

## PRESS RELEASE

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### KOFIA Publishes Domestic Fund Market Trend Analysis for May 2014

**The NAV of total funds increased by KRW 8.2tn from the previous month to KRW 341.8tn backed by a net inflow from MMFs and increases in stock prices despite a net outflow from equity funds.**

#### 1. Overview

The KOSPI, which plummeted during late April 2014 amid the Ukraine Crisis and concerns over contracted domestic consumption, started to climb back up from mid-May thanks to the political stabilization in Russia and Ukraine, and the recovery of global stock prices, thus having a positive impact on the NAV of equity funds.

While a net outflow from equity funds, triggered by the KOSPI exceeding the 2000 mark, put a downward pressure on the NAV of equity funds, there was a net inflow into MMF funds. As a result, the NAV of funds overall increased by KRW 8.2tn to reach KRW 341.8tn, while the outstanding amount increased by KRW 6tn to reach KRW 347.4tn as of the end of May 2014.

#### 2. Market Trends by Fund Type

- A. **(Equity Funds)** The total NAV of equity funds recorded KRW 74.9tn, an increase of KRW 0.29tn (+0.4%) compared to the end of the previous month, as domestic equity funds remained mostly unchanged and overseas equity funds rose by KRW 0.25tn.
- **(Domestic Equity Funds)** The KOSPI exceeded the 2000 mark as foreigners increased buying since mid-May, and this was expected to boost the NAV of domestic equity funds.
  - However, the NAV remained only slightly changed from the end of the previous month to record KRW 59.3tn, as there was a net outflow of KRW 1.3tn due to the trend of redemption to realize profits.
  - **(Overseas Equity Funds)** Despite the fact that overseas equity funds showed an ongoing trend of net redemption regardless of the rise in overseas stock prices, the NAV of the overseas equity funds rose by KRW 0.25tn (+1.6%) to reach KRW 15.6tn.
- B. **(Bond Funds)** The NAV of bond funds overall fell by KRW 0.3tn to KRW 57.3tn, with the NAV of domestic bond funds decreasing slightly by KRW 0.3tn MoM and the NAV of overseas bond funds remaining at a similar level.
- **(Domestic Bond Funds)** The NAV of domestic bond funds decreased by KRW 0.3tn to record KRW 50.7tn from the previous year amid a net outflow of KRW 495.6bn.
  - **(Overseas Bond Funds)** The NAV of overseas bond funds remained mostly unchanged from the previous month to record KRW 6.6tn, despite a net outflow of

KRW 47.5bn.

- C. **(Funds of Funds)** The NAV of funds of funds slightly rose to reach KRW 10.6tn, a KRW 0.15tn increase from the previous month.
- D. **(MMFs)** Driven by a net inflow into corporate MMFs throughout May 2014, the total NAV of MMFs surged by KRW 6.7tn to reach KRW 78.3tn.
- E. **(Derivatives Funds)** The NAV of derivatives funds recorded KRW 33.2tn, maintaining the same amount as the month before.
- F. **(Real Estate Funds)** The NAV of real estate funds increased by KRW 0.1tn from the previous month to reach KRW 25.9tn due to a net outflow of capital.
- G. **(Special Assets Funds)** The NAV of special assets funds increased slightly by KRW 0.2tn MoM to reach KRW 27tn.

### [NAV Changes and Fund Flow by Fund Type]

(Unit: KRW bn)

Fund Type	NAV (End of Apr '14)	Fund Flow			Valuation Change	NAV Change	NAV (End of May '14)
		Inflow	Outflow	Change			
Securities (A)	176,089	6,526	7,699	△1,173	+2,514	+1,341	177,430
- Equity	74,615	1,713	3,261	△1,548	+1,833	+285	74,900
- Hybrid-Equity	10,301	460	463	△4	+36	+32	10,333
- Hybrid-Bond	23,134	1,829	908	+921	+285	+1,206	24,340
- Bond	57,593	2,524	3,067	△543	+211	△332	57,261
-Fund of Fund	10,446	520	469	+51	+99	+150	10,596
MMFs (B)	71,597	40,710	34,167	+6,543	+157	+6,700	78,297
Derivatives (C)	33,152	1,766	1,903	△138	+161	+23	33,175
Real Estate (D)	26,002	179	362	△183	+79	△104	25,898
Special Assets (E)	26,787	366	198	+168	+48	+216	27,003
Total (A+B+C+D+E)	333,627	50,066	44,798	+5,268	+2,908	+8,176	341,803

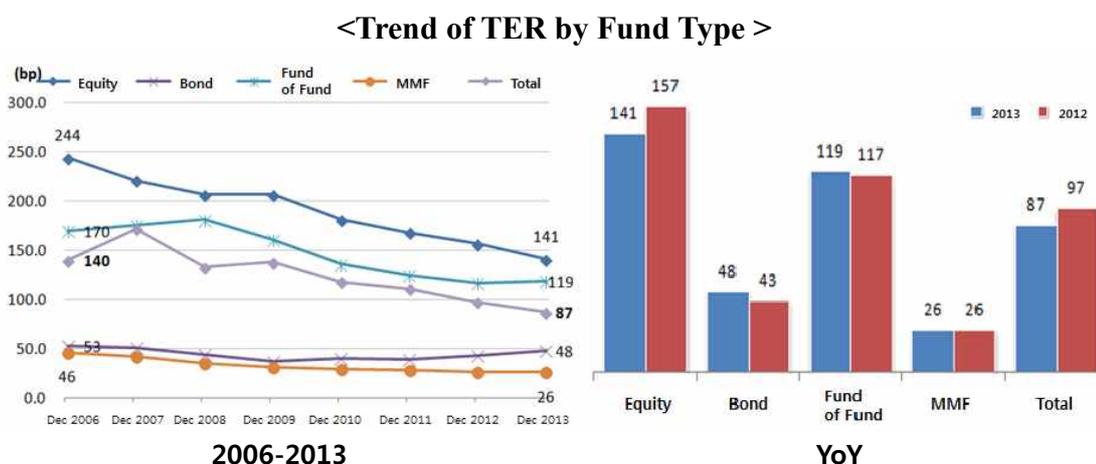
Note: Valuation Change = NAV Change – Fund Flow Change  
 Securities = Equity + Hybrid Equity + Hybrid Bond + Bond + Fund of Fund  
 NAV includes ETFs, while fund flow data exclude ETFs.

### 3. [Features] The Trend and Characteristics of the Total Expense Ratio (TER) of Korean Funds

The Total Expense Ratio (TER) posted 87bp as of 2013, a 10bp decrease from the previous year, reflecting the declining trend of fund investment costs. While the TER for equity funds decreased by 16bp YoY to record 141bp, the TER for bond funds slightly rose by 5bp to reach 48bp. The cost-cutting competition within the industry amid contracted markets, reinforced consumer protection policies, and measures of the regulatory authorities to reduce fees, are deemed to have contributed to lowering the TER of equity funds. As for the United States, there is an inverse relationship between the AUM and TER of equity funds, which means that the growth of fund assets lowers the TER, reflecting the economy of scale effect. However such relationship is not found in the Korean market, as the TER is decreasing despite the fact that the AUM is also decreasing, indicating that there are external factors in play.

A. **(Declining Trend of TER)** The TER of funds continued to fall from 2006 to 2013, reaching 87bp as of the end of 2013.

- During the same period, the TER of equity funds and MMFs decreased by 103bp and 20bp, respectively, to reach 141bp and 26bp, respectively, while the TER of bond funds remained mostly unchanged.



B. **(Fund Volume and TER)** Although typically, the AUM and the TER of funds show an inverse relationship based on the economy of scale effect, this is not found in equity funds within the Korean market.

\* Fund expenses are composed of various fees and other costs. As other costs are generally fixed costs, their proportion tends to decrease as the fund volume gets larger.

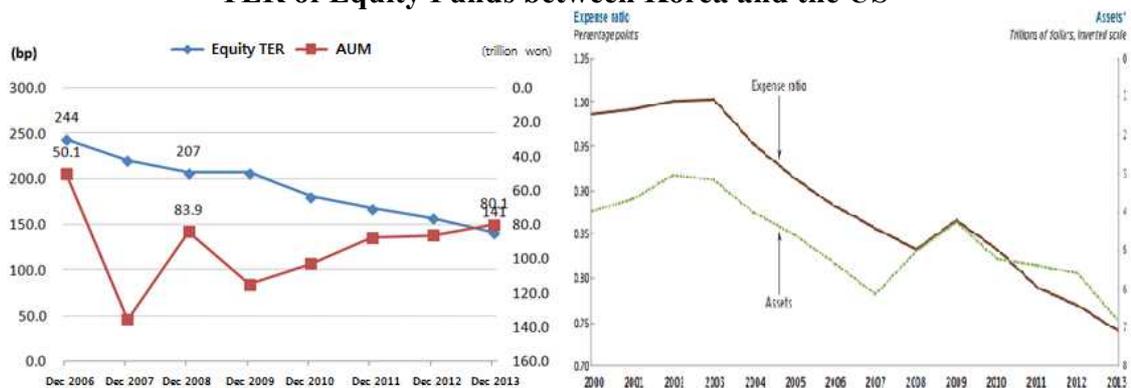
- **(US Equity Funds)** During the past 13 years the TER of equity funds in the US market fell from 100bp to 75bp, while the AUM rose from USD 4tn to USD 7tn.

As such, the extent of the increase of the AUM and the decrease of the TER were almost equivalent, clearly reflecting the economy of scale effect.

- **(Korean equity funds)** As for equity funds in the Korean market, the AUM fell from KRW 140tn to KRW 80tn from the end of 2007 to the end of 2013, while the TER also fell from 221bp to 141bp during the same period.

The fact that both the TER and the AUM fell implies that the decrease in management and distribution fees had a bigger impact than the economy of scale effect.

### <TER of Equity Funds between Korea and the US>

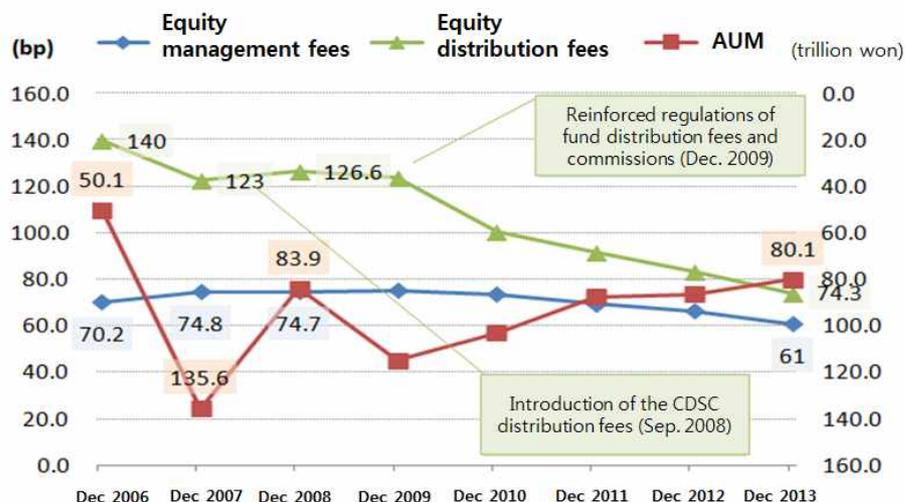


\*The axis for the AUM of US equity funds was inverted in order to better demonstrate the inverse relationship between the AUM and TER.

The decline in the TER is attributable to the introduction of the Contingent Deferred Sales Charge (CDSC) for reinforced consumer protection and the regulatory authorities' implementation of policies\* that cut distribution costs, including stronger regulations for distribution fees and commissions. In addition, the introduction of low-management-fee-products amid contracted fund yields also played a part in depressing the TER.

\*<Plans on the Advancement of the Fund Distribution Market> (Sep. 2008), <Revision of the Enforcement Decree of the FSCMA> (Dec. 2009), which is related to reinforced regulations for distribution fees and commissions.

### <Trend of Management and Distribution Fees of Equity Funds>



- C. **(Overview)** It is undeniable that low TER of funds played a part in preventing investors from leaving the fund market amid environments uncondusive to financial investment. However, considering the fact that the fund market has been stagnated for several years hovering near the KRW 300tn level, it is important to note that excessively low management and distribution fees can restrain the growth of the industry which has not yet sufficiently matured.

In particular, as profits from fund management fees are relatively declining compared to the increasing number of asset management companies, there is insufficient room to promote reinvestment in order to bolster the quality of services provided by the asset management industry.

\*KRW 1.26tn/ 69 companies (FY 2009) → KRW 1.17tn/ 80 companies (FY 2010) → KRW 1.07tn/ 82 companies (FY 2011) → KRW 1.13tn/ 84 companies (FY 2012)