

PRESS RELEASE

October 8, 2014

KOFIA Publishes Domestic Fund Market Trend Analysis for September 2014

The total NAV of funds slightly increased by KRW 0.5tn from the previous month to record KRW 362.9tn backed by net inflows into bond funds, despite the reduced NAV of equity funds as a result of decreased stock price index.

1. Overview

The NAV of equity funds fell as the KOSPI, which had climbed during July on the back of economic stimulus package implemented by the newly appointed Minister of Strategy and Finance, started to decline in September due to instability in the global economy and poor performance of domestic corporations. In contrast, there was a net inflow into bond funds amid the expectations for further reduction of interest rates. As a result, the NAV of funds overall increased by KRW 0.5tn to reach KRW 362.9tn, while the outstanding amount increased by KRW 2.7tn to reach KRW 365.9tn, as of the end of September.

2. Market Trends by Fund Type

- A. **(Equity Funds)** The total NAV of equity funds fell by KRW 1.8tn to record KRW 72.8tn compared to the end of the previous month, as the NAV of overseas equity funds and domestic equity funds decreased by KRW 1.1tn and KRW 0.7tn, respectively.
 - **(Domestic Equity Funds)** As the growth rate of the KOSPI started to slow down in August and turned to a decline in September, the assets of equity funds decreased. However, there was a net inflow for the purpose of bargain hunting.

The NAV of domestic equity funds only fell by KRW 1.1tn to reach KRW 58.1tn amid the net inflow of KRW 1.0tn throughout September.

- **(Overseas Equity Funds)** Amid the ongoing trend of net redemption, the NAV of overseas equity funds fell by KRW 0.7tn to record KRW 14.8tn.

The NAV of overseas equity funds fell below the 15 trillion mark for the first time since surpassing it in 2007.

- B. **(Bond Funds)** The NAV of bond funds overall rose by KRW 1.5tn to KRW 65.6tn, with the NAV of domestic bond funds and overseas bond funds increasing slightly by KRW 1.38tn and KRW 0.17tn, respectively, MoM.
 - **(Domestic Bond Funds)** The NAV of domestic bond funds increased by KRW 1.38tn to record KRW 58.4tn from the previous month due to a net inflow amid the investors' expectations regarding the recent reduction of benchmark rates.
 - **(Overseas Bond Funds)** The NAV of overseas bond funds increased by KRW 0.17tn

from the previous month to record KRW 7.2tn, backed by a net inflow of KRW 0.16tn.

- C. **(Funds of Funds)** The NAV of funds of funds fell by KRW 0.9tn to reach KRW 13.8tn, compared to the previous month.
- D. **(MMFs)** As of September, the NAV of MMFs decreased by KRW 0.5tn to reach KRW 86.1tn.
- E. **(Derivatives Funds)** The NAV of derivatives funds recorded KRW 32.6tn, a KRW 0.4tn increase from the previous month amid net inflows of capital.
- F. **(Real Estate Funds)** The NAV of real estate funds also increased by KRW 0.6tn from the previous month to reach KRW 27.4tn due to a net inflow of capital.
- G. **(Special Assets Funds)** The NAV of special assets funds increased slightly by KRW 0.6tn MoM to reach KRW 28.4tn.

[NAV Changes and Fund Flow by Fund Type]

(Unit: KRW bn)

Fund Type	NAV (End of Aug '14)	Fund Flow			Valuation Change	NAV Change	NAV (End of Sep '14)
		Inflow	Outflow	Change			
Securities (A)	188,848	10,681	8,133	+2,548	△3,106	△558	188,290
- Equity	74,631	3,109	2,317	+792	△2,582	△1,790	72,841
- Hybrid-Equity	10,266	553	467	+86	△101	△15	10,251
- Hybrid-Bond	25,225	2,031	1,032	+999	△378	+621	25,846
- Bond	64,013	4,988	4,317	+672	+870	+1,542	65,555
-Fund of Fund	14,713	906	1,698	△793	△123	△916	13,797
MMFs (B)	86,635	41,984	42,664	△680	+164	△516	86,119
Derivatives (C)	32,196	2,595	1,917	+678	△273	+405	32,601
Real Estate (D)	26,807	829	202	+627	△21	+606	27,413
Special Assets (E)	27,881	662	117	+545	+22	+567	28,448
Total (A+B+C+D+E)	362,365	57,657	54,731	+2,926	△2,419	+507	362,872

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.

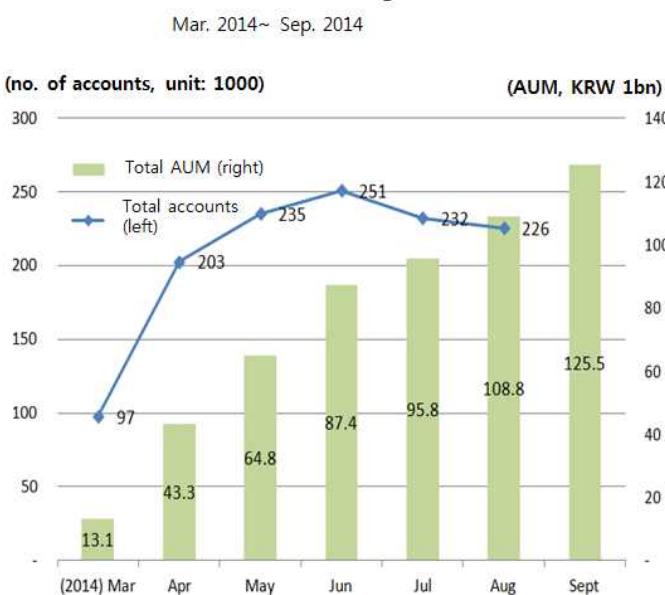
3. [Features] Tax-Deductible Long-Term Funds anticipating year-end special demand

The AUM of tax-deductible long-term funds was KRW 125.5bn, as of the end of September, 2014, rather falling behind previous estimates. During the initial stage, there were high expectations about the popularity of the fund, as up to 251,000 accounts were opened within the three months following the introduction of the fund. Unfortunately, due to strict restrictions on fund subscription and contracted stock prices, the growth of the fund failed to meet expectations. However, as more investors are expected to join with hopes of further tax reduction at the end of the year, expansion of the fund AUM is anticipated. In addition, given the product's installment investment structure and mandatory subscription period, further growth of the fund is expected during next year and the year after.

A. **(Current AUM)** The AUM of the tax-deductible long-term funds in Korea's fund market was KRW 125.5bn as of the end of September, 2014.

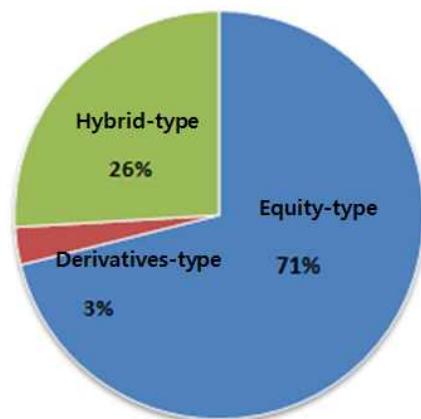
- 251,000 accounts have been opened during the three months after the fund was introduced in March. However, the growth of the number of accounts soon slowed down, leading to 226,000 accounts as of the end of August, 2014.
- The AUM of the fund was KRW 13.1bn as of the end of March, 2014, and climbed to KRW 125.5bn as of the end of September, 2014.
- Equity funds and hybrid funds took up 71% and 26% of the entire tax-deductible long-term funds based on AUM, while the rest was composed of derivative funds, as of the end of September, 2014.

<AUM of Tax-deductible Long-term Funds>



<Type of Tax-deductible Long-term Funds>

As of the end of Sep. 2014 (AUM)



*As the data for fund sales is collected in the middle of a month, the number of accounts for September was not incorporated into the graph.

B. (Reasons for Poor Performance) With over 251,000 accounts three months following the introduction, the tax-deductible long-term funds seemed to be making a soft landing on the fund market.

- However, the initial popularity failed to translate into explosive growth because strict subscription requirements limited the expansion of the investor base, causing the public's interest in equity funds to wane.
- Given the fact that the capacity for investors to divert to savings varies according to the level of income*, the ceiling of an annual salary of less than KRW 50mn serves as a substantial entrance barrier.

*For example, the proportions of investors with a salary less than KRW 20mn and KRW 40mn were 3.3% and 26%, respectively, for pension savings products. Meanwhile, the proportions of investors with a salary between KRW 40mn and KRW 60mn, and over KRW 60mn, were significantly larger, recording 53.2% and 76.9%, respectively. (National Tax Office, 2012)

- Fund distributors are diversifying their products to prevent incomplete sales and to satisfy the needs of investors. In addition, the recession in the domestic stock market following the 2007 global financial crisis was an obstacle in attracting investors since the tax-deductible long-term funds have to invest more than 40% of the assets into domestic stocks.

C. (Prospect) Although the AUM is not currently large, many more investors are expected to subscribe to the fund as the end of the year gets near, attracted by the tax benefits.

- In particular, since the tax-deductible long-term fund is a product that investors have to invest in installments and retain for five to ten years without redemption, the potential for the AUM growth is immense.

*If an investor redeems even part of the fund within five years upon subscription, all the tax benefits must be returned.

- Furthermore, although the initial subscription requirement is to have an annual salary of less than KRW 50mn, investors are allowed to retain the fund even when their salary increases up to KRW 80mn. This indicates that there is room for additional growth as the income of current subscribers increase.

D. (Proposal) It is rather premature to evaluate whether or not the fund was a success just by referring to the current AUM. Adopting a more far-sighted approach is necessary.

- However, there is an explicit need to alleviate the requirements on the eligibility for the fund in order to expand the pool of investors, so that the funds will be facilitated more actively as a tool for the working population to increase their wealth.

※ Overview of the Tax-deductible Long-term Fund

	Features	Content
	Introduction	Product which provides tax deduction for up to 10 years pursuant to the requirements stipulated in the Special Tax Treatment Control Act. 40% of the fund payment can be deducted from tax annually, the amount reaching up to KRW 2.4 mn.
Tax-deductible Long-term Fund	Investment destination	The fund invests more than 40% of the asset value to stocks* listed in the domestic market. <small>*Stocks issued in Korea to be traded in the domestic stock market (KOSPI, KOSDAQ, KONEX)</small>
	Subscription requirements	Working population with an annual salary of less than KRW 50mn for the last tax year before subscription.
	Subscription period	Open to subscription until December 31, 2015
	Subscription duration	(minimum) 10 years
	Payment limit	Up to KRW 6mn annually. -In the case of subscription to multiple funds, the upper limit of all the payments added up is KRW 6mn.
	Tax deduction amount	Up to KRW 2.4mn annually (40% of payments)
Requirements to receive tax Deductions	Salary limit	Tax deductions are given if the total salary for the last tax year was less than KRW 80mn*. <small>*Even when there is a salary increase to up to KRW 80mn after subscription, tax deductions are provided.</small>
	Tax deduction duration	(maximum) 10 years
	Halfway cancellation	Cancel subscription within 5 years: collection of back tax for cancellation Cancel subscription within 10 years: no collection of back tax for cancellation