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Press Release

November 22, 2006

Assessment of Private Equity Industry

The Financial Supervisory Service issued an assessment of Korea's private equity industry on November 22, 2006, to mark the second year of regulatory changes that allowed the formation of private equity funds (PEFs) as a recognized investment entity for the first time in December, 2004.

Registered PEFs

There were 20 registered PEFs as of end-October with a total investor subscribed (committed) amount of KRW4.66 trillion, of which KRW1.99 trillion were actually called. Since the beginning of 2006, six PEFs were newly registered and one was terminated for a net increase of five. The subscribed amount increased KRW1.76 trillion and the called amount KRW760.6 billion in 2006. At the end of 2005, there were 15 registered PEFs with KRW2.9 trillion in total subscribed amount and KRW338.8 billion in total called amount.

Fund Raising

There were seven large funds (more than KRW300 billion), six medium-sized funds (between KRW100 billion and KRW300 billion), and seven small funds (less than KRW100 billion) as of end-October. Three of the large funds exceeded KRW500 billion in total subscribed amount. Most of the small funds were so-called "deal-by-deal" PEFs that specialize in a specifically targeted company.

PEF Fund raising

Subscribed Amount	End-2005	End-Oct. 2006	Newly Registered	Terminated	Change
More than KRW300 billion	6	7	2	1	1
KRW100-300 billion	4	6	2	-	2
Less than KRW100 billion	5	7	2	-	2
Total	15	20	6	1	5

Financial institutions, mostly banks, continued to make up a significant portion of PEF investors. The share of individual investors rose from 5.4% to 7.7% in 2006.



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PEF Investors

Investor Type	Investment Share	
	End-2005	End-Oct. 2006
Financial institutions	60.3%	57.7%
Pension funds	23.3%	18.5%
Public corporations	-	2.3%
Incorporated investors	11.0%	13.8%
Individual investors	5.4%	7.7%

Management fees typically ranged between 1.5% and 2% of the subscribed investment amount when PEFs were first introduced. But with a majority of institutional investors preferring financial, rather than strategic, investment whose returns do not depend too much on the fund management skills of the general partners (managers) of PEFs, management fees fell to a lower range between 0.1% and 2% of the investment executed.

Investments

Eleven PEFs had executed investments totaling KRW999.0 billion in 27 companies, including a KRW343.9 billion takeover of a privately held company in June, 2006, the largest PEF investment to date. Since the beginning of the year, the number of companies in which PEFs invested jumped from 9 to 27 with the total executed amount sharply up from KRW267.7 billion to KRW990.0 billion.

Most of the PEFs whose managers are financial institutions were non-strategic financial investors. But PEFs run by managers with fund management experiences overseas tended to prefer strategic investment. A strategic investor usually becomes the largest shareholder in the invested company and assumes the management control, whereas a financial investor typically becomes one of the major shareholders together with the strategic investor.

Monitoring & Value Addition

Most PEFs were financial investors, but several PEFs directly participated in the management of the invested companies and took restructuring steps to raise the value of the invested companies. There were indications that some of the PEFs that made strategic investments focused excessively on the takeover of an invested company but were not adequately prepared for its post-takeover management. Some of the PEFs also encountered conflicts with the existing management because of ambiguities in the investment contract over the extent of their management participation.



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Exit from Investment

On October 12, 2006, FG10 PEF sold off 5.43 million shares (42.1%) of MK Electronics the fund acquired on December 29, 2005, to Daewoo Electronics Components Co., Ltd., for KRW55.4 billion, generating an expected return of 54%. The sale may well be the precursor to the increasing differentiation between strategic investors seeking high return at high risk and the less aggressive financial investors seeking investment returns of around 10%.

Assessment and Outlook on the PEF Industry

Competition among PEFs is intensifying, but the size of the market for M&A remains fairly substantial. With a number of large companies open to possible takeover activities and many strong, under-valued SMEs and others currently undergoing restructuring seeking new investors, investment opportunities for the PEF industry is likely to grow. As more PEFs turn to takeovers and competition intensifies, uncompetitive funds are less likely to see growth opportunities and the industry as a result will advance to a more mature stage. On the regulatory front, the industry will likely benefit from further fine-tuning and easing of restrictions, particularly on the range of investment activities open to PEFs; currently only buyout investment is open to PEFs.

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