

PRESS RELEASE
December 5, 2013

KOFIA Publishes Domestic Fund Market Trend Analysis for November 2013

The NAV of total funds fell by KRW 0.8tn from the previous month, due to a net outflow from MMFs and equity funds, to record KRW 333.7tn.

1. Overview

The NAV of funds overall decreased by KRW 0.8tn MoM to record KRW 333.7tn, and the outstanding amount also fell by KRW 1.4tn MoM to post KRW 338.7tn, weighed down by the decline in the NAV of equity funds (-KRW 0.9tn) and MMFs (-KRW 1.2tn), which offset the increase in bond funds (+KRW 0.6tn).

2. Market Trends by Fund Type

- A. **(Equity Funds)** The KOSPI failed to climb beyond the low 2,000 level due to concerns over uncertainties surrounding domestic economic conditions and repeatedly dipped back into the 1900 level. Accordingly, as fund redemptions increased, the NAV of domestic equity funds fell by KRW 0.5tn from the prior month to mark KRW 61.8tn.
- As for overseas equity funds, major overseas equity markets performed favorably, prompted by expectations for an economic recovery. However, fund investors remained anxious, and this resulted in a net capital outflow during the month amounting to KRW 0.5tn, offsetting the increase in valuation, as to which the NAV fell by KRW 0.3tn to record KRW 17.4tn.
- B. **(Bond Funds)** Despite low interest rate levels, investors continued to exhibit a preference for relatively safer bond funds as an alternative to the sluggish stock market. As a result, November witnessed a net capital inflow of around KRW 0.8tn, and the NAV of domestic bond funds grew by KRW 0.7tn MoM to record KRW 49.7tn, while the outstanding amount rose by KRW 0.8tn MoM to post KRW 49.5tn.
- Due to a slight net outflow in overseas bond funds (KRW 0.1tn), the NAV fell by KRW 0.1tn MoM to record KRW 6.3tn, and the outstanding amount remained unchanged from the previous month to post KRW 6.6tn.
- C. **(MMFs)** Demand for capital among institutional investors led to redemptions, as to which the NAV of MMFs at the end of November decreased by KRW 1.2tn MoM to mark KRW 74.4tn, and the outstanding amount also fell by KRW 1.2tn to record KRW 73.4tn.
- D. **(Derivatives Funds)** Driven by a net inflow of capital (KRW 0.3tn), the NAV of derivatives funds grew by KRW 0.5tn MoM to record KRW 32.3tn.

- E. **(Real Estate Funds)** Prompted by a net inflow of KRW 0.2tn, the NAV of real estate funds increased by KRW 0.3tn MoM to post KRW 23.2tn.
- F. **(Funds of Funds)** The NAV of funds of funds posted a net outflow of KRW 0.2tn, but remained unchanged from the previous month at KRW 10.6tn, backed by an increase in valuation.
- G. **(Special Assets Funds)** Driven by a net inflow of KRW 0.5tn, the NAV of special assets funds grew by KRW 0.6tn MoM to reach KRW 25.7tn.

The overall NAV of “other” funds rose by KRW 1.5tn MoM to record KRW 91.8tn, as all four fund types marked an increase.

[NAV Changes and Fund Flow by Fund Type]

(Unit: KRW bn)

Fund Type	NAV (End of Oct. 2013)	Fund Flow			Valuation Change	NAV Change	NAV (End of Nov.2013)
		Inflow	Outflow	Change			
Securities (A)	168,616	7,851	8,448	△597	△513	△1,110	167,506
- Equity	80,008	2,190	2,587	△397	△466	△863	79,145
- Hybrid-Equity	9,746	480	704	△224	92	△132	9,614
- Hybrid-Bond	23,459	1,717	2,469	△752	△9	△761	22,698
- Bond	55,403	3,463	2,688	+775	△129	646	56,049
MMFs (B)	75,576	36,035	37,354	△1,319	150	△1,169	74,407
Derivatives (C)	31,827	2,054	1,726	+328	154	482	32,309
Real Estate (D)	22,863	563	320	+243	101	344	23,207
Funds of Funds (E)	10,569	391	569	△178	209	31	10,600
Special Assets (F)	25,074	661	114	+547	24	571	25,645
Total (A+B+C+D+E+F)	334,525	47,554	48,529	△975	126	△849	333,676

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] Real Estate and Special Assets Funds Continue to Rise

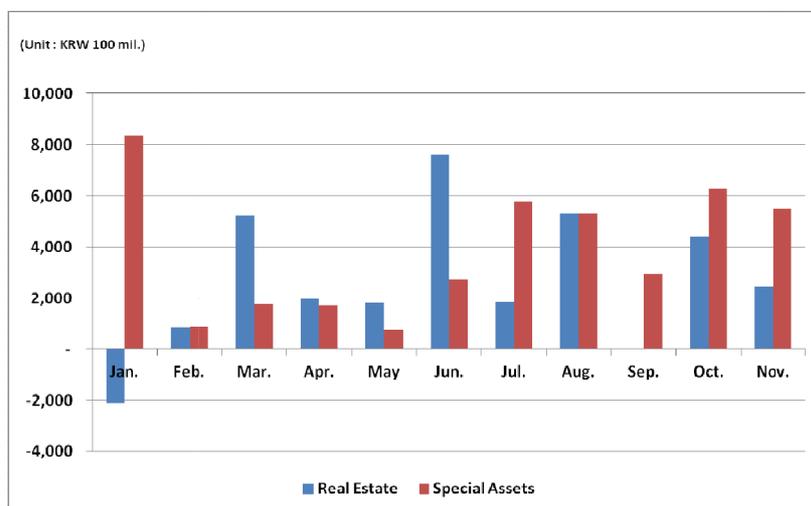
As real estate and special assets funds continued to mark a net inflow of monthly accumulated cash flows in November 2013, and the outstanding amounts recorded all-time highs, this section seeks to analyze the given situation and present the implications.

1) Current Situation and Analysis

- A. **(Current Situation)** Real estate and special assets funds maintained monthly accumulated net cash flows for 10 consecutive months and 28 consecutive months, respectively, as of the end of November 2013.

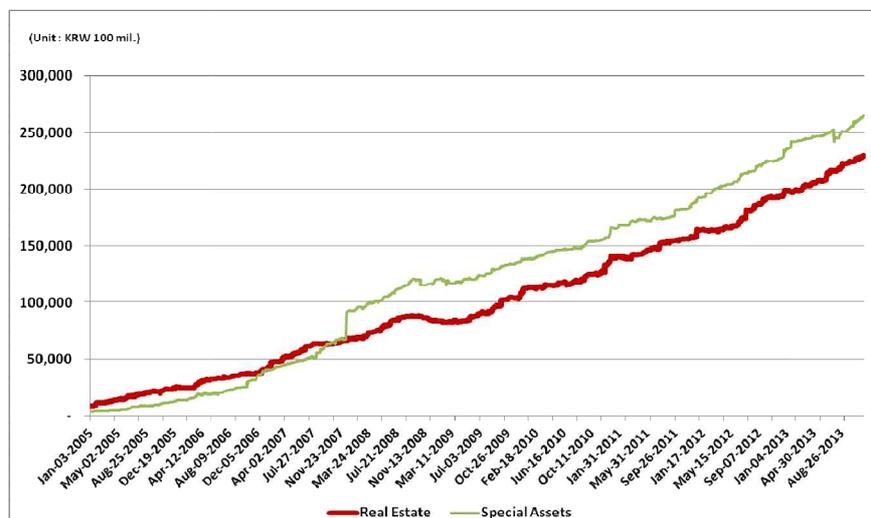
Fund Type	Consecutive Months of Accumulated Net Inflow	Net Inflow during Period of Consecutive Inflow (KRW trillion)	Accumulated Net Inflow in 2013 (KRW trillion)
Real Estate	10 consecutive months (Feb. 2013 – Nov. 2013)	3.1	2.9
Special Assets	28 consecutive months (Aug. 2011 – Nov. 2013)	10.0	4.2

<Net Capital Inflow for Real Estate and Special Assets Funds in 2013>



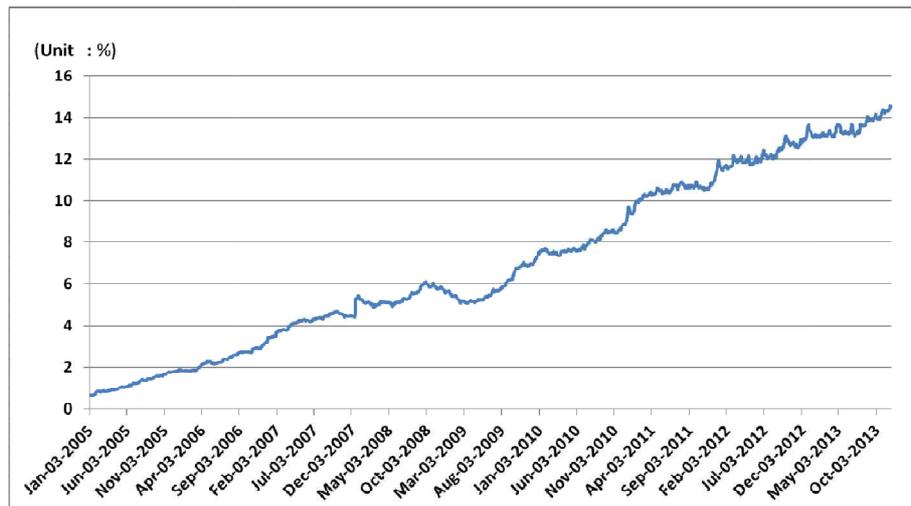
- Accordingly, the outstanding amount of real estate and special assets funds have also illustrated a persistent upward trend and posted record highs (KRW 22.9tn and KRW 26.5tn, respectively, as of the end of November).

<Trend in Outstanding Amount of Real Estate and Special Assets Funds (Jan. 2005 - present)>



- Along with the increase in the AUM of real estate and special assets funds, the share of real estate and special assets funds in the AUM of overall funds has also continued to increase, and posted 14.6% of the total as of the end of November.

<Ratio of Real Estate/Special Assets Funds to AUM of Overall Funds>



- B. **(Reason)** The continued increase in real estate and special assets funds can largely be attributed to the aspect that institutional investors, facing limitations to their profit generation in the securities market due to low interest rates and a stagnant stock market, have recognized these funds as a means for diversifying their investments at a reasonable level of risk to gain higher profits than commercial rates currently provide.

2) Implications

- A. The increased capital inflow and AUM of real estate and special assets funds will subsequently lead to a larger real estate and special assets market and expanded profit-generating opportunities, thereby creating a virtuous cycle where additional funds are injected into these respective funds.
- In addition to the larger fund size, another positive aspect is that these two funds are gradually making up a greater share of overall funds. As investors are showing heightened interest in real estate and special assets funds as an alternative to traditional investment funds in the securities market (equity funds, bond funds, hybrid funds and MMFs), this trend is likely to positively impact the development of the asset management industry as a whole.
- B. The interest in real estate and special assets funds as an alternative to the stagnant securities market (low interest rates, tight-ranged stock market) and the search for diversified profit sources is expected to continue.
- If the real estate and special assets fund markets manage to develop diverse products that meet the demands of individual investors so as to overcome their current limitations of a mostly institution-led private-placement market (90.9% as of the end of November), it is likely to act as an opportunity to further expand the two markets.