

PRESS RELEASE

December 9, 2014

KOFIA Publishes Domestic Fund Market Trend Analysis for November 2014

The total NAV of funds increased by KRW 4.2tn from the previous month to record KRW 387.6tn, due to net inflows of KRW 3.2tn into bond funds.

1. Overview

There was a KRW 3.2tn net inflow of capital into bond funds* which were popular among investors during November as the KOSPI failed to break out of its rectangular formation amid a prolonged trend of low interest rate and sluggish economic growth. The outstanding amount increased by KRW 2.9tn to record KRW 390.6tn while the NAV of funds increased by 4.2tn to record KRW 387.6tn, compared to the previous month.

*The outstanding amount of domestic bond funds exceeded that of domestic equity funds for the first time in seven years and three months since the end of July, 2007.

2. Market Trends by Fund Type

A. **(Equity Funds)** The total NAV of equity funds rose by KRW 0.9tn to record KRW 74.6tn 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)** The asset value of funds increased as the KOSPI rose to 1980 after hovering above 1900 during early November.

There was a continuous inflow of capital throughout November albeit a small amount, resulting in a net inflow of KRW 0.4tn.

The NAV of domestic equity funds increased by KRW 0.7tn from the previous month to record KRW 59.4tn, as of the end of November.

- **(Overseas Equity Funds)** Although there was a net outflow consecutively for five years and five months since July 2009 including the outflow of KRW 0.3tn during November, the NAV of funds increased by KRW 0.2tn MoM to reach KRW 15.1tn. The boom of the global stock market was largely attributable for this, including the US Dow Jones Industrial Average which hit a record high as of the end of November.

B. **(Bond Funds)** The NAV of bond funds overall rose by KRW 3.5tn to reach KRW 72.2tn*, with the NAV of domestic bond funds and overseas bond funds increasing by KRW 3.3tn and KRW 0.2tn, respectively, MoM.

*The NAV of bond funds exceeded the KRW 70tn mark in about ten years since falling below it during early 2005.

- **(Domestic Bond Funds)** The NAV of domestic bond funds increased by KRW 3.3tn

to record KRW 64.7tn from the previous month due to a net inflow of KRW 3.0tn* throughout November following the net inflow of KRW 2.9tn during October.

*A monthly net inflow worth KRW 3.0tn into domestic bond funds is the largest amount since May 2006.

- **(Overseas Bond Funds)** The NAV of overseas bond funds increased by KRW 0.2tn from the previous month to record KRW 7.4tn.
- C. **(Funds of Funds)** The NAV of funds of funds rose by KRW 1.3tn to reach KRW 16.6tn, compared to the previous month.
- D. **(MMFs)** The NAV of MMFs surpassed KRW 100tn with the sudden influx of capital searching for an investment destination. However, the effect was short lived as the liquid capital of corporations was transferred to net outflows, bringing down the NAV to KRW 95.0tn, a KRW 1.2tn decrease from the previous month.
- E. **(Derivatives Funds)** The NAV of derivatives funds recorded KRW 32.9tn, a KRW 0.8tn decrease from the previous month amid net outflows of KRW 1.0tn.
- F. **(Real Estate Funds)** The NAV of real estate funds slightly increased by KRW 0.8tn from the previous month to reach KRW 28.3tn backed by a net inflow of KRW 0.6tn.
- G. **(Special Assets Funds)** The NAV of special assets funds increased slightly by KRW 0.4tn MoM to reach KRW 30.2tn due to a net inflow of KRW 0.3tn.

[NAV Changes and Fund Flow by Fund Type]

(Unit: KRW bn)

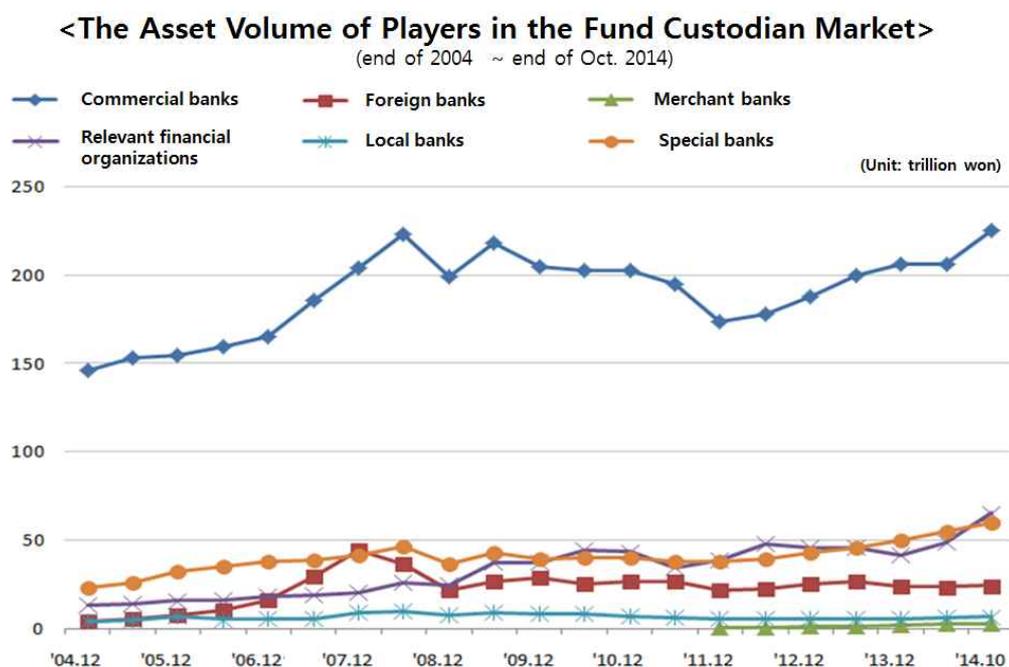
Fund Type	NAV (End of Oct '14)	Fund Flow			Valuation Change	NAV Change	NAV (End of Nov '14)
		Inflow	Outflow	Change			
Securities (A)	196,224	10,287	7,700	+2,587	+2,394	+4,981	201,205
- Equity	73,698	1,849	1,784	+65	+806	+871	74,569
- Hybrid-Equity	11,003	357	530	△173	+3	△170	10,833
- Hybrid-Bond	27,530	1,509	2,024	△515	△39	△554	26,976
- Bond	68,660	6,572	3,362	+3,210	+314	+3,524	72,184
-Fund of Fund	15,333	1,436	316	+1,120	+190	+1,310	16,643
MMFs (B)	96,271	49,320	50,707	△1,387	+159	△1,228	95,043
Derivatives (C)	33,616	1,745	2,698	△953	+191	△762	32,854
Real Estate (D)	27,499	1,121	474	+648	+135	+783	28,282
Special Assets (E)	29,793	408	141	+266	+154	+420	30,213
Total (A+B+C+D+E)	383,404	64,318	62,037	+2,282	+1,912	+4,194	387,598

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 Market Share and Special Features of the Fund Custodian Market

As of the end of October 2014, banks and securities companies were accountable for 82.2% and 17.8% of the fund custodian market (based on the NAV; same hereinafter), respectively. In the case of securities companies, the Korea Securities Finance Corporation, which is a financial institution taking custody of MMFs, took up 17%. Meanwhile, merchant banks (no.:5) took up 0.8% of the market as a result of fund assets that they have been entrusted with, following the custody of hedge funds.

- A. **(Market Share)** As of the end of October 2014, banks (no.:14) took up 82.2% of the domestic fund custodian market, whereas securities companies (no.:6) took up 17.8%.



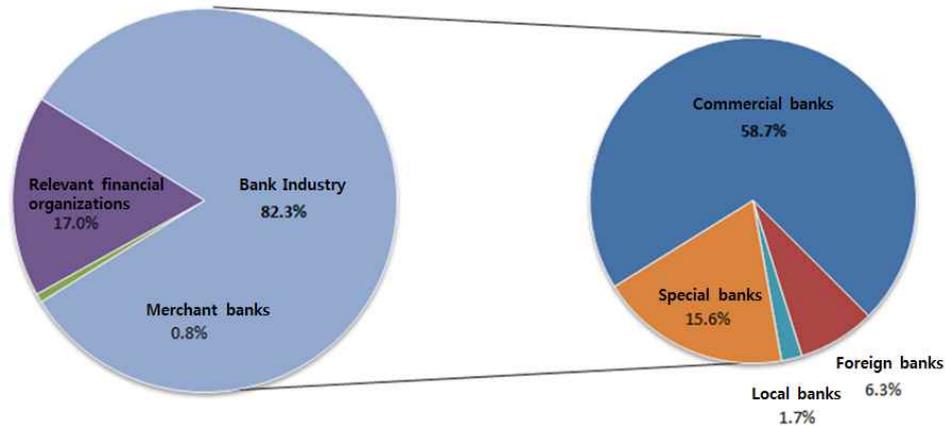
Note)

1. Commercial banks: Kookmin bank, SC bank, Shinhan bank, Korea exchange bank, Woori bank, Hana bank, Citibank Korea
 2. Foreign banks: Deutsche Bank, RBS bank Seoul branch, HSBC Seoul branch
 3. Local banks: Busan bank, Kyongnam bank, Daegu bank
 4. Special banks: Nonghyup bank, Industrial Bank of Korea, KDB bank
 5. Merchant banks: Daewoo securities, Samsung securities, Woori investment & securities, Korea investment & securities, Hyundai securities
 6. Relevant financial organizations: KSFC
- Among banks, commercial banks (no.:7) took up the largest proportion of the fund custodian market at 58.7%, followed by special banks (no.:3) at 15.6%, foreign banks (no.:3) at 6.3%, and local banks (no.:1) at 1.7%.
 - As for the securities industry, the KSFC took up 17% while merchant banks took up 0.8% with the assets of hedge funds under custody.

*Large securities companies started to take on responsibilities as a prime broker for hedge fund assets when they were introduced in Korea during late 2011.

<Proportion of Fund Assets Custodians>

(end of Oct. 2014)



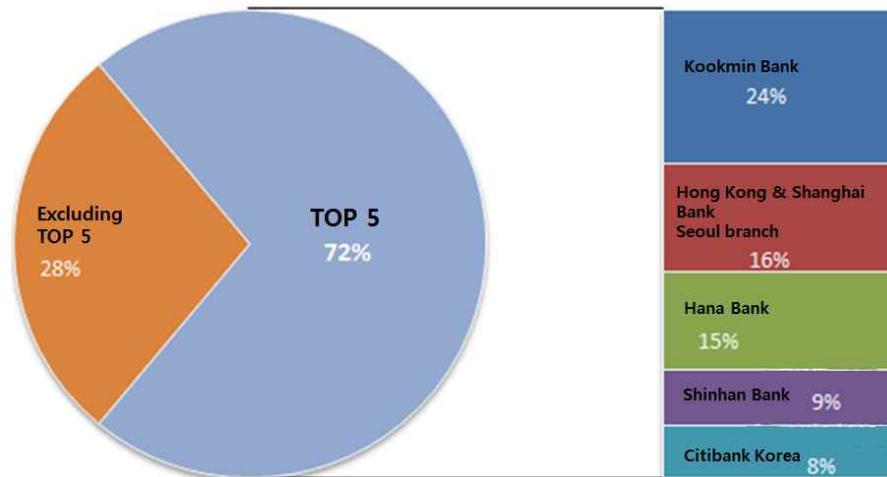
B. **(Market Share by Fund Type)** Commercial banks take up the largest proportion apart from MMFs among different types of fund products. The top five institutions vary according to the type.

- **(Equity Fund)** The top five banks regarding the assets of equity funds under custody are Kookmin Bank, HSBC Seoul Office, Hana Bank, Shinhan Bank, and Citibank Korea in this order. They are responsible for 72% of the equity fund assets.

The total asset of equity funds under custody is on the decline in the aftermath of the 2007 Global Financial Crisis.

<Top 5 Banks regarding Asset of Equity Funds>

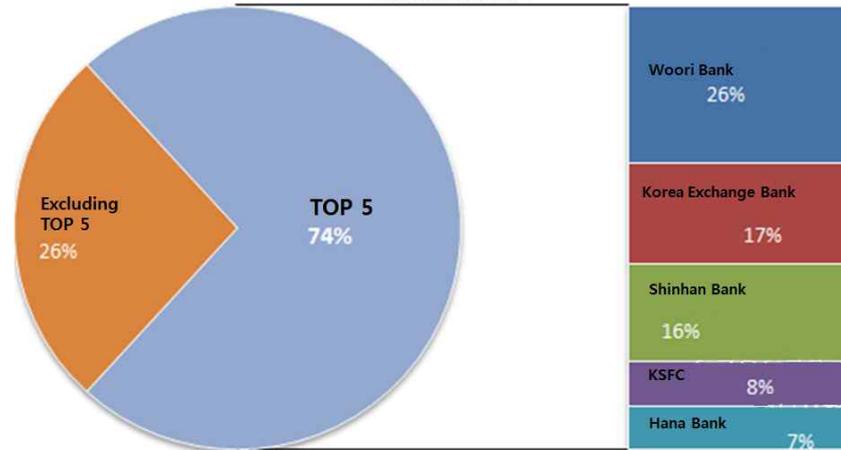
(end of Oct. 2014)



- **(Bond Fund)** The top five banks regarding the assets of bond funds under custody are Woori Bank, Korea Exchange Bank, Shinhan Bank, KSFC, and Hana bank in this order. They are responsible for 74% of the bond fund assets.

The total asset of bond funds under custody is gradually rising, backed by increased capital flows into bond funds.

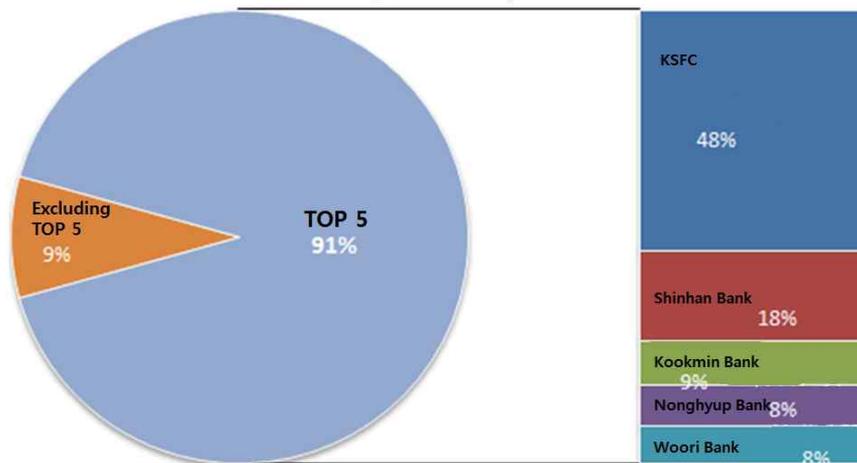
<Top 5 Banks regarding Asset of Bond Funds>
(end of Oct. 2014)



- **(MMF)** The top five banks regarding the assets of MMFs under custody are KSFC, Shinhan Bank, Kookmin Bank, Nonghyup Bank, and Woori bank in this order. They are responsible for 91% of MMF assets.

The MMF asset under custody soared amid the trend of immobilization of market capital. The proportion of the KSFC, which has been the main custodian for MMFs, soared accordingly.

<Top 5 Banks regarding Asset of MMFs>
(end of Oct. 2014)



- C. **(Features)** In contrast to the fund distribution market, the banking sector takes up a significant market share of the fund custodian market. The top five institutions vary according to the fund type, but the market share itself remains largely consistent.

This is because the role of fund custodians is not limited to holding and managing assets but also includes providing management orders. Banks have an advantage in handling capital transfers and trade settlement.

However, the case of the KSFC is unique as it strongly emerged as one of the top custodians amid the increases of the MMF assets under custody. Although the size is insufficient as of now, there is a possibility that the KSFC might transform into a merchant bank if hedge funds gain more popularity in the Korean fund market.