

PRESS RELEASE

August 7, 2014

KOFIA Publishes Domestic Fund Market Trend Analysis for July 2014

The NAV of total funds increased by KRW 14.8tn from the previous month to record KRW 356.2tn backed by net inflows into bond funds and MMFs.

1. Overview

The NAV of funds overall increased by KRW 14.8tn to reach KRW 356.2tn, while the outstanding amount increased by KRW 11.5tn to reach KRW 357.8tn as of the end of July 2014.

2. Market Trends by Fund Type

A. **(Equity Funds)** The total NAV of equity funds rose by KRW 0.1tn to record KRW 75tn compared to the end of the previous month, as the NAV of overseas equity funds increased by KRW 125bn even though the NAV of domestic equity funds slightly decreased by KRW 28bn MoM.

- **(Domestic Equity Funds)** Net outflows of capital accelerated as investors turned to net redemptions to realize profits as the KOSPI maintained the 2000 mark almost throughout July.

However, the NAV of domestic equity funds only fell by KRW 59.3bn as enhanced fund value resulting from the raised KOSPI offset the outflows of capital.

- **(Overseas Equity Funds)** Although there was an ongoing trend of net redemption of overseas equity funds regardless of the changes in overseas and domestic stock prices, the NAV of the overseas equity funds rose by KRW 0.13tn to record KRW 15.7tn.

B. **(Bond Funds)** The NAV of bond funds overall rose by KRW 5tn to KRW 63.3tn, with the NAV of domestic bond funds increasing slightly by KRW 5tn MoM and the NAV of overseas equity funds remaining unchanged.

- **(Domestic Bond Funds)** The NAV of domestic bond funds increased by KRW 5tn to record KRW 56.4tn from the previous month amid the inflow of commission funds of the Ministry of Land, Infrastructure and Transport, and decreased interest rate.
- **(Overseas Bond Funds)** The NAV of overseas bond funds decreased by KRW 43bn from the previous month to record KRW 6.9tn, despite a net inflow of KRW 0.2tn.

C. **(Funds of Funds)** The NAV of funds of funds rose by KRW 4.1tn to reach KRW 14.8tn, as the lead manager established funds of funds from the funds entrusted by the Ministry of Land, Infrastructure and Transport.

D. **(MMFs)** Driven by a net inflow of liquid corporate capital, the total NAV of MMFs

increased by KRW 6.6tn to reach KRW 80.9tn.

- E. **(Derivatives Funds)** The NAV of derivatives funds recorded KRW 33tn, a KRW 1.6tn decrease from the previous month.
- F. **(Real Estate Funds)** The NAV of real estate funds increased by KRW 0.5tn from the previous month to reach KRW 26.7tn due to a net inflow of capital.
- G. **(Special Assets Funds)** The NAV of special assets funds increased slightly by KRW 0.2tn MoM to reach KRW 27.7tn.

[NAV Changes and Fund Flow by Fund Type]

(Unit: KRW bn)

Fund Type	NAV (End of Jun '14)	Fund Flow			Valuation Change	NAV Change	NAV (End of Jul '14)
		Inflow	Outflow	Change			
Securities (A)	178,877	10,925	11,595	△ 670	+9,774	+9,104	187,981
- Equity	74,936	2,594	5,144	△ 2,549	+2,646	+97	75,033
- Hybrid-Equity	10,212	488	577	△ 89	+198	+109	10,321
- Hybrid-Bond	24,612	1,305	1,980	△ 675	+549	△ 126	24,486
- Bond	58,346	6,538	3,894	+2,644	+2,314	+4,958	63,304
-Fund of Fund	10,771	4,032	610	+3,422	+644	+4,066	14,837
MMFs (B)	74,236	43,557	37,082	+6,475	+163	+6,638	80,874
Derivatives (C)	34,654	1,914	3,607	△ 1,693	+73	△ 1,620	33,034
Real Estate (D)	26,169	543	111	+432	+65	+497	26,666
Special Assets (E)	27,465	330	251	+79	+106	+185	27,650
Total (A+B+C+D+E)	341,401	61,301	53,255	+8,046	+6,758	+14,804	356,205

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 Fund Distribution Market becomes more Consumer-oriented.

Distribution of affiliate fund products is on the decline in the market following the introduction of a regulation that restricts new sales(refers to the funds sold after a certain date, as prescribed by the regulation; the same hereinafter) of such fund products (known as the 50% Rule, introduced in April 2013). The quarterly proportion of affiliate fund products was as high as 27.6% among total new sales of funds during the second quarter of last year, but fell to 16.9% as of the first quarter of this year.

The trend is also indicated by the changes of the number of companies categorized by the distribution proportion of affiliate fund to total fund, on a quarterly basis. For example, the number of companies in which such distribution proportion exceeded 50% fell from four during the second quarter of 2013, to one as of the first quarter of 2014. Meanwhile, the number of companies with the distribution proportion under 10% increased from 19 to 23 during the same period.

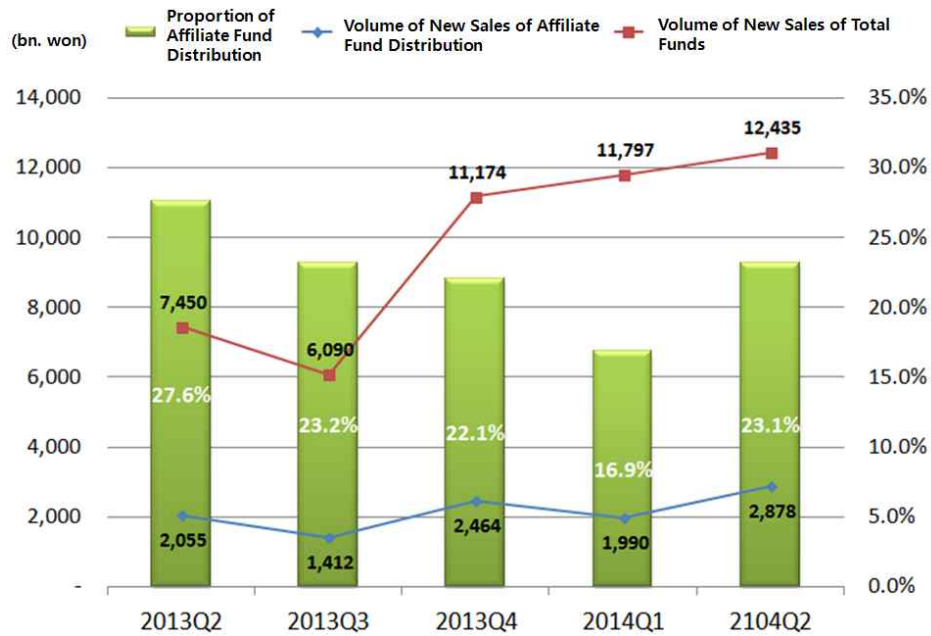
The 50% Rule came at a time when consumers' awareness rose regarding the yields and costs of funds, and it is evaluated to have served as a catalyst for fund distributors to promote consumer-oriented service. On the one hand, investors are becoming more cautious and conservative in selecting funds amidst the contracted financial market. On the other hand, fund distributors are opting to move their focus away from affiliate funds and diversify products, in order to prevent the risks of incomplete sales and meet the needs of investors.

- A. The distribution of affiliate fund products is on the decline in the fund distribution market, following the introduction of the 50% Rule, which restricts new sales of affiliate funds.

[Reference] 50 % Rule (Restriction on new sales of affiliate funds)

The 50% Rule was introduced (Apr. 2013) to ban fund distributors from disproportionately selling affiliate fund products to promote their affiliate asset management companies, and to encourage them to sell products that suit the needs of investors. This regulation limits the proportion of the affiliate fund distribution to fall below 50% against total fund sales, for each business year.

- **(Changes in Size and Proportion)** KOFIA reviewed data on the proportion of affiliate fund distribution among total fund sales on a quarterly basis for the period between the second quarter of 2013 and the second quarter of 2014. The proportion was 27.6% during the second quarter of 2013, shortly after the introduction of the 50% Rule. However, this figure fell to 23.2% in the third quarter, 22.1% in the fourth quarter, and further to 16.9% as of the first quarter of this year.



- Although the proportion of affiliate fund distribution rose during the second quarter of 2014, this may be attributable to the fact that the sales volume of total funds is also on the rise, and that the regulation takes account the proportion of sales on an annual basis.*

*As the proportion of affiliate fund distribution is calculated over the entire year, there is a tendency for new sales of affiliate funds to increase at the start of the year and decline towards the end of the year, as distributors strive to meet the limit.

- **(Changes in Number of Companies)** The number of companies categorized by the distribution proportion of affiliate fund to total fund is decreasing, which also implies that the proportion of affiliate fund distribution is falling. The number of companies with the distribution proportion of affiliate funds to total funds exceeding 50% decreased from four during the second quarter of 2013 to one as of the first quarter of 2014. Meanwhile, the number of companies with such proportion lower than 10%, increased from 19 to 23 during the same period.

< The Number of Companies by the Distribution Proportion of Affiliate Funds >

	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2
Over 50%	4	3	2	1	1
Over 40%~Less than 50%	1	3	2	3	4
Over 30%~Less than 40%	2	3	7	4	6
Over 20%~Less than 30%	8	5	4	2	4
Over 10%~Less than 20%	10	15	9	11	7
Less than 10%	19	15	20	23	22
Subtotal	44	44	44	44	44

- B. **(Overview)** The 50% Rule is evaluated to have served as a catalyst for strengthening fund distributors' customer-oriented services, especially since it was introduced at a time when investors are becoming more sensitive about fund yields and costs.
- Investors are turning to more conservative investment in the face of a recession in the financial market.
 - Fund distributors are diversifying their products to prevent incomplete sales and to satisfy the needs of investors.