

PRESS RELEASE
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KOFIA Publishes Domestic Fund Market Trend Analysis for September 2013

The NAV of total funds grew by KRW 6.0tn from the previous month, driven by massive net inflow into MMFs, to record KRW 331.1tn.

1. Overview

Due to an increase in the NAV of MMFs (+KRW 7.1tn) and bond funds (+KRW 1.1tn), the NAV of funds overall jumped by KRW 6.0tn MoM to mark KRW 331.1tn, and the outstanding amount grew by KRW 1.8tn to record KRW 339.1tn.

2. Market Trends by Fund Type

- A. **(Equity Funds)** Despite a number of negative factors, such as the US debt ceiling crisis and Tong Yang Group's financing troubles, the decision to maintain the current monetary stimulus policy in the US led to abundant liquidity, resulting in a strong stock market in which the NAV of domestic equity funds fell only KRW 0.5tn MoM to post KRW 63.5tn.
- Meanwhile, overseas equity funds also faced various unfavorable conditions, prompting a continued net outflow in September. The outstanding amount of overseas equity funds dropped by KRW 0.7tn MoM to record KRW 21.6tn, while the NAV grew by KRW 0.2tn to post KRW 17.6tn, backed by relatively steady overseas stock markets.
- B. **(Bond Funds)** The NAV of domestic bond funds rose by KRW 1.0tn MoM to record KRW 48.0tn, and the outstanding amount increased by KRW 0.9tn MoM to post KRW 47.8tn, backed by a net inflow of capital due to a preference for safe assets pursuant to the uncertainties in the US.
- The NAV of overseas bond funds ended its three-month streak of net outflows and rose by KRW 0.1tn MoM to mark KRW 6.2tn, and the outstanding amount also grew by KRW 0.1tn MoM, recording KRW 6.5tn.
- C. **(MMFs)** Driven by large inflows from institutional investors who failed to find an appropriate investment for their short-term liquidity, the NAV of MMFs at the end of September jumped by KRW 7.1tn MoM to record KRW 74.0tn, and the outstanding amount increased KRW 6.9tn to mark KRW 73.0tn.
- D. **(Derivatives Funds)** Due to a net outflow of capital, the NAV of derivatives funds fell by KRW 1.6tn MoM to record KRW 32.2tn.
- E. **(Real Estate Funds)** The NAV and net fund flow of real estate funds remained unchanged from the previous month and recorded KRW 22.4tn.

- F. **(Funds of Funds)** There was a net outflow of KRW 0.2tn in the NAV of funds of funds, but it remained largely unchanged from the prior month due to higher asset values and posted KRW 10.3tn.
- G. **(Special Assets Funds)** Backed by a net inflow of KRW 0.3tn, the NAV of special assets funds increased by KRW 0.2tn MoM to reach KRW 24.5tn.
- The NAV of all other funds fell by KRW 1.4tn from the previous month to record KRW 89.4tn, as derivatives funds dropped significantly.

[NAV Changes and Fund Flow by Fund Type]

(Unit: KRW bn)

| Fund Type | NAV (End of Aug. 2013) | Fund Flow | | | Valuation Change | NAV Change | NAV (End of Sep. 2013) |
|---------------------|------------------------------|-----------|---------|--------|---------------------|---------------|------------------------------|
| | | Inflow | Outflow | Change | | | |
| Securities (A) | 167,341 | 5,260 | 9,386 | △4,126 | +4,509 | +383 | 167,724 |
| - Equity | 81,401 | 1,326 | 5,121 | △3,795 | +3,551 | △244 | 81,157 |
| - Hybrid-Equity | 9,140 | 171 | 408 | △237 | +172 | △65 | 9,075 |
| - Hybrid-Bond | 23,732 | 870 | 1,383 | △513 | +87 | △426 | 23,306 |
| - Bond | 53,068 | 2,893 | 2,474 | +419 | +699 | +1,118 | 54,186 |
| MMFs (B) | 66,929 | 36,818 | 29,899 | +6,919 | +179 | +7,098 | 74,027 |
| Derivatives (C) | 33,833 | 1,305 | 2,529 | △1,224 | △418 | △1,642 | 32,191 |
| Real Estate (D) | 22,380 | 266 | 263 | +3 | +17 | +20 | 22,400 |
| Funds of Funds (E) | 10,306 | 313 | 555 | △242 | +214 | △28 | 10,278 |
| Special Assets (F) | 24,311 | 377 | 83 | +294 | △78 | +216 | 24,527 |
| Total (A+B+C+D+E+F) | 325,100 | 44,339 | 42,715 | +1,624 | +4,421 | +6,045 | 331,145 |

Note: Valuation Change = NAV Change – Fund Flow Change
 Securities = Equity + Hybrid Equity + Hybrid Bond + Bond
 NAV includes ETFs, while fund flow data exclude ETFs

3. [Market Trend Analysis] Investment Patterns for Domestic Equity Funds by Stock Index Level

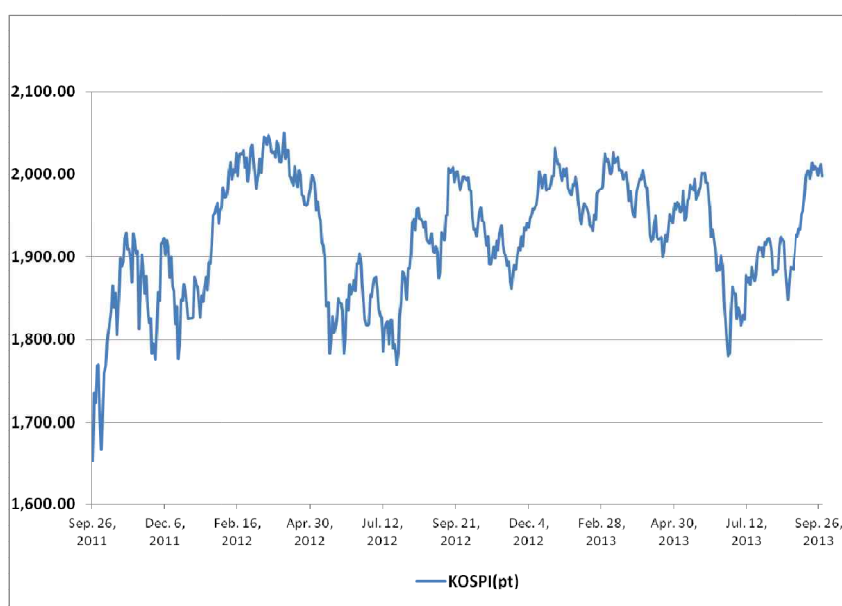
An analysis of the trend of fund flows for domestic equity funds over the past two years (September 26, 2011 – September 30, 2013) at different KOSPI levels clearly showed ‘smart money’ trends where there were high capital outflows at the higher stock index levels and more capital inflows at the lower index levels.

1. Background and Method of Analysis

- A. **(Background)** Equity funds are an extremely popular investment product, marking the highest AUM among all fund types as of the end of September 2013, and domestic equity funds account for around 80% of total equity funds.

- Naturally, domestic equity funds are sensitive to the trends of the KOSPI, the country's leading composite stock index. After the Korean stock market plunged on uncertainties surrounding the US debt-ceiling crisis in August and September 2011, the KOSPI has continued to fluctuate in a relatively narrow range between the upper 1,700 and lower 2,000 area.
- This analysis aims to provide some references that show how domestic equity fund investors have shifted their investments in line with the stock index level in this challenging investment environment.

<KOSPI Trends>



- B. **(Method of Analysis)** The different levels were categorized into five sections (divided into 100 point units) from 1,700 or below to 2,000 and above during the two years (Sep.26, 2011 – Sep.30, 2013) after the stock index recorded its previous low* on September 26, 2011.

*The stock index plummeted from 2,180.59pt (Jul. 7, 2011) to 1,652.71pt (Sep.26, 2011) in less than three months.

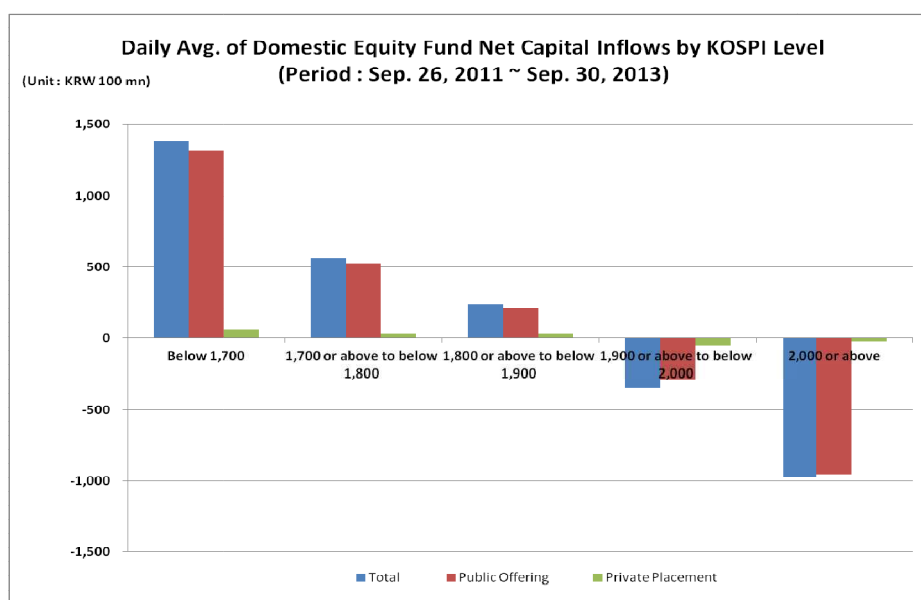
2. Analysis Findings and Implications

- A. **(Total and Average Net Capital Inflow)** The total amount and daily average of net capital inflows of domestic equity funds at different KOSPI levels are found in the table below for a total of 503 business days during the period subject to this analysis.

(Unit: KRW 100mn)

| KOSPI Level | Total Net Capital Inflow (Inflow – Outflow) | | | Business Days | Daily Average (Total/Business Days) | | |
|-------------------------------|--|-----------------|-------------------|---------------|--|-----------------|-------------------|
| | Total | Public Offering | Private Placement | | Total | Public Offering | Private Placement |
| Below 1,700 | 2,754 | 2,631 | 123 | 2 | 1,377 | 1,316 | 61 |
| 1,700 or above to below 1,800 | 14,556 | 13,751 | 804 | 26 | 560 | 529 | 31 |
| 1,800 or above to below 1,900 | 35,551 | 30,866 | 4,685 | 150 | 237 | 206 | 31 |
| 1,900 or above to below 2,000 | -84,667 | -71,200 | -13,466 | 246 | -344 | -289 | -55 |
| 2,000 or above | -77,332 | -75,417 | -1,915 | 79 | -979 | -955 | -24 |

- During the period of analysis, the relatively lower KOSPI levels that fell below 1,900 showed net capital inflow, while the higher levels of 1,900 or above posted net capital outflows. Private offering funds in particular displayed a clear correlation between the index level and net capital inflow.



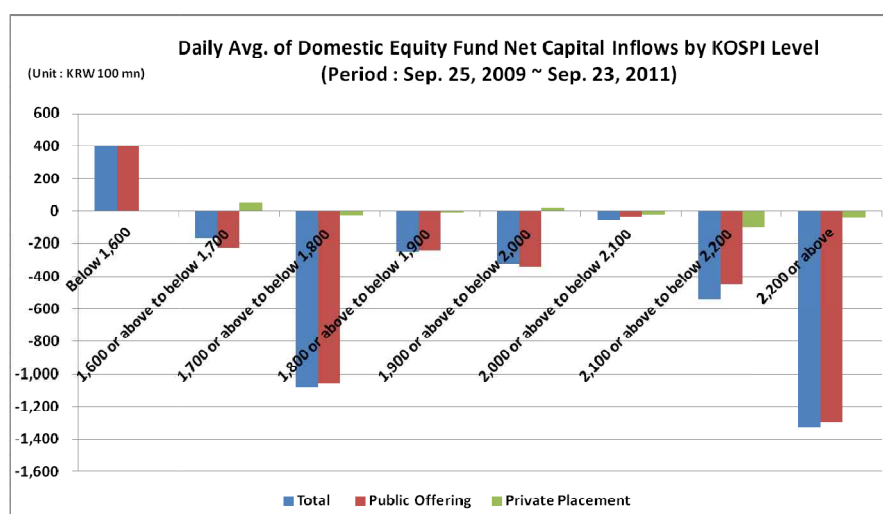
- B. **(Total and Average Net Capital Inflow for Comparison)** The total amount and daily average of net capital inflows of domestic equity funds by different KOSPI levels for a total of 500 business days during the period of Sep.25, 2009 to Sep.23, 2011* are found in the table below.

* This period for comparison includes the rise in the stock index when the market began to recover from the impacts of the global financial crisis and the plunge following the US debt-ceiling crisis, and therefore shows steep fluctuations as a result.

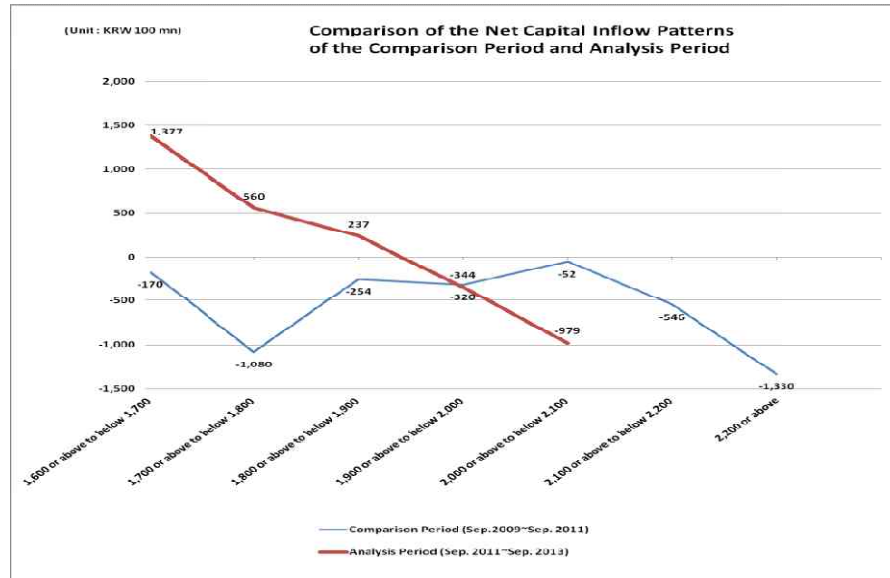
KOSPI high: 2,228.96pt (May 2, 2011), KOSPI low: 1,524.50pt (Nov. 27, 2009)

(Unit: KRW 100mn)

| KOSPI Level | Total Net Capital Inflow (Inflow – Outflow) | | | Business Days | Daily Average (Total/Business Days) | | |
|-------------------------------|--|-----------------|-------------------|---------------|--|-----------------|-------------------|
| | Total | Public Offering | Private Placement | | Total | Public Offering | Private Placement |
| Below 1,600 | 13,087 | 12,915 | 172 | 33 | 397 | 391 | 5 |
| 1,600 or above to below 1,700 | -21,112 | -27,544 | 6,431 | 124 | -170 | -222 | 52 |
| 1,700 or above to below 1,800 | -104,757 | -102,323 | -2,434 | 97 | -1,080 | -1,055 | -25 |
| 1,800 or above to below 1,900 | -12,463 | -11,952 | -511 | 49 | -254 | -244 | -10 |
| 1,900 or above to below 2,000 | -17,588 | -18,769 | 1,181 | 55 | -320 | -341 | 21 |
| 2,000 or above to below 2,100 | -3,930 | -2,505 | -1,426 | 75 | -52 | -33 | -19 |
| 2,100 or above to below 2,200 | -33,304 | -27,384 | -5,921 | 61 | -546 | -449 | -97 |
| 2,200 or above | -7,981 | -7,753 | -229 | 6 | -1,330 | -1,292 | -38 |



- During the period for comparison, net capital outflows were seen in even the relatively low stock index levels of 1,600 or above, and the net outflow was high at the 2,200 or above level. However, it was difficult to find a correlation between the stock index level and capital flows for the other levels. This was likely influenced significantly by anxiety among investors after the global financial crisis in 2008.
- c. **(Implications)** For the period analyzed, it was found that domestic equity fund investors showed an investment pattern of increasing fund investments when stock index levels were low (net inflow) and redeemed funds when stock index levels were high (net outflow). This investment trend may be perceived as an improvement from the investment practices seen in the period for comparison when investors were keen to redeem their funds.



- There are certain limitations to the analysis such as the fact that there is a time gap between access to stock index information and the actual investment decision (execution) and that fund capital outflows may in reverse impact the stock index. However, given the clear trends seen in the findings, it would be worth taking into consideration when making an investment decision.