DATA CENTRE

KOREAN INSTOS LEARN TO LOVE RISK

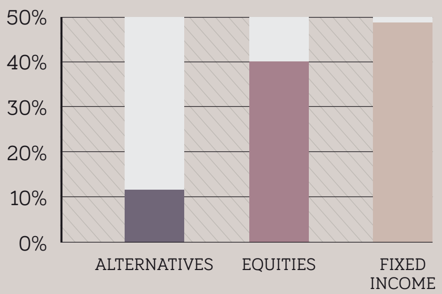
The country's pension funds are investing quite aggressively, as they seek to make up more funds to pay for an aging population

KOREA'S PENSION FUNDS are some of the region's fastest growing. They need to be, as the country is aging fast and its economy is slowing. To build their assets many funds are investing more aggressively than global peers, according to new research from French financial group Natixis. National Pension Service (NPS), the country's largest pension fund, aims to allocate more to alternative assets and equities, while life insurers intend to expand their overseas assets as they seek more yield.

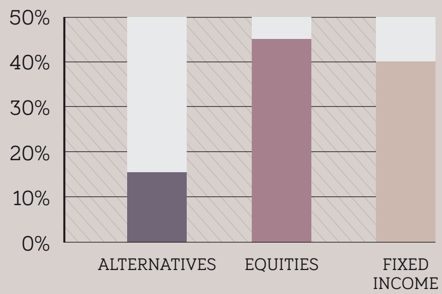
INVESTING AGGRESSION

KOREAN PENSION FUNDS want to increase their medium-term allocations to alternative assets. NPS, which has more assets than all of Korea's other pension funds, aims to raise alts from 11.3% of assets to 15% by 2023, and equities from 40% to 45%. Meanwhile its fixed income allocation will fall from about 49% today to 45% in 2023.

NPS ASSETS - TODAY



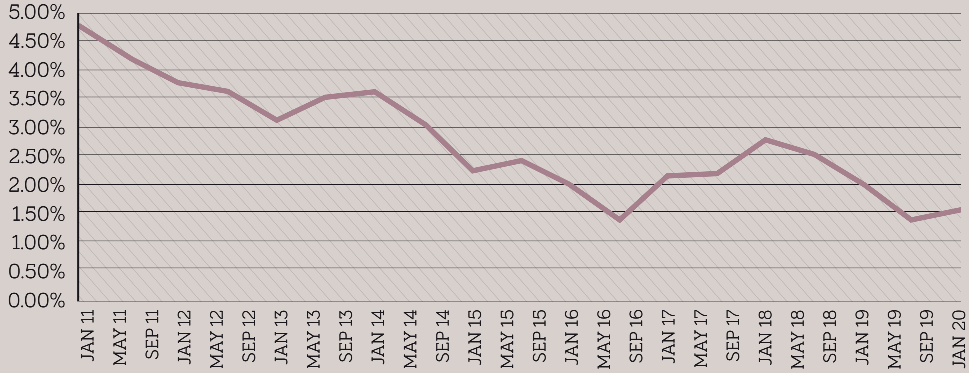
NPS ASSETS - 2023



Source: Ministry of Health & Welfare

FALLING FIXED RETURNS

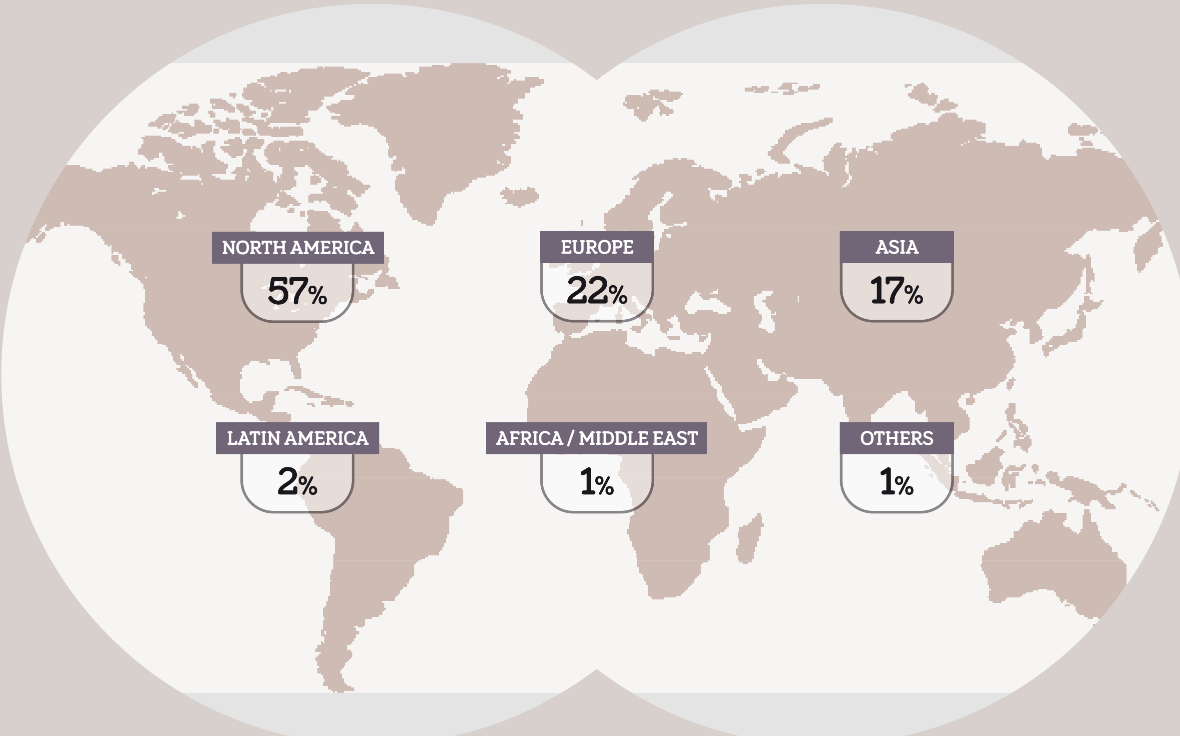
KOREA'S UNENVIABLE COMBINATION of low fertility and longer life expectancy is set to hurt economic growth. That could well force the Bank of Korea to cut rates, which will in turn hurt local fixed income returns. The 10-year government bond yield has already fallen from nearly 5% in 2011 to 2.5% this year.



Source: Natixis, Ministry of Health & Welfare

FOCUSING ON EQUITY GROWTH

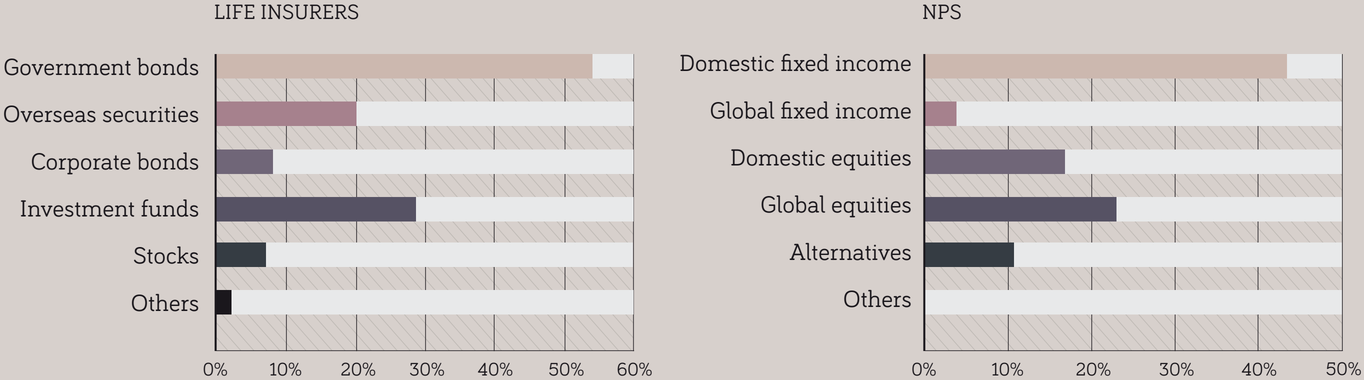
NPS ALREADY ALLOCATES a lot to North America, Europe and Asia equities. Its search for yield and rising allocation to equities is likely to increase this focus, particularly into areas such as emerging Asia, and could marginalise Europe's allocation into third place.



Source: Natixis

LIFERS VS. NPS

NPS HOLDS A fairly broad variety of assets, yet it still has 45% based in domestic fixed income today. Life insurers have even more. NPS's total fixed income allocation is set to come down somewhat, and while life insurers will need to keep a higher contribution to fixed income due to regulations, they are also likely to raise their 20% allocation to overseas securities.



Source: Natixis, Ministry of Health & Welfare