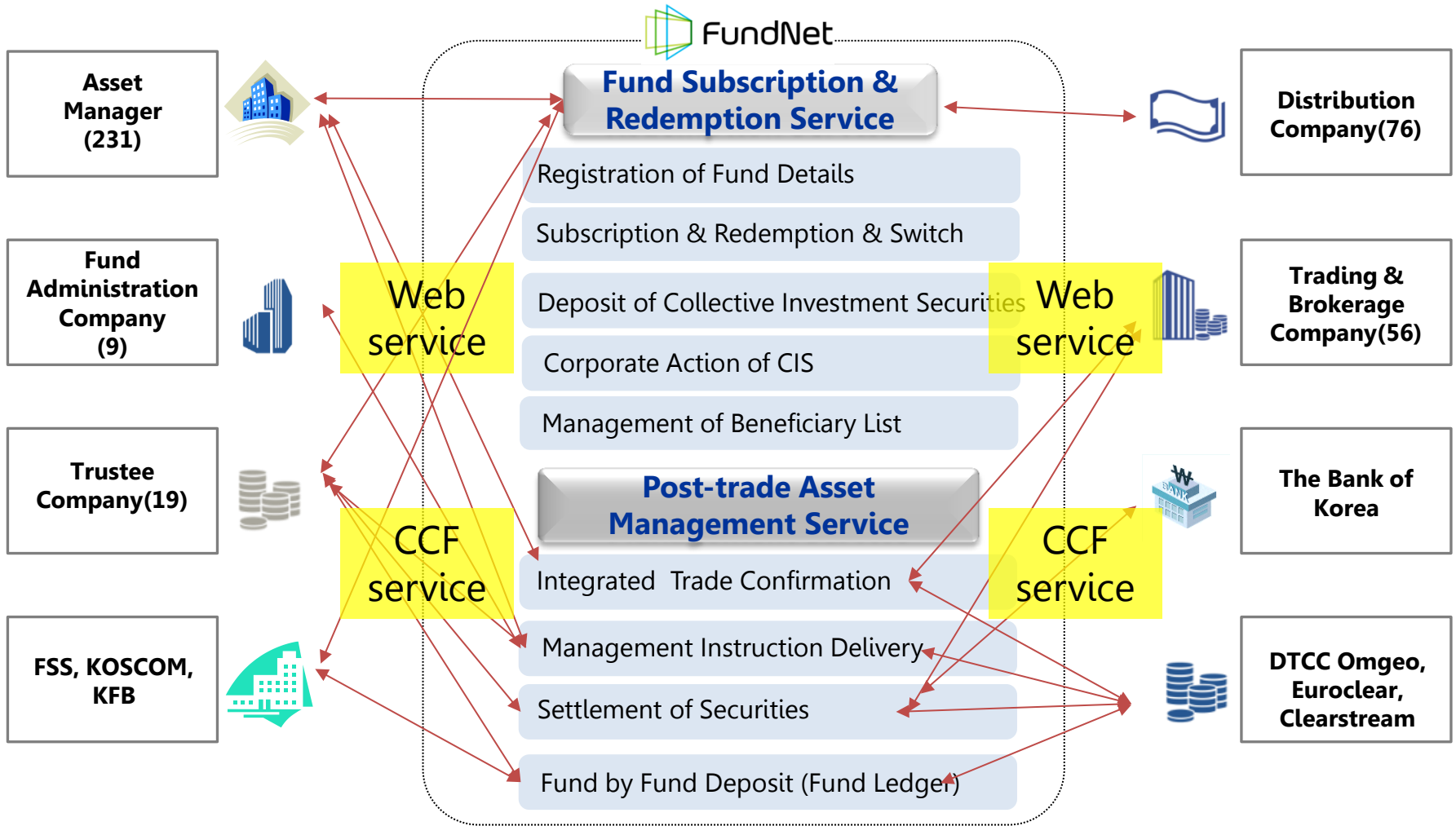
- **(Creation)** Established as sole & core infrastructure supporting fund industry in '04.



- **(Cooperation)** Market participants, regulators and KSD as a service provider.
- **(Features)** Industry-common operations standard based on full automation
Concentrated access point for all market participants
Consolidated all business operations
- **(Service type)** Two Backbone services
 - ✓ Fund unit subscription and redemption service (mainly btw AMCs and distributors)
 - ✓ Post-trade asset management service (mainly btw AMCs and trustees)

Fund Infrastructure: KSD as fund infrastructure institution

- **(Structure)** Maximizing automation effect through CCF (Computer to Computer Facility)



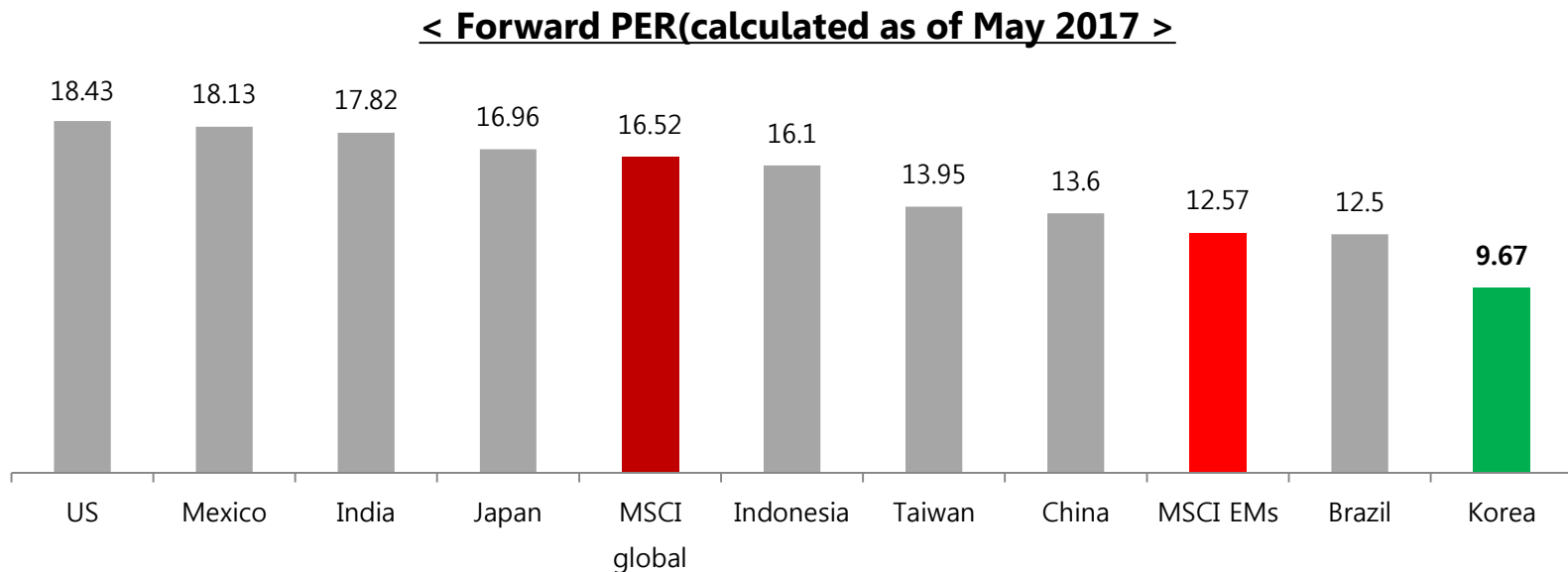
Fund Infrastructure: KSD as fund infrastructure institution

- **(Yearly Ops Volume)** 4.6 million cases, fund unit sub & red requests
200 million cases, management instructions
370 million cases, trade confirmations
- **(Benefits)**
 - ✓ Annual cost saving effect for fund industry by FundNet : 67mil\$
(Analysis by KPMG Strategic Consulting Group, 2013)
 - ✓ Value added services derived from back-bone services
 - Distributor transferring, Fund report centralized management, Foreign stock trade confirmation(Linkage to DTCC Omgeo), Fund voting supporting, Off-shore fund investment supporting(Linkage to Euroclear/Clearstream)
 - ✓ Real time monitoring system linkage to FSS(Financial Supervisory Services)

- **(Quantitative growth)** 2.4 times (from 2004 to 2016)
- **(Korean Discount)** Negative factors such as *Violation of interests of minority stockholders make Korean market fail to be estimated in good value.

* 97 out of 138 countries in terms of preservation of interests of minority stockholders('16, WEF)

- Korean market is undervalued by 25% point compared to MSCI EMs



- **(Poor performance of POFs)** General investment return of POFs is relatively poor to general investors' disappointment.

	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15
POFs(A)	3.33	19.94	△27.4	41.13	10.44	△9.04	7.82	2.87	0.95	2.34
B/D(B)	4.54	5.25	5.98	3.85	3.58	3.96	3.48	2.81	2.45	1.78
A-B	△1.21	14.69	△33.38	37.28	6.86	△13.00	4.24	0.06	△1.50	0.56

POFs : investment return after deducting sales commission

B/D : interest rate for 1 year bank deposit

- From 2006 to 2015, only 4 years(2007, 2009, 2010, 2012) showed meaningful beating 1 year bank deposit by POFs.
- No incentive for general investors to take a risk of putting money in POFs
- For POFs market size to be on the decrease
 - 61%, 2004 → 46%, 2016



- **(New Government plan)** Increasing national income through competitive investment fund business.
 - Under the aim of 'Revitalizing POFs market'
 - Focused on Paradigm shift to 'Investor Oriented' for regaining investors' confidence
 - Easing stricter management restrictions compared to other markets
 - Reinforcing globalization through Fund Passport Initiative such as ARFP*
 - * Asia Region Funds Passport
 - T/F consisting of private & public sector to iron out detailed policies and finalizing plan by Dec 2017

■ (Financial Investment Business & Capital Market Act)

- Throughout a whole process of fund investment from A/C opening, distribution, asset management and custody of fund asset.

■ (A/C opening) Much stricter KYC rule applied.

- Investment agreement filled in by an investor was sufficient for an investor to commence fund investment.
- After Capital market act, mandatory for distribution companies to have an investor survey and categorize investors into five different levels based on risk preference.

Principal protected	Level 1	Level 2	Level 3	Level 4	Level 5	Non principal protected
	Stable (MMF)	Less stable	Neutral	Positive	Aggressive (Stock fund)	

- **(Distribution)** Sales commission reduced.
 - For a distribution company not to be allowed to take sales commission (FEND or BEND) above 2 % of subscription or redemption amount, which is lower than previous 5%.
 - (Fund Online Korea) First fund supermarket (2015). Offering a wide array of funds (from +50 AMCs). Reduced sales commission (35bp vs 100bp). M/S of 0.4% (as of Aug 2017)
- **(Asset Management)** In order to guarantee asset management to be in line with investors' best interests, a variety of regulations applied.
 - Not allowed to hold one product over 10% of fund property.
 - Prevent distortion of investment return which may be caused by "leaning too much on a specific product.
- **(Custody of Fund Property)** Trustees legally segregated from AMCs.
 - For trustees not to be allowed to take a custody of fund property for AMCs of same affiliated companies

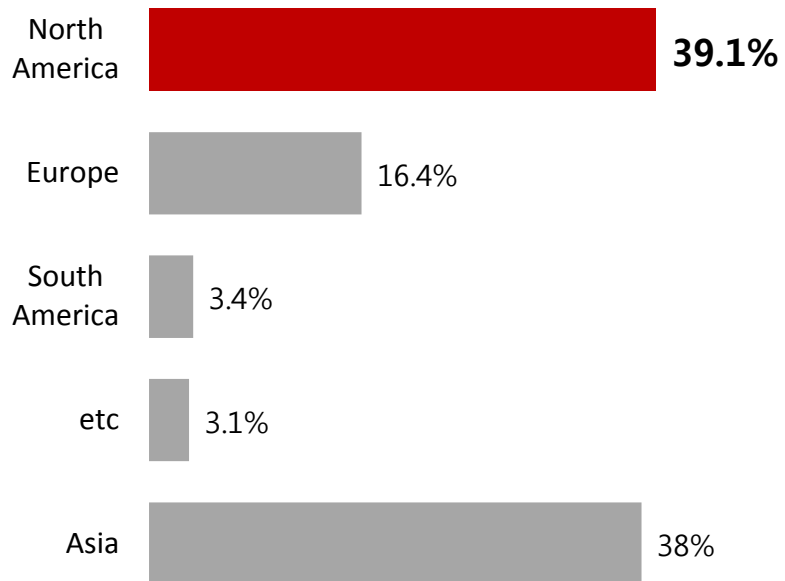
Investment In Overseas Markets

- **(Investment amount in overseas markets)** Being on the rise since 2007
 - 88 trillion KRW (as of Sep 2017)
 - CAGR of 18% (2007~2016) vs total market(≒8%)
 - KOSPI stuck from 1,500 point to 2,400 point this period.
 - 2007 as a turning point.
 - A blast of strong wind driven by Chinese fund swept market. (grew by 5 times 2007, but lost its steam in a short period.)

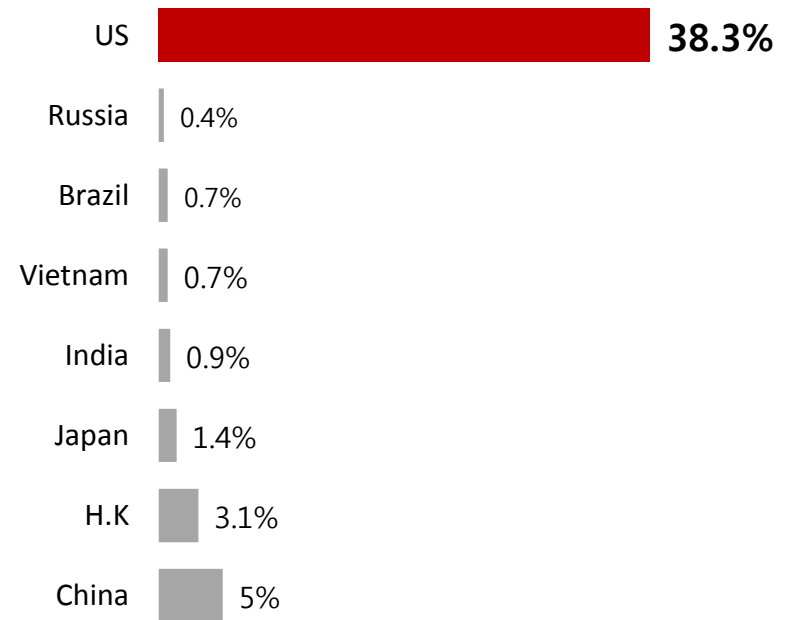


- Dramatic change of Chinese fund in Korea
 - (Jan 2007) 22 funds, 3 trillion KRW
 - (Dec 2007) 104 funds, 17 trillion KRW

Overseas Investment Fund by Region



Overseas Investment Fund by Country



- **(Cross border funds)** Emergence of fund passport initiatives.
 - UCITS fund('85)
 - Three time up from 3,300 (2001) to 10,430 (2014)
- **(Fund Passport Initiative in Asia)** APEC ARFP, ASEAN CIS and HKCMRF.
 - HKCMF effective from July 2015 with real trading cases.
 - ASEAN CIS (SG,TH,MY) implemented in Aug 2014, but no real case reported.
 - APEC AREP to be launched in 2018 (KR, JP, TH, AU, NZ)

- **(No discussion for Standardization of back-office operations*)**

- * All administrative activities that follow an investor's buy or sell order with distribution company. This is inclusive of order execution, recording of fund balance, settlement, management of fund assets etc. btw different market players.
- Can contribute to minimizing operational cost as well as maximizing operational efficiency.

- **(AFSF)** Gathering of Asian CSDs for discussing back-office standardization
 - **(History)** Proposed in Oct 2014 by KSD and launched in Nov 2015 in 19TH ACG GM
 - **(Goal)** Study back-office practices in Asia and Make pan-Asia standards
 - **(Members)** CSD members(14 CSDs) and Advisory members(6 global fund service providers)
 - **(Performance)** Knowledge Sharing Workshop: Seoul(2016), Mumbai(2017)

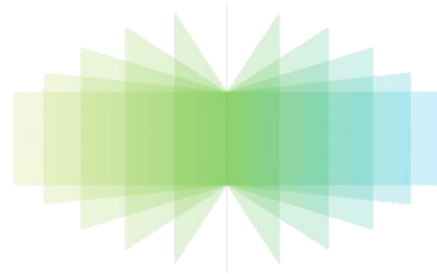
- Bursa Malaysia Depository Sdn. Bhd. - Malaysia
- Central Depository (Services) India Ltd. - India
- Central Securities Depository of Iran - Iran
- Central Securities Depository & Clearing Corp. - China
- Hong Kong Monetary Authority - Hong Kong
- Japan Securities Depository Center, Inc. - Japan
- Korea Securities Depository – Korea
- Philippine Depository and Trust Corp. - Philippines
- PT.Kustodian Sentral Efek Indonesia – Indonesia
- Singapore Exchange - Singapore
- National Securities Depository Ltd. - India
- Taiwan Depository & Clearing Corp. - Taiwan
- Thailand Securities Depository - Thailand
- Vietnam Securities Depository – Vietnam

Inauguration Ceremony in Nov 2016, Taipei

2016 Seoul workshop

2017 Mumbai workshop

Thank You



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J.H(Leslie) Park
Fund Business Department
Korea Securities Depository
fundnet@ksd.or.kr

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