



Asset & Wealth Management Market Intelligence Digest

South Korea

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Key takeaways

1



Investors seek more overseas exposure

- Investors are seeking more diversified portfolios, especially in overseas through OIF (Overseas Investment Fund) products. In the first half of 2017, OIF assets grew by 7.8% to \$27.3 billion from \$25.3 billion.
- On top of that, tax exemption on all returns from locally domiciled equity funds and ETFs that invest more than 60% in foreign equities, may potentially attract more OIF products launch in the near future.

2



Strong asset boost in private fund market

- The private fund market in Korea is the fastest growing fund market. Its assets surpassed public onshore fund assets for the first time in 2016.
- The growth was attributed to the growing and younger HNW population that seek for more customised wealth management planning. At the same time, institutional investors continued to favour such products over mutual funds, as it offered more investment flexibility.

3



Institutional investors are key for global managers

- The institutional space continues to provide opportunities for global asset managers, given that the pension funds and mutual aid associations are among the most active mandate issuers in the market.
- In particular, they are seeking more alternative investments managers via funds and mandates. In 2017, a total of 23 mandates were issued, totalling \$2.9 billion. Of the mandates that were handed out, the majority (29.6%) of the mandates issued were in private debt.

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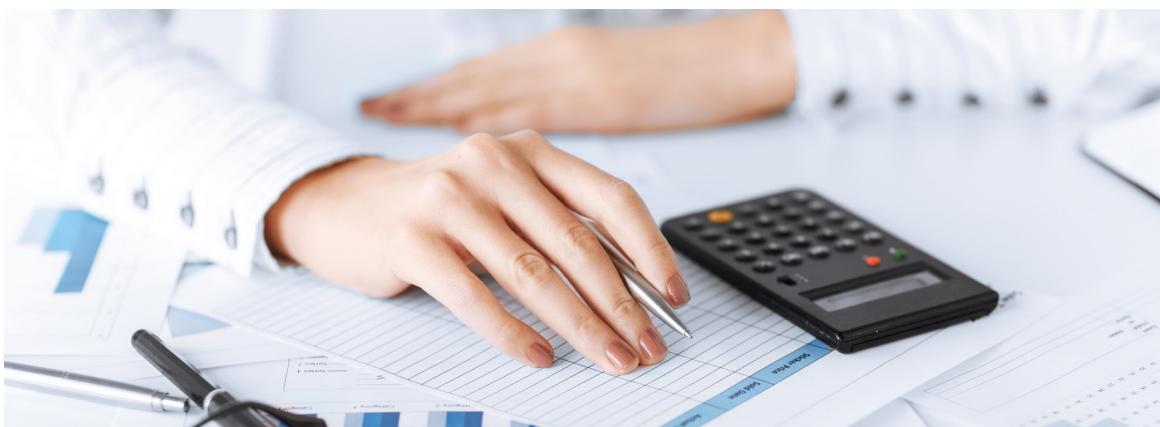
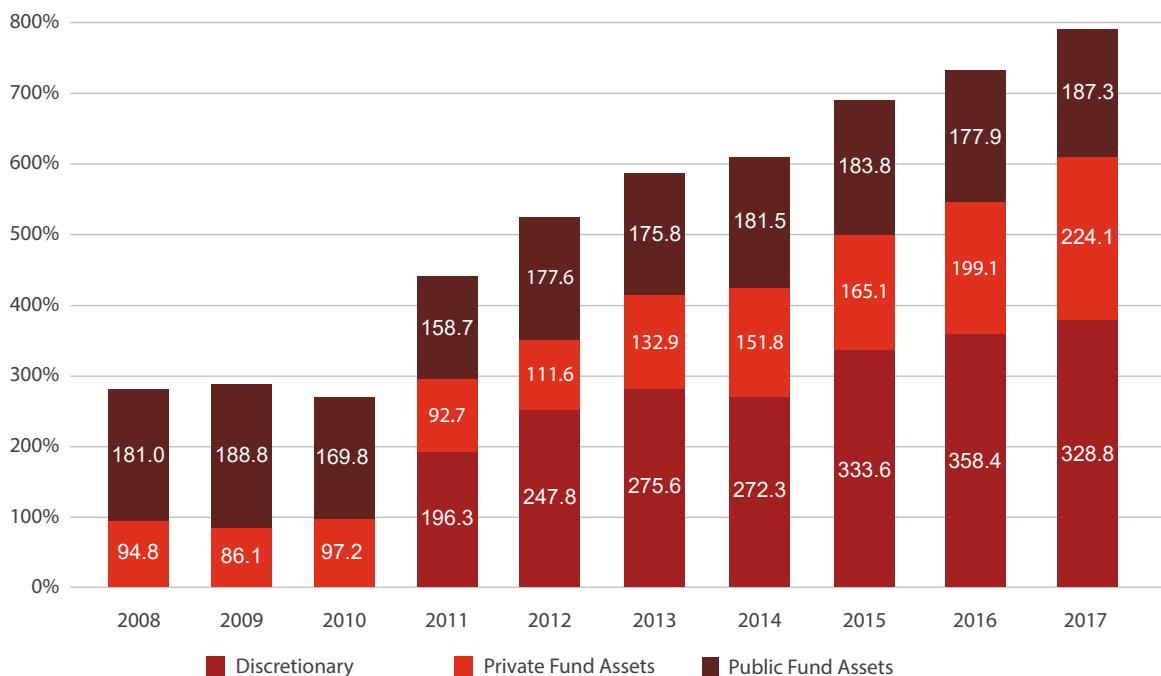


Rise of subadvisory partnership agreements

- In recent years, there are increasing number of foreign managers entering the market, amid the positive regulatory change and investors shifting their assets into overseas investments.
- Most of these managers choose to enter the market via subadvisory arrangements, where local managers tap on the foreign managers' investment capabilities through OIFs or invest directly into the latter's funds through feeder/FoF structure.

Market landscape

Total Asset Management Market in Korea (USD Bn), 2008 – 2017



All segments saw growth in the first half of 2017

The Korean asset management market – made up of discretionary, public and private fund assets – nearly reached \$800 billion mark in 2017. In the last half of 2017, total assets grew by 8.0%, surpassing the year-on-year growth of 7.8% in 2016. Notably, private funds saw the largest growth in assets, at 12.6%.

Across all three segments, the discretionary segment has been growing rapidly accounting for bulk of the total asset management market' assets since 2011. The proportion from discretionary segment had increased 4.4 percentage points from 43.8% in 2011 to 48.2% in 2017. On the other hand, proportion of public fund assets declined 11.9 percentage points from 35.4% to 23.6% within the same period.

Market landscape

Top 10 Asset Managers by Public Onshore Fund Assets (USD Bn), 2016 – 2017

Rank	Company Name	Category	2016	2017
1	Asset Manager A	Local	23.6	23.8
2	Asset Manager B	Local	21.0	21.9
3	Asset Manager C	Local	14.3	14.5
4	Asset Manager D	JV	11.0	12.1
5	Asset Manager E	JV	9.9	10.6
6	Asset Manager F	Local	9.7	9.5
7	Asset Manager G	Local	9.0	9.2
8	Asset Manager H	JV	6.1	7.0
9	Asset Manager I	Local	6.2	6.2
10	Asset Manager J	Local	5.6	5.7
	Others		61.5	67.0
Total			177.9	187.3



Samsung and Mirae Asset dominated the public onshore fund market

The top 10 asset managers by assets are all local asset managers, with the exception of asset managers D, E and H. In 2017, both asset managers A and B managed an aggregate of \$45.8 billion in assets, accounting for 24.4% market share. However, both managers saw their market shares declining in the first half of 2017, at 0.5 and 0.1 percentage points respectively.

On the other hand, the market share of asset manager H has grown by 0.3 percentage points from 3.4% in 2016 to 3.7% in 2017 – its assets have also grown by 14.8% from \$6.1 billion to \$7.0 billion within the same period.

Institutional investors

1 Pension funds

- There are a total of four Korean pension funds which are known to outsource assets to asset managers via funds or mandates. Their combined investable assets saw year-on-year growth of 7.7% from \$559.9 billion in 2015 to \$603.0 billion in 2016.
- Of which, the state-run pension fund, National Pension Service (NPS), is the most active in terms of outsourcing assets to external managers – 140 managers for domestic investments and 191 managers for overseas investments. As of end-2016, its outsourced investments stood at 37.4% of its total assets.

2 Insurance companies

- In 2017, there were 25 life insurance players with a total of \$558.6 billion in assets. Domestic insurers continued to dominate the life insurance market, with a market share of 86.8%.
- Korean life insurers have been actively investing in foreign securities. Between 2012 and 2017, the proportion of foreign securities grew by 8.7 percentage points from 4.6% to 13.3%. In absolute terms, assets from foreign securities nearly quadrupled from \$19.4 billion to \$74.2 billion during the same period.

3 Sovereign wealth funds

- The KIC is ranked 6th in Asia, accounting for \$110.8 billion in assets as of end-2016. Of which, alternative investments saw the largest growth in assets, aggregating a 4-year CAGR of 44.5%.
- In absolute terms, assets coming from alternative investments has more than quadrupled from \$3.5 billion in 2012 to \$15.1 billion in 2016. In particular, KIC has been aggressively allocating its assets into real estate, infrastructure and private equity.

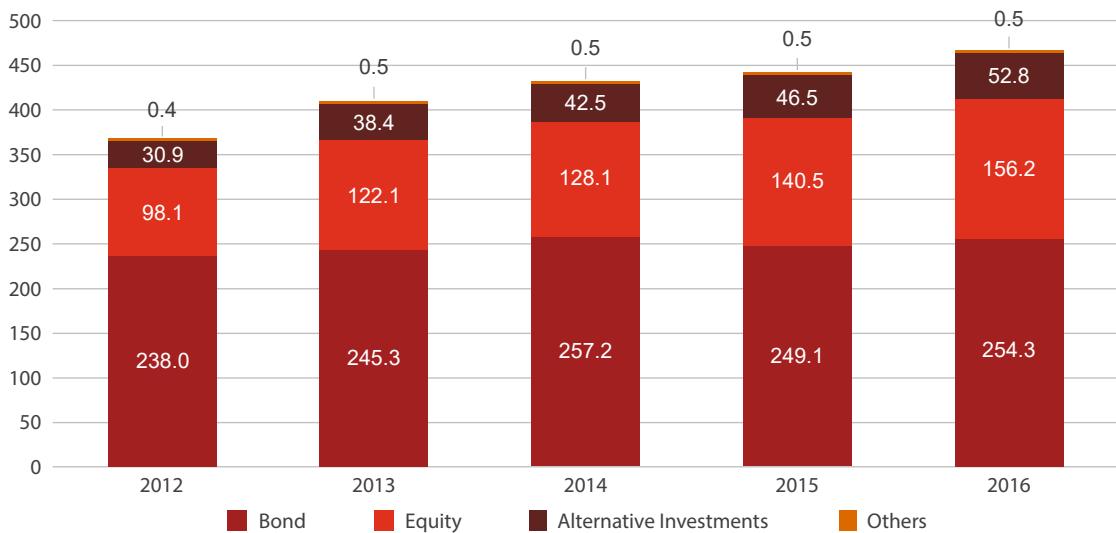
4 Mutual aid associations

- As of end-2016, there were 76 mutual aid associations in Korea. These associations were established to offer financial, welfare, and other social security services to particular segments of the private sectors.
- Taking into consideration the six key associations that outsource assets to asset managers, their combined investable assets stood at \$46.0 billion as of 2016. Most of these associations allocated at least 45% of their asset in alternative investments.

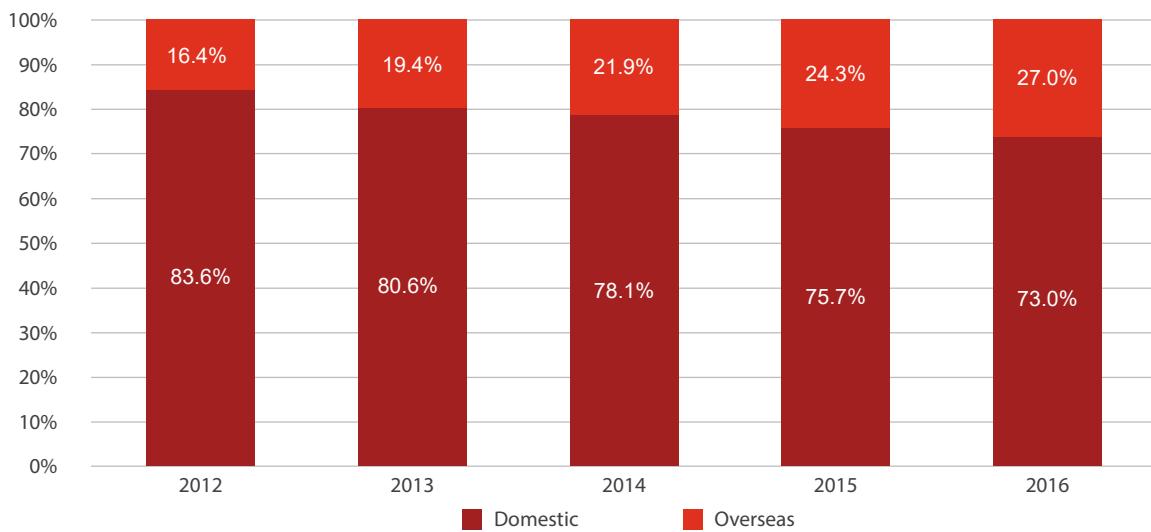
Institutional investors

Pension funds - National Pension Service (NPS)

NPS Portfolio (USD Bn), 2012 - 2016



NPS Investment Assets* by Type (%), 2012 - 2016



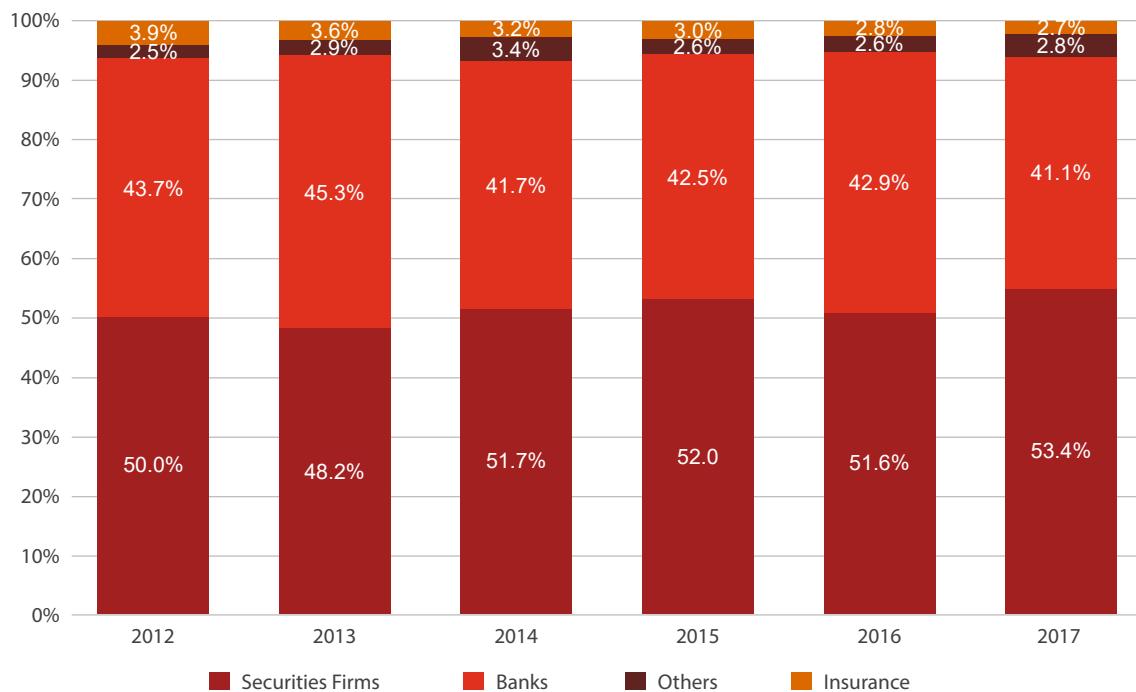
Foreign alternative investments drive bulk of the asset growth

Across all asset classes, assets invested in foreign alternative investments saw largest year-on-year growth, at 25.8% to hit \$52.8 billion in end-2016. In fact, the asset class has achieved consistent double-digit growth since 2012, aggregating a 4-year CAGR of 26.0%. This resulted in its market share to rise by 3.7 percentage points from 3.7% in 2012 to 7.5% in 2016.

NPS's allocation in overseas investments was the highest across all pension funds, at 27.0% as of end-2016. The assets grew more than doubled from \$60.0 billion in 2012 to \$125.2 billion in 2016. Of which, foreign equity investments accounted for bulk of the market share, at 56.8%. This was followed by alternative investments, at 27.7%, and the remaining 15.5% share went to foreign bond investments.

Public onshore fund distribution

Public Onshore Fund Distribution in Korea* (%) , 2012 – 2017



Securities firms and banks are key in distribution

In Korea, public onshore fund distribution is largely dominated by securities firms, with banks following closely behind. This is not surprising given that all the top 10 asset managers have an affiliated bank or securities firm to help with fund distribution in the country.

Between 2012 and 2017, their combined market share of public onshore fund distribution has increased by 0.9 percentage points from 93.6% to 94.5%. This was largely due to securities firms, where the market share increased by 3.4 percentage points to 53.4% within the same period. This can be attributed to the shift of securities firms from brokerage-driven revenue model to wealth management service model.

Online platforms, including robo advisors, remain a small avenue of distribution, but are gradually gaining more traction as the government has been actively pushing for fintech initiatives since 2016. Korea's first online fund supermarket, Fund Online Korea, was officially launched in March 2014, with the aim to break the dominant share of securities firms and banks. However, its fund sales only accounted for 0.4% of the total public fund distribution in 2017.

* Includes fund of funds. Based on a proxy of total gross sales.

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