

# Korean Fund Market Agenda

November 4 2021

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- 1) Legislation Following the Announcement of Plans to Improve Competitiveness of Publicly Offered Funds
- 2) Supplementing the Cut-off Time for Base Pricing for Funds
- 3) KOFIA's Smart Education Platform "R2+"
- 4) Fund Market Trends for Q3 of 2021
- 5) Progress on the Korean New Deal Initiative and Future Plans

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## **1. Legislation Following the Announcement of Plans to Improve Competitiveness of Publicly Offered Funds**

### **(1) Major Details**

#### **① Changes in fund investment strategies with the resolution of the Board of Directors**

- a) In the case when a fund is planned to be changed into an alternative investment fund in the first place and b) the fund concerned is a small-scale fund.
- Allowed the change of fund types based on the decision of the Board of Directors without the resolution of the general meeting of beneficiaries.

#### **<Procedures>**

(1) Notify beneficiaries of change in the investment strategy → (2) Beneficiaries report their opposition → (3) Grant dissenting beneficiaries a right to require purchase of beneficiary certificates → (4) Resolution by the Board of Directors

\* The step (3) is not applied to the fund that is planned to be changed into an alternative investment fund.

#### **② Introducing foreign currency-denominated MMFs**

- There is ambiguity regarding foreign currency-denominated MMFs and debt securities.

- **(Foreign currency-denominated MMFs)** It could be misconstrued that foreign currency-denominated MMFs are restricted to the ones stipulated in Article 241 of the Decree.

- **(Foreign-currency debt securities)** Possibility to misinterpret that foreign-currency debt securities are limited to the ones issued by the countries of the same currency.

#### **③ Other matters**

- **(Performance-linked fees)** Introducing requirements to calculate management fees based on the performance over a certain period of time.

### **(2) Discussions Regarding the Revision of the FSCMA**

#### **□ Introducing Periodic Repurchase Offers by Closed-end Funds**

- To improve the marketability of closed-end funds by offering redemption opportunities to the investors, the Association is working on new measures.
  - \* Currently, closed-end funds provide cashable opportunities by listing beneficiary certificates.
- Aiming for the enforcement of the revised rules next year after going through the pre-announcement period and amendment in the second half of 2021.

## **2. Supplementing the Cut-off Time for Base Pricing for Funds**

### **A. Background**

- The delegation of authority to the Association regarding the cut-off time for base pricing for funds is stipulated in the revised Regulation on Financial Investment Business (went into effect on October 21, 2021).
  - **(Cut-off time for base pricing for funds)** The cut-off hour system was introduced to reduce the workload of fund accounting and administration companies related to the base pricing of funds.
  - Changed the timing of base price reflection from the same day (T) to the next business day (T+1).
  - The new scheme kicked off on July 1<sup>st</sup>, 2020 and details regarding the process have been informed to the industry by the FSS.
  - The FSS has delegated the details of the cut-off hour system to KOFIA in accordance with the revised Regulation on Financial Investment Business.

### **B. Major Revisions**

- **(Cut-off hour)** Detailed requirements regarding AMCs' request for price evaluation to bond rating agencies, AMCs' provision of transaction execution information to administrators, bond rating agencies' provision of evaluation information have been newly introduced.
- **(Exception from the application of the new rules)** The cut-off hour system will not be applied in unavoidable circumstances such as in case of errors in computer system, or when agreed by all interested parties in prior. In such cases, basic information collected after the cut-off hour can be reflected in the same day's base pricing for funds.

\*Laid the foundation for the establishment of a working-level consultative body to discuss improvement measures.

### **3. KOFIA's Smart Education Platform "R2+"**

#### **A. Overview**

- R2+, a free education platform to help beginner investors increase their knowledge in financial investment launched on October 14.
  - \* **What is R2+?** R2+ is a combination of Korean words (to know, to invest, and plus), meaning "to invest with knowledge." Also, the word symbolizes Risk and Return, which are the basics of investment.
  - R2+ uses an AI-based model to assess the investment skills of investors and provide personalized learning programs focused on weak points.

#### **B. Major Features**

- (GI Assessment)** Calculate GI (Good Investor) Index by measuring a set of criteria from investment propensity to action bias, investment knowledge, etc.
- (Mini Assessment)** Assess financial investment literacy (including funds).
- (Content Mall)** Recommend e-learning content or users can choose a learning program themselves.
- (Textbooks)** Provide textbooks for beginners and advanced learners.

#### **4. Fund Market Trend Analysis for Q3 of 2021**

##### **A. The total NAV and AUM of funds**

- At the end of September 2021, the total net asset of funds recorded KRW 810.1tn, increasing by KRW 16.7tn (+2.1%) and the total AUM stood at KRW 771.6tn, rising by KRW 17.8tn (+2.4%) from Q2 of 2021.

##### **B. Capital inflow and outflow**

- Despite capital outflow from MMFs and bond funds, the fund market saw a net capital inflow of KRW 16.1tn in Q3.

##### **C. Publicly offered funds and privately placed funds**

- At the end of September 2021, the total net asset of publicly offered funds decreased by KRW 1.1tn to KRW 312.1tn (-0.3%), whereby that of privately placed funds posted KRW 495.3tn (+3.7%), increasing by KRW 17.8tn from Q2 of 2021.

##### **D. Changes in the total NAV by fund type**

- (Equity funds)** The total NAV recorded KRW 99.8tn, decreasing by KRW 0.3tn (-0.3%) from Q2.
- (Bond funds)** The total NAV recorded KRW 131.3tn, decreasing by KRW 1.5tn (-1.1%) from Q2
- (MMFs)** The total NAV recorded KRW 142.6tn, increasing by KRW 0.1tn (+0.1%) from Q2.
- (Derivatives funds)** The total NAV recorded KRW 49.6tn, increasing by 0.7%.
- (Real estate funds and special asset funds)** The total NAV of real estate funds and special asset funds recorded KRW 124.9tn and KRW 114.7tn, increasing by KRW 3.9tn (+3.2%) and KRW 4.1tn (+3.7) respectively.

## **5. Progress on the Korean New Deal Initiative and Future Plans**

### **A. The New Deal Policy Fund**

#### **☐ New Deal Policy Funds (feeder funds) in 2021**

- **(Regular Designation)** Privately placed feeder funds will be set up every year. The government publicly announced its plan to select AMCs to manage the New Deal policy funds and designated 25 AMCs (10 investment recommendation, 9 public participatory, 3 New Deal Growth, 3 SOC investment types) at the end of February 2021.
- **(Designation on a Rolling Basis)** Following a public notice of the government's plan to designate AMCs on a rolling basis, 14 AMCs (11 investment recommendation, 1 SOC investment, 2 other types) were selected. The government is in the process of screening AMCs that will manage an additional "public participatory New Deal fund (private equity fund of funds)".

#### **☐ Public Participatory New Deal Funds (private equity fund of funds) in 2021**

- **(1<sup>st</sup> half of 2021)** The public subscription share to the New Deal Fund has sold out in less than a week after it became available for sale on March 29.
  - After the subscription, the fund was created on April 19 with the AUM of KRW 147.9 billion.
- **(2<sup>nd</sup> half of 2021)** The additional public participatory New Deal Funds will be established in accordance with the Korean New Deal 2.0 announced by the government in July.
  - The additional New Deal funds will be operated by five managers among the AMCs that are already managing public participatory New Deal funds and they will be announced on the third week of December this year.
  - The six AMCs of the seven feeder funds, in which the public participatory New Deal funds will invest, were selected at the end of October. The feeder funds are to be confirmed on the fourth week of December this year.

#### **☐ Future Plans**

- KOFIA will closely monitor the management and establishment of these funds and provide support to the Korea Development Bank and Korea Growth Investment Corporation.

### **B. The New Deal SOC Fund (Private sector-led)**

- ☐ **(Overview)** Funds that invest in New Deal SOC projects – primarily feeder funds for the New Deal Policy Fund or private sector-led SOC funds.
- ☐ **(Progress)** The first New Deal SOC fund that went through a New Deal SOC deliberation process was established at the end of July.

### **C. The Private Sector-led New Deal Fund (New Deal Policy Funds)**

- ☐ **(Overview)** Funds voluntarily launched by AMCs regardless of the tax benefits. As of October 22, 55 funds (KRW 3.1 trillion) are being managed.
- ☐ **(Plans)** KOFIA will provide additional support to facilitate the launch of these funds.