

Korea Corporate Pension Update

Issue 6, 2020 Q2

'Korea Corporate Pension Update' is written objectively to promote greater market knowledge on investment aspects and transparency in Korea corporate pension market. In preparing this report at times, we have relied upon data provided by third parties including regulators and data suppliers. This report is organized in three sections: 1. Pension Market, 2. Service Providers, and 3. Investment Products.

Pension Market (as of June 2020)

Following analysis is based on data published by Financial Supervisory Service Pension Portal.

DB

- Investment ratio of Principal & interest guaranteed ("PIG") products decreases gradually since 2017, but it is the most invested product among DB assets with ratio 94.4%, only 5.6% of assets are invested in return seeking products.
- In terms of AuM by each provider channel, DB asset is distributed evenly in the manner of an descending order by Banks, Life insurances, and Securities.
- Although 60% of the total retirement pension asset is made up of DB asset, the DB asset ratio in the overall market is decreasing continuously, due to a steady rise of DC adoption cases and the accumulation in IRP assets(11.6% in 2019 4Q to 13.2% in 2020 2Q).

DC

- Majority of DC assets, nearly 84.1%, are invested in PIG products and only 15.9% are invested in return seeking products. Unlike DB, the ratio of PIG products is steadily increasing (0.5%p increase during the last 6 months).
- Similar to last year, Banks manage two thirds of the entire DC market asset.
- 46.2% of assets among Securities are invested in return seeking products, which is larger than other provider channels.

Figure 01. Korea Corporate Pension Market Overview

(Unit: KRW bil, %)

Investment type	Asset under Management			Total	Weights
	DB	DC	IRP		
Principal & interest guaranteed	128,614	48,145	22,475	199,234	89.3%
Return seeking	7,664	9,115	7,007	23,786	10.7%
Total	136,278	57,260	29,482	223,020	100%
Weights	61.1%	25.7%	13.2%	100%	

DB ~ by provider channel	PIG	Return seeking	Total	Weights
Banks	53,233	3,814	57,047	41.9%
Securities	27,362	2,468	29,830	21.9%
Life insurances	37,899	1,352	39,251	28.8%
F&M insurances	10,120	30	10,150	7.4%
Total	128,614	7,664	136,278	100%
Weights	94.4%	5.6%	100%	

DC ~ by provider channel	PIG	Return seeking	Total	Weights
Banks	34,788	3,619	38,407	67.1%
Securities	4,865	4,176	9,041	15.8%
Life insurances	7,062	1,219	8,281	14.4%
F&M insurances	1,430	101	1,531	2.7%
Total	48,145	9,115	57,260	100%
Weights	84.1%	15.9%	100%	

Service Providers – DB (as of June 2020)

The Service Provider study covers 9 major service providers in DB and DC respectively, which are top 3 largest administrative asset owners in each service provider channel (Banks / Insurances / Securities).

Principal & Interest guaranteed portfolio

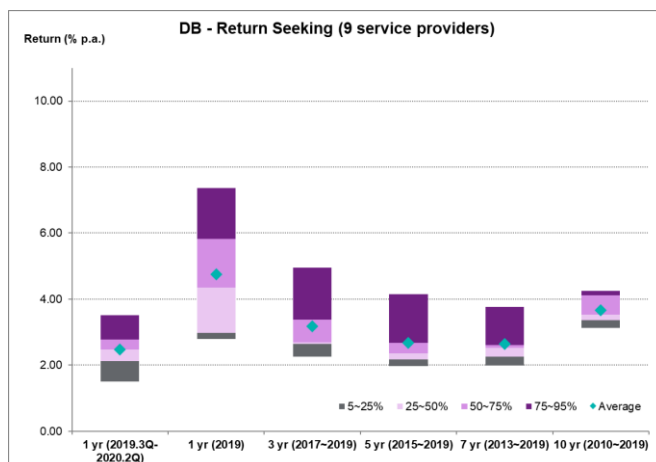
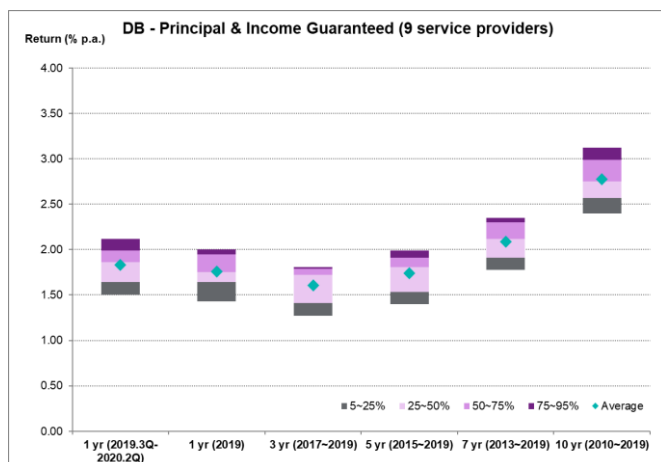
- Recent 1-year return is higher than 3-year return due to an increase in promised interest rates during 2018 and 2019.
- Compared to Banks whose main product is short term deposits, Insurances with sales right of own PIG product and Securities with large sales volume of high-yielding ELB products have higher returns by 30-50bp.
- Asset size of DB PIG products managed by HMC securities and Samsung Life is large relative to the peers. However, when excluding the assets from affiliates, the gap between Samsung Life and Banks gets smaller and in fact, HMC Securities showed the smallest asset size among the 9 providers.

Return seeking portfolio

- Due to the wider dispersion during 2020 1Q, all providers except Shinhan Bank showed a decreased 1-year return compared to last year-end.
- The drop was more visible among Insurances, but in terms of short/long-term return, still remain the highest among all providers.
- Asset size of DB managed by SHB decreased significantly by KRW 374bn during the last 6 months.

Figure 02. DB - ‘Principal & Interest Guaranteed’ and ‘Return Seeking’

Service Provider	Principal & Interest Guaranteed portfolio							Return Seeking portfolio						
	AuM (KRW bil.)	Return (% p.a.)						AuM (KRW bil.)	Return (% p.a.)					
		1yr ('19.3Q-'20.2Q)	1yr (2019)	3yrs ('17-'19)	5yrs ('15-'19)	7yrs ('13-'19)	10yrs ('10-'19)		1yr ('19.3Q-'20.2Q)	1yr (2019)	3yrs ('17-'19)	5yrs ('15-'19)	7yrs ('13-'19)	10yrs ('10-'19)
Shinhan Bank	9,013	1.6	1.5	1.4	1.5	1.9	2.6	1,522	2.8	2.7	2.9	2.7	2.3	3.5
Hana Bank	7,736	1.6	1.6	1.4	1.5	1.9	2.6	840	2.5	2.9	2.6	2.4	2.3	3.4
IBK	8,004	1.5	1.4	1.2	1.4	1.7	2.3	190	1.2	3.9	2.0	1.8	1.9	3.2
HMC Securities	11,167	2.2	2.0	1.8	1.9	2.3	3.0	388	1.9	5.7	2.7	2.4	2.6	3.1
MiraeAsset Daewoo Securities	4,614	2.0	2.0	1.8	2.0	2.4	3.2	667	2.1	3.0	2.6	2.2	2.2	3.5
Korea Investment Securities	3,599	2.1	2.0	1.8	2.0	2.3	3.1	462	3.2	4.4	2.7	2.2	2.5	4.1
Samsung Life	23,256	1.9	1.8	1.7	1.8	2.1	2.7	600	3.7	8.0	5.4	4.4	3.8	4.3
Kyobo Life	4,514	1.8	1.7	1.6	1.8	2.1	3.0	497	2.1	6.4	3.4	2.2	2.6	4.3
Hanwha Life	3,380	1.9	1.9	1.7	1.8	2.1	2.8	13	2.8	5.8	4.3	3.8	3.7	-



Service Providers – DC (as of June 2020)

Principal & Interest guaranteed portfolio

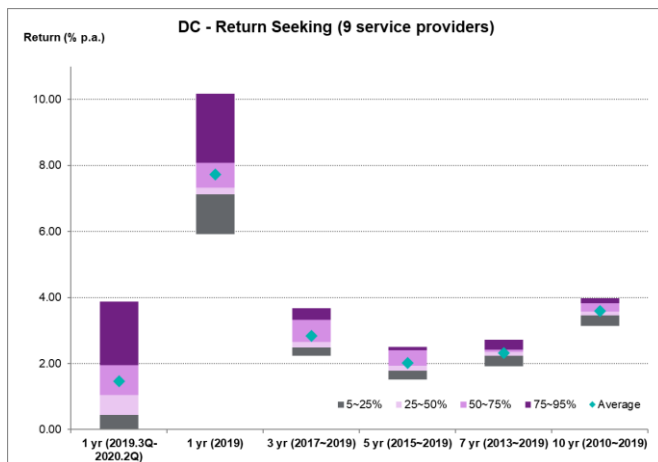
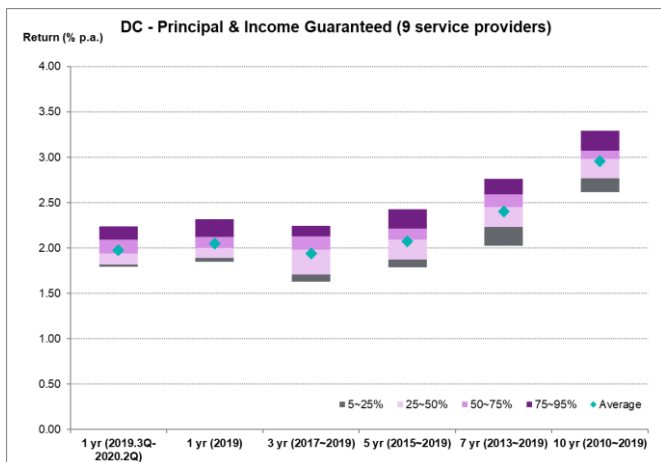
- Eight providers except Shinhan Bank showed lower 1-year return compared to 2019 4Q due to the decline of Korea base rate.
- In general, Banks and Insurances' PIG returns are higher under DC scheme than under DB scheme. But despite the heavy investment made in savings bank deposits by Securities, PIG returns decreased due to the recent decline in savings bank promised interest caused by a fall of Korea base rate.

Return seeking portfolio

- In the first half, 1-year return of return seeking portfolio dropped significantly due to volatile equity market resulting from COVID19, with a range from -3.9% to -7.5%.
- Among 9 providers, only KB Bank has demonstrated negative (-) 1-year return as of June 2020.
- For Securities, asset allocation over PIG and return seeking assets is around 50:50, while only 4% of IBK assets is invested in return seeking products. Despite the COVID-19 crisis, asset allocation has not changed much from 2019 4Q.
- Short-term returns are more volatile under DC scheme compared to DB scheme, but there is no significant difference between DB scheme and DC scheme in a long-term.

Figure 03. DC - 'Principal & Interest Guaranteed' and 'Return Seeking'

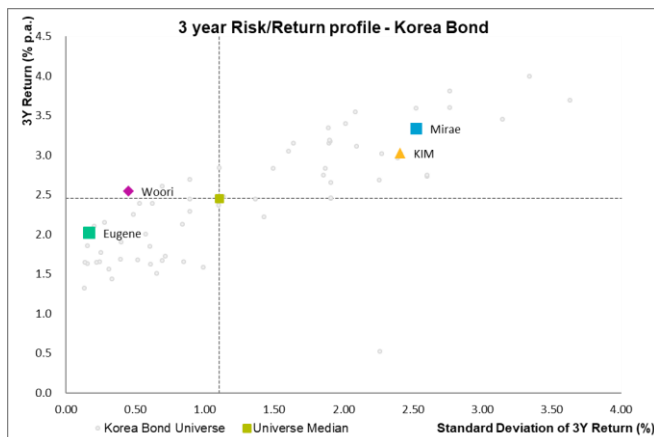
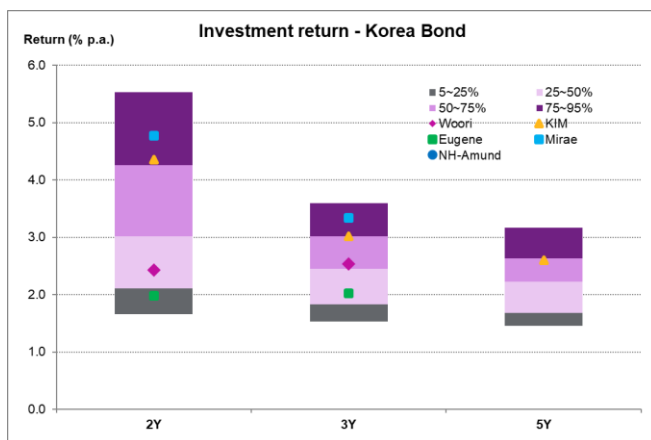
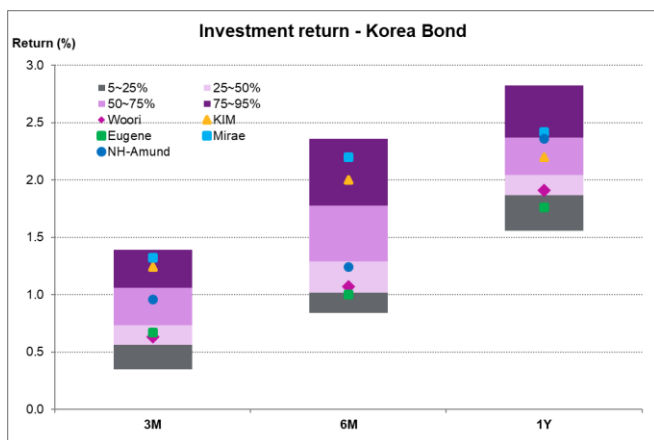
Service Provider	Principal & Interest Guaranteed portfolio							Return Seeking portfolio						
	AuM (KRW bil.)	Return (% p.a.)						AuM (KRW bil.)	Return (% p.a.)					
		1yr ('19.3Q-'20.2Q)	1yr (2019)	3yrs ('17-'19)	5yrs ('15-'19)	7yrs ('13-'19)	10yrs ('10-'19)		1yr ('19.3Q-'20.2Q)	1yr (2019)	3yrs ('17-'19)	5yrs ('15-'19)	7yrs ('13-'19)	10yrs ('10-'19)
KB Bank	7,285	1.8	1.9	1.7	1.8	2.2	2.7	925	-0.7	6.0	2.6	1.9	2.4	3.6
Shinhan Bank	6,674	1.9	1.9	1.7	1.9	2.3	2.9	1,004	1.7	7.1	3.3	2.4	2.4	3.5
IBK	6,711	1.8	1.8	1.6	1.8	2.2	2.8	302	2.0	5.9	2.3	1.8	1.8	3.0
MiraeAsset Daewoo Securities	1,753	1.8	2.0	1.9	2.1	2.5	3.0	2,029	3.7	10.4	3.8	2.5	2.7	3.5
Korea Investment Securities	799	2.0	2.1	2.1	2.3	2.7	3.3	616	0.5	7.3	2.2	1.5	2.1	3.8
Samsung Securities	628	1.9	2.0	2.0	1.9	1.9	2.5	667	1.0	7.7	2.7	2.1	2.2	3.4
Samsung Life	3,625	2.2	2.2	2.1	2.2	2.5	3.0	514	0.4	7.2	2.7	1.9	2.4	3.9
Kyobo Life	1,634	2.1	2.1	2.0	2.2	2.6	3.3	379	0.6	8.1	2.5	1.6	2.2	4.0
MiraeAsset Life	654	2.3	2.4	2.3	2.5	2.8	3.1	218	4.0	9.9	3.5	2.5	2.8	3.6



Investment Products – Korea Bond (as of June 2020)

Figure 04. Retirement Korea Bond funds

Universe	AuM (KRW bil.)	Return (%)					
		3M	6M	1Y	2Y	3Y	5Y
Range of the universe							
5th Percentile	60	1.39	2.36	2.83	5.53	3.60	3.17
25th Percentile	16	1.06	1.78	2.37	4.25	3.02	2.63
Median	2	0.74	1.29	2.05	3.02	2.45	2.22
75th Percentile	0.2	0.56	1.02	1.87	2.10	1.83	1.68
95th Percentile	0.0	0.35	0.84	1.56	1.66	1.53	1.46
Number of data (#)	223	211	189	172	109	68	50
Top 5 largest funds							
	AuM (KRW bil.)	3M	6M	1Y	2Y	3Y	5Y
Woori High Plus Bond Feeder 1 (bond) C-P	359	0.63	1.07	1.91	2.43	2.54	-
KIM Retirement Pension Feeder 1 (Government bond) C	284	1.24	2.00	2.20	4.35	3.02	2.60
Eugene Champion ST Bond Feeder (Bond) C-P2	265	0.67	1.00	1.76	1.98	2.02	-
Mirae Solomon LT Gov. Bond Feeder 1 (Bond) C-P2	104	1.32	2.20	2.42	4.77	3.34	-
NH-Amundi 2 Years Maturity Matching Feeder (Bond) C-P2	94	0.96	1.24	2.36	-	-	-



The Investment Products study covers three mandates which are Korea Bond, Korea Bond-Balanced(60+% invested in bonds) and Korea Equity.

Mandate

- There were 13 new products launched since the end of 2019 so that there are 223 Korea Bond products available.
- Due to the aggressive rate cut and market stabilization policy in response to COVID-19, H1 2020 shows better performance compared to H2 2019.

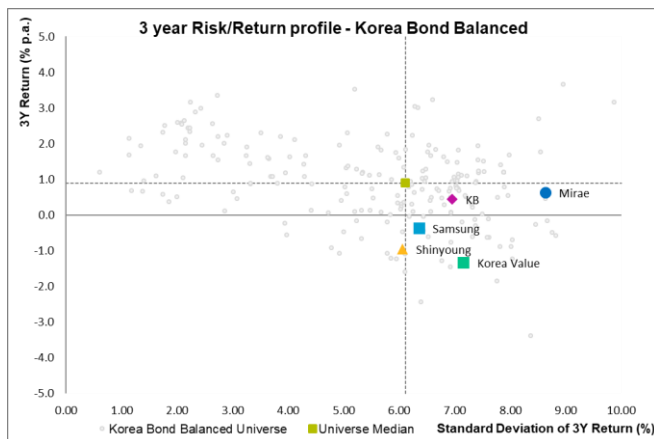
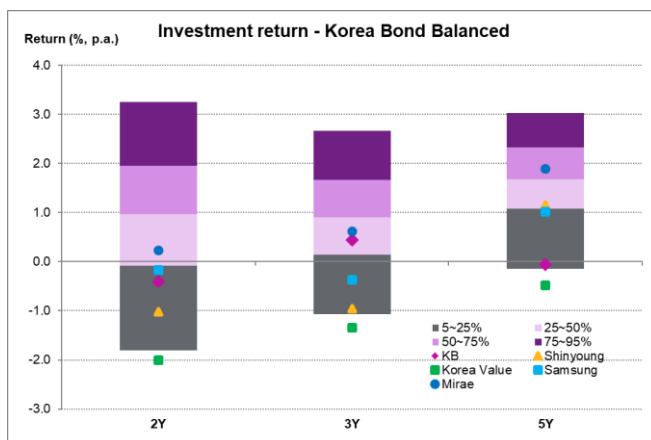
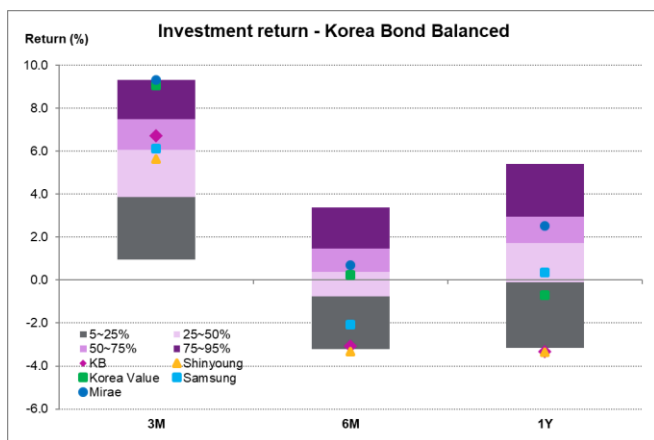
Top 5 largest funds

- Overall AUM of top 5 funds declined during H1 2020.
- Maturity matching funds such as the NH-Amundi (new entrant ranked #5) continue to show up among the funds with large AUM.

Investment Products – Korea Bond Balanced (as of June 2020)

Figure 05. Retirement Korea Bond Balanced funds

Universe	AuM (KRW bil.)	Return (%)					
		3M	6M	1Y	2Y	3Y	5Y
Range of the universe							
5th Percentile	35	9.30	3.38	5.41	3.24	2.66	3.03
25th Percentile	4	7.48	1.48	2.95	1.95	1.66	2.32
Median	1	6.05	0.39	1.73	0.97	0.90	1.68
75th Percentile	0.2	3.86	-0.76	-0.10	-0.09	0.14	1.07
95th Percentile	0.0	0.94	-3.20	-3.16	-1.80	-1.07	-0.15
Number of data (#)	385	380	368	363	329	216	186
Top 5 largest funds							
	AuM (KRW bil.)	3M	6M	1Y	2Y	3Y	5Y
KB Dividend 40 Feeder (Bd-balanced) C	1,132	6.71	-3.08	-3.33	-0.41	0.44	-0.06
Shinyoung Div. 40 Feeder (Bd-balanced) C	480	5.63	-3.33	-3.37	-1.02	-0.96	1.15
Korea Value 10 year Feeder1 (Bd-balanced) C	479	9.05	0.25	-0.71	-2.01	-1.34	-0.48
Samsung Korea Representative 40 Feeder1 (Bd-balanced) C	253	6.12	-2.06	0.34	-0.17	-0.37	1.02
Mirae Asset Best Fund Collection Feeder1 (Bd-balanced) C	170	9.32	0.69	2.52	0.23	0.62	1.89



Mandate

- With 13 new additions over H1 2020, the total number of funds now stand at 385.
- Wider dispersion in H1 2020 performance is attributable to different equity management styles and their reaction to COVID-19 led market correction.

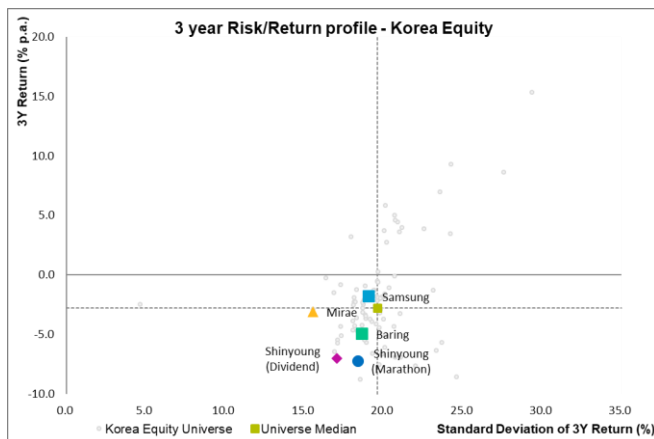
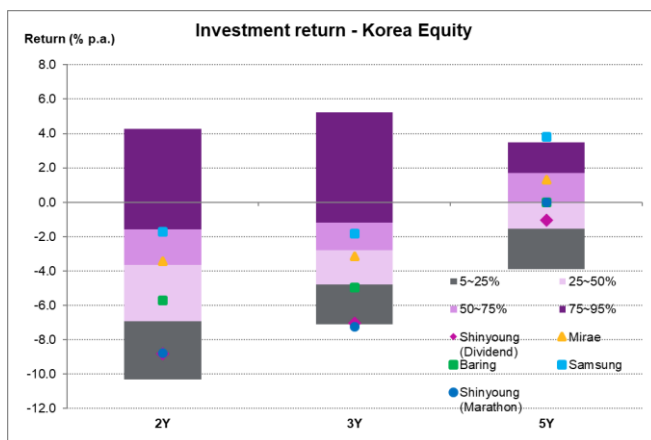
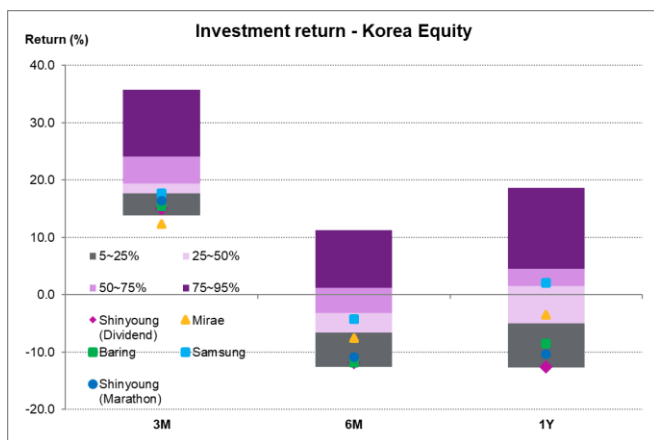
Top 5 largest funds

- While there is no change to the top 5 AUM funds list, their AUM shrank during H1 2020.
- Despite a strong rebound in Q2, YTD performance of 3 funds still show minus returns attributable to their equity management style (dividend, value, large-cap focused).

Investment Products – Korea Equity (as of June 2020)

Figure 06. Retirement Korea Equity funds

Universe	AuM (KRW bil.)	Return (%)					
		3M	6M	1Y	2Y	3Y	5Y
Range of the universe							
5th Percentile	19	35.75	11.25	18.60	4.27	5.25	3.49
25th Percentile	3	24.08	1.21	4.52	-1.59	-1.17	1.70
Median	0.4	19.37	-3.17	1.55	-3.66	-2.80	-0.04
75th Percentile	0.1	17.66	-6.66	-4.98	-6.93	-4.77	-1.53
95th Percentile	0.0	13.85	-12.59	-12.72	-10.31	-7.09	-3.89
Number of data (#)	300	288	278	267	241	95	50
Top 5 largest funds							
	AuM (KRW bil.)	3M	6M	1Y	2Y	3Y	5Y
Shinyoung Dividend Feeder (Equity) C	186	15.05	-11.90	-12.63	-8.83	-7.03	-1.06
Mirae Asset Dividend Premium Feeder 1 (Eq-balanced) C	163	12.33	-7.57	-3.47	-3.42	-3.14	1.30
Baring High Dividend Feeder (Equity) C-P2	70	15.47	-11.83	-8.48	-5.71	-4.98	-
Samsung Retirement Pension Index Feeder 1 (Equity) C	57	17.65	-4.25	2.11	-1.73	-1.82	3.79
Shinyoung Marathon Feeder (Equity) C-P2	48	16.42	-10.86	-10.32	-8.78	-7.25	-



Mandate

- Due to COVID-19, median performance over H1 2020 was -3.17%, comparable to 3.52% of H2 2019.
- During the market rebound in Q2, small-mid cap, growth style funds tend to show relatively stronger performance.

Top 5 largest funds

- There was no change to top 5 AUM funds list, Samsung's index fund advanced to rank #4.
- While all 5 funds show strong rebound during Q2, it was not sufficient to mitigate the loss during Q1.
- Dividend, value-style, large-cap focused funds show relatively poor performance over H1 2020.

2020 Major Proposed Amendments in Employees' Retirement Benefits Security Act

In July 2020, revision on the bill has been proposed including mandatory adoption of retirement pension plan. The mandatory adoption was one of 'The blueprint for economic policy for the second half of 2020' proposed by the Ministry of Economy and Finance. Last proposed amendment including mandatory adoption was scrapped at the closed of the 20th session of the National Assembly. Details of 2020 proposed amendment may change during the discussion in the 21st session of the National Assembly.

Through this report, we would like to introduce essential revisions to whom it may concern.

Mandatory adoption of retirement pension plan

- Retirement pension plan to be adopted within 6.5 years after the amendment with respect to the size of the company (5 stages).

Number of employees	Mandatory adoption deadline
More than 100	Within 6 months from law enforcement date
30 ~ 99	Within 2 years from law enforcement date
10 ~ 29	With in 3.5 years from law enforcement date
5 ~ 9	Within 5 years from the law enforcement date
Less than 5	Within 6.5 years from the law enforcement date

* Law enforcement date: On the day one year has been passed since the date of the promulgation

- ✓ For companies with severance payment scheme ('SPS'), companies can keep current SPS for the past service periods
- ✓ Upon termination, retirement benefit for past service periods under SPS should be paid to IRP account.
- ✓ A fine of 30 million won or less will be imposed on ones who fail to adopt.

Reinforced responsibilities of companies with DB plan

- Compulsory Establishment of an Investment Committee
 - ✓ Companies with DB plan (with more than 300 employees) should establish an Investment Committee and create an Investment Policy Statement(IPS) more than once a year.
 - ✓ In case of violation, a fine of 5 million won or less will be imposed.
- Companies who fail to make up for a deficiency in DB plan reserve, a fine of 10 million won or less will be imposed.

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Contact Details

Andrew Shin, CFA, FRM, CAIA
Head of Investments, Korea

+82.2.3430.2550

Andrew.shin@willistowerswatson.com

Chongson An, FSA, FIAK
Head of Retirement, Korea

+82.2.3430.2561

Chongson.an@willistowerswatson.com