PRESS RELEASE

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KOFIA Publishes Domestic Fund Market Trend Analysis for October 2014

The total NAV of funds increased by KRW 20.5tn from the previous month to record KRW 383.4tn due to net inflows into MMFs and bond funds, backed by the investors' strong preference for safe assets and the immobilization of capital.

1. Overview

Amid the concerns that the US Federal Reserve's exit of quantitative easing and increase of interest rates may have a negative impact on the domestic stock market and economic recovery, investors displayed a stronger preference for safe assets, which in turn led to a net inflow of KRW 10.0tn and KRW 2.9tn into MMFs and bond funds, respectively, during October. There was a net inflow into equity funds as well, worth KRW 1.4tn, when investors turned to bargain hunting as domestic stock prices fell. As a result, the outstanding amount of the overall fund market increased by KRW 21.8tn to record KRW 387.7tn, while the NAV increased by KRW 20.5tn to record KRW 383.4tn.

2. Market Trends by Fund Type

A. **(Equity Funds)** The total NAV of equity funds rose by KRW 0.9tn to record KRW 73.7tn compared to the end of the previous month, as the NAV of domestic equity funds and overseas equity funds increased by KRW 0.7tn and KRW 0.2tn, respectively.

- **(Domestic Equity Funds)** As the KOSPI, which had surpassed the 2000 mark in July, barely managed to hover above 1900, the NAV of domestic equity funds fell to KRW 56.1tn by the middle of October.

  However, there were net inflows into domestic equity funds for 27 consecutive days on the back of bargain-hunting investors, which added up to a net inflow of KRW 1.5tn throughout October.

  As a result, the NAV of domestic equity funds increased by KRW 0.7tn from the previous month to record KRW 58.7tn by the end of October.

- **(Overseas Equity Funds)** Although there was a net outflow of KRW 0.1tn, the NAV of overseas equity funds rose by KRW 0.2tn from the previous month to reach KRW 15.0tn as the asset value increased amid the gains in the stock markets of major countries including the United States and Japan.

B. **(Bond Funds)** The NAV of bond funds overall rose by KRW 3.1tn to reach KRW 68.7tn, with the NAV of domestic bond funds and overseas bond funds increasing by KRW 3.0tn and KRW 64bn, respectively, MoM.

- **(Domestic Bond Funds)** The NAV of domestic bond funds increased by KRW 3.0tn to record KRW 61.4tn* from the previous month due to a net inflow of KRW 2.9tn resulting from the investors' expectations regarding the Bank of Korea's further reduction of benchmark rates and stronger preference for safer assets.

*The NAV of domestic bond funds exceeded KRW 60tn for the first time since falling below the mark in September, 2005.

- **(Overseas Bond Funds)** The NAV of overseas bond funds increased by KRW 64bn from the previous month to record KRW 7.2tn.

C. **(Funds of Funds)** The NAV of funds of funds rose by KRW 1.5tn to reach KRW 15.3tn, compared to the previous month.

D. **(MMFs)** There was a net inflow of KRW 10.0tn as capital accumulated in MMFs compared to other short-term financial products due to the effect of decreased rates.

- As a result, the NAV of MMFs increased by KRW 10.2tn to reach KRW 96.3tn.

E. **(Derivatives Funds)** The NAV of derivatives funds recorded KRW 33.6tn, a KRW 1.0tn increase from the previous month amid net inflows of capital.

F. **(Real Estate Funds)** The NAV of real estate funds also slightly increased by KRW 86bn from the previous month to reach KRW 27.5tn as there was little change in capital flows.

G. **(Special Assets Funds)** The NAV of special assets funds increased slightly by KRW 1.3tn MoM to reach KRW 29.8tn.

[NAV Changes and Fund Flow by Fund Type]

(Unit: KRW bn)

Fund Type	NAV (End of Sep '14)	Fund Flow			Valuation Change	NAV Change	NAV (End of Oct '14)
		Inflow	Outflow	Change			
Securities (A)	188,290	12,036	5,999	+6,037	+1,897	+7,934	196,224
- Equity	72,841	2,975	1,586	+1,389	△532	+857	73,698
- Hybrid-Equity	10,251	462	306	+155	+597	+752	11,003
- Hybrid-Bond	25,846	2,317	738	+1,579	+105	+1,684	27,530
- Bond	65,555	6,282	3,369	+2,913	+192	+3,105	68,660
-Fund of Fund	13,797	1,950	413	+1,537	△1	+1,536	15,333
MMFs (B)	86,119	49,967	39,990	+9,977	+175	+10,152	96,271
Derivatives (C)	32,601	2,620	1,378	+1,242	△227	+1,015	33,616
Real Estate (D)	27,413	331	322	+9	+77	+86	27,499
Special Assets (E)	28,448	1,733	398	+1,335	+10	+1,345	29,793
Total (A+B+C+D+E)	362,872	68,636	48,499	+20,137	+395	+20,532	383,404

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 Proportion of Securities Companies in the Fund Distribution Market Remains High**

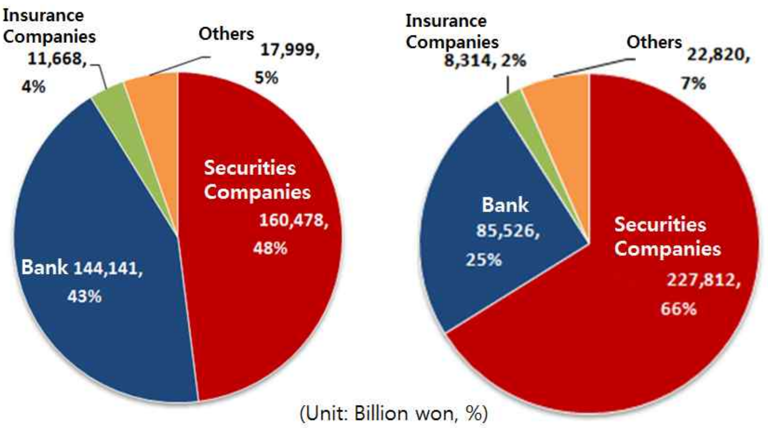
The proportion of securities companies gradually increased in the fund distribution market following the global financial crisis which hit the global economy with extensive force in 2008. This is attributable to the fact that securities companies strived to attract investors by providing a range of fund products while promoting investment diversification to reduce risks. On the contrary, the proportion of banks decreased as the number of investors investing in equity funds fell.

A. **(Market Size)** As of the end of September 2014, 91% of the AUM of domestic funds was sold via either securities companies or banks, in which 40 securities companies and 18 banks were accountable for 66% and 25%, respectively.

- The amount of funds sold via insurance companies (no.:10) or other channels* is very low, and has shown little growth since 2009.

  *Other channels: asset management companies (no.:11), futures companies (no.:1), merchant banks (no.:1), etc.

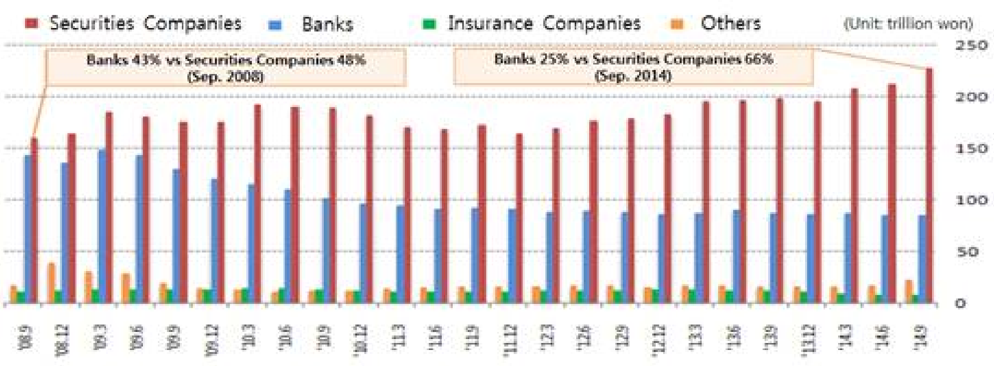
< Changes in the Proportion of Fund Distribution Channels>
(Sep. 2008~Sep.2014)



(Unit: Billion won, %)

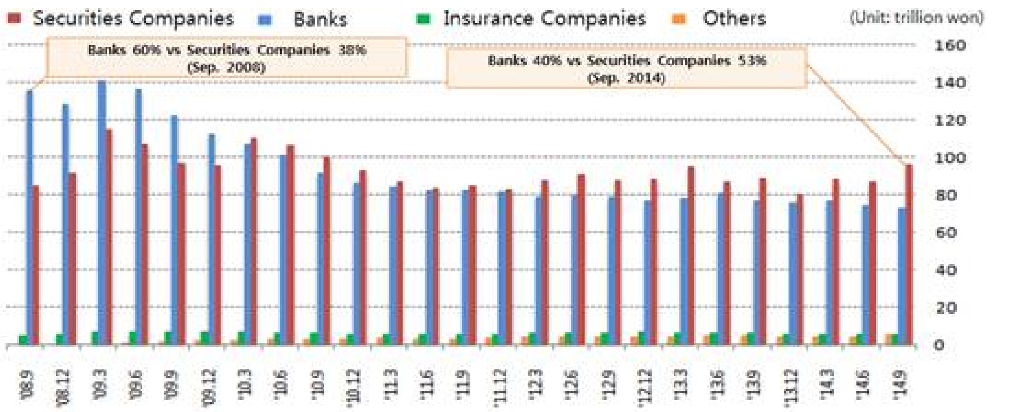
B. **(Trend for the Past 5 Years)** The proportion of banks as a channel in the funds distribution market soared since 2004, almost jumping to the level of securities companies. However, the momentum faded during the second half of 2008 and the proportion has continued to fall.

<Sales of All Funds by Distribution Channel> (Sep. 2008~ Sep. 2014)



- In particular, the proportion of banks surpassed that of securities companies for publicly placed bonds as of the end of September 2008, peaking at 60%. However, the proportion of banks and securities companies switched places again on October 3rd, and the proportion of banks sank to 40% as of the end of September 2014.

<Sales of Publicly Placed Funds by Distribution Channel> (Sep. 2008~ Sep. 2014)



- **(Banks)** The proportion of banks increased between 2004 and 2008 as banks eagerly sold equity funds to individual investors on the back of the bullish stock market and the fashion for installment funds. The figure reached up to 43% as of the end of September 2008.

<The Proportion of Equity Fund Sales and Individual Investors in a Bank >

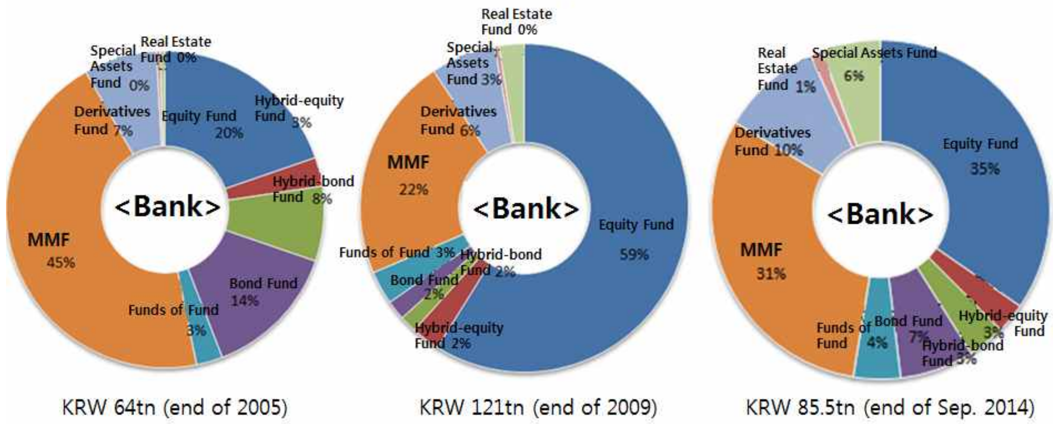
Type	end of 2005	end of 2009	end of Sep. 2014
The proportion of the volume of equity fund sold among all funds in banks	KRW 12.6tn. (20%)	KRW 71.3tn. (59%)	KRW 29.6tn. (35%)
The proportion of individual investors investing in equity funds in banks	KRW 11.8tn. (94%)	KRW 69.2tn. (97%)	KRW 28.3tn. (96%)

- However, equity funds were hit hard by the 2008 global financial crisis and sales plummeted as investors rushed to redeem funds. As a result, the proportion of banks as a distribution channel also fell to record 25% as of the end of September 2014.

- As the stock prices fluctuated in a rectangular shape for a significant period following the latter half of 2011, the growth rate of the fund volume sold via banks slowed down to a halt to be locked up in a stalemate.

<Trend of the KOSPI> (Sep. 2008~ Sep. 2014)

<The Distribution Proportion by Fund Type in Banks>



- **(Securities Companies)** There was a contraction of fund sales for securities companies starting from the end of 2007 due to the impact of the global financial crisis.

  However, securities companies strived to meet the needs of investors by providing a range of fund product solutions* including bond funds and alternative investment (AI) funds and saw higher sales growth than banks.

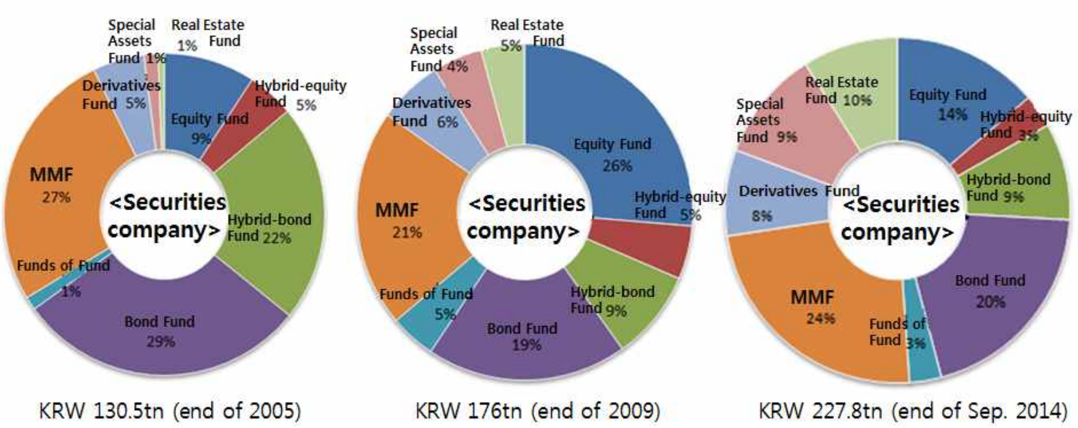
  *Distribution proportion by fund type for securities companies: equity-type 14%, bond-type 20%, special assets 9%, real estate 10%

- In addition, securities companies have a higher proportion of corporate investors* than individual investors unlike banks and focus on private equity fund sales. For this reason, securities companies are demonstrating stronger resilience against external changes and maintaining a large share within the fund distribution market.

  *The proportion of corporate investors for funds in securities companies:

  74% (end of 2005) → 68% (end of 2009) → 84% (end of Sep. 2014)

<The Distribution Proportion by Fund Type in Securities Companies>



C. **(Implication)** The extent that a certain distribution channel is affected by external changes of the financial environment differs according to the flag-ship product of the channel and main customers.

- **(Banks)** Fund sales of banks generally have high elasticity because banks have mainly sold domestic equity funds to individual investors based on its broad network of regional banks across the nation.

  Therefore, the proportion of banks within the fund distribution market will continue to be susceptible to external changes including stock price fluctuations unless banks diversify fund products and expand their customer base.

- **(Securities Companies)** In the current economy which is seeing a contracted stock market and a prolonged trend of low interest rate, securities companies are less affected by stock price changes than banks because they provide a wider diversity of fund products.