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PREQIN MARKETS IN FOCUS: ALTERNATIVE ASSETS IN SOUTH KOREA

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CEO's FOREWORD

Welcome to our 'Markets in Focus' study on alternative assets in South Korea, Preqin's first report focused exclusively on this pivotal Asia-Pacific market. Why South Korea? The country is becoming increasingly important in alternative assets as both a destination for the investment of capital and a source of capital for investment globally.

Despite being the world's 11th largest economy, comparatively speaking, global investors still have relatively limited exposure to the country. This is partly due to the fact that, until recently, there were limited avenues to access the market for global institutional investors. However, this has started to change recently, and experienced local managers have begun to raise Korea-focused funds across multiple investment strategies:

- Since 2008, there have been 259 private equity-backed buyout deals completed in Korea, with an aggregate value of $55bn, approximately 15% of the Asia-Pacific total over this period. With further diversification expected from the country's chaebols, and consolidation anticipated among smaller companies, prospects for future activity look promising.
- Venture capital has been strongly supported by the government, and investment in targeted tech sectors has grown consistently. Fig. 2 on page 25 shows the strong growth of venture capital investment over the decade to 2018, and government initiatives across several emerging tech sectors are underpinning future growth.
- Overseas participation in Korean real estate has until recently been limited; however, the emergence of more experienced local fund managers is opening up new opportunities for foreign investors.
- Assets under management in Korean real assets has grown substantially in the past three years (see page 36); and while the local hedge fund industry remains relatively small (see page 39), there are opportunities for growth.

MARK O'HARE

CEO, Preqin

Meanwhile, Korean investors include some of the largest and most sophisticated allocators to alternative assets on the planet, led by National Pension Service, one of the largest pension funds in the world. Preqin tracks 154 significant institutional investors in Korea. Among these, pension funds have grown from $405bn in 2013 to $639bn in 2018. With a large asset base, many of these local institutions are looking overseas for a significant proportion of their targeted alternative assets investment programs. Several have established permanent offices in Europe and North America, testament to the long-term nature of their global strategies.

Preqin is investing heavily to expand and deepen its coverage of alternative assets in Asia-Pacific. Given the growing importance of Korea and its integration within the global market as both a destination for and a source of funds, it was natural for us to undertake this review of Korea. We are extremely grateful to our many friends and clients that have generously contributed their views and insights to this report – they are listed on page 1 – thank you all!

We hope that you will find this report to be a helpful and beneficial overview and guide for you in your engagement with alternative assets in Korea.

Thank you!

KEY TRENDS: SOUTH KOREA

1 With their increasing sophistication, Korean LPs continue to expand their overseas alternatives allocations.

- The growth of investors' overseas alternatives allocations is outstripping that of their domestic allocations, fuelled by limited opportunities onshore and increased familiarity with foreign markets.
- Investors seek strategic partnerships with GPs – LPs see the value of building long-term partnerships with GPs that are well-suited for them.
- Investors believe that language and cultural barriers remain an issue – GPs that can overcome such hurdles and commit to the local market will be at an advantage.

2 Government initiatives pave the way for the domestic alternatives landscape.

- The Korean Government introduced private equity funds in 2004 to protect domestic assets from too much foreign influence and 'predatory' capital in the aftermath of the Asian Financial Crisis.
- In 2015, the government simplified and eased regulations on entry, establishment, operation and sales of private funds.
- The venture capital industry is strongly backed by the government. In addition to continuous budget injection, the Ministry of SMEs and Startups was found to support the domestic venture ecosystem.

3 Domestic private equity offers distinct buyout opportunities.

- The domestic private equity industry offers unique buyout opportunities, driven by large conglomerates' voluntary sales of non-core businesses as they prepare to stay competitive.
- Mid-market control buyout deals are less competitive and crowded, and asset valuations are less elevated.
- In 2017, capital distributions exceeded capital contributions for the first time in the past decade, a key driver that will likely stimulate fundraising in the market.

4 The real estate market becomes more accessible to foreign investors.

- As experienced fund managers are starting to raise Korea-focused blind-pool funds, this has provided a more efficient avenue for global investors into the Korean real estate market.
- Despite the high valuations globally, with its capitalization higher than other Asian peers', core real estate in Korea still offers attractive opportunities.
- GPs are moving up the risk/return spectrum – more value-added funds appear in the market in response to LPs' demand for higher returns.

5 Technology and innovation are driving the venture capital industry.

- Korea intends to facilitate an innovation ecosystem for tech-driven start-ups to prepare for the fourth industrial revolution.
- In 2017, IT services attracted the most investment, followed by retail/services and biotech/medical (according to Korea Venture Capital Corp.)
- Investment in the fintech sector has risen 3280%, from KRW 3bn in 2014 to KRW 98.4bn in 2017 (according to Seoul Metropolitan Government).

HOW SOUTH KOREA IS LIGHTING UP PRIVATE EQUITY IN ASIA

I.J. SONG & HAE-JOON JOSEPH LEE

IMM Private Equity

Korea's rise in the past 50 years as one of the advanced Asian economies has been nothing short of remarkable. First, we channelled limited resources strategically in key sectors in low-cost manufacturing, then in value-added manufacturing, and recently in IT and services.

In the 1960s, Korea was a leader in the wig industry. Today, it is a dominant player in semiconductors, automobiles and shipbuilding. One of the key drivers of this economic development was a dedicated focus on education and R&D. Parents who had little means worked hard to send their children to universities in Korea and abroad. By the 1980s, the country was marshalled by a highly educated citizenry who called strongly for democratic reforms that eventually led to direct presidential elections and peaceful, orderly transitions of power.

Having achieved democratization and industrialization fairly quickly, Korea is now stable and energized by the twin pillars that undergird every successful society: political and economic maturity. Korea's capital markets and judiciary are among Asia's most transparent; but the equally gratifying trend is the constant buzz among average Koreans for even greater improvement through further reforms. Even here, the paradox of generational values – the strong current of expressive individualism among the younger generation that contrasts sharply with the traditional, hard-working values of the older generation – is working towards Korea's advantage for greater transformational growth. This complex synergy of Eastern and Western values, of old-world strength and first-world smarts, and an encyclopaedic, culture-laden, 5,000-year history, has let Korea achieve and maintain a hold in consumer and retail, media and leisure sectors in Asia.

LEVERAGING ON THE KOREAN PHENOMENON

From the perspective of private equity, such soft power makes Korea an intriguing prospect. Friends in other parts of Asia enjoy watching Korean movies and dramas that are on Netflix or aired in prime time in their countries. Youths in Asia readily roll off lyrics of their favourite K-pop tunes. K-pop concerts and Korean movies are sell-outs everywhere. Fashion and beauty products, the collaterals that accompany K-pop and K-drama worship, have turned into winning – and favourite – industries for Korea too. Fans visit Korea and spend time in their favourite cafés and restaurants to see and enjoy the latest Korean culinary trends. In the past seven years, the growth rates of these "fun" or "self-fulfilment" industries encapsulating cosmetics, media content, fashion, coffee, entertainment and e-commerce have been happy over-achievers at the rate of 2-5x the overall GDP growth (Fig. 1).

IMM Private Equity was quick to catch on and we have focused on these sectors in recent years. To date, we have nurtured a respectable stable of investments in coffee (Hollys Coffee), online ladies' designer clothing (W Concept), cosmetics (Missha

Korea is now stable and energized by the twin pillars that undergird every successful society: political and economic maturity. The paradox of generational values is working towards Korea's advantage for greater transformational growth.

and Apieu brands), mobility/travel services (SoCar) and internet cartoons that are source materials for Korean movies and drama (Lezhin Entertainment). Needless to say, other private equity firms are also interested in these sectors.

But there is more to the growth potential of Korean private equity. Along with the emergence of these new industries, two recent trends bear monitoring. The first is the voluntary non-core asset sales by the large Korean conglomerates. Once, private equity deals were channelled largely by distressed-driven asset sales by these conglomerates when the country suffered Asian and Global Financial Crises. That is no longer so.

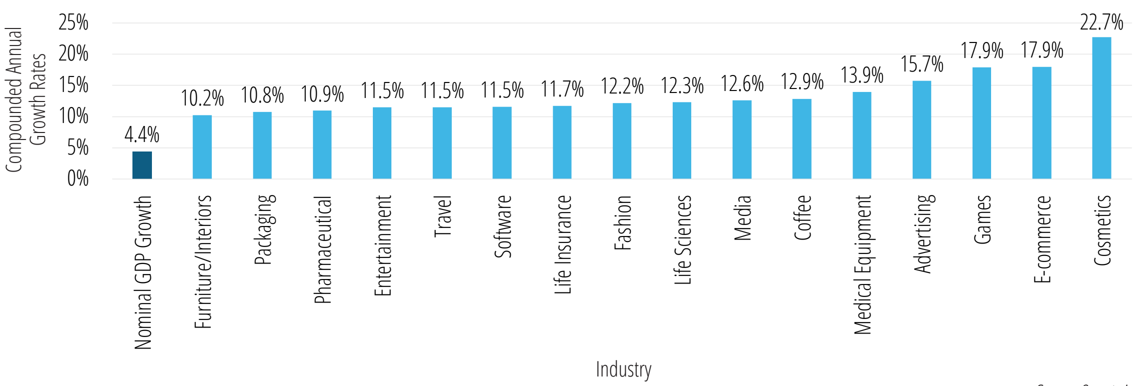
The recent trend has revealed the emergence of voluntary non-core asset sales by the large conglomerates as a major driver of deal flow. The reason: forward-thinking Korean conglomerates have cottoned onto the realization that if they aim to compete globally, they must focus on their core assets – and divest the rest. They realized that they had to adopt the more practical and clear-eyed approach of evaluating their business portfolios from a return-on-investment perspective. So, that is why, for instance, the Samsung Group divested its defence, department store and chemicals businesses in recent years through voluntary divestitures and is focusing on its core operations, such as mobile phones, in order to compete with global peers such as Apple, Xiaomi or Oppo.

CATCHING THE WINDS OF GENERATIONAL CHANGE

The other key theme is the generational change of Korean mid-cap companies. The inheritance tax, which can be higher than 50%, is one of the steepest among OECD countries and is a vital consideration as first- or second-generation founders enter their 70s and 80s. As this tax could be an acute burden on their heirs, founders have been considering sale to private equity as a part of their estate planning.

Yet another reason – perhaps more prevalent – for the founders may be the tougher task of growing their companies, bearing in mind that the country's economic growth rate has dampened from 5-7% in the 2000s to 3-5% in the 2010s. Improving domestic and overseas sales, recruiting top talent, well-planned capex and R&D, and bolt-on acquisitions are becoming must-dos for mid-cap Korean firms.

Fig. 1: Annual Growth Rates of Key Sectors in Korea (2011-2017)



Source: Quantwise

As one of the longest-running and most stable private equity teams in Korea, our platform has evolved step by step along with the Korean private equity market. Just as Korea successfully overcame dynamic economic and political changes, we expect the Korean private equity market to be just as innovative and vibrant.

In this respect, the first-generation bosses are discovering that a new control shareholder, such as private equity, which has operational focus and expertise, should lead the execution of these new initiatives. In recent years, IMM and other private equity firms in Korea have been able to acquire strong mid-cap companies from founders and are leading their transformations. IMM's current investments in Tailim Packaging, Korea's No. 1 corrugated board and box manufacturer which has more than doubled EBITDA in the first two years of IMM's investment, and Able C&C, which holds the Missha and Apieu cosmetics brands and is going through rebranding efforts, are such examples.

Last, but not in the least, consider Korea's diverse exit paths and relative high liquidity in terms of private equity exits. With an active M&A market which has been growing steadily to $22bn last year, and a stable public equities market which is becoming more and more receptive to private equity-led IPOs, limited partners can and should expect exits from Korea within 3-5 years. Private equity secondary deals are also picking up as the Korean market matures.

China, India and Southeast Asia are markets with immense potential where higher multiples or larger-scale exits can be expected. However, exits from those markets can take longer or exit route options may be somewhat limited. Korea is a market that can reliably provide cash flow back to limited partners within a relatively compact timeframe. IMM has decamped from 12 investments since 2010 and leveraged on the diverse routes for exits such as trade sales to Korean conglomerates and multinational corporations, IPOs and public market sales, contractual buybacks and secondary sales.

OUR STRATEGY: DISCIPLINE, DEPTH AND FOCUS

Given these unique aspects of the Korean market and based on our 10+ years of operating history, IMM has developed a strategy that has been consistent since its founding and is expected to serve our investors well into the next decade.

First, our disciplined focus on mid- to large-cap companies in Korea. We define mid-cap as enterprise value between $100mn and $500mn and large cap as $500mn to $1bn. If we translate this to transaction value, IMM's average transaction size range is $250-500mn. The mid- to large-cap space is the most active in terms of deal volume in Korea. For instance, from 2008 to 2017 there were 38 M&A transactions that were larger than $1bn compared with 359 in the $100mn to $1bn range (Fig. 2).

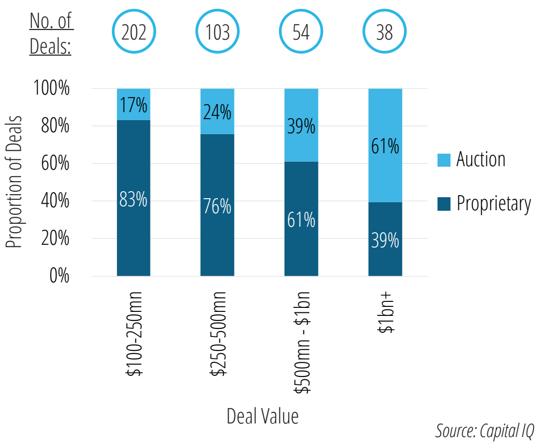
What is more important is that there is a significantly higher likelihood of sourcing deals privately in the mid- to large-cap space. Over 60% of the deals that were above $1bn arose from auctions between 2008 and 2017. In general, entry valuations for auctions can be quite high due to competitive bidding. For deals under $1bn, the ratio was flipped for the same period where over 75% of the deals were done through proprietary sourcing. This empirical data mirrors IMM's experience. Of the 30 investments we have closed in our Funds I, II and III, 27 deals (90%) were sourced privately. Through proprietary deal sourcing, IMM has been able to offer to our investors a differentiated deal flow set and sizeable co-investment opportunities that do not overlap with those of our peers. Additionally, IMM has constantly exercised entry multiple prudence as our entry valuations are typically below those of comparable transactions or trading comps.

The second point of our investment approach is our deep focus on operational improvements. Since there are many robustly growing sectors in Korea, our strategy has been to identify strong players in those growing sectors and overlay our revenue and EBITDA-increasing operational improvements. In general, when we break down the source of our value creation, 60-65% is through EBITDA and free cash flow growth, 20-25% from leverage and 15-20% from multiple expansion. As a Korea-focused team, we have put together a tailored value creation approach that works in Korea.

A prime example of this is Hollys Coffee which has seen revenue increase more than 2x and EBITDA more than 3x during IMM's holding period. This robust performance was based on hands-on operational improvements such as opening profit-oriented, company-owned stores in strategic locations; revamping franchise store operations; new menu development and CRM initiatives that increased the number of members in our loyalty program from 200,000 to over 1.2 million.

As one of the longest-running and most stable private equity teams in Korea, our platform has evolved step by step along with the Korean private equity market. Just as Korea successfully overcame

Fig. 2: Source of M&A Deals in South Korea (2008-2017)



Source: Capital IQ

dynamic economic and political changes, we expect the Korean private equity market to be just as innovative and vibrant. In 1929, Indian Nobel laureate poet Rabindranath Tagore composed a poem recognizing Korea as one of the "lamp-bearers" of Asia and hoped for that lamp to be "lighted once again". We are gratified to suggest that the lamp of private equity today has been lit and is burning bright.

IMM PRIVATE EQUITY

IMM Private Equity is a leading Korea-focused private equity firm with approximately $3bn in AUM. IMM started investing from its $1.2bn Fund III in 2015 and has deployed close to $900mn of fund equity and $550mn of LP co-investments.

In-Jun (I.J.) Song is the CEO and founder of IMM. Previously, I.J. was with Arthur Andersen and Korea Merchant Banking Corporation. He received his B.A. and M.A. in Business Administration from Seoul National University.

Hae-Joon Joseph Lee is the CIO of IMM. Before IMM, Joseph was with Fortress Investment Group and Morgan Stanley. He received his A.B. in Chemistry from Princeton University and J.D. from Univ. of Pennsylvania Law School. He is a CFA Charterholder.

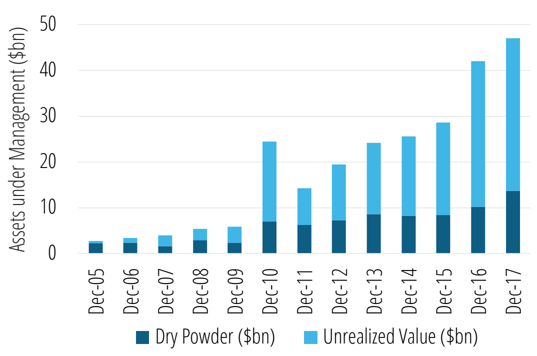
www.immpe.com

PRIVATE EQUITY: ASSETS UNDER MANAGEMENT

It has been over two decades since the Asian Financial Crisis, which brought about many changes to the Korean economy, including the introduction of private equity* funds. The acquisition of Korean assets by foreign private equity funds at significant discounts in the aftermath of the crisis sparked nationalistic outrage and prompted regulatory changes in 2004 which marked the birth of the private equity industry in the country.

Tasked with protecting Korean assets from 'predatory' foreign capital, the first generation of Korean private equity funds predominantly focused on the corporate restructuring of distressed and cash-strapped domestic firms. Following the implementation of new regulation over a decade ago, AUM for the Korean private equity industry has grown significantly, and reached a record $47bn as at December 2017, 2.3x greater than the figure in December 2011 (Fig. 1). This figure fell between December 2010 and December 2011 due to Korean private equity firms realizing more investments over this period. The largest proportion (45%) of AUM is accounted for by buyout funds, while venture capital funds represent 28% (Fig. 2).

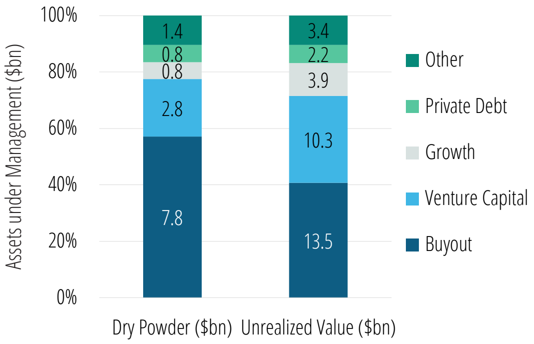
Fig. 1: South Korea-Based Private Equity Assets under Management, 2005 - 2017



Source: Preqin Pro

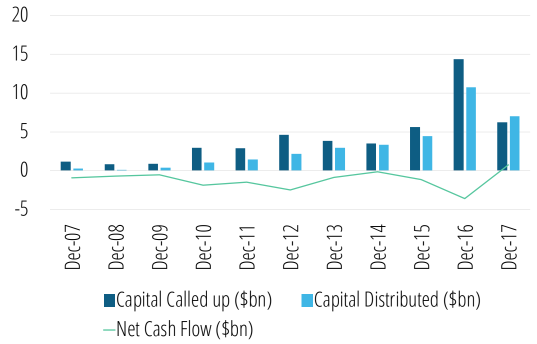
Despite increasing between 2007 and 2015, annual capital distributions to investors from Korea-based private equity funds remained below $5bn and below the amount of capital called up from investors (Fig. 3). 2016 and 2017 saw a change in the trend, with capital distributions more than doubling in 2016 on 2015 levels, before falling again in 2017. In 2017, capital distributions exceeded capital contributions for the first time, which will likely drive fundraising in the region.

Fig. 2: South Korea-Based Private Equity Assets under Management by Fund Type



Source: Preqin Pro

Fig. 3: Annual Capital Called up and Distributed by South Korea-Based Private Equity Funds, 2007 - 2017



Source: Preqin Pro

**For the purposes of this analysis, the definition of 'private equity' has been expanded to include private debt.*

THE KEY TO UNLOCKING VALUE FROM BUYOUTS? STUDIED CONTROL

Preqin: What opportunities do you see within the context of Korea's economic outlook?

J. Jason Shin: With GDP per capita approaching $30,000, Korea ranks among the top five markets in Asia, and top three in GDP size with China and Japan. Higher buying power will prompt the desire among Koreans for a higher-quality lifestyle, which will lead to greater consumer spending. The Korean GDP has tripled within two decades, fuelled by an export-led manufacturing economy. South Korea is in the elite band of top 10 exporting nations in goods and services globally, a feat that has helped generate years of trade surpluses. Thanks to a positive trade balance and prudent fiscal policies, Korea now has one of the lowest levels of national debt relative to other OECD countries. This treasure trove of positives allows the government the flexibility to help cultivate the business environment and cushion Korea against financial traumas like the 2008 GFC.

Korea's most promising sectors are in the consumer, retail, lifestyle, healthcare and finance industries and we aim to focus on companies within these sectors, especially firms that are likely to be the main beneficiaries of these three leading growth trends:

- **Greater domestic consumption:** With a maturing economy comes increased and more sophisticated domestic consumption to meet greater demand for a higher quality of life. Our healthy GDP per capita is another driver.
- **Ageing population:** With an elderly class aged 65 and above surpassing 6 million (11.7% of population), ageing-related industries will keep growing.
- **Rise of Korean brands globally:** Korean products have graduated to a global reputation for innovation and quality, and Korean consumer products, including cultural, entertainment, beauty and healthcare products, are rapidly expanding throughout China and other Asian markets.

J. JASON SHIN

VIG Partners

P: What are the distinctive features of a Korean strategy as opposed to a pan-Asian regional fund?

JJS: Korean GPs are focused on sourcing proprietary deals. Each team comprises seasoned Korean professionals, with intimate knowledge of Korea and well networked with the movers and shakers of founding companies or chaebol carve-outs. LPs select us to craft proprietary deals arising from our knowledge and access. Pan-Asian regional funds are usually team-based in Hong Kong and Singapore with smaller dedicated Korean units. When you couple that with their need for large-cap deals, which are mostly transacted through public auctions, they are more focused on competitive auctions featuring marquee assets from chaebol groups or multinational conglomerates.

Another difference: most Korean GPs are growth-capital focused while pan-Asian funds active in Korea are mainly control-focused buyout players – unsurprising as Korea has consistently generated large-cap buyout opportunities. Growth-capital-focused Korean GPs do so usually because they began as venture capital funds. Some are transforming into buyout funds, but represent a fraction of the overall number of Korea-based GPs.

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WHERE VALUATIONS ARE UP...

Entry valuations have spiked, prompted mostly by large-cap auction deals, mainly because these deals are robustly reported by mainstream media. Stiff competition among multiple global and regional players for a handful of deals has prompted comparatively faster pacing in deal valuations recently.

P: What is VIG's strategy and how has it worked?
JJS: We are a mid-market buyout firm that places heavy emphasis on management control and focuses on the Korean trifecta of consumer, retail and finance industries. Our record since we began in 2005 reflects this focus: 17 of our 18 investments were in these sectors. Our investment philosophy is two-pronged: first, we actively engage in state-of-the-art 'top-down' market research that lets us identify industries and companies whose long-term potential for growth is resilient to short-term market volatility. Second, we adopt a control-oriented and hands-on approach to creating value with an active involvement in managing our investments.

Our investment algorithm allows VIG to source and execute opportunities in mid-sized, founder-owned-and-operated businesses. We help these businesses go into overdrive via accelerated growth by providing capital and direct operating support. Our strategy allows us to uncover the "hidden gems": undermanaged mid-sized businesses or non-core assets in conglomerates, thereby helping them unleash their potential through sourcing the industry's best management team and by providing them with proper incentivization and clear strategic objectives. And as our 2.3x money-on-money returns for the realized investments in these industries attest, our philosophy and focus in these industries have been extremely successful.

P: Increasing deal valuations is a concern for private equity fund managers globally. Does the same worry apply in South Korea?
JJS: Entry valuations have spiked, prompted mostly by large-cap auction deals, mainly because Korea has consistently produced large-cap, blue-chip buyout transactions, and these deals are robustly reported by mainstream media and covered by global banks. A large number of global and regional private equity funds operating in Asia, armed with ever-increasing fund sizes, have focused on these large-cap deals from Korea, promoting stiff competition and resulting in higher multiples in deal valuations recently.

We see valuation discipline in the mid-market space mainly because of less hectic competition. In fact, VIG has not faced competition for a deal in the past 10 years, mostly due to the lack of mid-market control buyout GPs operating in Korea. Global and pan-Asian buyout funds have simply become too large to focus on mid-cap buyout opportunities happening in Korea. While deal valuations in the mid-market segment have crept up recently, the bump is due to a rising number of young (less than 50 years old) entrepreneurs willing to sell controlling stakes of their fast-growing companies and to partner with private equity funds like us. As a result, there is a certain 'premium' to such deals relative to those that would have been stagnant or floundering under owners with no visible succession plans.

P: What do you see as key elements in enhancing the underlying value of the portfolio companies that you acquire?
JJS: We focus on creating value through improving the performance of our portfolio, rather than relying on valuation multiple expansion. Ours is a systematic approach, honed, since our inception, to identify and achieve value creation levers in three ways:

- **Attracting quality management to mid-sized acquisitions:** Our private equity reputation and our team's network of relationships has enabled VIG to attract top management from chaebol companies and multinational conglomerates to work for our mid-market acquisitions. After we bought Samyang Optics, for instance, we installed top executives from global conglomerates such as Samsung and Honeywell Korea. In the case of Burger King Korea, we sourced and installed a top-tier management team with extensive experience in the quick-service restaurant space including the CEO, CFO, CDO and CMO who previously worked at global companies such as McDonalds and Pizza Hut. That is not all. We outlined clear directives to these top management hires aimed at synergizing the interests of the portfolio company's management, implementing

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...AND WHERE THEY REMAIN STEADY

We still see valuation discipline in the mid-market space mainly because of less hectic competition. In fact, VIG has not faced competition for a deal in the past 10 years, and the same applies for other players in the Korean mid-market space. While deal valuations in the mid-market segment have crept up recently, the bump is due to a rising number of young (under 50 years old) entrepreneurs willing to sell controlling stakes in their fast-growing companies and to partner with private equity funds like us.

performance-based management incentive schemes that includes a generous exit incentive directly linked to our exit money-on-money multiples.

- **Strategizing and repositioning acquired companies:** Our team and accumulated experience usually strategizes a plan that targets new growth silos via product line expansion, distribution improvement or store expansion. With Samyang Optics, we helped expand the product line of the lens business and its European distribution network. At Bodyfriend, we promoted product diversification (latex mattresses and beds) and geographic expansion (US and Asian markets) while aggressively growing Bodyfriend's core business in massage chairs. We are repositioning Summerce Platform to leverage on the trend of mobile phone shopping by expanding Summerce's mobile business through add-on acquisitions.

- **Market expansion:** While we usually focus on growing domestically, we will not ignore expanding market reach when the opportunity arises, in a prudent fashion, and involves leveraging on strong Korean brand awareness.

P: How does the exit environment in South Korea compare to that of the global market?
JJS: We do not see much of a difference in the Korean exit environment from that of the global one when just taking trade exits to strategic buyers into account. However, secondary activity is still relatively muted in Korea, although there has been an increasing number of transactions as the Korean private equity market matures. We believe with more than $10bn of dry powder for Korean deals, the level of secondary activity would only have to go up in the near future.

Although Korean capital markets are sophisticated and liquid, regulation precludes divesting an entire controlling stake into the market via IPO. Hence, when VIG listed Samyang Optics last year, we were only able to sell 40% of our 100% stake through the IPO. However, such regulation works to our benefit in deal sourcing since ageing founders cannot make a 100% clean exit though IPOs, forcing them to seriously consider mid-market buyout funds such as ourselves as the most attractive exit option.

VIG PARTNERS

Mr. Shin is a co-founding partner of VIG Partners, which was founded in 2005. Mr. Shin sits on the investment committee of the Firm and is responsible for sourcing proprietary investment opportunities and overseeing execution of new investments and exits. He also acts as the primary partner in charge of several portfolio companies where he serves as the head of their management committees and leads the close monitoring of their operational and financial performances. VIG Partners is currently in its third fund and has invested in 18 companies, 16 of which have been for outright control.

www.vigpartners.com

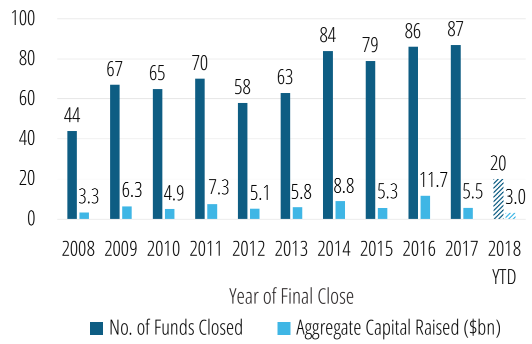
PRIVATE EQUITY: FUNDRAISING AND DEALS

Over the past decade, the number of private equity* funds raised by Korea-based managers has generally risen: on average, 84 private equity funds closed each year between 2014 and 2017, up from an average of 61 between 2008 and 2013 (Fig. 4). Notably, 2016 saw a record $12bn raised in aggregate capital, while a record 87 funds reached a final close in 2017. These slightly elevated figures may be attributed, in part, to the simplification of establishment procedures for private equity funds in Korea in 2015, with regulators changing a permit-based system to a registration-based system. Although it looks unlikely that fundraising in 2018 will reach similar heights to the previous two years, the average size of funds closed in 2018 YTD is at an all-time high of $148mn, more than double that of the previous year. This indicates that capital is becoming more concentrated among fewer managers, a trend that has been observed globally across the private capital industry.

VENTURE CAPITAL FUNDS DOMINATE

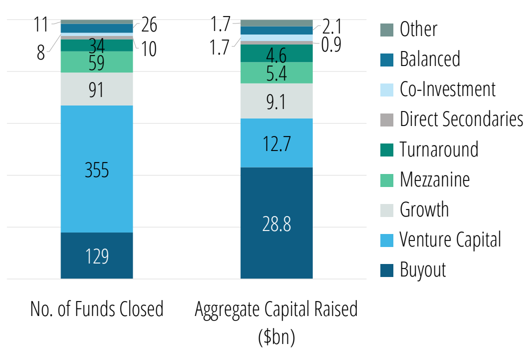
Almost half (49%) of all Korea-based private equity funds closed since 2008 focus on venture capital investments (Fig. 5). Buyout funds account for 43% of aggregate capital raised over this period. Mezzanine and turnaround funds account for a growing proportion of funds closed and capital raised, highlighting investors' increasing need for a more diversified portfolio.

Fig. 4: Annual South Korea-Based Private Equity Fundraising, 2008 - 2018 YTD (As at August 2018)



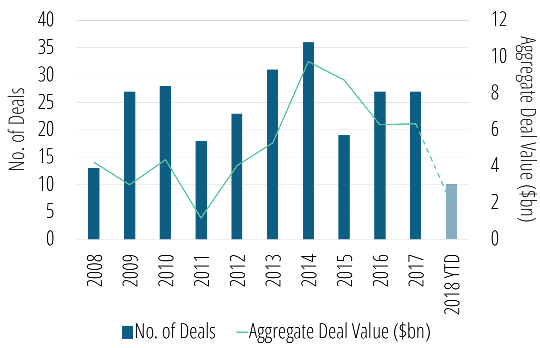
Source: Preqin Pro

Fig. 5: South Korea-Based Private Equity Fundraising by Fund Type, 2008 - 2018 YTD (As at August 2018)



Source: Preqin Pro

Fig. 6: Private Equity-Backed Buyout Deals in South Korea, 2008 - 2018 YTD (As at August 2018)



Source: Preqin Pro

For the purposes of this analysis, the definition of 'private equity' has been expanded to include private debt.

DEAL FLOW IN KOREA

Since 2008, there have been 259 private equity-backed buyout deals completed in Korea, with an aggregate value of $55bn (Fig. 6). These deals account for 7% of the number and 15% of the aggregate value of all private equity-backed buyout deals completed over the same period in Asia-Pacific. Deal activity peaked in 2014, with 36 deals completed for $9.7bn. 2018 YTD has seen just 10 deals completed for a total of $1.9bn; 56% of these deals are valued within the $100-499mn band. This marks a departure from the trend between 2008 and 2017, when deals worth less than $100mn accounted for the majority of transactions each year.

The largest deal so far this year involved Shinsegae and E-Mart's online business company, which operates as an e-commerce retailer: in January 2018, Affinity Equity Partners, through Affinity Asia Pacific Fund V, and BRV Capital Management signed a preliminary deal to invest KRW 1.0tn in the company (Fig. 7).

OUTLOOK

The Korean private equity market is poised for further growth, with industry AUM experiencing year-on-year increases since 2011. Capital distributions have been particularly strong in the last two years, and an increasing number of private equity funds have closed. As investors around the world become more aware of investment opportunities in Korea, the fundraising and deal-sourcing environments will no doubt become more competitive, stimulating further growth in the long term.

Fig. 7: Notable Private Equity-Backed Buyout Deals in South Korea, 2017 - 2018 YTD (As at August 2018)

Portfolio Company	Investment Type	Deal Date	Deal Size (mn)	Investor(s)	Bought from/Exiting Company	Industry
Daesung Industrial Gases Co., Ltd	Buyout	Feb-17	1,200,000 KRW	MBK Partners	Goldman Sachs Merchant Banking Division	Chemicals
Shinsegae and E-Mart's online business company	Growth Capital	Jan-18	1,001,730 KRW	Affinity Equity Partners, BRV Capital Management	-	Internet
Hugel Pharma	PIPE	Apr-17	927,400 KRW	Bain Capital	-	Pharmaceuticals
LS Automotive Co., Ltd.	Buyout	Jul-17	750,000 KRW	KKR, LS Group	LS Mtron	Transportation
Modern House	Buyout	May-17	700,000 KRW	MBK Partners	E-Land Group	Retail

Source: Preqin Pro

Fig. 8: Notable Private Equity-Backed Buyout Deals in South Korea Valued at $100-500mn, 2017 - 2018 YTD (As at August 2018)

Portfolio Company	Investment Type	Deal Date	Deal Size (mn)	Investor(s)	Bought from/ Exiting Company	Industry
Able C&C Co.	PIPE	Apr-17	369,468 KRW	IMM Investment, IMM Private Equity	-	Consumer Products
KCF Technologies Co., Ltd.	Buyout	Jul-17	300,000 KRW	KKR	LS Mtron	Materials
Hyundai Samho Heavy Industries	Growth Capital	Apr-17	300,000 KRW	IMM Private Equity	-	Industrial
Youyoung Co., Ltd.	Buyout	Jan-18	220,000 KRW	VIG Partners	-	Manufacturing

Source: Preqin Pro

Fig. 9: Notable South Korea-Based Private Equity Funds Closed, 2016 - 2018 YTD (As at August 2018)

Fund	Firm	Headquarters	Fund Size (mn)	Fund Type	Geographic Focus	Final Close Date
MBK Partners IV	MBK Partners	Seoul	4,100 USD	Buyout	Far East, Greater China	Nov-16
IMM RoseGold PEF III	IMM Private Equity	Seoul	1,257 USD	Buyout	South Korea	Oct-16
JKL 10th Private Equity Fund	JKL Partners	Seoul	676,000 KRW	Buyout	South Korea	Feb-18
VIG Partners III	VIG Partners	Seoul	600 USD	Buyout	South Korea	Dec-16
STIC Special Situation Private Equity Fund	STIC Investments	Seoul	603,200 KRW	Mezzanine	South Korea	Apr-16
Petra PEF 6	IMM Investment	Seoul	567,000 KRW	Mezzanine	South Korea	Nov-16
Mirae Asset Partners PEF 9	Mirae Asset Global Investments	Seoul	516,000 KRW	Buyout	Global	Jun-16
NV Private Equity Fund III	Dominus Investment	Seoul	480,610 KRW	Mezzanine	Far East	Feb-17
Crescendo Equity Partners Fund II	Crescendo Equity Partners	Seoul	420,000 KRW	Buyout	South Korea	Mar-18
Atinum Growth Fund 2018	Atinum Investment	Seoul	350,000 KRW	Venture Capital	South Korea	Feb-18

Source: Preqin Pro

PRIVATE EQUITY – THE NEW FINANCIAL ROCKET POWERING THE KOREAN MIRACLE

DONG GUEL KWAK

STIC Investments

The story of Korea's fantastic economic success is replete with well-earned superlatives, one of which comes to mind: "The miracle of the Han River." Few nations have journeyed from surviving the ravages of war to transform themselves into first-world wonders. Korea did, and its heft as the globe's 11th largest economy testifies to the resilience of Korean grit on the ground and Korean strategic dynamism at the top.

The driving force behind Seoul's dramatic economic transformation was, and remains, the Korean Government; specifically, its long-term, systematic approach of pacing growth and development through a digestible, bite-sized series of five-year plans beginning in 1962. South Korea's distinctive "Five-Year Plan" achieved many things by doing one thing consistently, and purposefully: establishing a foundation for a modern economy by strategically allocating limited resources and progressively boosting certain sectors including steelmaking, shipbuilding and petrochemicals.

The conduits for the government's focused economic policies were small family-owned companies that were backed by massive financial muscle in the form of extensive government subsidies, loans and tax incentives. These companies combined their sharp business talents, unwavering dedication and canny entrepreneurship with government assistance to spearhead Seoul's industrial growth. The result was the meteoric rise of these modestly sized firms which morphed them into multinational powerhouses.

ALL IN THE FAMILY – THE CHAEBOL FACTOR

Today, these ubiquitous chaebols – family-controlled conglomerates – have become the key engine in powering the Korean economy and exert an unusually extensive influence in vital non-economic spheres of social and political nationhood as well. The Korean formula for economic achievement was as plain as it was direct: the government strategized and the chaebols executed. The result was a Korea that grew into a global industrial power through the emergence and expansion of the chaebols. In a way, it was inevitable, given Korea's underdeveloped economy then and its unfamiliarity with the levers of capitalism, such as financial muscle. It was inevitable for the government to concentrate the limited resources at hand by prioritizing certain industries as well as business groups to lead the economic development. Because of this clear and dedicated strategy of government-crafted policies which were executed by the chaebols, a slew of first-class Korean industries mushroomed recently: semiconductors, displays, mobile phones and automobiles.

THEN, A PERFECT STORM OF COLLAPSE... AND REGENERATION

Until the late 1990s, the chaebols depended heavily on short-term commercial borrowings to rapidly expand into diversified business portfolios. Considering the large current account deficit and relatively small foreign reserves, bank loans were the optimal way to finance these family-based juggernauts' horizontal expansion, which also corresponds with the government's bid to fast-track the nation's economy.

But the rapid chaebol expansion into unrelated businesses wedded to the highly leveraged over-investment circumstances turned into a perfect storm of disaster when the Asian Financial Crisis struck in 1997. The toll was brutal: 16, or more than half, of the 30 elite chaebols collapsed. The government stepped in to restore order by directing the chaebols to divest their non-core assets and reshuffle the subsidiaries liquidating unprofitable companies; the move was dubbed the Korean age of the "Big Deals". During the period, the government not only restructured each of the distressed chaebols, but reformed the industries to strengthen the global competitiveness and directed the chaebols to focus on their core businesses.

For example, LG Group was directed to sell its semiconductor business to Hyundai Group to consolidate the semiconductor industry into two solidly performing companies. As for the automobile industry, the government directed the Samsung Group to leave the car business and directed the Hyundai Group to acquire Kia Motors to strengthen the industrial efficiency. Bloodied by the Asian Financial Crisis and Global Financial Crisis in 2008, the chaebols internalized their lessons and now actively engage in preemptive restructuring. For the chaebols, the way forward and upwards was to strengthen their core businesses to garner a competitive edge.

NOW, IT'S ABOUT FLEXING THE CHAEBOL CORE

Pre-emptive restructuring involves a hugely voluntary component. At STIC, we categorize the needs for the voluntary restructuring into four pillars, namely: focusing on core assets, improving financial stability, solving the succession challenge and bettering corporate governance.

A 2018 Ernst & Young survey suggests that an increasing number of companies resort to voluntary restructuring to compete globally within the context of a low growth economy and global market consolidation. In this respect, a recent trend that is gaining traction are mergers and acquisitions aimed at selling non-core businesses to strengthen their core businesses and enable them to compete globally. Cases in point: Samsung sold its plant-machinery and military-defense business to Hanwha in 2014 and divested its chemical business to Lotte in 2016; LG sold its silicon wafer producer to SK.

Often, chaebols aim to improve the financial stability of their sluggish core business by inviting the private equity funds as a minority shareholder and partner to their core business. For example, Dong-Bu Group invited STIC consortium as a minority shareholder and partner to Dong-Bu Farm Hannong to improve the financial stability of their core business.

RESTRUCTURING TURNS ONE CHAEBOL INTO MANY...

Succession challenges and corporate governance are the two greatest interests from the chaebols recently. Succession challenges have also exerted great influence on the landscape of Korean chaebols' structure. Most big chaebols are in the process of power transition to their third-generation successors. To facilitate the smooth transition of power, the owners of each group actively initiated restructuring plans involving the reorganization of their business units complemented by restructuring their chaebols' governance structure. Through this process, many chaebols that began rooted by a single business have grown diverse branches which are transformed into chaebols in their own right.

WHY CHAEBOLS ARE WARMING UP TO PRIVATE EQUITY

Since the introduction of private equity business in 2004, the committed capital has grown to $72bn in 2017. Private equity funds have progressively influenced the M&A transactions of chaebols and have become one of the most important corporate finance partners. In the event of a chaebol restructuring, private equity funds not only supply a huge dollop of capital in a single investment, but have the talent as well to assist in the corporate management.

The Hyundai Group has evolved several chaebols – Hyundai, Hyundai Motor Group, Hyundai Heavy Industries, Hyundai Department Stores and others – while the Samsung Group has divided into Samsung, CJ, Shinsegae, Hansol and others. Restructuring due to succession has constantly been taking place and the process of reorganizing subsidiaries, constructing a new business model and adequately dividing the ownership have resulted in more efficient and core-business-centric models. In addition, sometimes the leading companies find the solution to the succession challenge by handing over the ownership to private equity funds. For example, owners of Lock & Lock sold its stake to Affinity Partners while SanCheong handed over the ownership to STIC Investments consortium because the family was not interested in succeeding the company to their family members.

Also, under ever-increasing social and governmental demands for a fairer balance of economic power, chaebols are strengthening their efforts to improve corporate governance facilitating the growth of industries and innovative companies, and mitigating the imbalance of the powers between chaebols and SMEs. Fair-Trade Commission (FTC), for the past two decades, has led the way in trying to correct chaebols' cross-shareholding structure, unfair inter-affiliate transactions and irrational controls among industrial and financial capital, introducing updated rules to reflect the changing economic and business environment.

To comply, chaebols have been actively seeking solutions, often collaborating with private funds. For example, the Hyundai Group and Hanwha Group lowered their owner families' ownership of Hyundai Innocean and Hanwha S&C significantly to avoid any issue of unfair transactions and meet the social demand of fairness. As a result, the tougher regulations from the FTC have accelerated the voluntary restructuring and have positively impacted the economy.

For the next several years, such voluntary chaebol restructuring, along with changes in the sociopolitical environment, will be the key driver of the Korean M&A market.

$72bn AND COUNTING – ENTER PRIVATE EQUITY

The Asian Financial Crisis prompted chaebols to secure a capital structure that is not overwhelmingly reliant on bank loans. Although banks remain the most important corporate finance partners, chaebols have been replacing the role of banks to the equity capital market to reduce debt ratio and strengthen a chaebol's capital structure.

Since the introduction of the private equity business in 2004, the committed capital has grown to $72bn in 2017, making private equity funds a key corporate finance partner. In the event of a chaebol restructuring, private equity funds not only supply a huge dollop of capital in a single investment but have the talent as well to assist in the corporate management. The flow of deals from chaebol restructuring is certainly robust, and private equity firms with sufficient dry powder are significant players on either side of the restructuring fence for chaebols.

In the past, foreign private equity funds dominated the private equity market, because there was no domestic GP with the cash or large-cap chaebol dealing know-how. That has changed. Now, a growing number of time-tested Korean GPs have accumulated expertise to participate in large-cap investment opportunities. In order to focus on its core business, media and food, CJ Group sold its non-core healthcare business to Kolmar Korea which wanted to strengthen and expand its core healthcare business. Private equity funds including STIC Investments, Mirae Asset PE and H&Q partnered with Korea Kolmar to finance the acquisition and successfully reorganized the corporate structure. LS Group also strengthened the financial stability of its core infrastructure and smart energy business by selling the stake of its non-core automotive business to KKR.

STIC INVESTMENTS

Mr. Dong Guel (DG) Kwak is one of the founding members of STIC and currently the Chief Investment Officer for STIC. Mr. Kwak dedicates most of his time to the investment activities of STIC's Private Equity Division. Mr. Kwak has extensive experience in both public and private equity investments as well as in-depth industry knowledge of the high-tech sectors such as ICT, Bio, Healthcare, New Materials and AI, all of which have been key to STIC's success in sourcing and divesting investments and its value-add activities. From 2006 until 2011, Mr. Kwak also served as the Chairman of the Operations Committee for the Korea Core Industrial Technology Investment Association (KITIA).

www.stic.co.kr

KEY TAKEAWAYS ON TAX CHANGES TO PROMOTE FOREIGN INVESTMENT

JAE MYUNG KIM & JONG HYUN PARK

Kim & Chang

Korean tax regulation has developed over the years to attract foreign investment, and more recently, to promote the use of Korean private equity funds registered with Korean financial regulators (Korean PEFs) for private equity investments in Korea. Here are some of the key takeaways of recent tax developments.

Investment in Publicly Listed Companies: In 1990, the Korean tax law was amended to attract and incentivize foreign investment in Korean companies listed on the Korea Exchange. Prior to the amendment, the tax law imposed capital-gains-related taxes on transfers of publicly listed securities and unlisted securities. Following the amendment, foreign investors are exempted from capital-gains-related tax on their transfers of publicly listed equity securities of Korean companies listed on the Korea Exchange that meet the following conditions, namely:

- That they have no "permanent establishment" in Korea;
- That the relevant securities are listed and transferred on the Korea Exchange;
- That there is no ownership (inclusive of shareholdings of related parties of the relevant foreign investor) of 25% (as amended in 1997 to increase the 10% threshold to 25%) or more of the relevant Korean company in the year of the transfer and the immediately preceding five years. In 2018, the Korean Government debated, but declined to pass into law, a reduction of the 25% threshold to 5%.

Tax Treaty Network: As of July 2018, Korea has income tax treaties with over 90 countries[1]. The tax treaties generally reduce Korean withholding tax on interest and dividend payments to foreign investors resident in such countries from 22% to between 5% and 16.5% (inclusive of local income tax), and exempts Korean withholding tax on capital gains of such foreign investors from transfers of their Korean equity securities.

Investment through Korean PEFs: To promote foreign investments in Korea through Korean PEFs, the Korean tax law was amended in 2009 to:

- Allow Korean PEFs to elect partnership taxation, upon which (a) Korean PEFs would be treated as non-taxable entities for Korea income tax purposes and (b) income distributed by Korean PEFs to foreign investors would be treated as "dividend" subject to Korean dividend withholding tax regardless of the underlying income character; and
- Allow compensation paid to general partners from Korean PEFs to be deducted from the income of foreign investors subject to Korean withholding tax. Further, additional amendments were made in 2013 and 2017 for the benefit of certain limited partners of Korean PEFs, namely sovereign or pension funds not subject to income tax in their jurisdiction of organization, such that income distributed by

[1] Key jurisdictions include Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Italy, Japan, Luxembourg, Malta, the Netherlands, New Zealand, Norway, China, Singapore, Sweden, Switzerland, the UK and the US.

a Korean PEF to these limited partners would be treated as "capital gains" if the income is derived from the sale of equity securities of Korean companies by the Korean PEF or its onshore special purpose vehicle, and thereby enabling such limited partners to enjoy Korean capital gains tax exemption under applicable tax treaties, if any.

KIM & CHANG

Kim & Chang is Korea's premier law firm and one of Asia's largest law firms. Since our founding in 1973, we have been the market leader in all major practice areas and industries in Korea, and our successful track record and consistent innovative solutions in many of the largest and complex global and domestic matters have set us apart. Today, more than 1,500 professionals – composed of attorneys, accountants and other subject matter and industry experts – work collaboratively to craft customized solutions to resolve our clients' most difficult challenges.

Jae Myung Kim is a foreign attorney in the M&A group, specializing in cross-border M&A, private equity and capital markets transactions.

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KOREAN VENTURE CAPITAL MARKET OVERVIEW

RESEARCH & ANALYSIS TEAM

Korea Venture Investment Corp.

2017, A REMARKABLE YEAR FOR THE KOREAN VC MARKET

In 2017, the Korean venture capital market saw quantitative growth. According to statistics released by the Korean Venture Capital Association (KVCA), 2017 was the first year in which total AUM of newly incorporated venture capital funds exceeded $4bn, reaching $4.04bn. At the same time, VC investment hit an all-time high of $2.16bn. The Korean Government established the Ministry of SMEs and Startups (MSS) to foster SMEs in order to diversify its economic structure, which had previously been focused on large conglomerates. The government intends to facilitate an innovative ecosystem for tech-driven start-ups to secure a future growth engine and to effectively respond to the paradigm shift caused by the fourth industrial revolution. Given those circumstances, the market is forecasted to continue its quantitative growth.

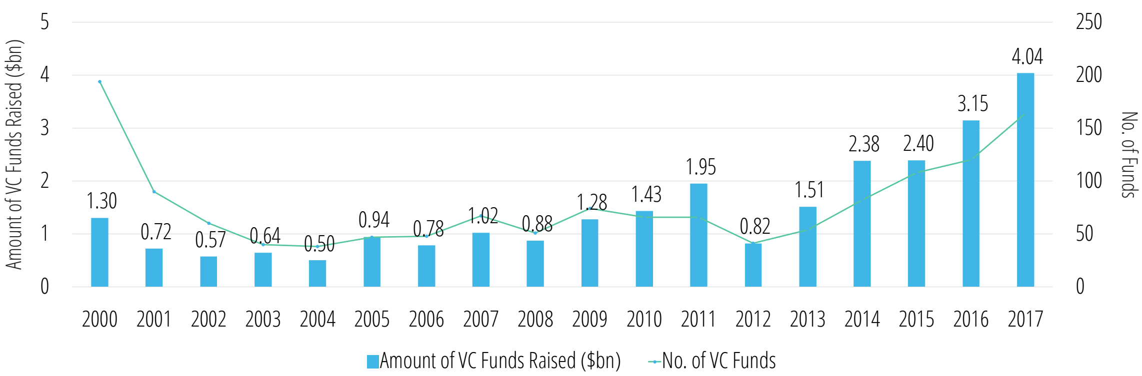
ROLE OF KVIC IN THE KOREAN VC MARKET

Korea Venture Investment Corp. (KVIC), founded in 2005, is a government-driven fund of funds (KFoFs) management company. It has been playing the role of supporting SMEs via indirect investment in the period when venture capital investment was stagnating after the venture bubble hit its peak in 2000. It has established 609 underlying funds with a combined value of $17.85bn since its foundation and has invested $12.61bn in 4,894 companies as of June 2018.

In Q4 2017, the government allocated the largest supplementary budget of $0.73bn to the KFoFs on top of an initial annual budget of $0.03bn to support SMEs' and start-ups' innovative growth. In addition, by matching private LPs, it incorporated $1.71bn worth of venture capital funds, achieving significant external growth.

Alongside the external growth, the government aims to pursue private-sector-led sustainable growth and strengthened self-resilience. Going forward, private investors' participation, which includes corporations and overseas investors, will increase. To keep up with this trend, KVIC will encourage private

Fig. 1: Newly Organized Korean Venture Capital Funds by Year



Source: KVCA, KVIC

investors' participation by providing venture market investment information and benchmarks based on its accumulated database.

KOREAN VC INVESTMENT

After exceeding KRW 1tn (approximately $1bn) in 2010, Korea's investment in SMEs and start-ups has increased consistently and reached KRW 2tn in 2015. In 2017, the growth rate of capital invested (10.7% year on year) was not significant as compared to the annual growth rate of newly incorporated funds (28.3% year on year), as most of the funds were newly established in the second half of the year. However, as the KVCA statistics demonstrate that the total investment amounts had reached $1.47bn (61.2% year on year) in the first half of 2018, the annual capital investment is expected to surpass $3bn by the end of 2018, if the trend continues.

In 2017, the sector that attracted the most investment was ICT services ($0.47bn), followed by retail/services ($0.38bn) and biotech/medical services ($0.34bn). The combined investment in the top three industries accounted for 55.2% of the total investment made across nine industries.

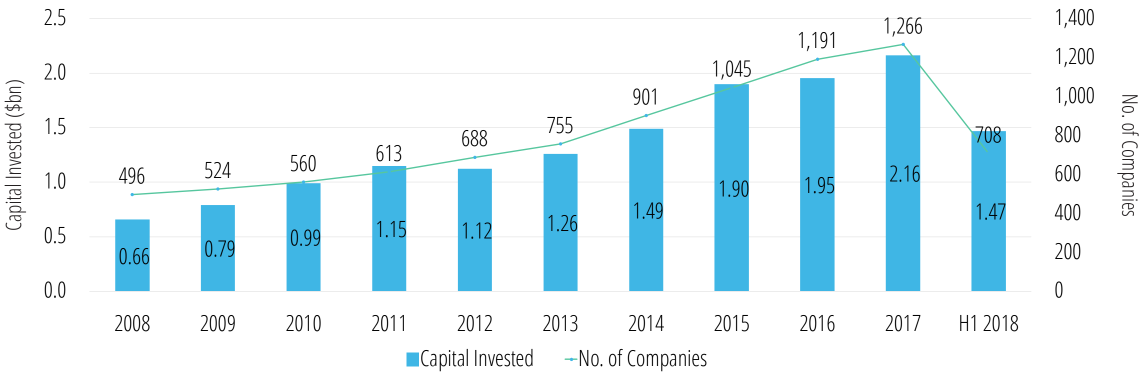
In the field of biotech/medical services, the businesses that received the most investment were biomedicine, DNA editing and Alzheimer's treatments. In the retail/services field, e-/mobile/video commerce, food delivery, cosmetics, co-working spaces and 'Online to Offline' (O2O) businesses were the major investment destinations, while fintech, app services and mobile contents (games, webtoons, MCN, etc.) businesses were the major players in attracting investment in the ICT services field.

VALUATION OF KOREAN START-UPS

In Korea, there is no official institution that announces a list of unicorn companies whose valuation is greater than $1bn or KRW 1tn. However, there are three unicorns in Korea according to a survey conducted overseas: Coupang (e-commerce, $5bn), Yello Mobile (mobile content platform, $4bn) and L&P Cosmetics (facial masks, $1.78bn).

Besides this, according to the local media, companies such as Bluehole (online games, $4bn), Kakao Games (mobile games, $1.2bn+), Big Hit Entertainment (entertainment, $1bn) and Wemakeprice (e-commerce, $1bn) are valued at over $1bn.

Fig. 2: 10-Year Korean Venture Capital Investment



Source: KVCA, KVIC

Fig. 3: 2017 Korean VC Investment by Industry

Source: KVCA, KVIC

The analysis of our database indicates that there are in total 14 Korean companies that are valued at over KRW 0.5tn as of the end of 2017, including five unicorns and nine start-ups that are worth more than KRW 0.5tn and less than KRW 1tn among all the portfolio companies invested in by KFoFs' underlying funds.

According to KVCA, the average post-money valuation in 2017 was $43.2mn. The games sector, with its valuation at $191.2mn, was valued overwhelmingly higher than other sectors. Given the circumstances, it is highly likely that the gaming industry will see the emergence of new unicorns.

2018 OVERALL VC MARKET OUTLOOK

The year 2018 expects a significant increase in investment as the funds formed by the supplementary budget at the end of 2017 execute the investments. In the last five years, the proportion of investments in early-stage start-ups (0-3 years) was relatively high, taking up 31.6% of the total capital (45.8% of the total number of companies). Also, first-time investment in the past five years recorded 48% of the total amount, which is comparable to the follow-on investment at 52%. The amount of investment per company has maintained the threshold of $1.7mn on average. In light of this, the venture capital market has so far experienced external growth where the amount of capital invested and the number of companies invested in grew hand in hand.

In 2018, the capital investment is expected to hit record highs due to the high level of dry powder held by the funds organized in Q4 2017 and new finances in 2018. It is highly likely that the large-scale investment will be made as follow-on financing select innovative start-ups at a late growth stage. With the growing proportion of follow-on investment, the Korean venture capital market is expected to see more unicorn companies, experiencing both quantitative and qualitative growth.

KOREA VENTURE INVESTMENT CORP.

Korea Venture Investment Corp. (KVIC) is the Korean government-backed agency managing Korea Fund of Funds (KFoFs), which focuses on venture capital. Since its establishment in 2005, KVIC has played a critical role in supporting the Korean economy by providing funds to SMEs with a high potential value in the formation of underlying venture capital funds. KVIC currently manages $3.66bn and has invested in 609 underlying funds.

www.k-vic.co.kr

**For all currencies in this article: $1 = KRW 1,100*

FINANCIAL TECHNOLOGY HAS CROSSED THE HAN RIVER – AND IT'S HERE TO STAY

Some call it 'fintech', others call it 'techfin'. Regardless of whichever term is deemed more appropriate, one thing is clear: technology has become a pivotal element of the global financial industry. According to the Bloomberg Innovation Index, Korea has been the world's most innovative country for five consecutive years, and Seoul, being a pioneer of the technology industry, has been at the core of this achievement. Such kudos attests to Korea's strong presence in research and development capability, researcher concentration, high-tech density and patent activity. Korea has the world's fastest internet and mobile speed, as well as the highest smart phone penetration rate at 94%.

DAEHO KIM

Seoul Metropolitan Government

FINTECH AS A GROWTH ENGINE

With a solid base in technology, Korea is now looking at fintech as its next growth engine to become Asia's next financial hub. Over the past few years in Korea, we witnessed a growing public need for fintech services, a tendency that is apparent from the quantity of daily mobile payment transactions – a sector that takes up almost 41% of the Korean fintech market. The mobile payment industry only took a year to spike by more than 600% from 440,000 daily transactions in the first quarter of 2016 to 2,830,000 by the end of 2017. P2P loans were a further indication of the fervent public embrace of fintech. The amount of outstanding P2P loans was slightly over KRW 311bn as of December 2016, but has leapt to more than KRW 1tn as of March 2018. In that period, P2P loan providers also grew in number, from 34 to 65. To meet public needs, the number of Korean fintech start-ups has skyrocketed from just 44 to 300 in three years. Likewise, investment in the fintech sector has risen from KRW 3bn in 2014 to 57.9bn in 2016, and 98.4bn in the following year.

SEOUL'S FINTECH INITIATIVES

Since 2016, Seoul Metropolitan Government (SMG) has designed multiple initiatives to bolster fintech innovation in Seoul, Korea. In 2016, Seoul Fintech Delegation Summit was held to establish fintech policies and to discuss the development of feasible pilot projects in collaboration with fintech startups. Seven CEOs, along with opinion leaders of the fintech industry, participated and proposed their ideas about projects such as S-Pay and S-Coin. Furthermore, we organized Seoul Startup Pitch Day in Singapore and Seoul Startup Demo Day in New York to provide fintech start-ups with a platform to expand their businesses to a foreign market and encourage foreign investment. In September 2016, we hosted a fintech pitch day for our fintech start-ups to propose their ideas to 50 investors, banks and those in related businesses in Singapore. In the same month, we also arranged a demonstration day to create investment opportunities for Korean start-ups in fintech, IT, bio and more, alongside our global network of industry leaders in New York and ERA.

SEOUL FINTECH ACADEMY

Seoul has an exceptional pool of talent, with the highest concentration of top-ranked universities known for their research departments. We have proposed a school – the Seoul Fintech Academy – for undergraduates and job seekers interested in a career in fintech and those running fintech start-ups. The academy is a joint effort between SMG and financial education institutions including the Financial Supervisory Service, the Financial Security

Institute, Korea Banking Institute and more. The program was launched on 21 February 2018 after a series of meetings leading up to the signing of an MoU in November 2017. It fosters on-demand fintech experts, targeting IT and fintech talents as well as those interested in starting a fintech business. With the educational support from the financial education institutions, the academy offers trainees a 108-hour professional fintech course which allows them to gain a comprehensive understanding of fintech, big data, blockchain, security, solutions and more. The courses consist of 63 hours of general training and 45 hours of expert training on three tracks of business: banking and credit cards, investment finance and insurance. Every six months, 30 trainees are given the chance to learn about major developments in the fintech industry and engage with top-tier experts.

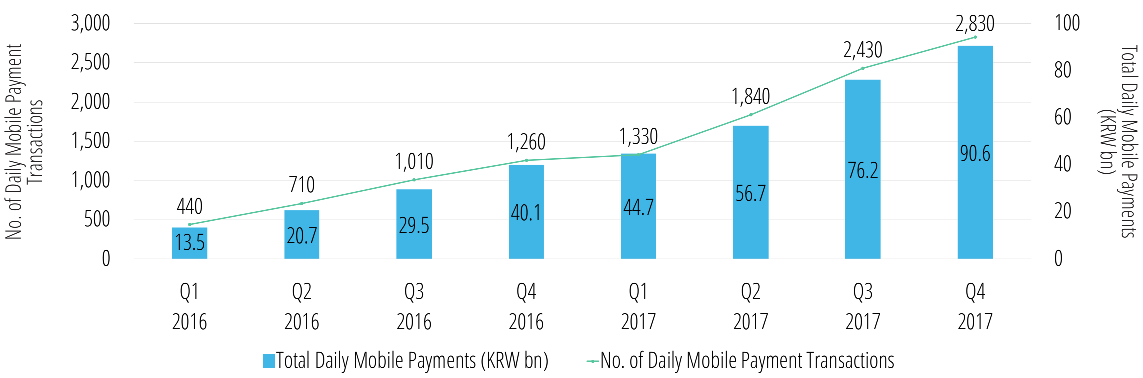
FINTECH LAB SEOUL (FLS)

Located in the annex building of Seoul Startup Hub in Mapo-gu, Seoul, Fintech Lab Seoul (henceforth, FLS) is designed to provide a customized fostering program for fintech start-ups in different stages of growth. All 27 tenant start-ups at FLS – including two foreign start-ups – receive systematic mentoring from 33 domestic partner organizations, including Deloitte, WeWork, Mirae Asset and the like, and 13 foreign partner organizations. Mentoring programs take place in the form of one-on-one consultations, demo days and training sessions. These programs are especially geared for start-ups seeking professional advice from partner organizations in management, investment, commercialization, legal patent, marketing, media and technical development. Those wishing to expand their business internationally can reach out to 13 foreign institutions for investment reviews and country-specific solutions.

Start-ups can receive individual mentoring according to their own growth stages. Pre-start-ups are assisted in developing real business models from their ideas, and early start-ups are given guidance to commercialize their business models and market expansion. Growth start-ups are supported in their efforts to create marketing strategies both at home and abroad, as well as to implement international IR and investment opportunities.

One advantage of FLS membership is being able to use the Fintech Test Room, which is connected to a financial computer network, allowing start-ups to develop, test and validate their business models by running a simulation of the environment similar to a real financial network. Start-ups are given a

Fig. 1: Mobile Payment in Korea



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NEXT ENGINE OF GROWTH

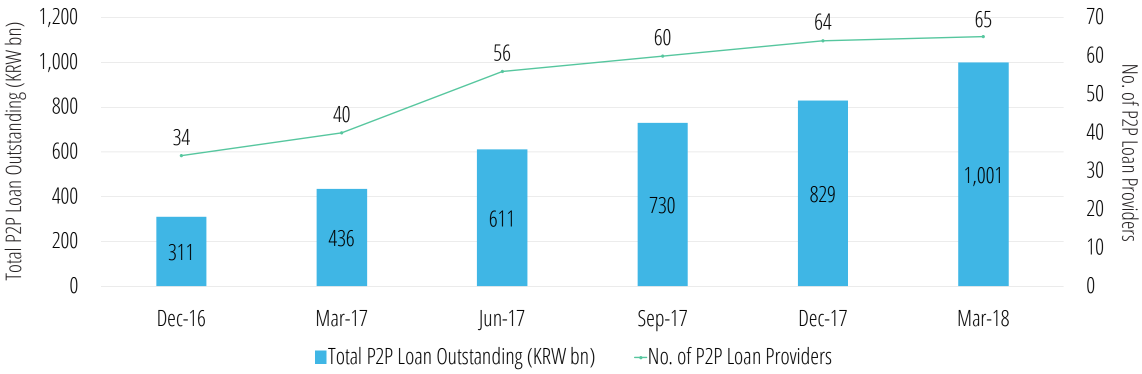
While Korea is admittedly a latecomer to the financial technology industry, Seoul has always been a pioneer of technology. Korea is now looking at fintech as its next growth engine to become Asia's next financial hub.

computerized environment where they are able to create prototypes and test transactions by using real data from financial institutions.

After FLS opened in April this year, we spurred incubation programs and start-up events. Nine foreign institutions have visited the lab so far to communicate with the tenant start-ups. Bank of England deputy governor Sam Woods visited fintech start-ups last March for a meeting and in late May, the Greater Zurich Area AG was invited to offer business advice on entry to the Swiss market. In June, Luxembourg Prime Minister, Xavier Bettel and Nicholas Meckel of LHoFT signed an MoU with SMG to promote fintech exchange between the two parties. A month later, London's Lord Mayor Charles Bowman shared his insights on fintech innovation with related start-ups at FLS.

In just five years, fintech has transformed itself from a mere tool for financial transaction and data management to a pillar of the financial industry. It is no longer transient, and is here to stay. To be better prepared for the future of fintech, we plan to further embrace blockchain-based projects, such as the construction of blockchain clusters and implementation of the digital currency Seoul Pay, to incorporate the technology into our daily lives. By fostering the current and future pool of fintech talent and supporting start-ups with investment and expansion opportunities, Seoul will aim to become the most attractive site for fintech investment in Asia.

Fig. 2: P2P Loan in Korea



Source: Korea P2P Finance Association

FINTECH LAB SEOUL

Developed and operated by the Seoul Metropolitan Government (SMG), Fintech Lab Seoul (FLS) is the first fintech platform run by a local government. FLS offers Co-working and Supporting Zones for 27 fintech start-ups in pre-, early and growth stages. Tenant start-ups can create their own working space, consult partner organizations and utilize the Fintech Support Center and Test Room.

Daeho Kim is the Director of Investment Promotion at SMG. Mr. Kim leads FLS to incubate fintech start-ups and foster the fintech industry in Seoul.

REAL ESTATE IN SOUTH KOREA

The Korean real estate market has evolved in recent years following the ease in regulations concerning private funds in 2015. Such changes, against a backdrop of high valuations and competitive deal sourcing, has prompted more local fund managers to utilize blind-pool funds, a structure traditionally the domain of larger and well-established global managers.

SLOW BUT STEADY GROWTH OF BLIND-POOL FUNDS

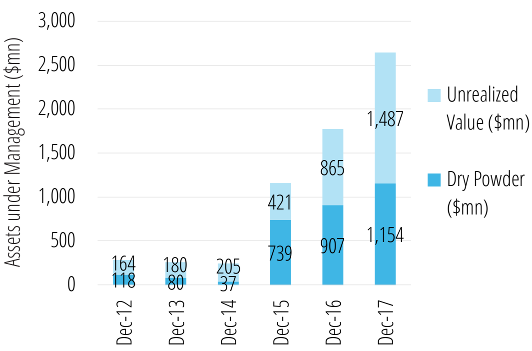
Blind-pool real estate funds started to emerge in 2012 when National Pension Service (NPS), the largest investor in the country, called for local GPs to invest in small- to medium-sized buildings. NPS aimed to diversify its domestic real estate portfolio, which was primarily focused on large-sized office buildings.

Large and experienced fund managers such as IGIS Asset Management and Samsung SRA Asset Management are leaders in blind-pool funds. Financial group companies, such as NH Financial Group, have also been a part of this trend: its asset management arm, NH-Amundi Asset Management, formed a blind fund, pooling its affiliates' capital, including NH NongHyup Life Insurance, to remain competitive in deal sourcing. These financial group firms also look to build a solid track record before raising capital from external investors.

A UNIQUE FUNDRASING MARKET DRIVEN BY INVESTOR APPETITE

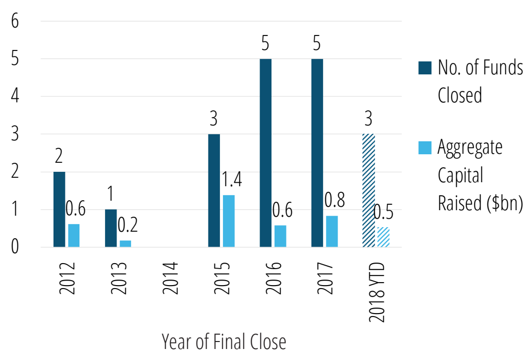
Despite the development of the market, the total AUM of closed-end blind-pool vehicles amounts to only $2.6bn (Fig. 10). Korea is one of the few markets where the definition of 'fund' is used idiosyncratically. Most Korea-based GPs raise 'funds' on a deal-by-deal basis, sourcing an asset first before raising capital from investors; a fund structure will be formed thereafter to acquire the asset. Within the local market, these single-deal funds are commonly referred to as 'project funds' and represent most private real estate vehicles in the country. According to Korea Financial Investment Association (KOFIA), aggregate AUM of Korea-based private real estate funds is at KRW 70tn ($64bn) as at July 2018, with the majority representing such single-deal funds.

Fig. 10: South Korea-Based Closed-End Blind-Pool Private Real Estate Assets under Management, 2012 - 2017



Source: Preqin Pro

Fig. 11: Annual South Korea-Based Closed-End Blind-Pool Private Real Estate Fundraising, 2012 - 2018 YTD (As at August 2018)



Source: Preqin Pro

Project funds have become more prevalent within the industry for several reasons. Korea's major real estate investors, such as public pension funds and credit unions, have generally been risk averse and conservative in their investments. Private real estate fund managers in Korea have yet to produce solid track records and, as such, investors have previously shown reluctance to part with their capital before gaining more information about the underlying asset. Until recently, GPs were required to deploy 50% of the fund's capital within six months after the formation of a fund; it was only in 2016 that the Korean Government extended this period to one year. As the investment process (from sourcing a deal, conducting due diligence and deciding upon an investment) typically takes longer than six months, the legal environment was not conducive for blind-pool funds.

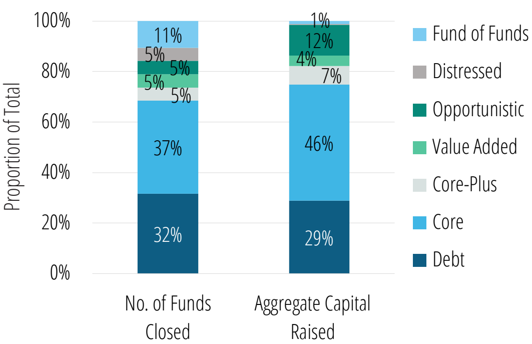
MOVING UP THE RISK/RETURN SPECTRUM

Almost three-quarters (74%) of blind-pool private real estate funds closed since 2012 have focused on lower-risk strategies, targeting debt, core and core-plus assets; these vehicles have collectively secured 82% of aggregate capital raised in the period (Fig. 12). However, with the core market becoming increasingly competitive, fund managers appear to be moving up the risk/return spectrum, with more value-added funds on the road. One such vehicle is IGIS Value-Add Platform Real Estate Fund, which seeks under-leased and mismanaged office, retail and logistics assets in Korea. The fund has already secured commitments from notable local investors, including NPS and Korea Post.

AN ATTRACTIVE MARKET FOR FOREIGN MANAGERS

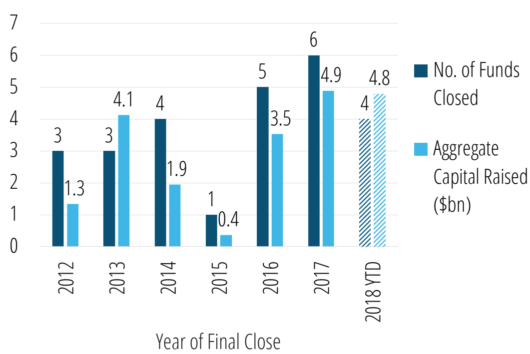
Korea is also an attractive market for overseas GPs. In 2017, unlisted real estate funds with Korean exposure raised by foreign managers reached a record fundraising high, with six vehicles securing $4.9bn (Fig. 13). One notable vehicle is LaSalle Asia Opportunity Fund V, raised by US-based LaSalle Investment Management; the fund targets opportunistic assets across Asia and reached a final close in January 2018.

Fig. 12: South Korea-Based Closed-End Blind-Pool Private Real Estate Fundraising by Primary Strategy, 2012 - 2018 YTD (As at August 2018)



Source: Preqin Pro

Fig. 13: Annual Non-South Korea-Based Closed-End Blind-Pool Private Real Estate Fundraising with Exposure to South Korea, 2012 - 2018 YTD (As at August 2018)



Source: Preqin Pro

Fig. 14: Notable South Korea-Based Closed-End Blind-Pool Private Real Estate Funds Closed, 2016 - 2018 YTD (As at August 2018)

Fund	Firm	Headquarters	Fund Size (mn)	Strategy	Geographic Focus	Final Close Date
Global Core Office Fund 2	Samsung SRA Asset Management	Seoul	500,000 KRW	Core, Core-Plus	Australia, France, Germany, Netherlands, UK, US	Aug-17
Samsung US Mezzanine Fund II	Samsung SRA Asset Management	Seoul	360,000 KRW	Debt	US	Jan-18
Hanwha Global Real Estate Strategy Blind Fund 1	Hanwha Asset Management	Seoul	300 USD	Core-Plus, Value Added	Global	Aug-17
Samsung US Mezzanine Fund	Samsung SRA Asset Management	Seoul	307,120 KRW	Debt	US	Oct-16
IGIS Core Platform Private Real Estate Fund	IGIS Asset Management	Seoul	190 USD	Core	South Korea	Dec-16

Source: Preqin Pro

Fig. 15: Notable South Korea-Based Closed-End Blind-Pool Private Real Estate Funds in Market (As at August 2018)

Fund	Firm	Headquarters	Target Size (mn)	Strategy	Geographic Focus	Status
IGIS Value-Add Platform Real Estate Fund	IGIS Asset Management	Seoul	400 USD	Value Added	South Korea	Raising
Mastern Value Add Fund	Mastern Investment Management	Seoul	300,000 KRW	Value Added	South Korea	Raising
ADF Asset Logistics Fund	ADF Asset Management	Seoul	286,000 KRW	Value Added	South Korea	Raising

Source: Preqin Pro

THE KOREAN REAL ESTATE MARKET IS OPENING UP TO THE WORLD

KYUNG PAIK

IGIS Asset Management

KOREA'S UNDISCOVERED DEVELOPED MARKET

The real estate capital market in Korea has seen exponential growth in the last 10 years. A low interest rate environment and volatile stock market has resulted in significantly increasing capital flows to the asset class. Recent gains in transaction volumes in 2018 are set to outpace previous records for a third consecutive year. In 2017, office transaction volumes posted a rise of 6.6% to $8.1bn, compared with $7.6bn in 2016. As of the first half of 2018, transaction volumes stood at $5.5bn, 68% of the previous year's volumes[1]. The total size of the institutional real estate market grew from $10.6bn in 2008 to $67.4bn in 2017[2].

Despite Korea being the world's 11th largest economy[3], comparatively speaking, global investors still have limited exposure to the country. This is partly due to the fact that there were limited avenues to access the market for global institutional investors. Historically, global investors only had access through global or Pan-Asian funds, with the exception of some large investors that invested directly with the help of local managers. There were almost no local asset managers raising a fund, thus unable to provide options to global investors, outside of their home market. This was due to the fact that (a) local managers raised capital on a deal-by-deal basis and (b) there was plenty of capital available for core real estate domestically.

However, recent trends have shown that this is slowly changing with more experienced local managers starting to raise Korea-focused funds, and as such, investors will now have more options to access this relatively undiscovered market.

COMPETITIVE BUT STILL ATTRACTIVE MARKET

Skeptics of investing in Korea cite geopolitical risk as a factor in the real estate market, but the risk, while debatable, has now been further curtailed by easing tensions in the Korean peninsula at the recent Inter-Korea summit meetings in April and September and the North Korea-US summit in June 2018.

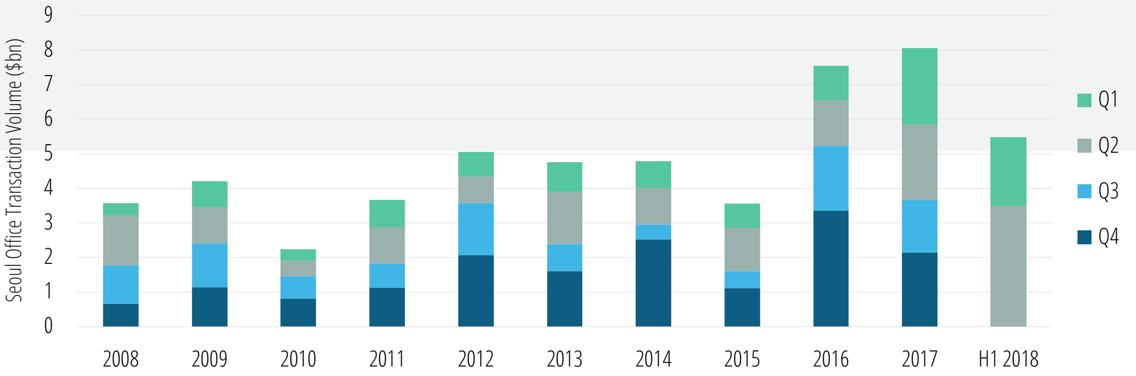
Sophisticated global investors such as GIC, CPPIB, PGIM, Morgan Stanley and M&G have long been active in the Korean market and other fund managers such as Invesco, Gaw Capital, AEW, JP Morgan and KKR have been increasing their appetite in recent years highlighting substantial latent and untapped opportunities in the country. Foreign investment accounted for a quarter of the transactions on average in the last five years.

CROWDED BUT NOT SATURATED, POTENTIAL UPSIDE IN CORE ASSETS

The core space is currently crowded with both domestic and foreign buyers that are still under-allocated to Korea. The Korean core market is attractive because the cap rate spreads to five-

[1] *Savills Korea, Q2 2018*
[2] *Ministry of Land, Infrastructure and Transportation, Korea Financial Investment Association*
[3] *World Bank, 2017*

Fig. 1: Seoul Office Transaction Volume, 2008 - H1 2018



Source: Savills Korea

year Korean Treasuries, which are relatively wider (200bps+) than other Asian countries and vacancy rates are starting to tighten. Investors are taking note of this recovery and pouring more money into this sector despite concerns of an interest rate increase that would inevitably and eventually follow the US Federal Reserve's rate hike. Because many of the properties are poorly managed, there is potential upside even in core assets.

Korea also has a very attractive financing market for buyers because there is plenty of liquidity in the real estate debt market. Insurance companies are the most active lenders in commercial real estate and, with the preference for fixed-income products due to the changing accounting rules regarding risk-based charges (RBC), lenders are very aggressive and terms are borrower friendly. For example, a typical loan would be a fixed-rate, five-year term, with no LTV covenant, flexible DSCR covenants and no prepayment penalty if the loan is prepaid due to a sale of the property.

The value-add space is much less competitive but is starting to gain interest from domestic investors in addition to the already active foreign investors. It is less competitive because risk-averse domestic investors traditionally focused on core strategies only. This space was previously dominated by the few foreign managers that had capital and were willing to take additional risk for the lucrative risk-adjusted returns. However, in recent years as the core space became too competitive, domestic investors expanded their investment strategy and started making commitments to value-add funds.

TRANSFORMING DEAL SYNDICATION TO COMMINGLED FUNDS

One idiosyncratic characteristic of the Korean real estate market is that most deals are done on a deal-by-deal basis and managers raise equity as a club deal as opposed to a single-investor deal. Very few local managers have a commingled fund that has readily available capital to deploy. This means there is risk of the deal falling through if one of the potential club investors failed to secure internal approval. This, in turn, made sellers require proof of funding from bidders to manage risk. Local managers were forced to obtain bridge equity from securities firms, at a fee, to provide sellers assurance and close the deal first before syndicating it to institutional investors. This practice also made it difficult for managers to make any unexpected capital expenditures when there were major vacancies or major renovations required. Therefore, whoever had a fund with dry powder would have a huge advantage over other competitors who could not provide viable proof of their funding source.

One example of a deal that initially failed to raise capital was Ace Tower. The highest bidder could not come up with the equity required for the acquisition on time and the exclusivity went to the next bidder, LB Asset Management, which had an anchor investor in place. They were able to acquire the property at a slightly lower price by giving the seller confidence of the funding.

Another example was Signature Tower, where IGIS Asset Management was only the third highest bidder but was able to secure the deal because they had a core strategy fund that could acquire the building.

For those without a fund, they may be able to secure the deal by bringing in an investment bank that can provide bridge equity and syndicate it after closing. Samsung C&T's Seocho office, a Prime Grade office building in the Gangnam District, was acquired by a local manager with bridge equity from NH Securities.

Deals were done on a deal-by-deal basis because domestic investors wanted to see the deal before they committed their capital and they did not want to give discretion to managers. There was presumably a lack of trust in the local managers in the past but that has changed in recent years as the local managers have gained more experience and become more institutionalized.

Increased competition, coupled with a need to move quickly for attractive deals and the requirement from sellers for proof of funds, has increasingly pushed investors and managers towards a commingled fund structure to solve these issues. In recent years, large investors like National Pension Service (NPS), Korea Post and Korea Teacher's Credit Union (KTCU) took the lead in committing capital to funds managed by domestic managers to invest in core or value-add strategies. Foreign investors are also interested in accessing the Korean market but fund offerings for a Korea-specific fund remain very limited to date, especially from a local manager.

Having readily available capital increases the chance of acquiring properties in competitive situations without necessarily paying the highest price because sellers value the certainty of closing. This proof of funding is so paramount that it is prioritized above the outright bid price by sellers and their agents.

CHOOSING THE RIGHT PARTNER IS KEY

Korea is still a very attractive market for strategies across the risk spectrum compared to other developed markets. Where investors have struggled with the ease of entry and accessibility, going forward, we feel that the number of domestic managers that have good track records, offering funds to global investors, will rise.

Investing through a structure such as a fund or separate account that has committed capital, that is ready to be deployed, is the best way to invest wisely and efficiently in Korea. As managers gain more experience with managing commingled funds, global investors will have more managers to choose from.

Investors should look for local partners with the right expertise to execute strategies, a track record and the institutional mindset to properly serve institutional investors. Those that choose the right partner can certainly achieve attractive returns in the last "undiscovered" developed market in Asia.

IGIS ASSET MANAGEMENT

IGIS Asset Management is Korea's largest real estate asset management company[1] with $19.6bn of assets under management as of 30 June 2018. Founded in 2010, IGIS employs over 150 people with a vertically integrated platform and manages various property types on behalf of domestic and foreign institutional investors as well as HNW clients.

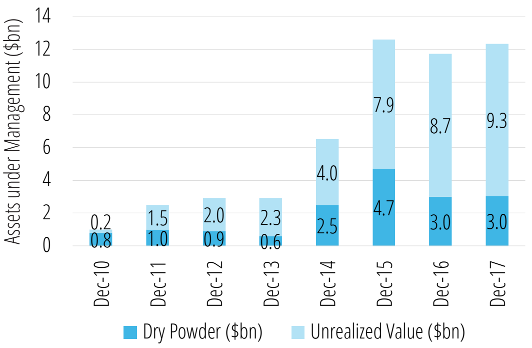
Kyung Paik is a managing director of IGIS Asset Management and brings 20 years of real estate experience to the firm. Mr. Paik is responsible for raising capital and managing the Firm's institutional commingled funds.

www.igisam.com

[1]*Source: Korea Financial Investment Association.*

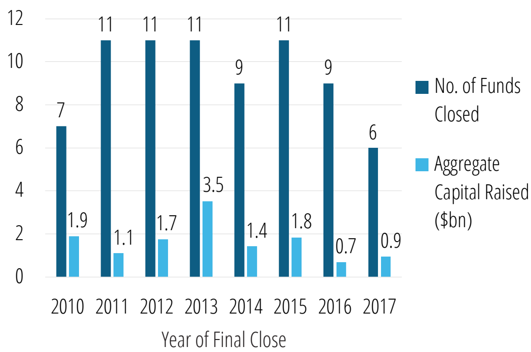
REAL ASSETS IN SOUTH KOREA

Fig. 16: South Korea-Based Unlisted Infrastructure Assets under Management, 2010 - 2017



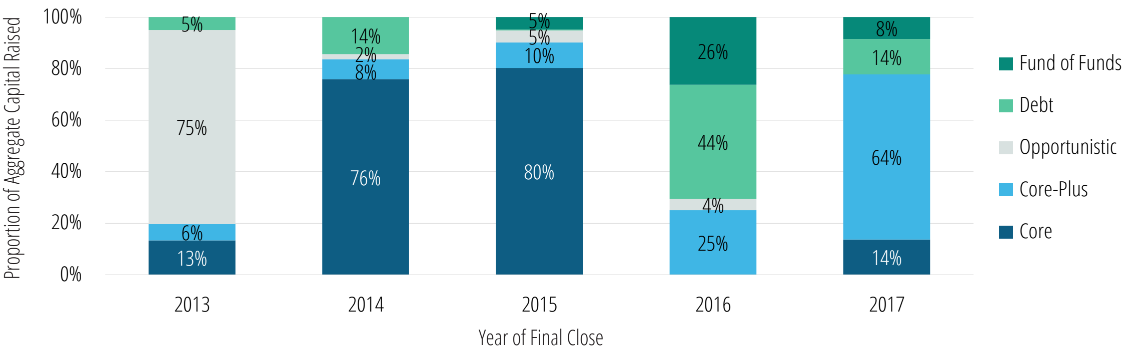
Source: Preqin Pro

Fig. 17: Annual South Korea-Based Unlisted Infrastructure Fundraising, 2010 - 2017



Source: Preqin Pro

Fig. 18: Proportion of Aggregate Capital Raised by South Korea-Based Unlisted Infrastructure Funds by Primary Strategy, 2013 - 2017



Source: Preqin Pro

Fig. 19: Notable South Korea-Based Unlisted Infrastructure Funds Closed, 2013 - 2017

Fund	Firm	Headquarters	Fund Size (mn)	Primary Strategy	Geographic Focus	Final Close Date
KIAMCO Power Energy Private Fund Special Asset Trust 3	KDB Infrastructure Investments Asset Management	Seoul	2,450,000 KRW	Opportunistic	Asia, Kazakhstan, Malaysia, Pakistan, South Korea	Mar-13
KB Airport Railroad Express Private Special Asset Fund	KB Asset Management	Seoul	1,255,000 KRW	Core	South Korea	Jun-15
KB Gangeunung Power Plant Private Securities Fund	KB Asset Management	Seoul	600,000 KRW	Core	South Korea	Sep-14

Source: Preqin Pro

Fig. 20: Notable Infrastructure Deals in South Korea, 2013 - 2018 YTD (As at August 2018)

Asset	Location	Industry	Investor(s)	Deal Size (mn)	Stake (%)	Date
ADT Caps	South Korea	Logistics	Macquarie Infrastructure and Real Assets (MIRA), SK Group	2,976,000 KRW	100	May-18
Seoul Subway Line 9, Section 1	South Korea	Transport	Hanwha Life Insurance, Heungkuk Life Insurance, Kyobo Life Insurance, Shinhan Bank, Unidentified Investor(s)	746,400 KRW	100	Oct-13
Seoul Subway Line 9 Operation	South Korea	Transport	Transdev	525 USD	100	Oct-13
Höegh FSRU#8 Facility	South Korea	Energy	Höegh LNG Partners	230 USD	-	Nov-17
Höegh FSRU#7 Facility	South Korea	Energy	Höegh LNG Partners	223 USD	-	Feb-16

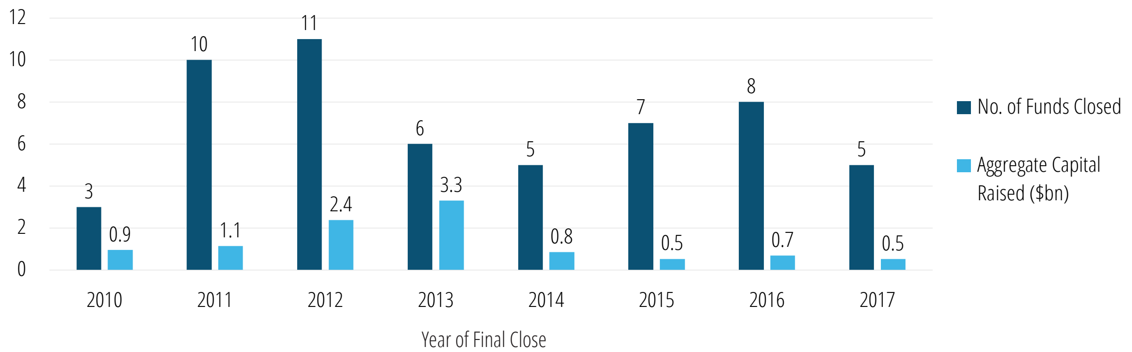
Source: Preqin Pro

Fig. 21: Notable Infrastructure Exits in South Korea, 2013 - 2016

Asset	Exit Type	Investors (Firms)	Sellers (Firms)	Exit Value (mn)	Date
Seoul Subway Line 9, Section 1	Trade Sale	Hanwha Life Insurance, Heungkuk Life Insurance, Kyobo Life Insurance, Shinhan Bank, Unidentified Investor(s)	Hyundai Engineering & Construction, Hyundai Rotem, Macquarie Infrastructure and Real Assets (MIRA), POSCO, Unidentified Investor(s)	746,400 KRW	Oct-13
Yeongyang Wind Power Corporation	Sale to GP	Macquarie Infrastructure and Real Assets (MIRA)	Acciona	162,000 KRW	Dec-13
Yeong Yang I	Sale to GP	Macquarie Infrastructure and Real Assets (MIRA)	Acciona	151 USD	Nov-13
Busan New Port Phase 2-3	Trade Sale	PSA International	Hyundai Merchant Marine	94 USD	Mar-16
Korea Shipping Partnership Pusan Newport Terminal	Trade Sale	Hyundai Merchant Marine, PSA International	Hyundai Merchant Marine	100,000 KRW	Feb-16

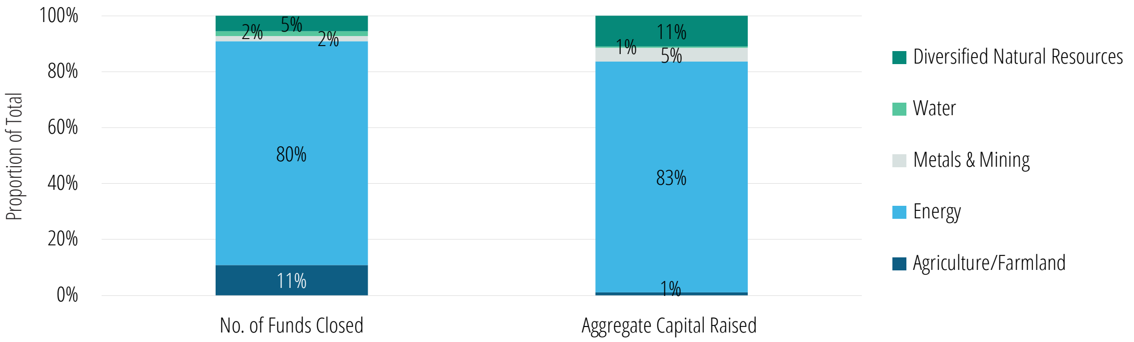
Source: Preqin Pro

Fig. 22: South Korea-Based Unlisted Natural Resources Fundraising, 2010 - 2017



Source: Preqin Pro

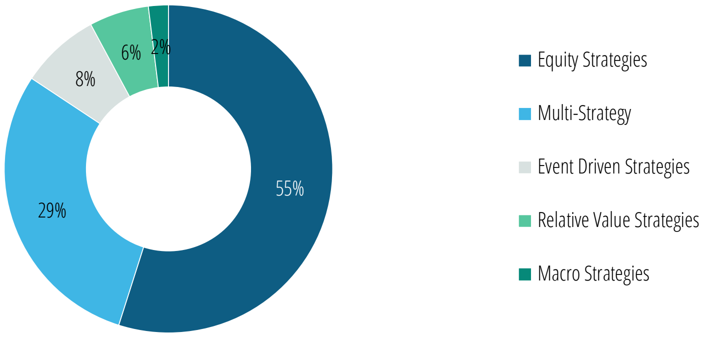
Fig. 23: South Korea-Based Unlisted Natural Resources Fundraising by Primary Strategy, 2010 - 2017



Source: Preqin Pro

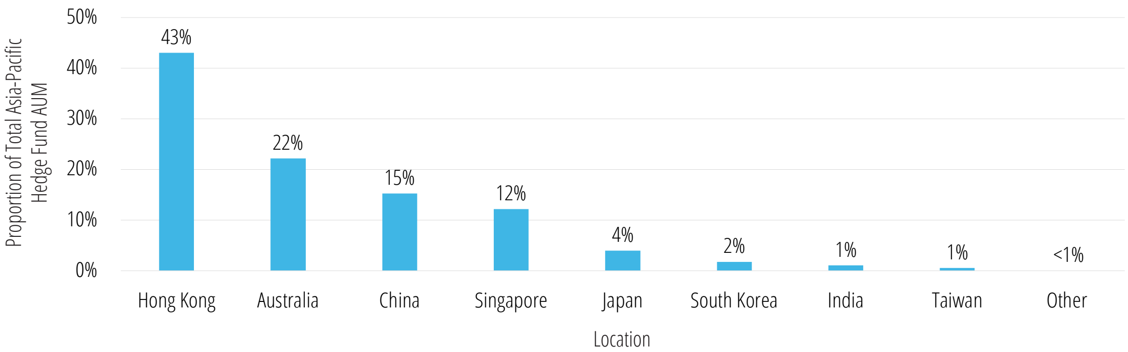
HEDGE FUNDS IN SOUTH KOREA

Fig. 24: South Korea-Based Hedge Funds by Top-Level Strategy



Source: Preqin Pro

Fig. 25: Asia-Pacific-Based Hedge Fund Assets under Management by Location



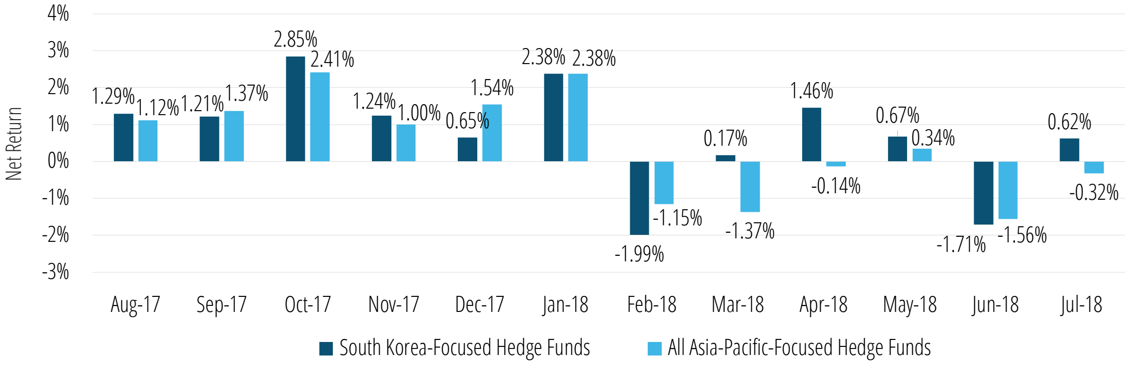
Source: Preqin Pro

Fig. 26: Sample South Korea-Based Hedge Funds

Fund	Manager	Headquarters	Core Strategy	Inception Date
Lime Democracy	LIME Asset Management	Seoul	Event Driven	Nov-16
Multi Asset Always Global Macro Fund	Multi Asset Global Investments	Seoul	Macro	Jun-16
SPARX Korea LS Fund	SPARX Asset Management Korea	Seoul	Long/Short Equity	Apr-17

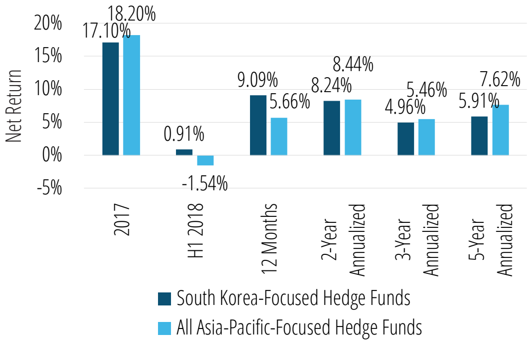
Source: Preqin Pro

Fig. 27: Monthly Performance of South Korea-Focused Hedge Funds vs. All Asia-Pacific-Focused Hedge Funds, August 2017 - July 2018*



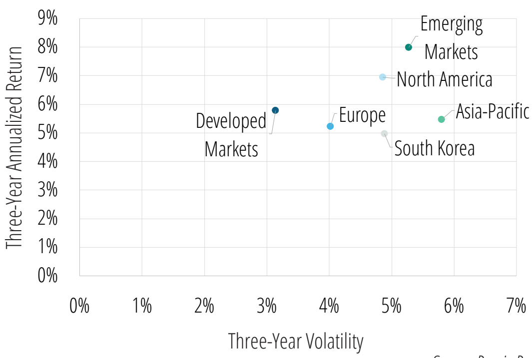
Source: Preqin Pro

Fig. 28: Performance of South Korea-Focused Hedge Funds vs. All Asia-Pacific-Focused Hedge Funds*



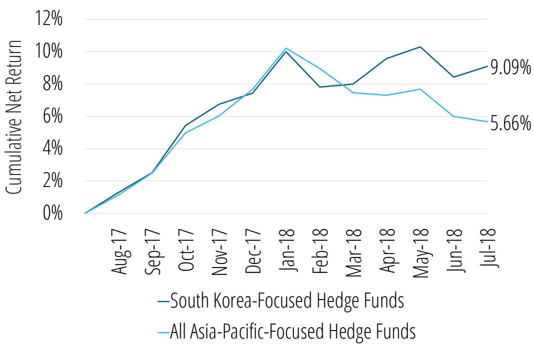
Source: Preqin Pro

Fig. 29: Risk/Return Profile of Hedge Funds by Geographic Focus*



Source: Preqin Pro

Fig. 30: 12-Month Cumulative Returns of South Korea-Focused Hedge Funds vs. All Asia-Pacific-Focused Hedge Funds, August 2017 - July 2018*



Source: Preqin Pro

Fig. 31: Terms and Conditions: South Korea- vs. Rest of Asia-Pacific-Based Hedge Fund Managers

Term	South Korea	Rest of Asia-Pacific
Mean Management Fee (%)	1.17	1.55
Mean Performance Fee (%)	16.25	18.36
Mean Lock-up (Months)	5.29	9.73
Median Redemption Frequency (Days)	30	30
Mean Minimum Investment (USD 000s)	540	1,533

Source: Preqin Pro

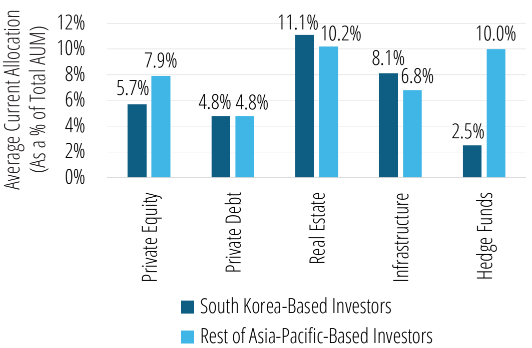
**Please note, all performance information includes preliminary data for June 2018 based on net returns reported to Preqin in early July 2018. Although stated trends and comparisons are not expected to alter significantly, final benchmark values are subject to change.*

INVESTORS IN SOUTH KOREA: IN NUMBERS

Fig. 32: Number of Asia-Pacific-Based Institutional Investors by Location

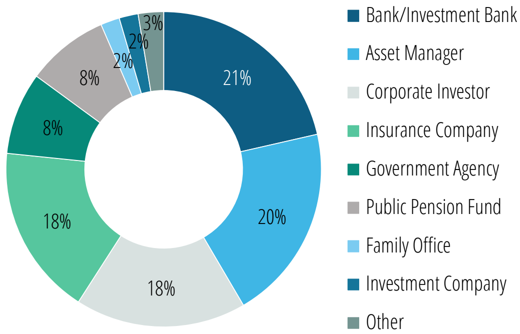
Source: Preqin Pro

Fig. 33: Institutional Investors' Average Current Allocation by Asset Class



Source: Preqin Pro

Fig. 34: South Korea-Based Institutional Investors in Alternative Assets by Type



Source: Preqin Pro

SNAPSHOT OF SOUTH KOREA'S LARGEST INVESTOR

Preqin briefing on the National Pension Service of Korea (NPS) with exclusive insight from Mr. Hyung-Don Choe, who heads NPS's overseas alternative investment program.

South Korea's National Pension Service (NPS) needs little introduction for two primary clarifying reasons. NPS, which celebrates its 31st anniversary this year, is the largest institutional investor in the country. Second, it has consistently ranked among the top five pension funds in the world; and in Asia, it is even more elite, ranking within the top two. Given its primary role in supporting South Korea's private sector and the self-employed, NPS covers virtually all full-time workplace employees including farmers and fishermen. Its underlying investment strategy and character has been understandably cautious, and unsurprisingly for some, conservative. The bulk of NPS's investment market and assets will remain public and domestic; however, it has been significantly increasing its overseas and alternatives allocation, which explains why NPS has emerged as one of the key investors globally.

Our interview with Hyung-don Choe, who formerly headed NPS's overseas private equity investment team before stepping up to lead the entire overseas alternatives division in August, notes the caveats a large Korean pension fund like NPS must consider, such as manpower constraints, can be limiting. But, as Mr. Choe observes, they also offer opportunities for meaningful co-investment partnerships that suss out businesses that are "resilient in economic cycles...with high EBITDA margin and high free cash flow (FCF) conversion rate".

Inevitably, especially after the Global Financial Crisis (GFC) in 2008, NPS quickened its foray into the global private equity market. Mr. Choe notes that the private equity market has firmed up well vis-à-vis public markets, 'confidence' fuelled, no doubt, by what he describes as "outstanding returns" by the private equity market. This may partly explain

HYUNG-DON CHOE

National Pension Service of Korea

why Mr. Choe states that NPS "has been constantly expanding our private equity portfolio".

Currently, NPS allocates approximately 3.4% of its total assets under management to the asset class. Its private equity portfolio is split 40:60 in favour of overseas investment assets and NPS partnerships with private equity firms equate to over 100 globally.

NPS has thus far targeted its private equity portfolio towards North America (60%), Europe (25%) and Asia and emerging markets (15%), and has offices in New York, London and Singapore. Its investment bitesize can vary from $22mn to $442mn. And what is the underlying consideration of a prospective GP for NPS when it makes these investment decisions? "As an Asian LP, there still are challenges in building personal relationships with overseas GPs," Mr. Choe tells Preqin. Still, he adds, "we focus on evaluating GPs based on their performance rather than the strength of our relationships."

Preqin: What are some of the key differences as an LP in managing a private equity portfolio before and after the GFC?
Hyung-don Choe: NPS began private equity investments when the GFC occurred. It gave us invaluable experience investing during this time, and we have been constantly expanding our private equity portfolio since then. The private equity market has gained more confidence after the GFC, while overcoming challenges that emerged post-GFC. The industry has demonstrated very strong growth against the public market due to outstanding returns.

NPS prefers managers that use low leverage despite high asset valuations, and those that possess excellent capabilities in operational improvement. While the market has continued to grow since the GFC, the low economic growth and low interest rate environment makes 'buy-and-build' and 'add-on' strategies more attractive.

The most notable difference before and after the GFC is that LPs are more actively co-investing to reduce fees and generate additional returns. In terms of co-investment strategy, NPS prefers businesses that are resilient in economic cycles, as well as companies with high EBITDA margin and high free cash flow (FCF) conversion rate. Our investments in such companies produced outstanding returns.

P: What are the factors that NPS considers when deciding to network with foreign LPs?
HC: NPS continues to network with foreign LPs via our overseas offices. We value exchanges of views with overseas LPs when investing in funds and making co-investments.

P: What are the biggest advantages and disadvantages of being a large LP based in Asia versus North America or Western Europe?
HC: Although we are based in Asia, the majority of NPS's private equity capital is invested in developed markets, such as the US and Europe. Due to the nature of the private equity market, it is important to communicate with GPs frequently and create strong relationships. NPS has been expanding our overseas offices, with new offices opened in New York and London. We have been trying to provide more responsibilities and capital ownerships to those overseas offices. But as an Asian LP, there are still challenges in building personal relationships with overseas GPs. It is important to note, however, that we focus on evaluating GPs based on their performance rather than the strength of our relationships.

P: How has the bifurcation of the global private equity fundraising market and consolidation of GPs affected NPS? Has it forced larger commitments or resulted in a greater focus on mid-sized/emerging GPs or both?
HC: NPS has been investing in private equity for over 10 years, and as such, our portfolio is already maturing. Like other large LPs, NPS has a similar level of distributions and capital calls, and therefore we must make large, new commitments every year ($5-6bn) to increase assets. However, due to the nature of Korean public pensions, there are many restrictions that we face in various areas, such as manpower. To overcome these constraints and create alpha, we have been forming various strategic partnerships with large GPs, which has provided us with co-investment opportunities and reduced fees. We are also actively seeking mid-cap opportunities through our overseas offices. We work with fund of funds managers to invest with emerging managers, emerging markets managers and small-cap managers, which we are not able to cover due to the limited resources in manpower.

P: As a larger LP, are there any private equity sub-strategies that are prevalent today, and looking ahead to the future, that may have not been considered in the past?
HC: Most of our portfolio is made up of buyout

investments. Since last year, we have been preparing for the downcycle: we conduct scenario analysis to figure out which types of GPs and strategies to invest in and how much to invest with them during the downturn to generate additional returns. We also plan to prepare for specific action plans when the downturn occurs. In this regard, we are taking an opportunistic approach towards special situations, distressed and secondaries strategies, to which we have been reducing our exposure so far.

P: What are some of the improvements that GPs can make when meeting with prospective LPs?
HC: NPS respects each GP's uniqueness and attributes. However, we prefer managers that operate and manage investments with a long-term perspective. We frequently experience that some GPs are different when we exit compared to when we make commitments.

P: What are the greatest challenges and opportunities that you face for the rest of 2018, and over the next 3-5 years? How about the longer term (10 years and beyond)?
HC: On the investment side, our short-term challenge and opportunity is to prepare for the market downturn, as well as to take full advantage of the opportunity when it comes.

In the medium term, we will monitor the private market that has been growing constantly since the GFC, and the phenomenon that GPs are increasingly becoming public firms, led by large managers; we plan to adapt to such changes in the market.

In the long term, our biggest challenge is to maintain our sustainable competitiveness in the global LP community. As a public pension fund in South Korea, we plan to do so by hiring and retaining talents and accumulating knowledge and developing them.

NATIONAL PENSION SERVICE OF KOREA

National Pension Service (NPS) was established in 1987 based on the National Pension Act to help secure the retirement benefits of Korean citizens. In 1999, NPS Investment Management within NPS was established to better manage the fund of national pension scheme. It is South Korea's largest institutional investor and one of the largest pension funds in the world, with its assets under management of KRW 635tn as April 2018. NPS is available to all employees, employers and the self-employed. It has overseas offices in New York, London and Singapore.

Hyung-don Choe is the Head of Global Alternative Division. Mr. Choe is responsible for the division's strategic initiatives including Private Equity, Real Estate and Infrastructure investments. Since joining NPS in 2006, he had a broad array of experience in both global and domestic alternative investments.

Prior to joining NPS, Mr. Choe led fixed income investment at ING Life Korea as a Senior Investment Manager. He started his career at Prudential Life Insurance in 2000.

Mr. Choe earned his B.S. degree in Economics from Yonsei University. He is a CFA/FRM Charter holder.

www.nps.or.kr

INVESTORS IN SOUTH KOREA

Since the Asian Financial Crisis, the Korean alternative assets industry has seen exponential growth. Several changes to regulation have opened the door to certain types of investment, which previously had not been available to investors. This, coupled with sluggish economic growth and low interest rates after the Global Financial Crisis (GFC), not just in Korea but globally, has resulted in alternative assets growing in importance within institutional investors' portfolios. Such types of investment offer stable, long-term, superior risk-adjusted returns as well as diversification against traditional asset classes such as public equities and fixed income. Hedge funds can also provide investors with short-term liquidity compared to other alternative asset classes such as private equity or infrastructure.

PRIVATE EQUITY

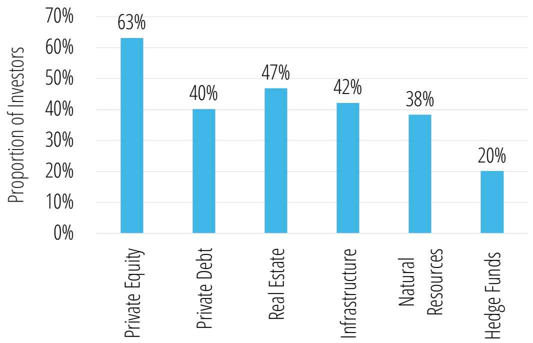
Since private equity funds were introduced to Korea in 2004 under the former Indirect Investment Asset Management Business Act, the industry has rapidly expanded in size and significance. Strong returns and positive forecasts for the years ahead have made private equity an attractive asset class for investors, with the majority (63%) of Korea-based investors active in the asset class (Fig. 35).

Investor Appetite Driven by the Domestic Venture Capital Industry

Although Korean investors have been actively increasing their overseas private equity allocation in recent years, the domestic market remains the target of the large majority (82%) of Korean LPs investing in private equity.

The largest proportion (70%) of Korea-based investors target venture capital funds, followed by growth vehicles (66%, Fig. 36). This may be a response to the nature of the domestic private equity industry as venture capital funds account for the largest number of Korea-based funds, making up almost half of vehicles closed since 2008. The domestic venture capital market is strongly backed by the government; in 2015, the Korean Government injected an initial investment of $3bn into the industry, with more capital pledged in 2017 to establish a $9bn venture fund with public and private finances. The government also established the Ministry of SMEs and Startups which aims to diversify the country's economic structure to a SME- and start-up-driven economy from one that heavily focused on large conglomerates. Atinum Growth Fund 2018 is one solely Korea-focused venture capital fund, targeting start-ups and SMEs in the industry 4.0. The fund had secured commitments from a range of local investors, including Korean Teachers' Credit Union,

Fig. 35: South Korea-Based Institutional Investors Active in Each Alternative Asset Class (As at August 2018)



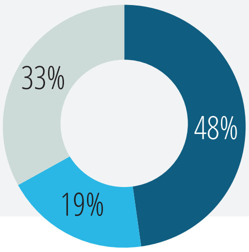
Source: Preqin Pro

5.6%

Average current allocation to private equity among Korea-based investors (as a % of total AUM)

6.8%

Average target allocation to private equity among Korea-based investors (as a % of total AUM)



48% of Korea-based institutional investors co-invest in private equity; **19%** are currently considering co-investing, while **33%** do not co-invest at all.

Korea Telecommunications Operations Association, Woori Bank and Naver.

Buyout vehicles are favoured by a notable proportion (59%) of investors in Korea. There is a need for many domestic institutions to realign their investment portfolios and seek deals that will allow for management participation and restructuring processes, not just in Korea but globally. National Pension Service plans to invest KRW 4tn ($3.6bn) in private equity funds in the next 12 months with a primary focus on buyout vehicles; the public pension fund seeks mid-cap buyout opportunities to generate alpha. It focuses on North America and Europe, and will also consider emerging markets, using a mixture of new and existing managers in its portfolio.

Private Equity Co-Investments

Sixty-seven percent of investors are actively co-investing alongside fund managers or are considering doing so. As LPs become more experienced and sophisticated, they understand the value of working closely with GPs and building long-term relationships with them. In addition, co-investments allow investors more control over specific investments and can potentially increase returns and elevate the J-curve effect.

Featured Investor

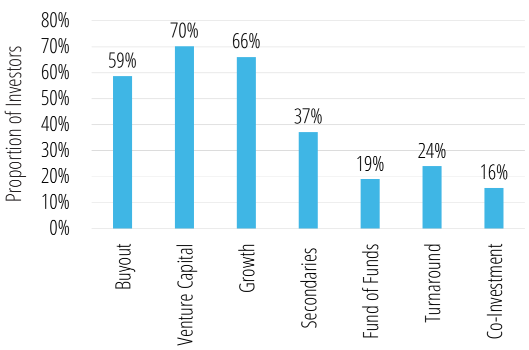
Investor:	Public Officials Benefit Association (POBA)
Current Allocation to PD:	2.0%
Investment Plans:	Will invest in private debt through commingled blind-pool funds and separate accounts in the next 12 months. Expects to target direct lending and mezzanine vehicles focused on North America and Europe using new managers in its portfolio.

Source: Preqin Pro

PRIVATE DEBT

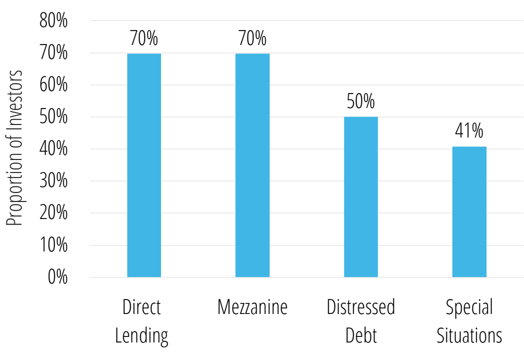
Korean investors have become increasingly active in private debt investments as the new asset class continues to evolve in Europe and North America, while the domestic private debt industry remains in its infancy. However, many still gain exposure to the asset class through their private equity allocation, with interest in private debt emanating, in part, from investors entering the overseas private equity space for the first time. Taking into account factors such as high equity valuations, low bond yields

Fig. 36: South Korea-Based Institutional Investors in Private Equity by Fund Type Preference



Source: Preqin Pro

Fig. 37: South Korea-Based Institutional Investors in Private Debt by Fund Type Preference



Source: Preqin Pro

$4.8bn

Aggregate amount of capital allocated to private debt among Korea-based investors

and significant exposure to other alternative asset classes, Korean institutions are turning to private debt in order to achieve higher risk-adjusted returns, as well as diversification. Equal proportions (70%) of institutions in Korea look to invest in direct lending and mezzanine vehicles (Fig. 37). Samsung Fire & Marine Insurance, for example, seeks mezzanine and direct lending opportunities in Europe and North America in the next 12 months, with a preference for Europe-focused funds. While the insurer is open to investing with existing GPs, it is keen to form new relationships with managers with which it has not yet invested.

REAL ESTATE

Real estate has long been the core of Korean institutions' alternative investment portfolios. On average, investors allocate 11.1% of their AUM to the asset class, higher than infrastructure (8.1%) and private equity (5.7%). Investors in Korea favour lower-risk assets, with the largest proportion (87%) targeting debt opportunities, while over 60% each target core and core-plus real estate (Fig. 38). A notable proportion of investors show a higher risk appetite, with 47% interested in pursuing a value-added strategy.

Featured Real Estate Deal

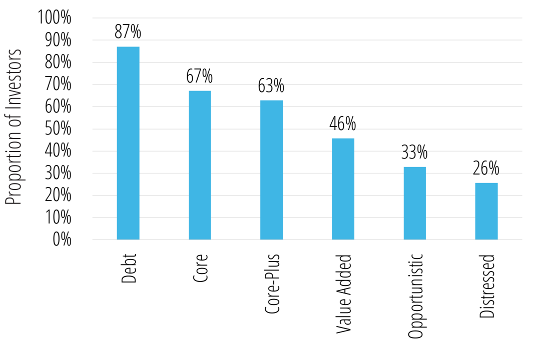
Asset:	8 Canada Square
Asset Location:	London, UK
Buyer:	Qatar Investment Authority
Seller:	National Pension Service
Deal Size (mn):	1,175 GBP
Date:	Dec-14

Source: Preqin Pro

Major Players in the Global Real Estate Market

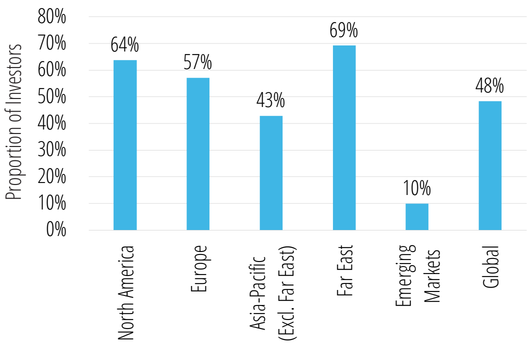
As Korea is widely considered one of the most established real estate markets in Asia-Pacific, it is unsurprising that over two-thirds (69%) of investors prefer investments in their domestic region (Fig. 39). However, as competition for property is set to intensify given the limited availability of prime assets in major cities, including Seoul, institutions have been seeking opportunities elsewhere: over half of all Korean investors active in real estate target assets in North America and Europe, while 48% seek a more diversified portfolio globally.

Fig. 38: South Korea-Based Institutional Investors in Real Estate by Primary Strategy



Source: Preqin Pro

Fig. 39: South Korea-Based Institutional Investors in Real Estate by Geographic Preference



Source: Preqin Pro

Fig. 40: Notable Overseas Real Estate Transactions Involving South Korea-Based Buyers, 2017 - 2018 YTD (As at August 2018)

Asset	Location	Buyer(s)	Seller(s)	Deal Size (mn)	Date
The Campus at 3333 – Phase III	Santa Clara, US	**Korea Post**, CBRE Global Investors, Unidentified Buyer(s)	Beacon Capital Partners, Menlo Equities	610 USD	Oct-17
One Cabot Square	London, UK	**KB Securities**	Brookfield Property Group, Qatar Investment Authority	460 GBP	Jul-18
So Ouest Plaza	Levallois-Perret, France	**Vestas Investment Management**, BNP Paribas REIM Germany	Unibail-Rodamco	470 EUR	Oct-17
One Vanderbilt	New York, US	**National Pension Service**, Hines	SL Green Realty	525 USD	Jan-17
20 Old Bailey	London, UK	**Mirae Asset Global Investments**	Blackstone Group	340 GBP	Apr-18

Source: Preqin Pro

Korea-based investors have emerged as key players in the global real estate market, with involvement in notable deals in recent years. In December 2014, National Pension Service sold 8 Canada Square, the London headquarters of HSBC, to Qatar Investment Authority for £1.2bn. More recently, in October 2017, CBRE Global Investors acquired The Campus at 3333 – Phase III, a four-building office complex in California, on behalf of a joint venture between Korea Post and another separate client account, from Menlo Equities and Beacon Capital Partners for $610m (Fig. 40).

REAL ASSETS

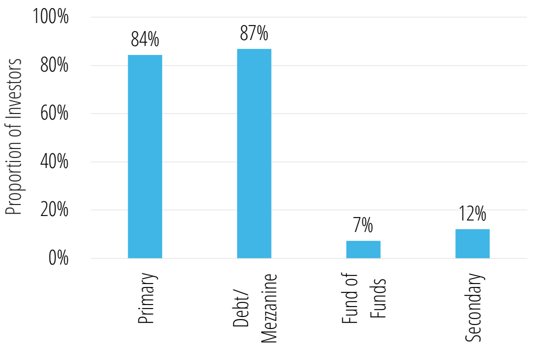
The Korean Government has consistently been investing in infrastructure in order to keep up with demographic and technological advancements. According to G20's Global Infrastructure Hub, Korea is expected to largely meet its infrastructure investment needs by 2040, spending $1.4tn by the end of the year. In 2016, the government announced that it would spend KRW 92tn ($83bn) in social overhead capital until 2020, with a primary focus on transportation.

Despite this, the infrastructure opportunities in which private capital can participate seem limited, thus competitive, lowering their return-on-equity from 9% in the mid-2000s to 3% currently. This, fuelled by investors' rapidly growing AUM, has forced many Korean institutions to increase their overseas infrastructure allocation. While two-thirds of investors focus on their domestic region, larger proportions of LPs target foreign infrastructure opportunities, most notably in North America (72%) and globally (69%, Fig. 42). Similar to real estate, debt/mezzanine (87%) is the most favoured infrastructure strategy among Korean investors (Fig. 41).

HEDGE FUNDS

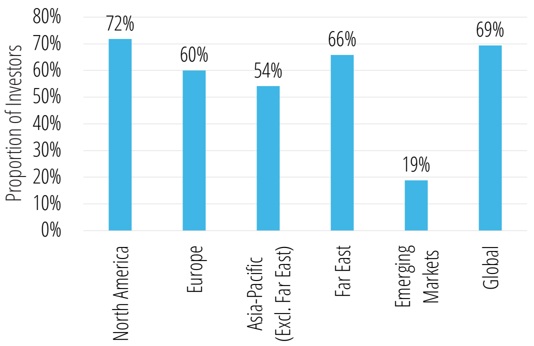
After the GFC, many Korea-based investors halted hedge fund investments, and have recently regained their exposure to the asset class in earnest. Just 20% of investors in Korea are active in hedge fund investments, a relatively low figure compared to Australia (55%) and Japan (33%). While the majority (69%) of Korean institutions have a preference for equity strategies hedge funds (Fig. 43), which are commonly targeted by new investors to the asset

Fig. 41: South Korea-Based Institutional Investors in Infrastructure by Primary Strategy



Source: Preqin Pro

Fig. 42: South Korea-Based Institutional Investors in Infrastructure by Geographic Preference



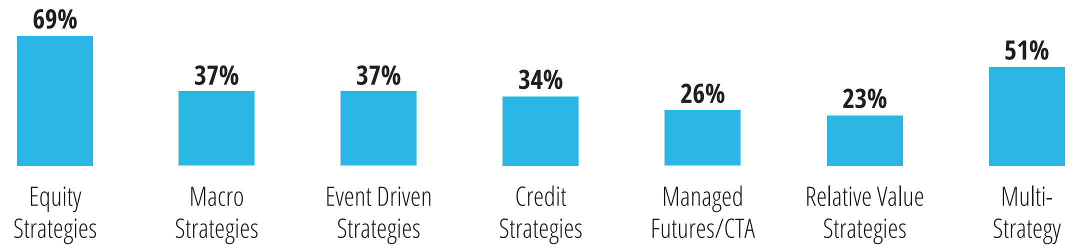
Source: Preqin Pro

class, experienced investors have built a diversified hedge fund portfolio. Korea Investment Corporation is one of the most sophisticated hedge fund investors in the country. Having begun investing in 2010, the $140bn sovereign wealth fund looks to increase its hedge fund allocation from 3.5% of AUM currently to 4.5% as market volatility increases. It looks to work with emerging and spin-off managers that can stay nimble and generate higher alpha.

MORE ACTIVITY IN ALTERNATIVES EXPECTED

Recent years have seen institutional investors based in Korea look to move away from an overreliance on traditional asset classes, and transition towards a greater focus on alternative assets. In an environment where interest rates have generally remained at low levels and equity markets continue to display spells of high volatility, alternative investments offer these investors the chance to achieve stable, high risk-adjusted returns over a long period of time. However, with a limited supply of such assets in the domestic market and as their AUM rises further, these institutions are likely to continue to target overseas investments in their drive to increase exposure to alternatives.

Fig. 43: South Korea-Based Institutional Investors in Hedge Funds by Core Strategy Preference



Source: Preqin Pro

THE CHANGE CHALLENGE FOR MID-SIZED PENSION FUNDS

In Preqin's exclusive and in-depth interview with Mr. Dong-Hun Jang, the CIO of Public Officials Benefit Association (POBA), he suggests that mid-sized pensions like POBA must punch above their weight to tackle challenges and grab opportunities in niche sectors in real estate and infrastructure.

DONG-HUN JANG

Public Officials Benefit Association

Preqin: Our latest global LP survey reveals a tougher time this year for sourcing attractive real estate and infrastructure fund opportunities despite record fundraising. What is your view?
Dong-Hun Jang: I agree. Our investments with external GPs show more expensive price levels, which mean that it is getting more challenging to meet our investment criteria from a risk/return perspective. For instance, in core real estate, cap rates are not satisfying our required IRR. Many institutional investors are chasing alternative investments so there is a sense that everyone is competing with each other.

The situation worsened in the second half of last year. For instance, our commitment to blind pool real estate and infrastructure funds have yet elicited a call, escalating the level of uncalled capital. Despite this, I am optimistic in the view that our external GPs are exercising prudence in crafting their decisions.

P: Could you elaborate on your criteria for risk-adjusted return?
DJ: POBA is a public pension so from the risk/ return perspective, mitigation is becoming more important. Being public means being risk averse, which is par for the course. My mission is to generate about 5% annually on an absolute return basis – a very challenging goal given the extremely low return environment. We must keep the delicate balance between risk and return. Fortunately, we are a mid-sized fund, which can be nimbler and more targeted towards niche areas for higher risk-adjusted returns.

P: What niche opportunities do you target, and how do you source them?
DJ: Although niche areas are not our core portfolio, we see value in student housing, logistics or Japanese multi-family residential properties. We invest indirectly via external managers. Our prime goal is to find managers that mesh with our investment strategy, and to identify the sector's best GP with a proven track record. Once these are in place, the process follows.

Our sourcing strategy emanates from opportunities presented to us, as well as our own sourcing effort. My team and I consistently participate in global conferences, meet with extremely capable GPs and form relationships with them. In some cases, our direct interactions have resulted in the accumulation of a trove of information from co-investment GPs, fund of funds managers and external advisors. Reaching out and interacting this way allows us to know how we can find GPs that will fit into our strategy.

P: Do you rely on peer referrals and networking with other LPs to source attractive opportunities and due diligence?
DJ: It varies. CIOs help each other by sharing information especially when we are comfortable

"

While we are not competing against NPS and KIC, we should be seen to be like them to avail ourselves to equally good opportunities. Such "branding" is also useful in helping us differentiate from other small- and mid-sized pension funds.

with the questions we are posing. When selecting a manager, evaluating quantitative factors is not enough. We may seek the views of LPs that have understanding of the GP and hear their experience in investing with them. In short, we leverage their experience as an indirect screening process of an eligible candidate.

P: How do you strike the right balance in competing with and forming good relationships with LPs given the current era of stiff inter-LP rivalry and the existence of only a limited number of outstanding opportunities?
DJ: Information-sharing with fellow LPs may sometimes require selectiveness. Each institution has its own investment profile and duration, so I would naturally be prudent in sharing information on a quality opportunity that is rare. But if GPs eventually garner sufficient commitments from Korean LPs, I would be more comfortable to share. Generally, competition among LPs is getting keener.

We are trying to be more proactive in sourcing opportunities and gear ourselves to making investment decisions through an ideal timeline. This is where we try to differentiate ourselves from other Korean LPs. KIC and NPS, given their greater experience and more institutionalized process, are better placed to receive quality investment opportunities by GPs. While we are not competing against them, we should be seen to be like them to avail ourselves to equally good opportunities. Such "branding" is also useful in helping us differentiate from other small- and mid-sized pension funds.

P: How has POBA's overall asset allocation changed over the years, and how have you been tackling the challenges in manager selection?
DJ: When I joined POBA almost three years ago, we had significant exposure to domestic public equity, which was difficult to generate absolute returns due to volatility. I had gradually decreased our domestic equity exposure, while increasing illiquid credit, for example private debt and CLO. We had a minuscule 1% of the total AUM allocated to infrastructure, but we now have a dedicated infrastructure team, and have increased our infrastructure allocation up to 5-7%, with ample room to grow. POBA's real estate portfolio was heavily weighted towards project financing and project-based investments, which entailed greater risks. We also needed a more diversified portfolio in terms of property type and region. The changes in asset allocation have started to provide good, stable returns now.

In terms of GP selection, companies like Preqin have helped us by providing transparency in fund manager selection, such as performance, top quartiles and so on. The dispersion of top and bottom performing managers is very wide, so GP selection is vital. POBA is a public pension fund; therefore, it is difficult to invest with first-time managers, although this may change in the future. In some cases where a GP has really capable key investment professionals with a proven track record, POBA may be able to invest with them.

P: "Responsible investment" has been a buzzword in the industry. Is ESG or SRI a focus of POBA? If so, is there a timeframe for establishing an ESG/SRI scheme, say within the next 10 years?
DJ: While POBA has not incorporated ESG/SRI-friendly rules into our investment policies, we have addressed these concerns on an ad-hoc basis. We recently committed $100mn to a CBD office building, which is LEED-NC Gold certified – an uncommon certification in Korea. We would like to see more of such buildings with environmentally and socially responsible features. POBA recently invested in Pangyo, Korea's Silicon Valley. We are constructing a very sophisticated office building in the area, with an objective of including quality environment-friendly features. At the beginning of this year, we introduced SRI for our Korean public equities investments. We have invested $50mn under the SRI.

In terms of GP selection, companies like Preqin have helped us by providing transparency in fund manager selection, such as performance, top quartiles and so on. The dispersion of top and bottom performing managers is very wide, so GP selection is vital.

POBA's transition to implement an ESG/SRI policy will be a natural one. Our fund is pooled by regional public officials, and our board's philosophy is very simple – even though the money is for their retirement, the money should be invested responsibly, and stipulated in the principles. It is extremely likely that we will establish ESG principles.

P: Turning to the domestic market, what are the biggest changes in real estate and infrastructure over the next five to 10 years?
DJ: The core real estate industry will have fewer investment opportunities that provide a decent level of returns. Korean investors will not expect the required return level to drop dramatically and will continue seeking absolute returns. For overseas investors, there are opportunities in the value-added space, although Korean investors are generally unlikely to be active in the space as they are too risk averse. Global LPs have shown interest in value-added investments in Korean real estate but are proscribed by a chasm in knowledge and understanding.

If any global institutions are interested in investing in Korea's value-added assets or properties with higher risks, we can work together to find the right opportunities. This will help us persuade our internal investment committee to raise our risk profile, too.

P: What are your thoughts on working with global investors to gain more exposure to overseas opportunities?
DJ: We recently worked with a US pension fund when we invested in the US property debt market. We are interested in increasing such joint ventures, especially with global pensions. The challenge is dealing with foreign exchange issues. We must sacrifice around 1.56% of total assets for foreign exchange cost per annum.

P: Could you share your recent experience in the global real estate market and how you stayed nimble to find the best opportunities?
DJ: We hired CBRE Global Investors (IGIS Asset Management as a domestic manager) as our SMA manager. The SMA allowed us to diversify our geographic scope; just before the Brexit vote, we sold a London office building and transferred the capital into less volatile cities in continental Europe. Our first equity investment (for the SMA) was around $200mn but had grown to $400mn at the time of exit (of the London property). As divesting a large size of investment was difficult, we decided to focus on small- to mid-sized office buildings of around $100mn – the bracket for easier sell-offs. The SMA relationship has been progressing, and we have decided to add additional capital, and will invest more to diversify into other European markets.

PUBLIC OFFICIALS BENEFIT ASSOCIATION

Public Officials Benefit Association (POBA) was established in 1952 in order to support stability of life and welfare benefits for local government officials in South Korea. The institution provides various services to its members, such as retirement benefits, deposits, loans and leisure facility services.

Mr. Jang joined POBA in November 2015 as the CIO. With his 30 years of experience in the investment industry, he oversees POBA's KRW 11tn in AUM, across equity, fixed income and alternative investments.

www.poba.or.kr

IN FOCUS: PUBLIC PENSION FUNDS AND INSURANCE COMPANIES

In Korea, public pension funds and insurance companies are among the most active types of investor in alternative assets. The low interest rate environment over the years, in addition to slow economic growth globally, have made alternatives an attractive investment proposition for pension funds and insurance firms with their long-term liabilities. As such, the number of pension funds and insurance companies investing in alternative assets has seen steady growth over the years, with many of these institutions allocating more capital each year.

PUBLIC PENSION FUNDS

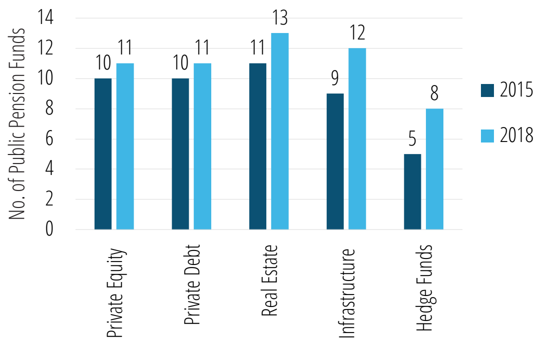
Alternative assets have been a vital component of public pension funds' investment portfolios, both in Korea and worldwide. The investor group has the highest participation rate, with almost all public pension funds in Korea active in private capital investments and, to a lesser extent, hedge funds.

National Pension Service, with AUM of $557bn, of which 10.7% is allocated to alternatives, accounts for 68% of the total capital allocated by Korea-based pension funds to such investments. However, small- and mid-sized institutions have become more aggressive in the space, earmarking over 30% of their total assets for alternative assets.

For these small- and mid-sized institutions, mostly known as credit unions, investing in alternatives closely aligns with their general operational structure as they typically offer a high guarantee and deposit rate to their members. In addition, the relaxation of investment restrictions and limits on risky assets allow these investors more flexibility in the overall compilation of their investment portfolios, with greater exposure to alternatives likely in order to meet their high return expectations.

Real estate has traditionally been the most favoured asset class among public pension funds in Korea.

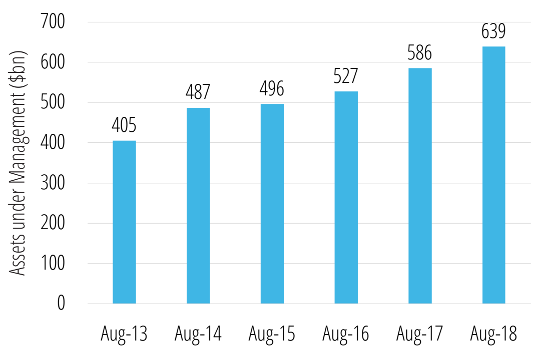
Fig. 44: Number of South Korea-Based Public Pension Funds Investing in Alternative Assets, 2015 vs. 2018



Source: Preqin Pro

> **Pension funds are less restricted than insurance companies, and have more flexibility in terms of investment themes.**

Fig. 45: Assets under Management of South Korea-Based Public Pension Funds, 2013 - 2018



Source: Preqin Pro

Insurance companies need to prepare to meet the new regulations which are slated to take effect in 2012, and appear to be undergoing a huge shift in their investment strategies.

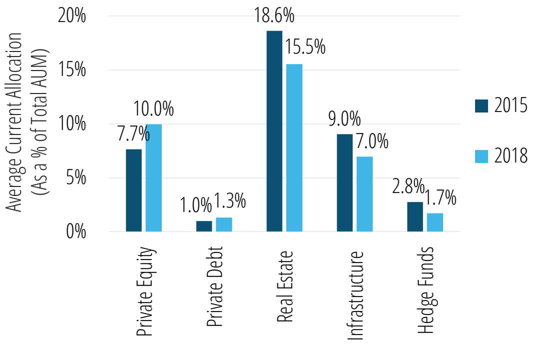
However, their average allocation has fallen between 2015 and 2018, which reflects how some investors have sought to rebalance and diversify their portfolios by gaining exposure to other asset classes, such as private equity and private debt, which both offer potentially superior returns in comparison to fixed income instruments. For example, Construction Workers Mutual Aid Association made its maiden investment in private debt in 2017.

INSURANCE COMPANIES

Representing a fifth of Korea-based institutional investors active in alternative assets, insurance companies allocate approximately 18% of their total AUM to private capital and hedge funds (Fig. 48).

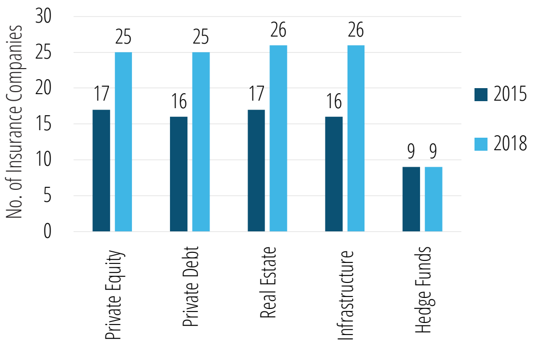
Korea-based insurance companies had previously been more active in traditional asset classes, such as fixed income, due in part to stringent regulatory

Fig. 46: South Korea-Based Public Pension Funds' Average Current Allocation to Alternative Assets by Asset Class, 2015 vs. 2018



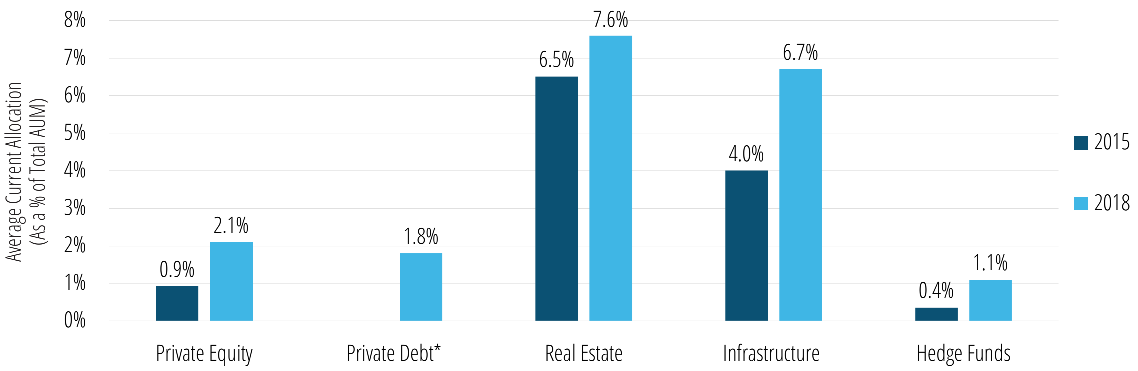
Source: Preqin Pro

Fig. 47: Number of South Korea-Based Insurance Companies Investing in Alternative Assets, 2015 vs. 2018



Source: Preqin Pro

Fig. 48: South Korea-Based Insurance Companies' Average Current Allocation to Alternative Assets by Asset Class, 2015 vs. 2018



Source: Preqin Pro

*Insufficient data for 2015.

restrictions and their risk-averse investment nature. However, low interest rates have led these investors to diversify their portfolios and geographic scope in order to achieve the returns to meet their liabilities. In preparation for the IFRS-17 accounting standard and K-ICS liability market valuation system, which will be fully implemented by 2021, insurance companies have sought to reduce their equity exposure significantly, while increasing their debt exposure, particularly across real estate and infrastructure.

OUTLOOK

Although Korea-based public pension funds and insurance companies are bound by varying regulatory environments, alternative investments will remain an integral part of their investment portfolio. The historically low interest rate environment has made alternative investments an attractive option for pension funds and insurance companies seeking steady revenue streams, high risk-adjusted returns and a more well-rounded investment portfolio over the long term.

Fig. 49: Largest South Korea-Based Public Pension Funds by Assets under Management (As at August 2018)

Investor	Headquarters	Assets under Management ($bn)
National Pension Service	Jeonju-si	556.8
Korean Teachers' Credit Union	Seoul	27.8
Teachers' Pension	Naju-si	12.4
Public Officials Benefit Association	Seoul	9.9
Military Mutual Aid Association	Seoul	9.2

Source: Preqin Pro

Fig. 50: Largest South Korea-Based Insurance Companies by Assets under Management (As at August 2018)

Investor	Headquarters	Assets under Management ($bn)
Samsung Life Insurance	Seoul	178.4
Hanwha Life Insurance	Seoul	74.9
Kyobo Life Insurance	Seoul	64.0
Samsung Fire & Marine Insurance	Seoul	55.0
NongHyup Life Insurance	Seoul	54.0

Source: Preqin Pro

THE PREQIN LP ROUNDTABLE: 10 QUESTIONS FOR THREE PLAYERS

Preqin hosted its first ever investor roundtable discussion with key investment managers of Seoul's three leading institutions. These seasoned investment managers shared their experience and insights into alternative investments, with key discussion focused on asset valuation and capital allocation, finding attractive opportunities and spotting winning GPs, industry challenges and maintaining an LP's competitive edge, and common mistakes made by overseas GPs in Korea. ***Taehyeong Kim of the Teachers' Pension, Jason Kang of the Korean Teachers' Credit Union*** *and* ***Jake Lee of Hyundai Marine & Fire Insurance*** *also outline current trends and their thinking with regards to making sound decisions in overseas alternative investments.*

1

In recent years, South Korean LPs have been the most active in allocating capital overseas within Asia. Why is this so and is your organization part of this trend?

TAEHYEONG KIM, Teachers' Pension (TP):
Investment opportunities in the domestic market are limited compared to the swift increase in investors' liquidity and investment capital. We began active alternative investments after the Global Financial Crisis (GFC) and have been increasing our overseas alternatives allocation extensively, especially in the past 2-3 years. When I began supervising our overseas alternatives portfolio eight years ago, our portfolio amounted to a modest sum of a few hundred million dollars. Now, we have a portfolio commitment of some $3bn. Although our alternatives portfolio is currently split 65:35 in favour of domestic assets, our allocation and investments in overseas assets are outpacing domestic assets by a factor of two to one. Our current annual allocation to overseas alternative assets is around $1bn.

JASON KANG, Korean Teachers' Credit Union (KTCU):
We have been a part of this trend, too. Ten years ago, we established a team on overseas investments, in particular, real estate and infrastructure. Our first two projects – a $100mn investment in a desalination plant near Melbourne in 2010, and an investment in a San Francisco building – proved successful. The successes, coupled with the start of overseas real estate investments by National Pension Service, which encouraged greater effort from global GPs towards the Korean market, offered us varied opportunities.

By contrast, our progress in private equity was slow as we did not have a dedicated team. Until four years ago, our private equity investments were on a case-by-case basis. Subsequently, we expanded and restructured our investment manpower into three separate teams: for traditional assets, real assets and private equity, on which my team is focusing. We started with some $300mn invested in the asset class. Our private equity portfolio has now tripled to $1.5bn – a quantum leap – within five years.

JAKE LEE, Hyundai Marine & Fire Insurance:
I agree with Taehyeong and Jason on overall investor trends. To add the insurance perspective, insurers generally adopt a conservative approach, so overseas investments were less appealing in the past. But, as Taehyeong noted, the limited opportunities domestically propelled us into investing outside Korea. Subsequent familiarity with foreign policies and regulations such as in the US and the UK, armed us with the confidence to increase our overseas investments.

2

Asset valuations and a record level of dry powder have been key concerns for investors. Have your return expectations been reduced?

TK: Based on the asset allocation return, we have a target return of low-to-middling 4% for overseas alternatives, which is lower than last year's 5%. It is true that our target return is lowering, depending on the changes in economic conditions.

JK: Many GPs promise us attractive returns such as a multiple of 2.5x and net IRR of 20% and so on. I am a sceptic in this regard and of lowering the bar. We prefer to err on the side of caution when it comes to high valuations. So, when we evaluate GPs, we want to know how proficient they are at changing their portfolio companies, how they make operational improvements and how they create real EBITDA growth.

On the other hand, we should note that if the valuation is calculated as a reverse function of interest rates, low interest rates can then justify steep valuations. We are still relatively comfortable with the private market as it does not use market-to-market valuation in contrast to the public market. As the private market size is less than 5% of the public market, there is more room to grow if the capital flows from the public to the private market, so I am less concerned by valuation.

JL: As an insurance company, we must meet our return expectations and match durations; and we must also consider our cost of capital. In the past, insurers preferred stable investments and picked low-risk assets such as fixed income, and added (investments in other assets for) yield pick-up. But now, solely investing in fixed income to meet the durations means achieving returns that are lower than our cost of capital. So, for insurance companies, alternative investments are a matter of survival. So, there has been a fundamental shift in the paradigm.

3

Price discipline and superior deal-sourcing ability appear to be the key to overcoming this market hurdle. How do you spot winners?

JL: Sourcing overseas deals is difficult. We do not know whether the price we pay is appropriate or not, especially if the opportunity is a project-based deal, and not a fund. A typical question we ask is why the project has not been able to attract capital in its domestic market. That is the reason for the popularity of blind-pool funds where the GPs' capability is key, and investors come from everywhere. When investing in (blind-pool) funds, we will assess GPs based on track record and history. This is especially the case for private equity, where underlying assets are less visible than real assets.

TK: We started overseas private equity investments earlier than our peers and there were fewer GPs some 10-15 years ago. Having started earlier and

AT THE TABLE: TAEHYEONG KIM

Taehyung Kim is leading Teachers' Pension's overseas alternatives portfolio, including private equity, private debt, real estate, infrastructure and hedge fund investments.

Teachers' Pension was established in 1974. It caters to teachers and administrative personnel of South Korean private schools from kindergartens to universities. In addition to retirement and pension benefits, it provides welfare services such as loans and personal asset management consulting.

> **In the past, GPs used to come to Korea only when they wanted to raise capital. But recent developments have shown that managers visit LPs in Korea even if their fundraising wasn't successful which is a gratifying development.**

having gone through the GFC, we have built our own network and relationships with GPs and industry participants, which give us reference points for our investments today.

JK: It is very difficult to spot such winners. Our due diligence of GPs includes asking hard and substantial questions. For example, we will ask for quarterly records of changes of EBITDA and revenue of our prospect's portfolio companies. But, while track record is important, past performance does not guarantee future results. What I try to suss out is how GPs and the officers concerned behave when we meet them. After all, alternative investment is a human business.

4

We are seeing a robust and record fundraising environment, but at the same time we are seeing capital concentration. How is this affecting your allocations and is it also making it harder to find attractive fund opportunities?

TK: Speaking of recent cases, in the past couple of months we have had to reduce our commitment size for two funds by over 30%. Because of such exigencies, we have an internal guideline which allows us to be flexible with our overseas alternatives allocation with a buffer of ±5%. In some situations, we may consider over-committing when a cut-back is expected, although this is uncommon.

Fund managers have always had to pitch their attractiveness to LPs; but now, LPs must, in turn, appeal to GPs. We try to leverage our strength to GPs to get, for example, co-investment opportunities. We share our prompt decision-making process, our clear investment strategy and guidelines, and we respond quickly to GPs if a favourable opportunity is offered. Our sizeable commitment (about $100mn) gives us an added advantage. So, while club deals are common in South Korea, we have the flexibility to go solo.

JL: Currently, all markets are expensive, so much so that an inexpensive market raises questions about that market's viability. With such a scenario, it is hard to ascertain the investment quantum of any given market. As a general rule, we maintain our overall allocation and adjust allocations within this larger allocation frame. We check track records of managers with less conflict of interest with LPs; and we avoid opportunistic managers.

What is clear is that we are increasing our overseas allocation. In the past, South Korean LPs used to follow only the big names and invested with several other investors in a club deal. As LPs achieve greater experience and sophistication, they tend to customize their search for managers that suit their own institution and make independent decisions.

JK: From the point of view of capital concentration, it can feel like being on the Titanic. A larger platform reassures investors. But on the flipside, GPs may face a hard time deploying capital and may make wrong investments if they are pressurized by capital calls. KTCU tends to make balanced investments across mega, large and mid-market funds.

5

What are the key challenges that are unique to Korean insurance companies and pension funds?

JL: There are several regulatory changes, such as IFRS9, IFRS17 and K-ICS, that restrict insurers' investments. For example, investments in private equity and blind-pool funds have been increasingly more difficult. We need to prepare to meet the new regulations which are slated to take effect in 2021. Insurance companies appear to be undergoing a huge shift in their investment strategies.

TK: Pension funds are less restricted, and we have more flexibility in terms of investment themes. TP is predominantly an equity player, investing in equity and debt assets with a ratio of 80:20. The practice of job rotation remains, but it has diminished substantially as the primary stakeholders like the government, society and the media understand the need for continuity and professionalism of the investment team.

As a public pension fund, we are evaluated by the government every year. This evaluation is based on the Korean won, and the results may differ depending on the exchange rate fluctuation at the time of the evaluation. While pensions require mid- to long-term investments, short-term evaluations may be considered conflicting.

JK: Like TP, credit unions are less regulated and are therefore more flexible in our asset allocation. But, our investments are affected as well by our charter as a government-regulated public entity where C-suite rotations by the State are common. Having said that, we are one of the most stable pensions in Korea, and our staff turnover is lower compared to other large Korean institutional investors. Our investment decisions are crafted by operational-level professionals instead of the top-down structure found in other pension funds. As long as our report is reasonable and rational, our investment committee will usually respect and approve our suggestions.

AT THE TABLE: JASON KANG

Jason Kang supervises Korean Teachers' Credit Union's overseas private equity and debt, and hedge fund investments.

Korean Teachers' Credit Union is a welfare agency established in 1971 to enhance the security and comfort of South Korean educational officials, teachers and staff during their working years and after retirement. It provides its members with financial services, such as savings, loans, insurance and investment products, as well as welfare benefits.

> **There are several ways to find out the traits of a GP. One way is asking hard questions to GPs and another comes via an information platform like Preqin.**

6

Currently, there is ample LP capital available, locally, regionally and globally. How do you differentiate yourselves and ensure participation with top performing funds/invitations to co-investment opportunities?

JK: Tough question. How can I compare myself to other LPs when I don't have a bead on their actions and strategies? I try my best to be attentive in meetings with GPs. It's harder than it looks because it is easy to lose focus when there is a heavy diet of daily meetings. As the second largest pension fund in Korea, our AUM and ticket size are factors that help to attract GPs. Our ticket size used to be $50mn per investment, but that has now doubled, so a $100m investment is not exactly a small beer. Another advantage is our location: we are still based in Seoul, and we are not migrating to the provinces.

TK: Apart from ticket size, consistency in investment, transparency and accuracy in decision-making are appealing factors to GPs. Investors must also consider ways of improving their strategic relationships with GPs. As it is impossible to do so with all GPs, it makes sense to select a few firms that complement us and establish mid- to long-term relationships in knowledge-sharing, co-investment partnerships and reference checks.

JL: Our ticket size is probably not as attractive, and we try to build long-term relationships with managers. For instance, I try to meet prospective GPs before they start raising new funds during my business trips. Just as GPs try to appeal their uniqueness to LPs, we stress our uniqueness to GPs. For example, some buyout managers may favour Asian insurance companies as they also like to attract a variety of investors. Ultimately, alternative investment is a relationship business. We also try to convince GPs that we are not an LP that does little else apart from parking our funds with them. We leverage on our aim of being a useful, value-added, long-term partner.

7

How important are the activities of your peers?

JK: I seek many references from my existing network, but I don't rely on them completely. For one thing, one has to factor in human bias. Besides, a GP that is suitable for a different LP may not necessarily complement us. So, while references help, we conduct our own due diligence, especially if there are gaps in the information provided. Sourcing funds through referrals appears to be more common in the real estate and infrastructure sectors than in the private equity industry.

JL: When sourcing and evaluating new funds, we tend to leverage our own experience to anticipate when a GP may start raising a new fund, and would like to cross-check with peers with whom we have established a close relationship.

8

How do South Korean LPs protect and enhance their interests in the industry? For example, in the US, ILPA champions LP causes.

JL: There is no official association in Korea like ILPA yet. If we need more information, we seek it through side letters.

TK: If potential changes are expected, our tack is to commit to a fund at an earlier stage and with a sizeable amount. These will allow us to negotiate key aspects such as whether to restrict emerging market exposure and transaction size, so that a fund can stick to its own strategy and principles. Other than this, a side letter is the only other way.

AT THE TABLE: JAKE LEE

Jake Lee is leading the infrastructure team at Hyundai Marine & Fire Insurance. The team covers both domestic and overseas infrastructure investments.

Hyundai Marine & Fire Insurance is a leading non-life insurance company in South Korea established in 1955. It provides a range of non-life insurance services such as marine, fire, automobile, accident and casualty insurance. It has offices globally including the US, the UK, Japan and China.

For insurance companies, alternative investments are a matter of survival. There has been a fundamental shift in the paradigm.

9

Looking beyond track record, history and performance, what are the essential criteria when selecting fund managers? What are the next important ingredients for selection?

TK: Quantitative measurements are clear to assess; however, it is not easy to evaluate from qualitative perspectives as we will do so based on our network and relationships. We will look at how GPs played their strategy and monitored their investments during the market crisis. For example, series funds would have gone through the financial crisis, and we will look at how their strategy has changed in response to market conditions and how they exited. Additionally, we take into account whether GPs have an office in South Korea or have Korean representatives. If two GPs demonstrate equal qualifications, we will prefer the GP that shows its commitment to the Korean market.

JL: Demonstrating outstanding returns can be deceptive because one would not know the risks a GP undertook to obtain such glossy returns. Therefore, in case of re-ups, we will monitor our existing investments with the GP closely via regular calls, LPAC participation and meeting with them frequently (if there's a representative in Korea). We then decide whether to re-up or not. For new commitments, we will seek a reference from KTCU, TP or institutions with which we have relationships.

JK: When we do due diligence, we get to meet operational-level officers. I use this opportunity to understand if these officers are happy with their platform. Again, alternative investment is a people business, and if the functionary officers are not happy and compensated well, there is a higher probability that they will leave the firm. So, I will try and assess if the firm is employee conducive as well.

JAKE LEE: Korea was an easy market in the past, when there were not many overseas GPs raising funds here. If you were a big name, it was easy to get commitments. However, investors are becoming increasingly sophisticated and informed and some GPs are slow in realizing it.

10 What are common mistakes that overseas GPs make when meeting with prospective LPs?

TK: In the past, GPs used to come to Korea only when they wanted to raise capital. But recent developments have shown that managers visit LPs in Korea even if their fundraising was not successful, which is a gratifying development.

Some GPs prefer to show how great they are but we, as an LP, meet so many GPs, and therefore can compare them. Some GPs even tell us that their fund is great and we need to invest in it now, changing our current investment strategy.

JL: Korea was an easy market in the past, when there were not many overseas GPs raising funds here. If you were a big name, it was easy to get commitments. However, investors are becoming increasingly sophisticated and informed and some GPs are slow in realizing it.

Korean LPs appear to be shy due to the language barrier and cultural reasons; however, professionals here are intelligent and have a very quick learning curve. Though we are based in Seoul, Korean LPs are well connected, and we actively travel. And then there were cases of GPs that, when they returned home, criticized Korean LPs. Believe it or not, such negativity does find its way back to Seoul, which unravels whatever positive spin these GPs had made when they visited us.

JK: There are several ways to find out the traits of a GP. One way is through a meeting and another comes via an information platform like Preqin. As there are information discrepancies in the industry, we use multiple sources to obtain as much information as we can. GPs that hire Korean-speaking representatives score bonus points because such GPs show their commitment to Korean investors and the market.

THE "HIDDEN GATEKEEPERS" TO LPs IN SOUTH KOREA

Asset management companies (AMCs) are unique entities in the South Korean alternative assets industry, often seen as "investment vehicles" used by local LPs to invest in foreign private equity and private debt funds. Although similar to distributors and global placement agents from deal-sourcing perspectives, AMCs differ significantly in that they serve as an extension to local investors, acting as principal agents and managing underlying assets on their behalf via local funds. They also lend an extra pair of eyes to investors by taking on portfolio management and advisory responsibilities when required. In contrast, distributors and placement agents tend to enter into agreements with the GPs, and sell products locally on behalf of the GPs.

The fund of funds[1] business in South Korea has been around for a long time, but underlying assets have largely been restricted to long-only equities, fixed income or hedge funds. Funds of funds (local funds) investing in foreign private equity started in earnest relatively recently which coincided with the explosive growth in demand and appetite for the asset class seen among institutional investors.

Preqin speaks to Kiwoom Asset Management, one of the largest asset management companies in South Korea, which manages approximately $37bn in assets under management. Its Global Private Markets team, whose founding members possess profound experience in alternative investments, started its local fund business in 2014.

"The introduction of QE and unorthodox monetary policy globally saw volatility in the markets decline across the board. And what looked like a longer-term low interest rate environment opened doors to opportunities further out on the liquidity spectrum such as private equity and private debt," said JK Paul Yang, Head of Global Private Markets.

JK PAUL YANG

Kiwoom Asset Management

"Having been hedge fund allocators in our previous careers, we figured that the investing environment is not constructive for the hedge fund strategies in general as they need healthy volatility to generate returns. As such, turning to private equity and private debt was our macro call and it turned out to be timely and profitable. Ever since 2014, private equity and private debt has been the core of our portfolio and business."

"There is continued re-investment and new investment coming into the asset class from the institutional investors' fixed income allocation, so I think the aforementioned environment is still relevant today and it is here to stay as long as the demand and appetite persist for this asset class from institutional investors," he added.

According to Kiwoom, institutional investors often turn to local fund providers like them for several reasons: (1) the convenience of managing the asset class; (2) a shortage of investment professionals; and (3) a lack of continuity of investment professionals within organizations.

Owing to the culture and structure of many of the South Korean public pension funds, investors tend

[1] *Funds of funds (local funds) refer to local investment vehicles that invest in foreign funds and do not refer to blind-pool funds.*

There is continued re-investment and new investment coming into the asset class from the institutional investors' fixed income allocation, so I think the aforementioned environment is still relevant today and it is here to stay as long as the demand and appetite persist for this asset class from institutional investors.

to rotate their investment staff occasionally and irregularly. This disrupts the continuity of managing their assets internally. Local AMCs like Kiwoom aim to be a one-stop shop providing solutions as an extension of their teams to lend non-investment-related services such as filing taxes, legal review, cash management (including currency hedging), reporting to and getting approval from the government authority, to name a few, which could be quite burdensome for investors.

Deal sourcing could come from a variety of channels – LPs, GPs, local distributors and global placement agents, or local funds. The majority of Kiwoom's clients are institutional investors, with an average breakdown of their client base by committed capital being 75% public pension funds, 17% insurance companies and 8% cooperatives.

Given the attractive return profile of private equity and private debt strategies, Kiwoom expects there to be more investments from high-net-worth/private banking clients, who can withstand the duration of the assets going forward.

Preqin: With the growing sophistication of South Korean LPs, is this a sustainable business? How does Kiwoom Asset Management stay relevant and competitive?
JK Paul Yang: We view this as a sustainable business and think it will only grow more in tandem with the growing demand for private markets investments from institutional LPs. We expect that the aforementioned structural reasons for the LPs utilizing the local funds will stay put in general; however, the local fund industry will become more competitive as the competitors will increasingly view this space as profitable and abounding with business opportunities. To that end, we try to stay competitive by understanding what our clients' needs are in advance and by providing differentiated services by keeping abreast of the market trends and intelligence. One of the most notable trends in the local market landscape is that there is a lot of demand for co-investments and direct deals from the LPs. The co-investment strategy is increasingly gaining popularity primarily for its J-curve-alleviating effect, and the deals get done under the radar and quickly. Kiwoom is one of the early movers in the co-investments space and has been doing direct deals actively.

P: As the private capital market in South Korea evolves, what are some of the key changes to domestic LPs/overseas GPs dynamics that we can anticipate?
JKPY: As mentioned, demand is picking up for the co-investment strategy which I think is also partially due to the benefits the LPs can enjoy with closer relationships with select GPs. Domestic LPs are now more experienced and sophisticated, and they acknowledge the value of working closely and building long-term partnerships with GPs. While the LPs have diversified their portfolios through various GPs in the past, they will concentrate on working with fewer GPs that are a better fit for them from both investment and solution/services perspectives.

P: What is your outlook for the markets and which strategies do you expect the local LPs to overweight and underweight to?
JKPY: In light of the recent private equity fundraising cycle, I think that local LPs are rather overweight in buyout and secondary strategies, although they are likely to increase their exposure if they have conviction. On the other hand, given where we are in the economic and credit cycle, as well as the current valuation level, it is likely that LPs will pay more attention to distressed and co-investment strategies.

P: What is unique about the services asset management companies like yourself provide to the LPs?
JKPY: We consider ourselves as an extension of our clients' investment teams and their private capital investing efforts. To that end, we put ourselves in

> **While the LPs have diversified their portfolios through various GPs in the past, they will concentrate on working with fewer GPs who are a better fit for them from both investment and solution/services perspectives.**

the shoes of the LPs and consider the capital that we manage on their behalf as if it were ours. The kind of services that we provide to our LPs are the ones that we would normally need ourselves for successful private equity investing, and we constantly strive to think ahead of the curve to provide relevant and timely information and services to our clients.

The key services that we provide to our LPs are:

1. **Due Diligence (DD)**: onsite DD, DD reports and recommendations, regular and irregular visits.
2. **Subscription**: deal with all of the complicated documents (subscription documents, LPAs, side letters, W8BEN E, KYCs, AMLs etc.).
3. **Conference Call**: constant monitoring through regular and irregular calls.
4. **Reporting**: monthly factsheets, quarterly valuation reports, yearly audit reports, ad-hoc reports, market research: macro reports, monthly headline news/reputation check-ups, strategy reports, trend reports on private equity and private debt markets.
5. **Cash Management**: manage capital calls/ distribution calls, manage historical cash flow, FX hedging.
6. **Approval**: pre-/post-approvals from the FSS, quarterly reporting to the FSS legal and tax reviews: appoint the legal and tax specialists and seek their expertise when needed.

KIWOOM ASSET MANAGEMENT

Kiwoom Asset Management is one of the largest asset management companies in Korea, managing approximately $37bn in assets under management. The firm was established in 1988.

JK Paul Yang is the Head of Global Private Markets at Kiwoom Asset Management. He joined in 2014 and is in charge of managing around $2.4bn on a committed capital basis across the wide spectrum of the private markets including private equity, private debt, hedge fund and multi-asset. Paul has 14 years of investment experience in both public and private markets.

www.kiwoomam.com

SERVICE PROVIDERS

Fig. 51: Known South Korea-Based Private Placement Agents

Baro Investment & Securities
Daishin Securities
DB Financial Investment
Hana Financial Investment
Hanwha Investment & Securities
Heungkuk Securities
IBK Securities
KB Securities
Kiwoom Securities
Korea Asset Investment Securities
Korea Investment & Securities
Mirae Asset Daewoo Securities
NH Investment & Securities
Samsung Securities
Shinhan Investment Corp.

Source: Preqin Pro

Fig. 52: Known Local Fund Providers in South Korea

DB Asset Management
Eugene Asset Management
Golden Bridge Asset Management
Hana Alternative Asset Management
Hanwha Asset Management
Hyundai Investment Asset Management
KB Asset Management
Kiwoom Asset Management
Korea Investment Management
Ryukyung PSG Asset Management
Samsung Asset Management
Shinhan Alternative Investment Management
Shinhan BNP Paribas Asset Management
Truston Asset Management
Vogo Fund Asset Management

Source: Preqin Pro

REGULATORY OVERVIEW FOR RAISING PRIVATE PLACEMENT FUNDS



YUN BAK CHUNG, JAE MYUNG KIM & KYLE PARK

Kim & Chang

There has been a continuous flurry in recent years of offshore investment managers entering Korea to raise capital from Korean sovereign wealth funds, pension funds and financial institutions for their private funds and separately managed accounts (SMA). Last year alone, over 250 private funds established outside Korea registered with the Financial Supervisory Service of Korea (FSS) to raise funds from Korean investors, and this number is poised for a greater spike this year. The swift pace of this fund-seeking development from abroad bears legal scrutiny especially with regards to compliance with Korean laws, which carry serious sanctions for administrative as well as criminal transgressions.

Broadly speaking, two avenues exist under the requisite law – the Financial Investment Services and Capital Markets Act (the "Act") – for offshore investment managers to raise capital from Korean investors and invest in assets outside Korea, namely:

i. Subscription by Korean investors in the interests of registered funds managed by offshore fund managers; and
ii. Investment by Korean investors in SMAs offered by the offshore investment managers registered as a cross-border discretionary investment management manager under the Act.

1. Offering of Offshore Funds on a Private Placement Basis in Korea

A. Private Placement Marketing Restrictions

The Act imposes a strict restriction requiring marketing of offshore funds to Korean investors to be conducted through a locally licensed distributor, which would be a domestic financial institution licensed to market and sell fund products ("Local Distributor"), except as noted below. No procedural requirement exists for the engagement of a Local Distributor, and an offshore fund or its manager may directly engage one of the locally licensed distributors and enter into a fund distribution agreement. If an offshore fund is marketed and sold only to a domestic fund managed by an asset management company duly licensed in Korea where all assets of such domestic fund are invested in a single offshore fund, the requirement to appoint a Local Distributor does not apply, and the offshore fund may directly market to such domestic fund. This exception from the mandatory engagement of a Local Distributor may be tainted and no longer be available if the offshore fund markets to any other Korean investor that is not an asset management company.

B. Fund Registration Requirement

Under the Act, and related regulations, offshore funds marketed and sold to Korean investors are required to be registered with the FSS, unless they are marketed and sold on a reverse solicitation basis. While no express exception to the fund registration requirement exists, the relevant regulations are interpreted to exclude funds not marketed to Korean investors (so called "reverse solicitation" exemption recognized by the Korean regulators). However, Korean regulators tend to take a very narrow view on the availability of a reverse solicitation exemption, essentially for instances where a Korean investor seeks to acquire a specific financial product on an unsolicited basis without substantial explanation or negotiation of the terms of such financial product.

The private placement registration process is relatively straightforward as eligibility requirements have been reduced, and the FSS would approve registration as long as the eligibility requirements are met.

2. **Offering of Separately Managed Accounts in Korea**

A. General Registration Requirement

The management of an investor's assets on an SMA basis is regarded as a "discretionary investment management business," which the Act defines as the business of acquiring, disposing and managing financial investment products for investors without commingling their assets (that is, on a segregated account basis), with full or partial discretion on investment decisions being based on an analysis of the valuation of the financial investment products. The marketing and provision of a discretionary investment management (DIM) service on an SMA basis is a regulated activity, and the service provider is required to be registered with the Financial Services Commission (FSC).

The registrations are available to domestic and offshore service providers on a cross-border basis, if they satisfy the eligibility requirements. So, eligible managers may obtain the cross-border discretionary investment management (CBDIM) registration with the FSC (such managers, the "CBDIM Managers"). The CBDIM Managers are allowed to provide DIM services to certain qualified professional investors in Korea, which means that such managers may offer SMAs established outside Korea to Korean investors eligible to invest in offshore SMAs.

While a CBDIM Manager is permitted to market its DIM services to potential Korean investors, the marketing should be conducted offshore as Korean regulators take the position that a CBDIM Manager may only engage in the DIM business (including marketing) on a cross-border basis outside Korea.

B. Exemptions from Registration

i. Delegation from Certain Licensed Investment Managers in Korea.

Asset management companies registered under the Act can delegate management of the assets of the collective investment vehicles they manage to a licensed offshore investment manager to manage client assets in its home jurisdiction. Similarly, the Act's registered domestic DIM companies can delegate the management of the assets of their DIM clients to a licensed offshore investment manager to provide discretionary investment management services in its home jurisdiction. Therefore, in such cases of delegation by domestic asset management companies or DIM companies, the offshore investment manager will not be required to be registered as a CBDIM Manager under the Act as it will be acting as the sub-advisor under a sub-advisory or service delegation agreement, provided that such delegations to a sub-advisor are duly reported to the FSS by the delegators.

ii. Reverse Solicitation Exemption.

Under the Act, offshore investment managers can provide discretionary investment management services to exempted DIM professional investors in Korea ("DIM Exempted Investors") without being subject to the CBDIM registration requirements if the offshore investment managers provide such services outside Korea without soliciting or advertising for investments with the DIM Exempted Investors. DIM Exempted Investors are primarily qualified professional investors that are Korean governmental entities. As long as such DIM Exempted Investors approach offshore investment managers on a reverse solicitation basis, the offshore investment managers may offer SMAs to such investors without registering themselves as a CBDIM Manager in Korea.

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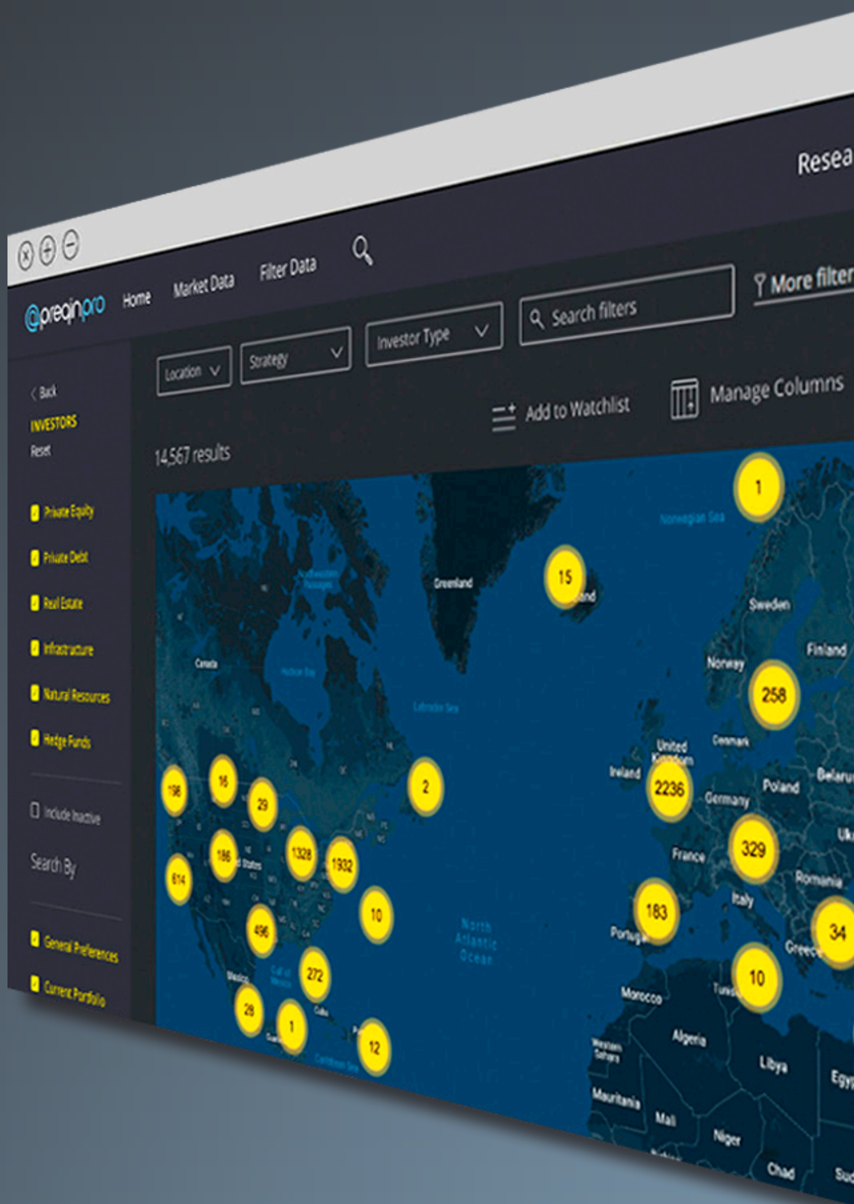

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