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Korean Equities

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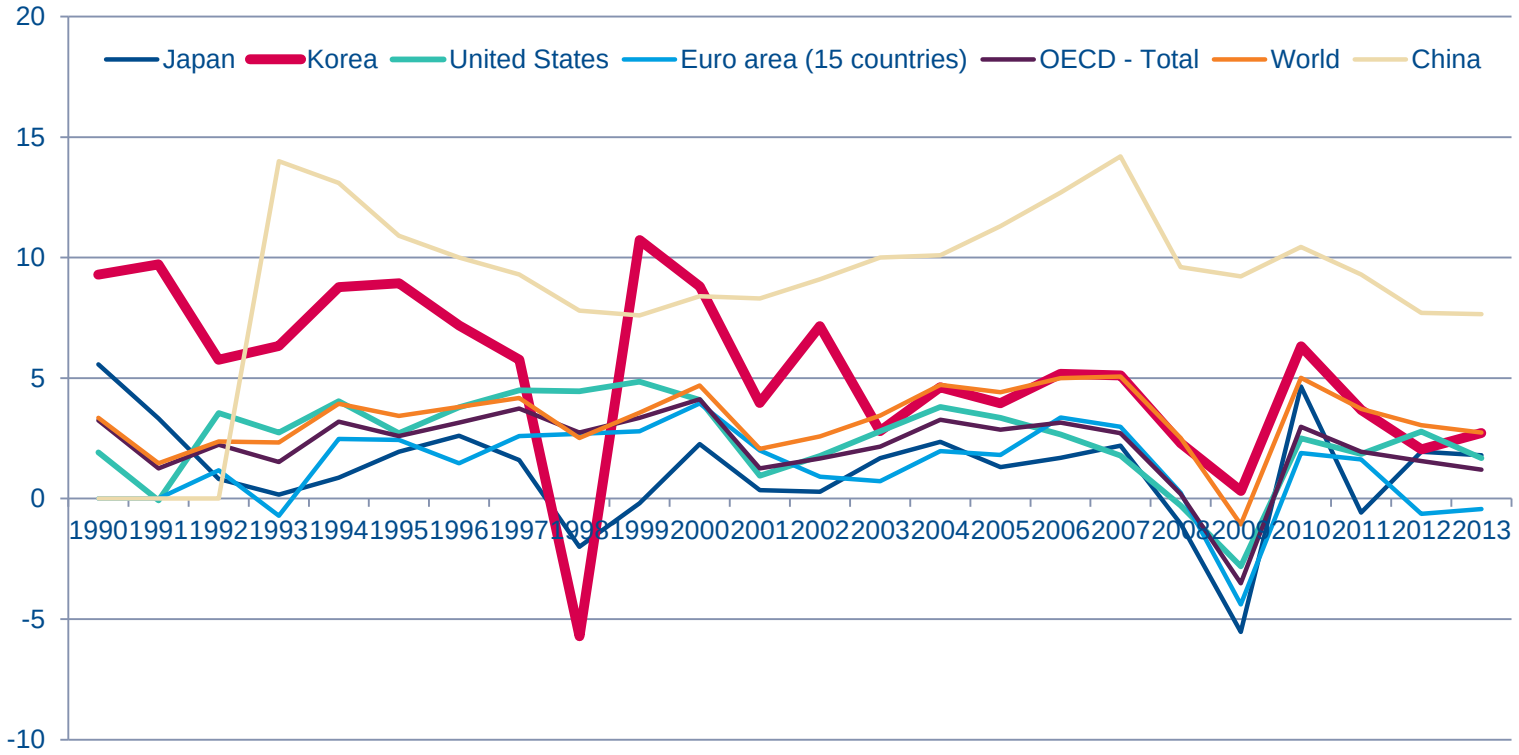
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Investment climate
Low growth/ interest rates in Korea

- GDP growth rates have been trending downward since 2000
- Lower than developed markets after the global financial crisis of 2008

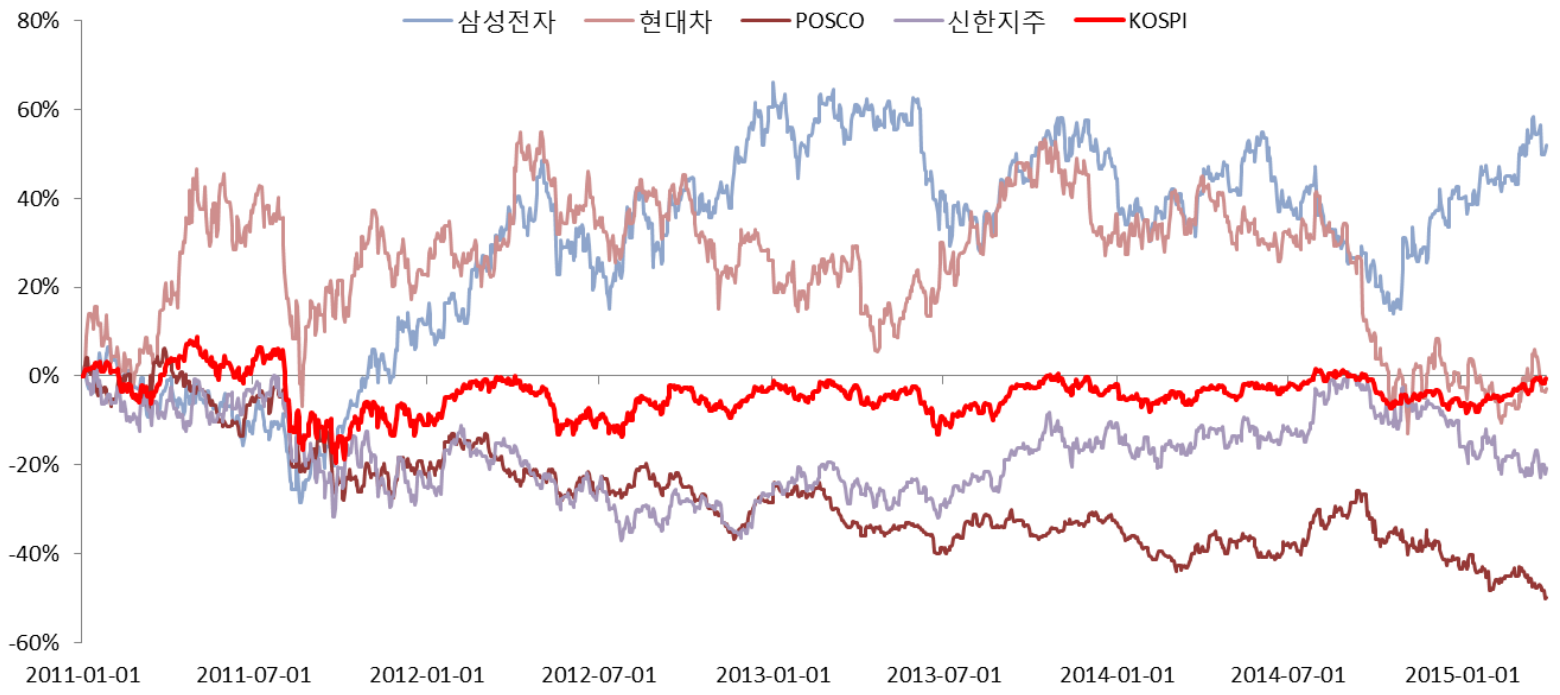


Source: Dataguide, Baring Asset Management Korea

Investment climate

Market changes in low growth/ interest rate environment

- Conglomerates are reaching growth ceilings; directly exposed to macro risks
- Korean manufacturers are losing market share against Chinese peers



Source: Dataguide, Baring Asset Management Korea as at March 2015

Strategy
Solution for low growth/ interest rate environment

Low expected rate of return for passive strategy

Focus on bottom-up research, analyse intrinsic value

High conviction investment strategy around principles of high growth, high dividend and value

Finding your own investment style - different styles for different investors

Active strategy

Solution for low growth/ interest rate environment

Low interest rate/ low growth market

- Low rate of return for risk-free assets
  (1-year deposit rate: 2.2% - 2.5%)
- Difficult to satisfy investors' expected rate of return with an ordinary-style equity fund

Conservative investment:
high dividend/ value

Active investment:
growth stocks

- Even in a low growth environment, stocks with strong earnings potential exist
- Seek long term capital appreciation based on rigorous company research and valuation

Active strategy
Selective stock picking

Industry potential	1	Within the industry, with ample growth potential
Market expansion	2	Expanding market share or market consolidation ongoing
Reasonable R&D	3	Reasonable Capex cycle
Paradigm shift	4	Introduction of new technology and innovation, combined with a new paradigm shift
Turnaround	5	Expectation of a turnaround in market dynamics or company earnings

Active strategy

Market dominance reflects long-term price

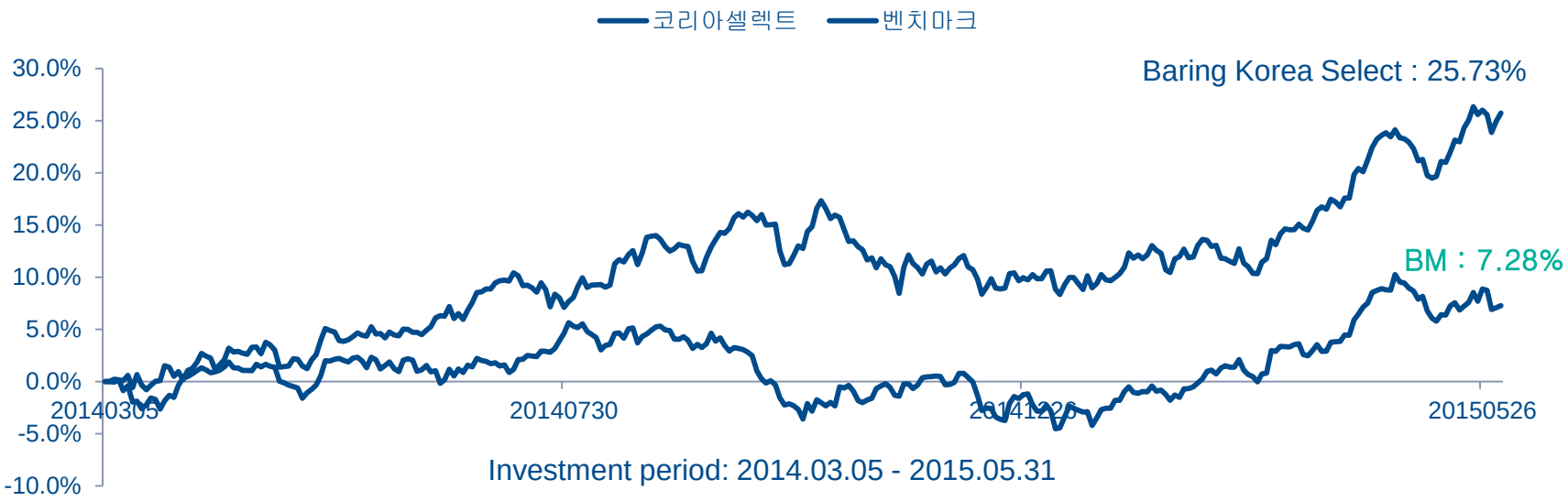
❑ 업종별 수익률 순위

업종	2010	2011	2012	2013	2014	2015(YTD)
음식료품	12	1	3	13	7	7
섬유,의복	7	2	18	5	2	9
종이,목재	10	12	5	4	14	2
화학	2	5	14	15	19	5
의약품	19	8	4	12	9	1
비금속광물	13	14	12	3	1	6
철강및금속	18	11	17	17	18	14
기계	5	18	21	18	20	15
전기,전자	9	4	1	16	11	18
의료정밀	21	15	20	1	15	4
운수장비	1	3	16	11	21	19
유통업	6	7	13	10	16	11
전기가스업	20	10	2	6	5	12
건설업	16	16	19	19	17	8
운수창고	3	17	8	21	3	20
통신업	14	13	11	2	6	21
금융업	11	19	9	9	13	13
은행	15	20	15	14	8	16
증권	8	21	7	20	4	3
보험	17	6	10	7	10	17
서비스업	4	9	6	8	12	10

Source: Korea Stock exchange, 2015.6.30

Active strategy - an example

Baring Korea Select



	1M	3M	6M	9M	1Y	YTD	Since inception
Baring Korea Select (%)	3.79	11.21	13.37	11.32	20.19	14.44	25.73
BM (%)	-0.58	6.50	6.77	2.24	6.01	10.40	7.28

Benchmark: KOSPI 100%, A Class. Past performance doesn't guarantee future performance. Source: Baring Asset Management Korea

Conservative investment strategy

Solution for low growth/ interest rate environment

Low interest rate/ low growth market

- Low rate of return for risk-free assets
  (1-year deposit rate: 2.2%~2.5%)
- Difficult to satisfy investor's expected rate of return with an ordinary-style equity fund

Conservative investment:
high dividend/ value

(High return on equity)

- Invest in high dividend-yielding stocks with the aim of steadily increasing dividend income and capital appreciation

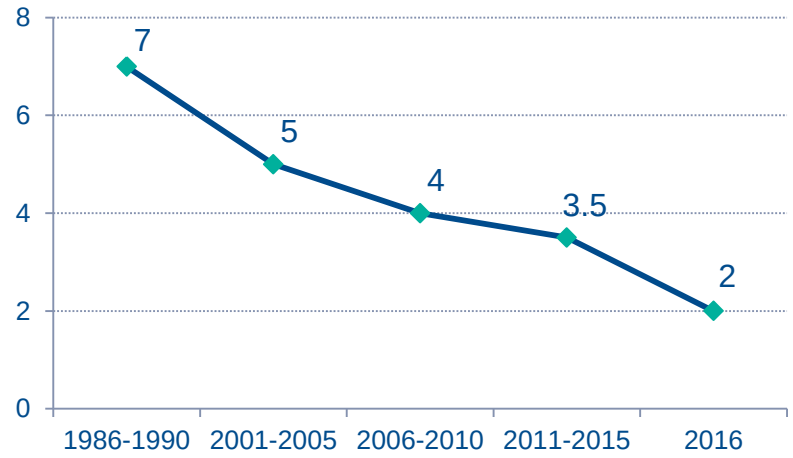
Active investment:

growth stocks

Conservative investment strategy – high dividend

Low growth is a global trend

GDP growth rates for South Korea (%)



- Growing exposure to macro factors
- With lowering growth profile, dividend plays a bigger part in the Korea stock market

Price = Dividend / (Risk – Growth)

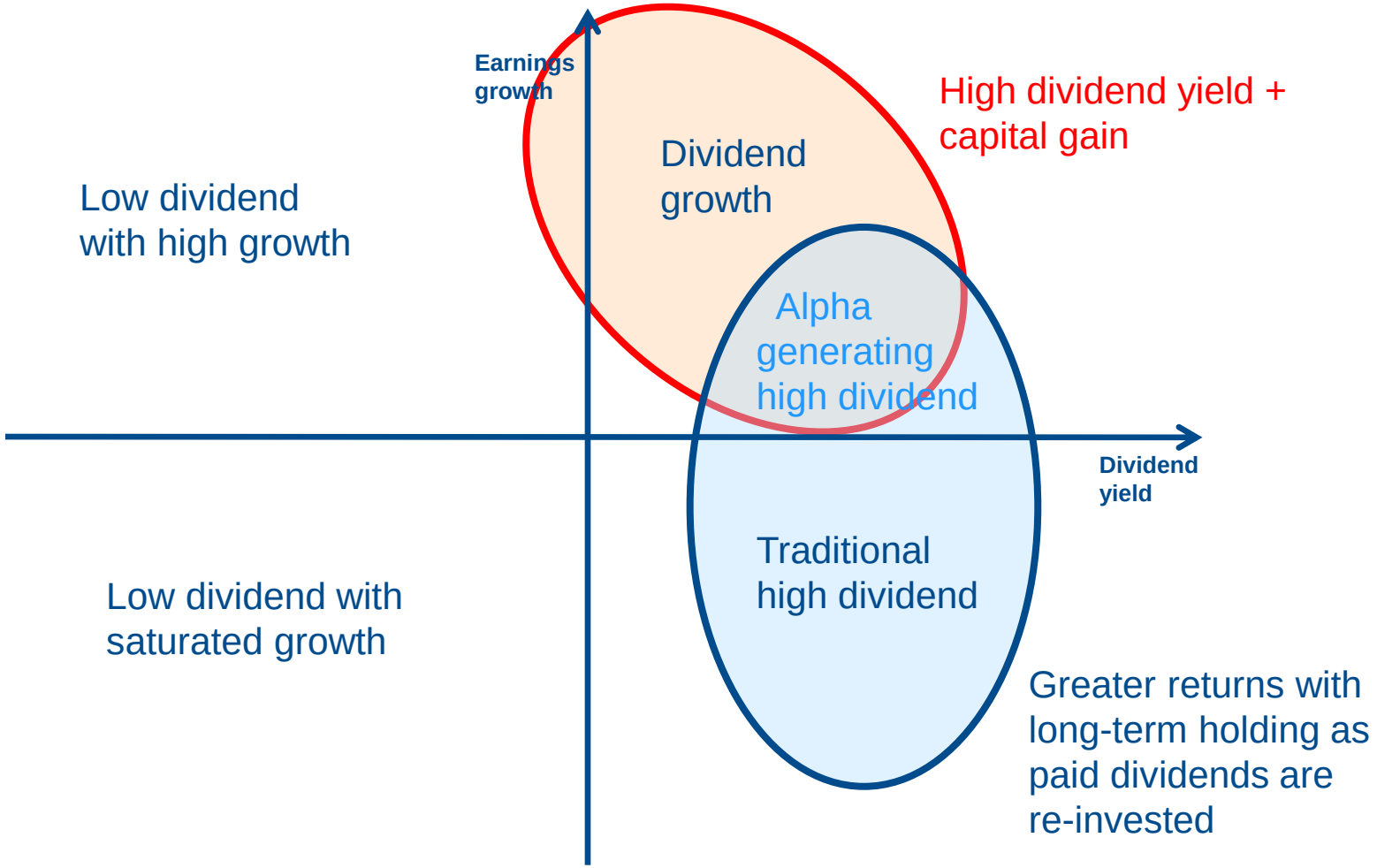
Bigger role

Lesser role

Source: Korea Center for International Finance, as of December 2013

Conservative investment strategy – high dividend

Characteristics of dividend stocks



Conservative investment strategy – high dividend
Stock selection criteria

1. Stocks expected to deliver greater dividend yield than bonds

Stock selection criteria

- High payout ratio
- Provides stable earnings
- Faces saturated growth
- Has capability and incentive to pay more dividends

Portfolio strategy

- Calculate bottom value based on our holistic approach to the stock's liquidity, financial structure and corporate governance
- Accumulate more with long-term perspective as stocks approach their bottom value

Example: AAA



	2010	2011	2012	2013	2014	2015(E)	2016(E)
EPS	22,808	19,975	14,263	20,298	22,307	25,881	28,911
DPS	9,400	9,400	9,400	9,400	9,400	9,879	10,021
PR	41.2%	47.1%	65.9%	46.3%	42.1%	38.2%	34.7%
Price	173,500	141,500	152,500	230,000	268,000	272,500	272,500
DY	5.4%	6.6%	6.2%	4.1%	3.5%	3.6%	3.7%
Div Growth		0.0%	0.0%	0.0%	0.0%	5.1%	1.4%

Conservative investment strategy – high dividend
Stock selection criteria

2. Stocks with growth profile, expected to deliver more than market average dividend yield

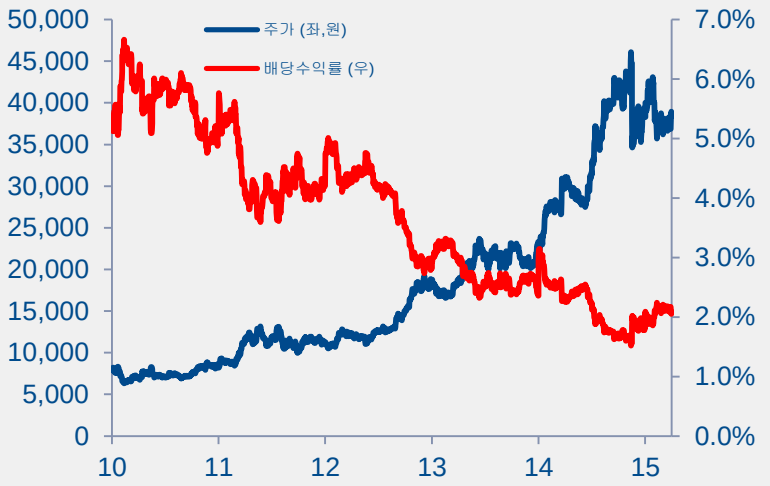
Stock selection criteria

- Pays higher dividends within the market and industry
- Positive cash flow with growth in earnings
- Holding payout ratio at a reasonable ratio
- Appealing valuation

Portfolio strategy

- Selective stock picking for quality stocks through in-depth research and investment process
- Overweight stocks which are temporarily undervalued, but with high growth potential

Example: BBB



	2010	2011	2012	2013	2014	2015(E)	2016(E)
EPS	1,125	1,264	1,631	1,718	2,025	2,211	2,509
DPS	421	474	526	550	700	800	900
PR	37.4%	37.5%	32.3%	32.0%	34.6%	36.2%	35.9%
Price	8,211	11,263	18,632	23,300	38,300	38,950	38,950
DY	5.1%	4.2%	2.8%	2.4%	1.8%	2.1%	2.3%
Div Growth		12.5%	11.1%	4.5%	27.3%	14.3%	12.5%

※ 2013년 90% 무상증자 수정반영

Conservative investment strategy – high dividend
Stock selection criteria

3. Stocks that are expected to increase their payout ratio

Stock selection criteria

- Currently undervalued compared to its potential
- Provided stable dividend yields in the past
- Expected to pay more dividends considering the firm's financial policy

Portfolio strategy

- Focus on stocks with high ROE, stable balance sheets and positive cash flow
- In-depth analysis combined with company visits and rigorous research
- Analyse and review stocks with stable and long term dividend yields
- Underweight stocks with less appealing dividend profile

Example: CCC



	2010	2011	2012	2013	2014	2015(E)	2016(E)
EPS	6,602	5,529	7,121	7,245	10,487	11,799	13,677
DPS	600	600	600	600	3,430	3,859	4,473
PR	9.1%	10.9%	8.4%	8.3%	32.7%	32.7%	32.7%
Price	208,500	307,500	150,500	248,500	182,000	181,500	181,500
DY	0.3%	0.2%	0.4%	0.2%	1.9%	2.1%	2.5%
Div Growth		0.0%	0.0%	0.0%	471.7%	12.5%	15.9%

Conservative investment strategy – high dividend
Stock selection criteria

4. Stocks that have delivered stable and increasing dividend yields in the past

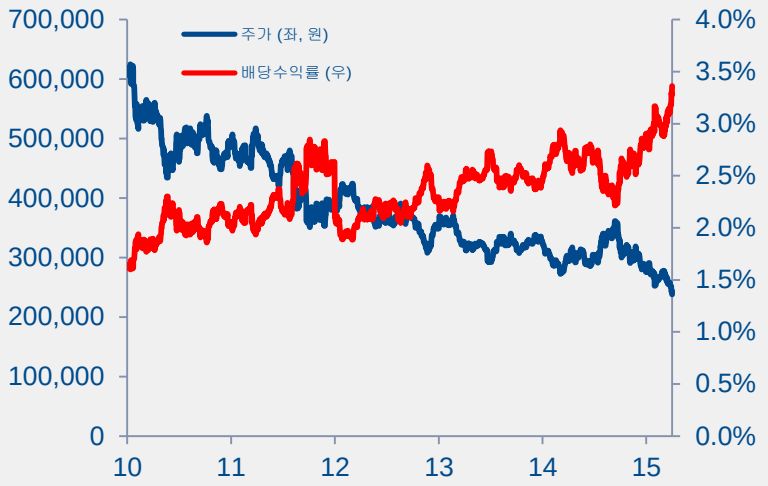
Stock selection criteria

- Undervalued company with dividend yields reaching historical highs
- Companies capable of generating stable cash flow
- Earnings bottoming out in the long run

Portfolio strategy

- Analyse reasons for corporate earnings deterioration, possible chance for recovery?
- Invest in stocks which are undervalued in the short term but have attractive dividend profiles
- Manage stocks in the portfolio with limited risk exposure

Example: DDD



	2010	2011	2012	2013	2014	2015(E)	2016(E)
EPS	47,090	41,843	28,239	15,787	7,181	22,740	26,397
DPS	10,000	10,000	8,000	8,000	8,000	8,071	8,143
PR	21.2%	23.9%	28.3%	50.7%	111.4%	35.5%	30.8%
Price	487,000	380,000	349,000	326,500	275,500	244,500	244,500
DY	2.1%	2.6%	2.3%	2.5%	2.9%	3.3%	3.3%
Div Growth		0.0%	-20.0%	0.0%	0.0%	0.9%	0.9%

Conservative investment strategy – high dividend
Stock selection criteria

5. Prefer stocks with more attractive dividend profile than common stock

Stock selection criteria

- Adequate disparate ratio against common stock
- Undervalued compared to common stock
- Stocks with significantly high dividend yields

Portfolio strategy

- Selective stock picking based on market cap and liquidity
- Invest in common stock, if disparate gap narrows to a certain level

Example: EEE



	2010	2011	2012	2013	2014	2015(E)	2016(E)
EPS	29,205	28,930	20,223	17,131	11,745	15,570	19,174
DPS	4,050	4,050	4,050	4,050	4,050	4,182	4,358
PR	13.9%	14.0%	20.0%	23.6%	34.5%	26.9%	22.7%
Price	391,000	317,500	330,000	299,500	181,000	152,000	152,000
DY	1.0%	1.3%	1.2%	1.4%	2.2%	2.8%	2.9%
Div Growth		0.0%	0.0%	0.0%	0.0%	3.3%	4.2%

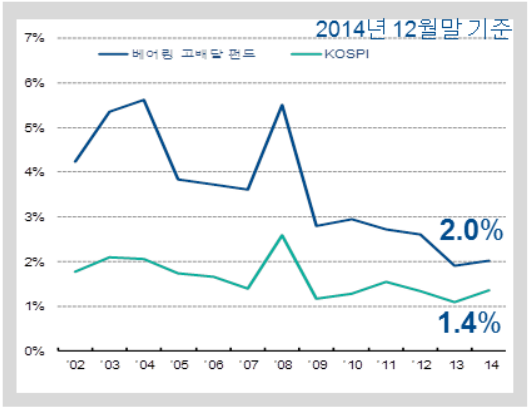
* 2015.4.1일 현재 보통주 대비 괴리율 32%

Conservative investment strategy – high dividend

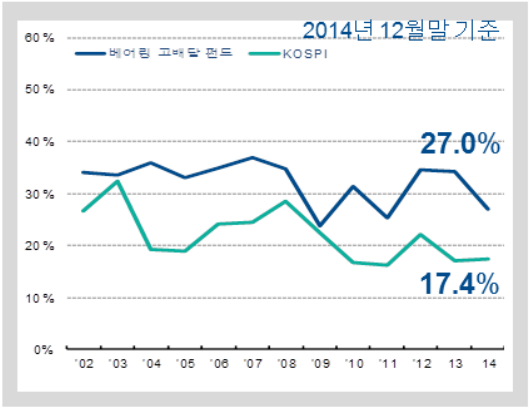
10 years of dividend fund management

Proven high dividend selection skills

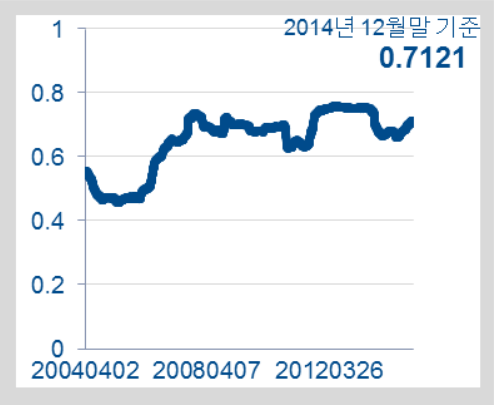
Dividend yield



Payout ratio



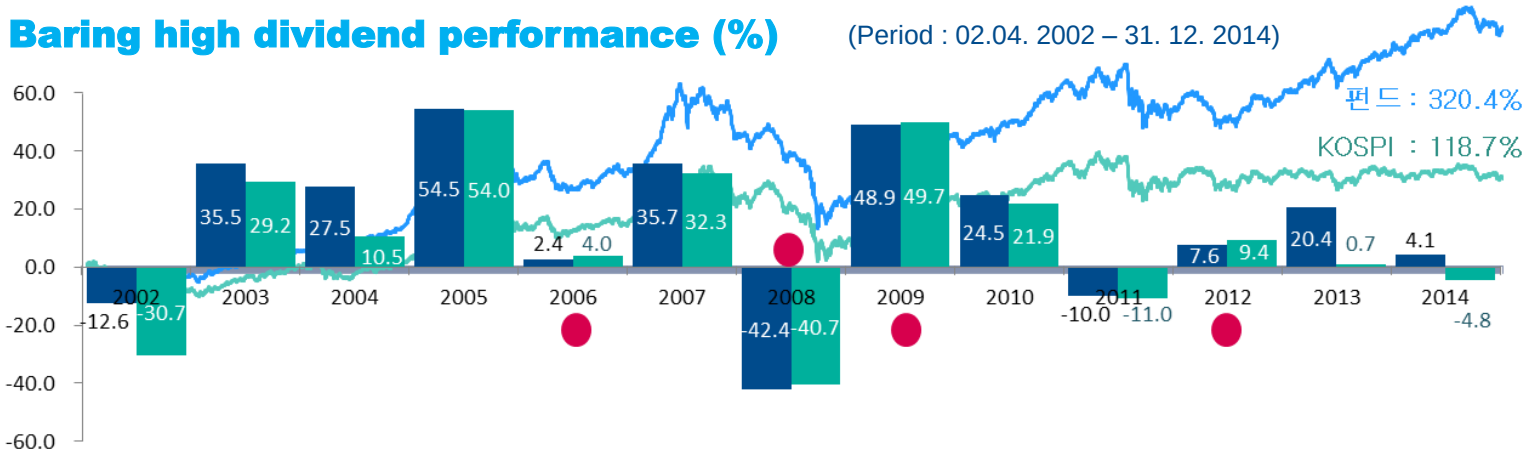
Beta



주1) 베어링 고배당증권투자회사(주식)의 배당수익률은 중간배당 등을 포함한 총 연간배당금을 배당발생일자의 순자산총액으로 나눈 값으로 산정. KOSPI 배당수익률, KOSPI 배당성향은 매년 말일자 시가 기준
주2) Beta값은 베어링 고배당 증권 투자회사(주식)의 수익률을 최근 2년 동안 일간 수익률로 계산하여 산출한 수치임(Rolling basis)

Baring high dividend performance (%)

(Period : 02.04. 2002 – 31. 12. 2014)



Source: BAMK, Fnguide, Bloomberg, 2015.3.30

Conservative investment strategy – value investing

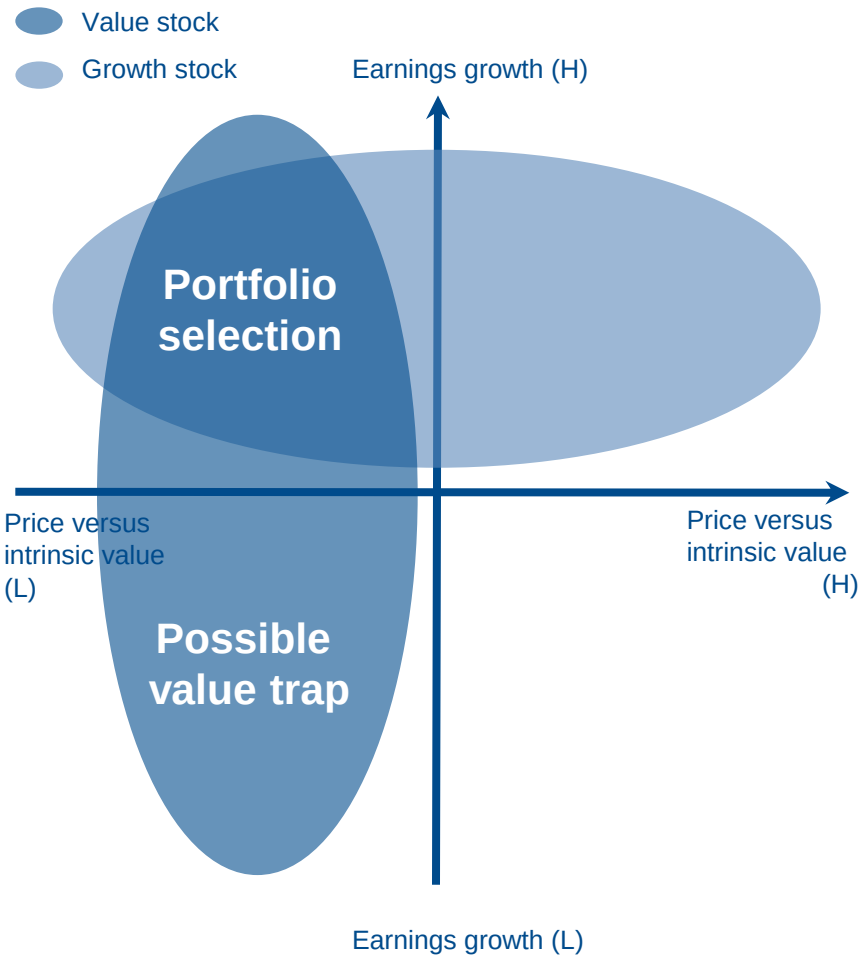
What is value investing?

Invest in undervalued equities by identifying the stock's potential, not just through quantitative analysis

1	2	3	4
▪ A company with the potential to appreciate significantly in the long run	▪ Expecting ROE expansion, driven by new growth engine ▪ Assets beginning to materialise as future profit ▪ Alpha generation	▪ High dividend yield and strong cash flow generation capability ▪ High payout ratio can be a bear market protector	▪ Asset-light industry tends to get higher valuations compared to other industries ▪ Invest in undervalued stock relative to industry and regional peers
Absolutely undervalued	ROE expansion story	Consistent cash flow	High growth potential

Conservative investment strategy – value investing

How to select a value stock?



Barings: proven track record of stock selection

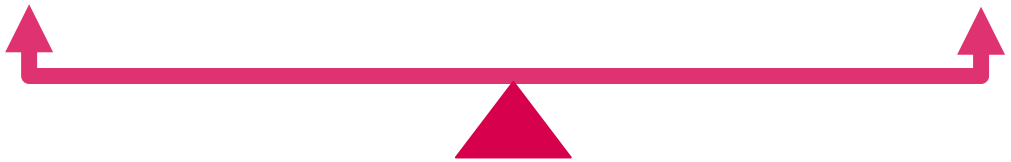
- Use both quantitative and qualitative methods to determine a company's intrinsic value
- Checklist for not falling into value trap:
  - Ability to maintain earnings
  - Future business dynamics: temporary? or structural change?
  - Corporate governance
  - Earnings visibility

Based on thorough research, avoid value trap and invest in companies which are underpriced in relation to their intrinsic values, seeking stable long-term returns

NPS value-style fund
Investment strategy

Baring Asset Management Korea's relative value investment strategy: Strengths and characteristics

Absolute value stock	Relative value stock
Undervalued relative to its earnings and assets	Possibly high valuation, but with the potential to substantially appreciate in the long run
Low absolute return volatility relative to growth stocks	Stocks which are not acceptable in the absolute value portfolio with its high valuation
Low PBR, low PER companies = less volatility in the down cycle	High multiple stocks, but undervalued relative to its peers
Differentiation with the market (KOSPI)	Seek long term capital appreciation through investing in equities with structural change and turnaround story

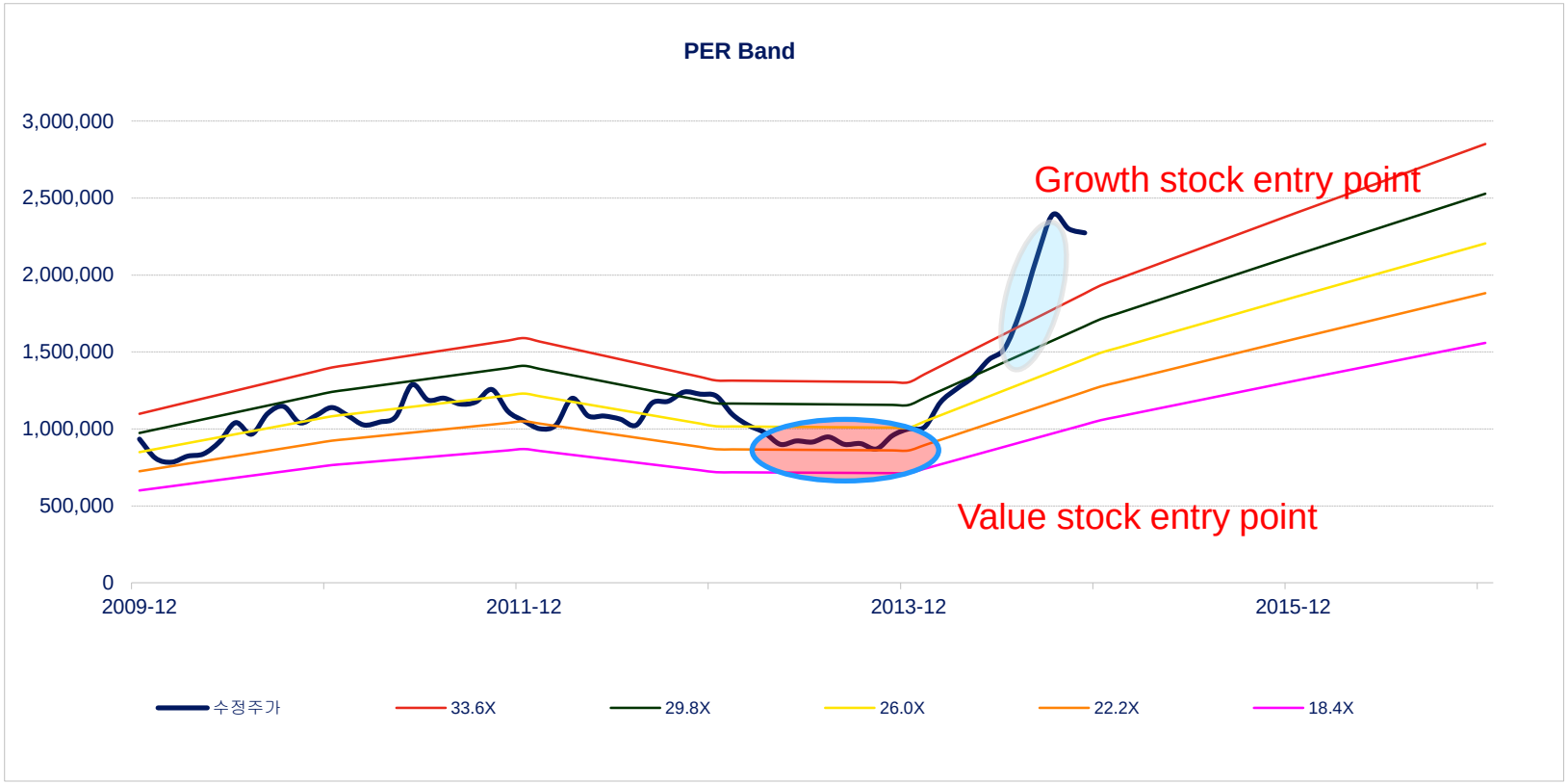


Generate alpha with the addition of relative value stocks in the absolute value portfolio

Conservative investment strategy – value investing

What is value investing?

Growth investing = when the company is beginning to materialise earnings
Value investing = when we expect the market to recognise the firm's true value



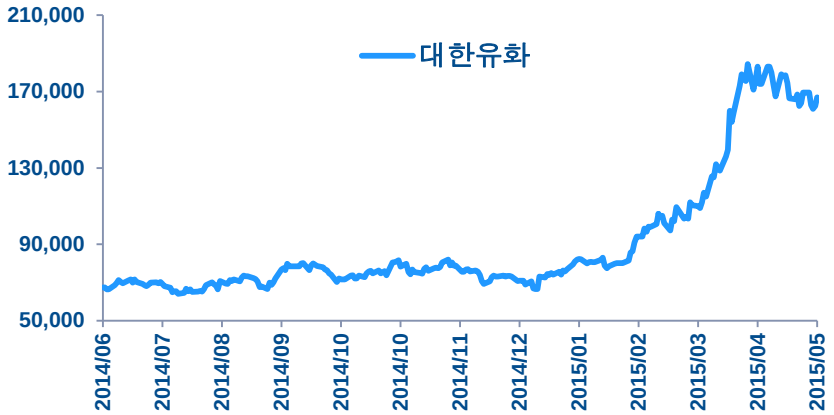
Source: Fnguide. 2015.3

Conservative investment strategy – value investing
Stock selection criteria

1 Undervalued relative to intrinsic value

- Stayed below 1.0 PBR range based on Petrochem stock's cyclical traits
- With stable product margins for Olefin (PE, PP, etc), earnings are steadily re-rated
- With the launch of the MEG plant in 2015 and addition of a naptha cracking facility in 2016, the company will enjoy substantial top-line growth

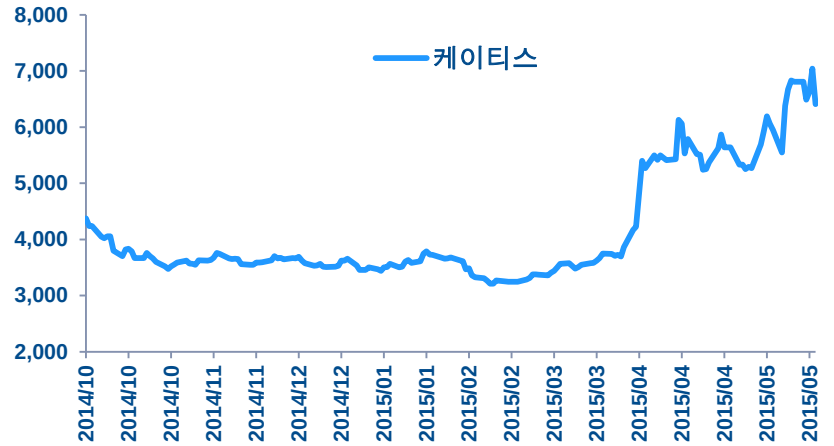
Source: Dataguide, 2015.5.30



2 New engine for growth

- Major affiliates of KT (030200 KS), operates 114 directory assistance and local advertising businesses
- ROE has deteriorated in the past (14.9% in 2012, 10.8% in 2013, 6.7% in 2014)
- New tax refund business has been driving up top-line growth since 2014

Source: Dataguide, 2015.5.30



Conservative investment strategy – value investing
Stock selection criteria

3 Consistent cash flow and dividends

- SK Gas' B2B LPG sales supports earnings
- Consistent cash and stock dividend with earnings visibility

	2012	2013	2014
Cash DPS	KRW1,700	KRW1,700	KRW2,000
Stock DPS		1%	1%

- Further growth with the launch of its PDH business

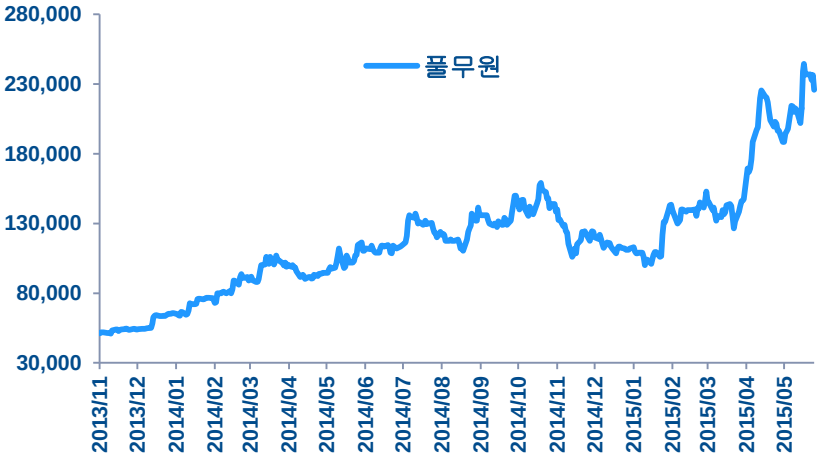
Source: Dataguide 2015.5.30



4 Valuation merit

- Due to table earnings and a favorable macro environment (strong USD, downward price of grain), F&B's stock valuations have been consistently re-rated
- The company was trading at PBR of 1.1x versus its peers at 1.3x in 2013
- The company was trading at PER of 8x versus its peers at 23x in 2014
- The turnaround of its subsidiaries' business as well as an upturn in its main business contributed to its valuation

Source: Dataguide, 2015.5.30



Conservative investment strategy – value investing

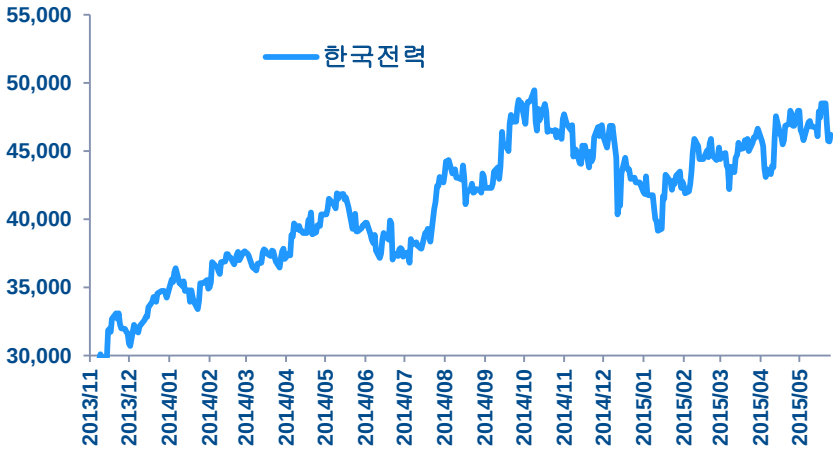
Stock selection criteria

5 Turnaround story

- Recorded net loss from 2008 to 2012
- Below its liquidation value of PBR 0.5x

	2010	2011	2012	2013
PBR (x)	0.3	0.3	0.4	0.4
Net income (KRW bn)	-1.2	-3.3	-3.1	600

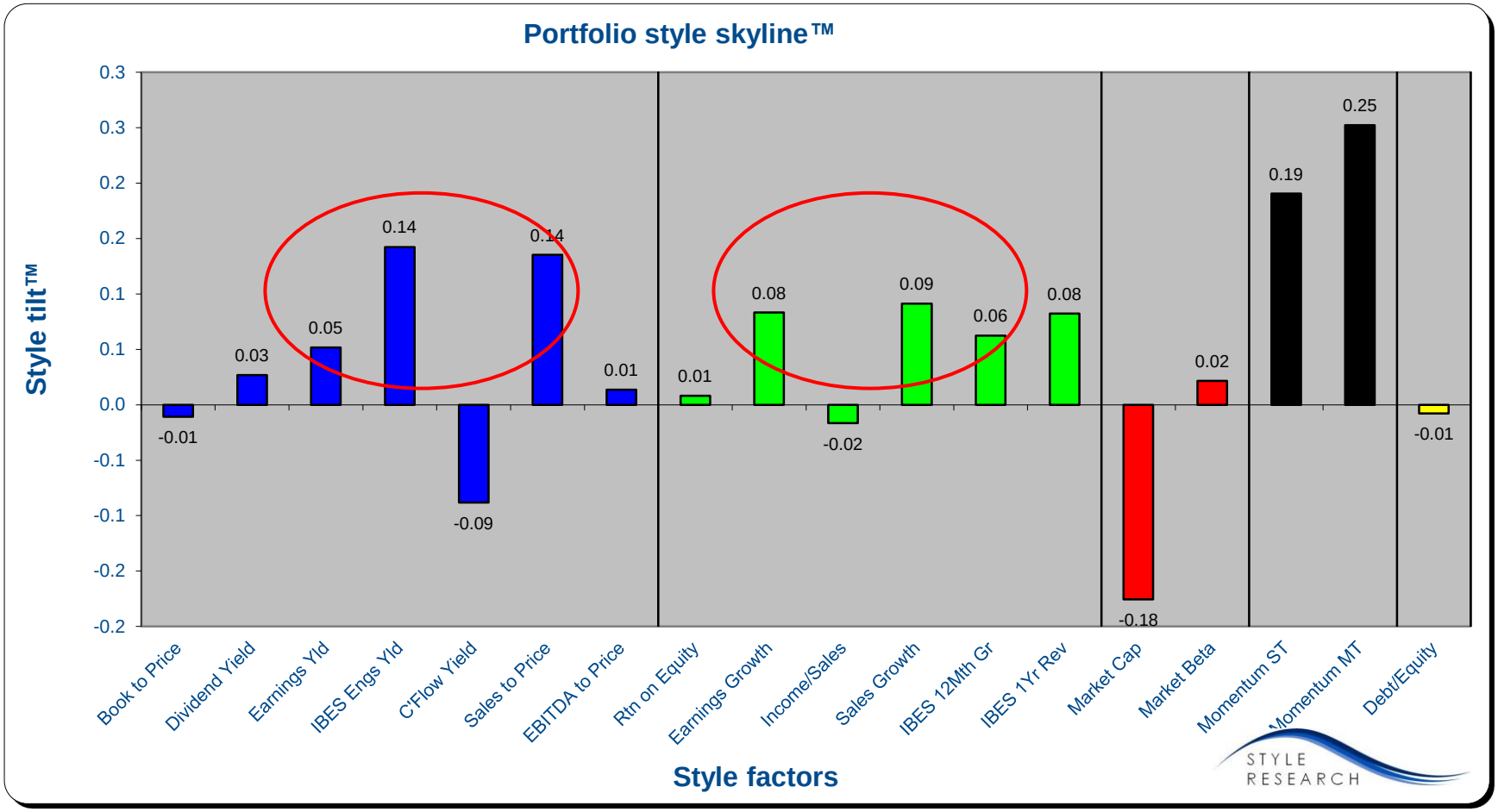
- Improving product mix with the utilisation recovery of its nuclear power plant
- Falling oil price contributed to lowering system marginal price (SMP)



Source: Dataguide, 2015.5.30

Conservative investment strategy – value investing

Growth at a reasonable price



Source: BAM Quant , 2015.6.30

Conclusion

Find your own investment style

- Achieve reasonable returns in a low growth/ low interest rate environment, rather than build a high risk/ high return portfolio
- Determine your initial investment style and investment horizon before entering the market
- Maintain your investment style. For conservative investors, it is difficult to generate alpha, if they follow an active investor's portfolio without careful consideration
- Seek long-term capital appreciation rather than taking profit in the short-term

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