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Mirae Asset: Korea's Mutual Fund Pioneer

"It is very important to have two eyes. With one observe what is going on. With the other, foresee the future. To be an entrepreneur, you have to foresee the future."

— Park Hyeon-Joo, Chairman and Founder, Mirae Asset

On a June day in 2009, Park Hyeon-Joo, Chairman and founder of Mirae Asset, sat in his office in Seoul's Yoido financial district thinking about where to take the company next. Mirae Asset had already branched out from its home market in South Korea to offer mutual funds to retail investors in Brazil and India, and it was now considering an opportunity to expand its presence in China.

Park and his team had accomplished a lot in the dozen years since Park, a former star stockbroker, struck out on his own in 1997 and set up a venture capital (VC) and investment advisory firm. In 1998, when regulations loosened following the Asian financial crisis, Park moved quickly to transform the investment advisory firm into Korea's first asset management company. Mutual funds were largely unknown in Korea at the time, and Park had to educate customers to create a market for his products.

Park focused on developing products and services to meet the financial needs of Korea's expanding middle class. In the process, Mirae Asset accumulated an impressive list of firsts in its home market, including first mutual fund; first private equity fund; and first real estate trust. By 2009, its five flagship companies managed a total of KRW 107 trillion (USD 102 billion) in assets. Its asset management firm accounted for a third of the Korean equity fund market. Mirae Asset ran Korea's largest securities firm in terms of fund sales and sixth largest life insurance company. About half of Korean households had at least one of Mirae Asset's accounts.

Having built a commanding presence in its home market, Mirae Asset started looking overseas to expand and diversify its holdings. It created subsidiaries in India and Brazil and began offering mutual funds in those two countries in 2008. By 2009, Park was ready to consider the possibility of selling investment products in other markets around the world. This raised important questions for Park and his team to ponder. For one, Mirae Asset was considering entering into a joint venture with a state-owned Chinese investment trust. China's spectacular economic growth made it a rich potential market for Mirae Asset. But China's financial market was dominated by state-owned firms and had been opened to foreign companies only recently. The regulatory environment was still evolving. Should Mirae Asset jump in?

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Park Hyeon-Joo

As a college student, Park Hyeon-Joo^a dreamed of one day starting his own company. He was inspired by the pioneering Korean businessmen who had founded giant conglomerates - known in Korean as “chaebol” - such as LG, Samsung, Hyundai, and Daewoo. These conglomerates benefited greatly from the unprecedented pace of Korea’s economic development, which had raised per capita GDP from \$100 in 1960 to \$10,000 in 1996. Manufacturing had been the main driver of this growth, and eventually many chaebol were also able to compete successfully in the global economy.

Park was a keen student of business history. His interest in equities was spurred when he read that the Japanese market had rallied after Sony issued American Depository Receipts on the New York Stock Exchange. This intrigued and inspired Park, and he began to look more closely at the growth of Japan’s financial services industry. He believed that Korea would follow the same path; eventually its financial industry would catch up with its manufacturing sector, as had happened in Japan. Acting on this conviction, Park decided to pursue a career in finance.

Park’s parents were middle-class farmers in the southern part of the country, but his mother taught him the value of money from an early age, charging her son interest on the money she loaned to him. While still in college, Park became well known for his stock-picking ability after he began investing using the annual allowance his mother sent him.

Park’s college investments did well. After college, he landed a job as a stockbroker at a major Korean securities firm. But his friends and family members were unenthusiastic. Working for a securities firm was not considered prestigious. “Most people from college wanted manufacturing or commercial bank jobs,” Park remembered. “In 1984, stockbroker’s salaries were very low – about \$100 per month, only one-eighth of the salaries at commercial banks. My father-in-law was not impressed!” But Park worked hard to identify high-performing stocks and to build contacts throughout Korea’s business community. Park urged his clients to focus on the long view. As Park told his team, “don’t follow money in the short term, money will come in the long run, because companies with sound fundamentals perform well regardless of market volatility.” After less than five years, Park was the youngest branch office manager in the history of the Korean securities industry, and Park’s branch became the country’s most profitable.

The Asset Management Industry in Korea

Prior to the Asian financial crisis in 1997, Korea’s financial markets were characterized by relatively lax accounting standards and disclosure requirements, weak shareholder rights, and the absence of effective corporate governance practices. The major stock market index (KOSPI) had fluctuated between 500 and 1000 for more than a decade. The public perception of equity investments was that they were short term and high risk, and most equity investors were individuals who preferred to make short-term trades in margin accounts. Securities brokers were known for generating fees by pushing clients to make trades; this was known as a “push strategy.” Few institutional investors bought stocks. Equity investment fund inflows were relatively low and assets under management (AUM) fluctuated sharply. The fund market was dominated by investment trust companies (ITCs), which mainly offered bond funds that promised fixed returns (“fixed income funds”).

^a In the Korean language the surname is written before the given name. Thus Park Hyeon-Joo’s surname is Park.

The Asian financial crisis hit Korea hard. The KOSPI, plummeted from 1000 to 300. With the assistance of the International Monetary Fund (IMF), Korea responded with efforts to stabilize distressed assets held by both financial and non-financial institutions. Nonetheless, 17 of the country's 30 largest conglomerates went bankrupt. The bankrupt chaebol's bonds became worthless, and those that managed to survive saw the value of their bonds decrease sharply. For a time, funds continued to flow into the ITCs, however, as investors sought to take advantage of higher bond yields. Then the 1999 collapse of one of the largest chaebol, Daewoo Group, shook up the bond market and led to a wave of redemptions. To avoid a run on the ITCs, and to protect the general public's investments, the government stepped in to inject public funds in return for a stake in the ITCs.¹ This allowed the ITCs to continue to operate and to make redemptions for their customers, and to avoid insolvency and bankruptcy.

Right after the Asian financial crisis, the Korean government sought to attract foreign capital to purchase some of the country's distressed assets. To this end, it began to reform its regulatory regime to improve transparency and bring it more in line with international standards. Among other reforms, the IMF and foreign investors wanted Korea to permit American-style mutual funds, which allowed investors to buy an interest in a portfolio of assets and share the associated risks and rewards. In response, the Korean government enacted the Securities Investment Company Act (SICA) of 1998.

Prior to SICA, Korea's asset management industry had been an oligopoly dominated by a few large ITCs which were regulated by the Securities Investment Trust Services Act (SITSA). New entrants were rare due to high barriers to market entry. Only financial institutions were permitted to establish an ITC or an Investment Management Trust Company (ITMC)^b, and only the largest of them had the resources to post the 30 billion won (USD 33 million at 1997 exchange rates) of capital that was required to obtain a license as an ITC or an ITMC under SITSA. This changed under SICA, which allowed any individual or type of institution to set up an asset management company (AMC) with a capital requirement of only 7 billion won (around USD 5 million).

While the new regulations eased entry requirements in principle, the reality was somewhat different. The Korean government enforced limitations on the new AMCs to limit direct competition with the ITCs out of concern that the new entrants might siphon off cash from the already hard-pressed ITCs. But, because he had set up an investment advisory company in 1997, just before the crisis hit, these developments presented an opportunity for Park. He moved quickly to register the company as an AMC under SICA. Further, being a relatively young company, its books were in much better condition than its more established competitors'.

Park faced a difficult market. Korea's economy was in bad shape. The government was keeping AMCs on a short leash and was only allowing them to offer closed-end funds^c. Highly liquid financial products such as money market funds were not permitted. Nonetheless, this was enough of an opening for Park to start making inroads in the market.

Park Hyeon-Joo's First Steps as an Entrepreneur

Park's first company – established in June 1997 – was a VC firm focusing on start-ups (see **Exhibit 1** for Mirae Asset's historical milestones). He took the plunge despite his personal feeling that the

^b While both Investment Trusts Companies (ITCs) and Investment Trust Management Companies (ITMCs) could serve as investment managers, only ITCs were allowed to sell investment trusts directly.

^c "Closed-end funds" have a fixed size and duration. Units cannot be redeemed until the fund is dissolved.

venture capital business was fraught with risk. "I like tangible assets. VCs have no clear numbers, only a vision, and I thought that was risky," he recalled. At the time, however, Park's primary consideration was that such vehicles were relatively lightly regulated. The downside was that they were not allowed to raise money publicly and thus had to rely on money from private investors.

The following month, Park established a subsidiary investment advisory company. Once the Korean government introduced SICA in 1998, it was clear that the investment advisory subsidiary was an excellent platform for entering the asset management business. The subsidiary registered as an AMC and changed its name to Mirae Asset Global Investments. At the time, Park was not concerned about the fact that he had little capital. "An asset management business does not need too much capital to start; only human capital and good systems" he was fond of saying. It helped that Park had built up an excellent reputation in the Korean market as a star stockbroker and had investors who were happy to entrust their funds to him. Not for the first time, Park's strong personal network was invaluable in helping him build his business.

Park insisted from the beginning that Mirae Asset remain focused on the client's interest. At the time, the three large investment trusts that dominated Korea's asset management industry primarily offered heavily regulated "fixed-income funds." They employed few professional equity managers. Park was convinced that times had changed and the old investment trusts were fast becoming "dinosaurs." He saw a huge opportunity for a firm that put the client's long-term interest first. This meant that the firm focused on products that clients really needed, and not merely on those products that happened to be selling well in the market at the time.

Furthermore, the three dominant ITCs remained focused on fixed income products. They maintained a sufficient level of AUM – about USD 80 billion² – from fixed income products, and high interest rates made it relatively easy to convince investors to put money in bond funds. Additionally, they were relying on new inflows to dilute the growing levels of distressed assets. As such, it was hard for the ITCs to move away from fixed income funds. They still had minimal exposure to equities. While a few western companies operated in the Korean asset management market during this period, their positions were also small.

Doing Things Differently

Park decided that the best approach was to differentiate himself as much as possible from the existing asset management industry. "To be a success as an entrepreneur, you need to have a different perspective," Park related. To this end, he chose to focus on equities rather than bonds. This choice was driven also by his belief that Korean equities were undervalued by investors. However, this presented a number of serious challenges. Korean investors were unfamiliar with the concept of equity investment funds. Most remembered all too well the collapse of the KOSPI index during the Asian financial crisis in 1997; the risk of stock prices going down and reducing the fund's value was all too real.

At the same time, a clear advantage of Park's strategy was that his competitors did not think it was viable, and therefore did not see him as a threat. The ITCs were convinced that Korean investors were going to continue to prefer fixed income funds with a promised return and to steer clear of equity markets. But Park had studied developed markets closely, and knew that when interest rates remained low for a period of time, investors turned to higher-risk investments. Most importantly, Park was sure that the Korean equity market was poised to take off.

Mirae Asset's first fund, named the Park Hyeon-Joo 1 Fund, was launched on December 19, 1998. Due to government restrictions, Mirae Asset was only permitted to offer a closed-end fund with a

one-year maturity. Within two hours, the fund closed after raising its desired goal of USD 42 million (KRW 50 billion). In a year's time, it paid investors a return of nearly 80 percent.

Park's timing was impeccable. The fund had caught the beginning of a new era. Korea's economy was radically restructured during 1999. Many of the country's largest companies went bankrupt during the crisis, but those that survived were the most financially sound. Park was among the first to see that lower debt ratios and an improved financial system had improved Korea's long-term investment environment. At the end of 1998, Korean stocks were trading at historically low multiples, and this "discount" made them attractive. More importantly, investors had grown wary of the entrenched behemoths and were willing to give an upstart like Mirae Asset an opportunity to prove itself.

Challenging the Status Quo

Mirae Asset was going against the prevailing wisdom when it decided to focus on equities. But that was not the only area where the company was challenging the status quo. It was among the first Korean asset management firms to adopt mass marketing techniques, and from the outset it worked hard to build brand recognition. This proved challenging at first: no Korean ad agency was willing to take on the account of an unknown, startup financial firm that was looking to shake things up. Nearly all the ad agencies were connected in some way with at least one of the powerful chaebol. Park had no option but to create some of the company's early print ads himself, and place them directly with newspapers and magazines. (See **Exhibit 2** for an early print ad written by Park.) In the first two years, Mirae Asset spent nearly all of its income on advertisements.

Another innovation was that Mirae Asset sought to distribute its retail funds through security firms and commercial banks that had no relationship with the group. Right after the Asian financial crisis, Koreans were keeping more of their money in savings accounts. Banks were where the money was; they were therefore powerful distribution channels for investment products. However, the major asset management companies were relying on affiliate companies for distribution, and largely ignored the banks. Mirae Asset had made a strategic decision not to go into banking, and Park found that other banks were more willing to distribute Mirae Asset's products if they did not consider him to be a direct competitor. Later, Mirae Asset had a great deal of success leveraging bank distribution channels when it introduced Regular Savings Plans (RSPs) that appealed to bank customers on account of their similarity to bank savings accounts.

As a matter of principle, Park insisted that the firm avoid leverage and derivatives as much as possible. At any given time such assets comprised only one to two percent of total AUM. "I do not like leverage because tangible assets are important to me and thus we are more sustainable and stable," Park maintained. On several occasions when Mirae Asset had an opportunity to acquire a Korean commercial bank, Park declined. With a commercial bank as an affiliate, he knew that he would have to fight the temptation to use leverage. Because he stuck to this principle over the years, Mirae Asset was to have no exposure to subprime securities, CDOs, or CDSs when the next crisis hit. In addition, Mirae Asset built up strong risk management systems and strictly monitored fund managers' transactions on a daily basis.

Entering the Wealth Management Business

Although the Korean government had restricted new firms from entering the finance industry in order to carry out effective restructuring of ailing Korean banks, insurance companies, investment trust firms, and merchant banks in the immediate aftermath of the Asian financial crisis the situation

changed in late 1999. The government readjusted its policies in hopes of fostering greater competition, and began once again to issue licenses to new securities firms. Around the same time, venture start-ups began to flourish in Korea and broadband internet was introduced on a wide scale. The success of US firms such as E*trade and Charles Schwab spurred a boom in on-line securities trading. This shook up Korea's traditional brokerage firms who had long relied on traditional, off-line brokerage commissions.

In this environment Mirae Asset took its first steps to enter the securities industry. It established a new subsidiary, Mirae Asset Securities, in December 1999. During Park's previous career at a securities firm, the "push strategy" was the norm as firms earned higher revenues by encouraging clients to trade frequently. Park felt this was not in line with the client's interest, and this had been one reason he decided to start his own company. Along with a few other start-ups, Mirae Asset Securities dramatically reduced its commissions for on-line trades.

Mirae Asset Securities also tried to position itself as a total wealth management company rather than a traditional brokerage firm. It ceased offering off-line brokerage services in its branches. Customers who wanted to trade stocks could do so on line. Instead, branch offices focused on promoting wealth management services. In addition, the branches did not put up large screens broadcasting the latest stock prices, as was the norm at other Korean firms. Park wanted to do everything possible to encourage his clients to take the long-term view.

Investing for the Long Term

When Mirae Asset was established in 1998, most Korean household assets were concentrated in real estate and bank deposits. Equity investments were perceived as speculative financial instruments only for investors with a high tolerance for risk. Park anticipated the coming wave of disintermediation and set out to provide a large-scale solution for middle-class retail investors.

From the beginning, Mirae Asset's core products were equity investment funds. The aim was to provide higher returns to investors who were not satisfied with low-interest rate deposit accounts. In the early years this was achieved by actively managing investments in the listed stocks of dynamic companies with significant growth potential. At the ITCs and ITMCs, the typical ratio of fixed income managers to equity investment managers had been 4:1. At Mirae Asset the ratio was 1:4.

In Park's view, if a company remained competitive, it was going to grow in the long term, and if it had sustainable profits, it was going to survive. Stressing the importance of the long-term strategy instead of responding to external trends and short-term fluctuations became central to Mirae Asset's approach. In the office, he urged his analysts to adopt contrarian views that generated long-term insights that others failed to see. For Park, the most successful asset managers at Mirae Asset were the ones who were able to "see beyond the data."

From the time Mirae Asset was founded, its main strategy had been the "sector leader" concept – the belief that investors get the best returns from the companies that lead their industries and can survive over the long term. Park identified such companies on the basis of a high degree of industry competitiveness, including an ability to set trends and lead innovation, in addition to more traditional criteria such as sound balance sheets, consistently positive annual revenues, and low leverage ratios.

Throughout the early years of Mirae Asset, Park worked hard to educate his market about the long-term potential of Korean stocks. The chaebol that went bankrupt during the financial crisis had taken on unsustainable levels of debt—as much as five times total equity. When the crisis waned, the

surviving companies faced less competition, and in some cases even enjoyed monopolies in their markets. This led to higher revenues and less risk, but Park was surprised to see that their share prices were still highly undervalued. Park could see that this made them a good investment, but most Korean investors still saw them as too risky. To help deliver his message, Park established a non-profit investor education institute, the Investment Education Research Center, which sponsored seminars and talks on investment issues at locations around Korea.

Introducing New Products

After Mirae Asset's equity mutual funds began to catch on, the company extended the concept by promoting its version of regular savings plans (RSPs). RSPs allowed retail investors to participate in mutual funds by making regular contributions in the form of monthly installment payments. In Korea's volatile market, these plans appealed to ordinary investors because they reduced risk through cost averaging effects. Customers were able to have contributions deducted directly from their paychecks. It helped that Mirae Asset actively marketed the plans around the country at a time when aggressive advertising was new to the industry. RSPs targeted middle and lower-income customers and appealed to small retail investors who wanted to diversify their investments or set aside funds for retirement. Mirae Asset's RSP concept quickly became the market standard and was widely imitated. Its success had the effect of significantly enlarging the total size of the Korean asset management industry.

Park also recognized the need for products to serve Korea's rapidly aging society. Early on, Mirae Asset developed an interest in retirement pension plans, a market largely neglected by its Korean peers. The idea was to enhance the company's business model by adding products with longer-term investment horizons compared to mutual funds. In 2005, Mirae Asset entered the life insurance business by acquiring SK Life Insurance, which was renamed Mirae Asset Life Insurance (MALI). This was done to create a platform to offer new insurance products that Mirae Asset saw a demand for but that had been largely neglected by its Korean peers. Mirae Asset then established the first retirement pension research center in Korea. Also in 2005, Mirae Asset began offering products targeted at the youngest Koreans. Through its "Children's Funds," parents were able to invest in mutual funds on behalf of their children. In the program's first three years, more than 800,000 children were signed up.

Organizational Structure

From the time Park first set up his own business, he was determined to avoid the organizational problems faced by traditional Korean firms. He worked hard to create an open and dynamic corporate culture and to maintain high standards of integrity and governance. He also wanted to ensure that Mirae Asset maintained its independence. The majority of Korean AMCs had a securities firm or bank as their major shareholder. In some instances, this made it difficult for asset managers to make independent decisions. As an independent financial group, Mirae Asset was not subject to the influence of the large conglomerates or other institutions.

As of 2009, Mirae Asset was still a fairly young company. Most of the original employees were long-time colleagues and friends of Park's. Nearly all of them had stayed on, and most now occupied high-level positions (see **Exhibit 3** for top executives). All of Mirae Asset's affiliates had their own CEOs and separate managing directors who were responsible for different business units (see **Exhibit 4** for Mirae Asset's domestic affiliates). Managing directors had the discretion to make business decisions, and the same applied to each Mirae Asset affiliate. Mirae Asset's youthful, dynamic culture

also contributed to its success. The average Mirae Asset employee was in his early 30s, and the average executive was in his 40s.

Investing Abroad

By the early 2000s, the effects of the Asian financial crisis had subsided and lower interest rates continued to prevail in Korea. More and more household assets began to flow into the Korean equities market and stock valuations rose. Large funds such as Korea's National Pension Service began searching for overseas investment opportunities as a way to diversify their assets and minimize risk. Meanwhile, other Korean asset management companies had followed Mirae Asset's lead and moved into domestic equities. Mirae Asset was also expanding into new areas.

The decision to expand the business was not taken lightly. Park waited a long time and decided to go ahead with expansion only after the company was firmly established in its home market. Park was convinced that unless Mirae Asset was highly competitive at home—having turned its domestic business into a “cash cow”—it was not going to have a firm enough basis for global expansion. Then the Korean market plunged 50 percent during 2000, and Park saw that he needed to diversify both for the firm's sake and, more importantly, for the sake of his clients' portfolios. In late 1999, the government announced plans to scrap the capital gains tax on overseas-invested funds as a means to stabilize the dollar/won exchange rate.³ Mirae Asset began to think seriously about starting an international fund. The company's domestic market opened further when Korean authorities approved open-ended funds^d as legal investment vehicles in 2001. Mirae Asset established a special department for global expansion the same year.

New Markets

Beginning in 2003, Park began to set a course to become a global asset manager. Park believed that the rise of China and other emerging markets was causing a shift in global economic power. Emerging markets accounted for about 30 percent of world GDP, but only about 5 percent of global pension fund assets were allocated to emerging markets. Park was convinced that, inevitably, more assets were going to flow into these markets in the future. Moreover, Park had begun to worry about “concentration risk.” Most of the company's assets were denominated in Korean won, the value of which had fluctuated widely over the previous decade. Park planned to expand overseas to better manage this risk.

Mirae Asset considered several factors when expanding overseas. It looked for markets with sustainable high growth rates, substantial investment in infrastructure, abundant natural resources, and positive demographic trends. Before entering a new market, Mirae Asset asked two questions. Does the market exhibit positive long-term economic trends based on strong fundamentals? Can Mirae Asset implement a unique business model in this market?

Park insisted on a localization strategy at its overseas affiliates. Some top Mirae Asset executives who had a strong understanding of global industries were sent overseas to work alongside the locals hired as fund managers. But Park insisted that his people remember that “this is not a Korean company.” He always made sure that business at overseas affiliates was mainly carried out by local employees. From his study of global business history, Park had concluded that the reason many companies had a hard time operating in other countries was because their overseas operations were

^d Units of “open-ended funds” can be bought or sold at any time. Such funds may be expanded by the issuance of new units and generally do not have a fixed termination date.

mainly run by employees from the home office. Park did not want to make the same mistakes that others had made in the past.

Mirae Asset launched its first overseas investment funds for Korean investors in 2005, concentrating its foreign portfolios in emerging markets such as China and India. (See **Exhibit 5** for performance of Mirae Asset's major emerging market funds.) It planned to focus expansion on strategic hubs for Greater China, India, and Brazil. But there was no precedent for a Korean financial firm selling into these markets in competition with global asset management companies. Setting up good distribution channels was especially hard in developing markets, particularly given the fact that Mirae Asset did not establish joint ventures with established local partners, but rather set up its own wholly-owned subsidiaries overseas.

Hong Kong Mirae Asset's first big overseas move was to Hong Kong, where in 2003 it established Mirae Asset Global Investments (HK) as the global headquarters for Mirae Asset's businesses located outside of Korea. This subsidiary managed the regional and global equity funds that Mirae Asset sold to Korean investors and served as principal investment manager and global distributor for Asia-Pacific and Europe. In January 2007, Mirae Asset set up Mirae Asset Securities (HK) to provide brokerage, investment banking, and wealth management services in the Asian market. Mirae Asset launched its first retail mutual fund for the local Hong Kong market in June 2009.

Emerging Markets: India, Brazil Mirae Asset Global Investments (India) obtained its license in 2007 and Mirae Asset Global Investments (Brazil) followed in 2008. At first, both offices were charged with identifying investment opportunities for Korean clients and providing on-the-ground research to global clients who wanted to invest in the Indian and Brazilian markets. Beginning in 2008 both offices also began selling local currency funds to retail investors in their respective markets. The following year the Mirae Asset India Opportunity Fund, an investment fund offered to local investors in India, was selected as one of the Top 10 India Equity Investment Funds by global fund rating firm MorningStar. In Brazil, the Mirae Asset Multi-Market Equity Fund had been recognized as a top performer in the local fund market. (See **Exhibit 6** for performance of Mirae Asset's investment funds domiciled in Brazil.)

Both countries presented rich opportunities for asset managers. In India, savings as a percent of GDP had grown to over 30 percent. This was expected to level off but not decline. Meanwhile, 7.7 percent of household savings were invested in mutual funds in 2008, up from less than one percent only three years earlier (**Exhibit 7**). An added attraction was that India's mutual fund industry was more profitable than other countries'. Despite India's higher cost structure, operating profits, expressed as a percentage of average AUM, were twice as high in India as in the US.

As of March 2008, India's 35 AMCs managed over 5.3 trillion Rupees (USD 136 billion) in over 1000 mutual funds (see **Exhibit 8** for India's leading mutual fund companies). Nearly half of total AUM was in fixed-income products and about one-fourth in equity funds. Foreign firms with a presence in India's asset management industry included Prudential, Merrill Lynch, and Templeton (US), HSBC (UK), and Nomura (Japan).

Brazil's fund industry had grown dramatically since 2004 on the back of both strong investment inflows and asset price appreciation. In late 2007, total AUM reached USD 600 billion, or nearly 40 percent of the country's GDP. Fixed income products dominated the market. Equity funds made up only about 11 percent of total NAV (Net Asset Value) (**Exhibit 9**). Foreign financial institutions active in Brazil's highly competitive mutual fund market included Banco Santander (Spain), HSBC (UK), and UBS (Switzerland) (see **Exhibit 10** for Brazil's leading mutual fund companies). From March

2008, Brazil began requiring foreign investors to pay a financial transaction tax (2.0 percent) on both fixed income and equity investments.

Vietnam Mirae Asset became the first foreign company to launch a full range of corporate financial services in Vietnam when Mirae Asset Securities (Vietnam) was established in December 2007. Vietnam's financial services industry was still young. The first domestic retail mutual fund was only launched in 2004. Two more funds were launched over the next four years. So far, very few global market equity funds had invested in Vietnamese stock. For those that did, the allocations were still relatively small.

For Park, the importance of taking the long-term view was even more important in emerging markets. "Emerging markets are still very volatile, so there is huge opportunity in countries such as India and China," he said. Major challenges remained, such as an over-reliance on fixed income products in India and Brazil. Regulatory systems were evolving rapidly. Park acknowledged that it would take time for these markets to catch up to those in developed countries. (See **Exhibit 11** for data on selected countries' capital and mutual fund markets.) To help this process along, Park planned to set up education centers in emerging markets along the lines of Mirae Asset's Investment Education Research Centers in Korea.

Developed Markets: UK and U.S. Mirae Asset began establishing a presence in global financial capitals in early 2007, when it set up a subsidiary in the U.K. Mirae Asset Global Investments (UK) served clients in Europe, the Middle East, and Africa, while maintaining the firm's tradition of focusing on emerging markets. Eventually the office managed assets in European, Russian, and other international funds. Mirae Asset Securities (UK) was established in October 2008 to offer comprehensive brokerage and transaction execution services to investors seeking access to emerging market economies.

Next stop was New York, where Mirae Asset opened an office in 2008. As an SEC Registered Investment Advisor (RIA), Mirae Asset Global Investments (USA) focused on providing U.S.-based clients with access to investment opportunities, primarily in emerging markets. Mirae Asset Securities (USA) was added along the lines of Mirae Asset Securities (UK). However, the London and New York offices were mainly focused on marketing and distribution; Park was not yet ready to take on the global fund heavyweights such as Schroders and Fidelity that dominated the developed markets.

During the period when it was expanding its presence across the globe, Mirae Asset stuck to its vision of becoming the leading expert on emerging markets equities. It introduced a new pool of products to Korean investors, such as regional and sectoral equity funds. Interest in these products, and in overseas markets generally, grew substantially during 2006 and 2007, as Korea's economy improved following the third economic slump in a decade. More money was flowing into Park's funds than ever before.

Reflecting on Mirae Asset's Growth and Development

Mirae Asset began posting significant profits after 2005. Once it was established as a going concern, Park began to reassess the state of the business and his own contribution to it. Initially, he had been involved in all areas of operations and management. Much of Mirae Asset's success was ascribed to Park's insistence that the firm take a different perspective, be a first mover in its markets, and stick to a long-term strategy. In the initial stages, his own personal networks had also played a role. "The financial business relies on networks, not just talent," he related. But the company had grown substantially. He decided that it was time for him to refocus. As Park put it, "when it was

small, this was my company, but this was not my company anymore." Mirae Asset was in need of a chief strategist. Park dedicated himself to making the change from being an investment professional and CEO of a single company to being the chief strategist for Mirae Asset group.

He therefore attended the Harvard Business School's Advanced Management Program (AMP) in 2002 with the aim of gaining insight and broadening his experience as a means to better position Mirae Asset for the future. He described the new role he wanted to create for himself: "I want to put the dots in the right places and the executives have to connect the dots. My role is to encourage people to communicate in this space." Park had given executives the authority to hire the staff who worked directly under them. The decision-making process was kept short. This helped assess each business unit based on past performance. Eventually, Park planned to focus entirely on overall strategy and hand off day-to-day management to each business unit's executives: "I want to provide the platform, and delegate the rest."

The Industry in 2009

Growth in the Korea asset management industry nearly tripled in the decade after the Asian financial crisis. At the end of June 2009, the fund market's total AUM had reached 327 trillion won (USD 280 billion), of which equity products made up 34 percent and money market funds 25 percent. Korea boasted 62 licensed asset management companies, of which around 20 were foreign or foreign-invested.

Given that only 20 percent of Korea's total household financial assets were invested in financial products – compared to more than 60 percent in the U.S. market – the industry's growth potential was still substantial. Other catalysts for growth were coming over the horizon. Retirement pension funds were expected to grow significantly after Korean government policy made them mandatory in 2010.

Mirae Asset in 2009

By June 2009, Mirae Asset's five flagship companies managed roughly 107 trillion won (USD 102 billion) in assets ranging from traditional investments such as equities and fixed-income to real estate and alternative investments. The company employed more than 10,000 people in seven countries (see **Exhibit 12** for a map of the company's global presence). Its first open-ended mutual fund, the Mirae Asset Independence Korea Equity Mutual Fund No.1, had posted an accumulated return of 630 percent in its first eight years. (See **Exhibit 13** for performance of Mirae Asset's two primary Korea funds.) Mirae Asset Securities had raised nearly 200 billion won (USD 160 million) from a domestic stock offering in 2006.⁴ From its roots as a venture company with initial capital of little more than USD 10.5 million (KRW 10 billion), Mirae Asset had grown its capital to over USD 330 million (KRW 450 billion). (See **Exhibit 14a** for company financials.) Mirae Asset had built up a profitable business structure focusing on actively managed equities, which typically had higher fees than index funds and fixed income products. It was ranked at the top of the league tables for global investors in emerging market equities.⁵ (See **Exhibit 14b** for peer group financials.)

In Korea, the company continued to dominate the domestic asset management industry. It maintained market shares of 16 percent in the overall market and over 33 percent in the equity fund market. Its share of the RSP market was 40 percent in terms of number of accounts. But Park had begun to worry. Was his firm turning into a "dinosaur," like the ones that dominated the market when he first came on the scene?

Choosing the Way Forward

Until now, Mirae Asset had mainly pursued organic growth. The time had come to consider other options as part of its global expansion strategy. These included acquisitions or joint ventures. Park was willing to acquire companies if they fit in with Mirae Asset's overall strategy. He had acquired SK Insurance to get access to its retirement plans. Foreign joint ventures were another possible avenue he was open to. A major consideration was how they fit into the strategy for the entire group.

China

China posed a significant challenge, but it was also a large opportunity. China was Korea's neighbor and major trading partner and its economy had posted phenomenal gains over the past two decades. For years, Park had thought hard about how to approach the China market. China's savings rate was one of the highest in the world (**Exhibit 15**), but consumers had relatively few options when it came to investments. Mutual funds were introduced in China in 1998, and the industry's growth had been meteoric on the back of strong demand. NAV grew from RMB 10 billion (USD 1.2 billion) to over RMB 3 trillion (USD 440 billion) in 2007 before falling to around RMB 2 trillion (USD 300 billion) after the global financial crisis (**Exhibit 16**). Mirae Asset had previous experience with investing in Chinese equities for their Korean clients, and although they had faced the usual ups and downs related to market cycles, Park was convinced that China's economy was sure to grow further and would reward those who stayed for the long term^e. He was determined that once Mirae Asset went in it would be on a long-term basis.

Foreign investment in China's financial sector was still limited. After China's 2001 WTO accession, foreign companies were permitted to invest in local fund management companies, but up to a ceiling of 33 percent. This was raised to 49 percent in 2005. The rules specified that foreign partners must have a fund management license in its home market and capital of at least RMB 300 million (USD 44 million). Financial companies from North America, Europe, and Australia took advantage of this liberalization to start up joint-venture firms with domestic Chinese companies (**Exhibit 17**.) Some foreign firms entered the market by purchasing shares in existing companies. For example, Morgan Stanley bought 40 percent of an existing domestic fund management company in August 2008, renaming it Morgan Stanley Huaxin Fund Management. Four months later, La Compagnie Financiere Edmond de Rothschild purchased 15 percent of Zhonghai Fund Management.

The Chinese government had granted Mirae Asset a Qualified Foreign Institutional Investor (QFII) designation in August 2008 that allowed it to invest in renminbi-denominated domestic equities. But Mirae Asset needed either to set up a joint venture or take a stake in a domestic financial services company before it was able to sell funds directly to Chinese investors.

In early 2009, Mirae Asset concluded a Memorandum of Understanding with a Chinese state-owned company based in Inner Mongolia to establish a joint venture mutual fund company in China. Initial capital size was likely to be around 200 million RMB (USD 29.5 million), and Mirae Asset's ownership stake around 25 percent. This was modest compared both to Mirae Asset's total AUM and to its Chinese government partner's 15 billion RMB (USD 2.2 billion) in AUM. Moreover, under current regulations foreign companies were allowed to enter into a joint venture with only one

^e In late 2008, share prices in emerging markets fell 50 percent in the wake of the global financial crisis. This affected the performance of Mirae Asset's global fund which was launched just before the peak of the market in 2007. The fund's equity exposure to emerging markets including China had led to criticism from some investors. However, in line with Park's belief in long-term investing, the fund's performance improved dramatically in 2009 and no formal complaint or legal action was lodged. See Exhibit 5.

mutual fund company at a time. Thus if Mirae Asset went ahead with the Inner Mongolia deal, it would not be able to pursue JVs with other Chinese partners.

Global Opportunities

Park and his team agreed that the time had come to ramp up Mirae Asset's overseas expansion. It was left to decide where they should focus their expansion efforts. Park was convinced that China held enormous potential, but he was also attracted by India and Brazil. All of these countries presented significant challenges as well as opportunities.

Thankfully, Park was used to moving fast. By reputation, he was known in Korea as an entrepreneur who was one step ahead of the crowd, and as someone who was able to identify opportunities earlier than his competitors. He had taken Mirae Asset far, but wanted to go still farther. "Two years ago, people in the US were not interested in emerging markets," he noted, "now they ask me for advice." Mirae Asset's ultimate goal was to become the world's leading asset manager in emerging market investments. "We might even be global players. That is my dream."

Exhibit 1 Milestones in the Development of Mirae Asset, 1997-2008

Date	Regulatory/Economic Events	Mirae Asset
1997	Asian Financial Crisis	
June		Mirae Asset Venture Capital founded
July		Mirae Asset Investment Advisory Company founded
December	IMF bailout conditioned on significant reforms	
1998	Securities Investment Company Act (SICA)	
December		Investment advisory company becomes Mirae Asset Global Investments (MAGI), first asset management company registered under SICA; MAGI launches Park Hyeon-Joo No.1, Korea's first mutual fund for retail investors
1999	KOSPI rises 95%	
December		Mirae Asset Securities established
2000	SICA amended to permit open-ended funds	
March		Park Hyeon-Joo Foundation established, focuses on education
2001	IT bubble: Kospi down 50% on year	
February		MAGI launches Korea's first open-ended mutual fund
November		National Pension Service selects MAGI as a third-party manager for domestic equity funds
2003	Indirect Investment Asset Management Business Act unifies asset-management regulations	Installment investment plan introduced
December		Mirae Asset Global Investments (Hong Kong) established
2004	Multi-class funds permitted (e.g. derivatives, R.E.)	
February		Investment Education Research Institute established
May		Mirae Asset MAPS Global Investments established by acquiring local asset management company
June		Mirae Asset MAPS Global Investments launches Korea's first real estate trust fund
December		Mirae Asset MAPS Global Investments launches Korea's first private equity fund
2005		
February		MAGI launches its first overseas investment fund
March		Children's Fund introduced
September		MAGI launches India Discovery Fund
October		MAGI launches China Discovery Fund
December	National Retirement Pension System adopted	Pension Research Institute established
2006		
March		Launch of Global Scholarship Program for gifted students
November		Merger between MAGI and Mirae Asset Investment Trust Management Company
		Mirae Asset Global Investments (India) established
2007	Global Financial Crisis	
March		Mirae Asset Global Investments (UK) established
2008	Financial Investment Services Capital Markets Act	
April		Mirae Asset Global Investments (Brazil) established
		Mirae Asset Global Investments (USA) established
July		MAGI launches first off-shore fund, Mirae Asset Global Discovery Fund (SICAV), in Luxemburg
August		Received Qualified Foreign Institutional Investor (QFII) license from the China Securities Regulatory Commission

Source: Mirae Asset, casewriter.

Exhibit 4 Mirae Asset's Korea Operations, 2009



Source: Mirae Asset.

Exhibit 5 Performance of Mirae Asset's Emerging Market Funds, 2005-2009

Fund Name (abbrev.)	Strategy	Inception	AUM	Performance* (up to end 2009)			
			(NAV)	6 months	1 year	2 years	Inception
			USD				
			millions				
Insight Fund	Global	October 2007	2,906	26.70%	84.82%	-16.58%	-21.38%
AP Institutional Star	Asia-Pacific	March 2005	141	28.88%	74.22%	-13.09%	104.57%
Chindia Consumer Equity	Chindia	February 2007	41	41.15%	99.05%	4.63%	36.04%
China Solomon	China	March 2006	2,398	25.50%	80.69%	-23.14%	113.53%
Brazil Sector Leader	Brazil	December 2007	171	53.71%	172.83%	10.60%	8.53%

* Gross of fee return based on US\$ value

Note: Percentages are for the period up to December 31, 2009, i.e., "6 months" refers to the fund's performance from July 1 to December 31, 2009, while "2 years" refers to the period from January 1, 2008 to December 31, 2009.

Fund Name (abbrev.)	Benchmark	Excess Over Benchmark			
		6 months	1 year	2 years	Inception
		(Gross* Return based on US\$ value)			
Insight Fund	MSCI AC World (USD) (D-1)**	3.84%	48.87%	7.26%	6.19%
AP Institutional Star	MSCI AC AP ex Japan (USD)	-1.50%	0.83%	5.95%	48.26%
Chindia Consumer Equity	MSCI China Consumer + India Consumer [#]	-8.10%	-12.65%	1.95%	2.92%
China Solomon	MSCI China Index (USD)	7.33%	18.06%	-1.30%	19.51%
Brazil Sector Leader	MSCI Brazil (USD)	12.42%	45.24%	15.46%	9.31%

* Benchmark indices changed from price return to gross return in February 2009.

** With one-day delay due to time difference.

[#] 10 percent capped

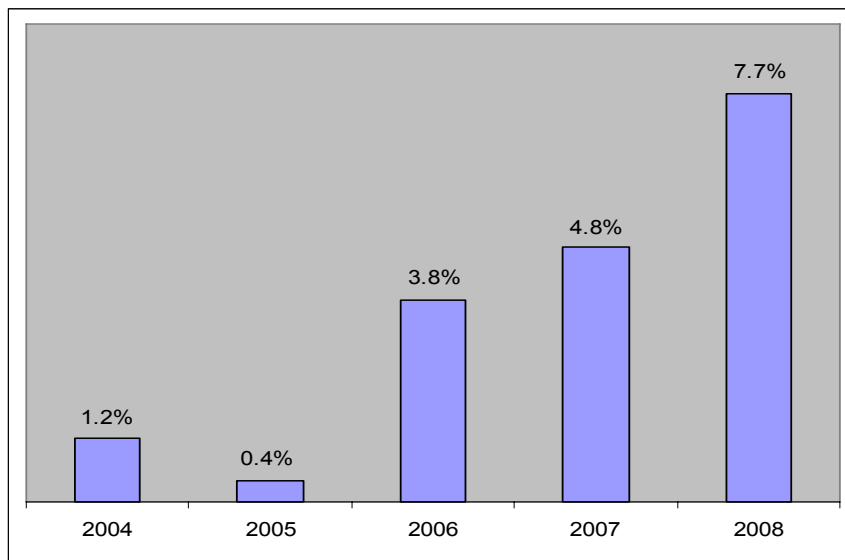
Note: For class discussion only. This data was initially prepared only for Mirae Asset's internal assessment and not for marketing purposes. Performance excludes all gains and losses from currency hedging activities. Performance measurement methodology has been verified by Ernst & Young Advisory, Inc.

Source: Mirae Asset.

Exhibit 6 Performance of Mirae Asset investment funds domiciled in Brazil (June 2009)

Name	Inception	AUM (USD)	Performance (up to June 2009)		
			3 months	6 months	Since Inception
MIRAE ASSET DISCOVERY DIVIDENDOS FI AÇÕES	December 2008	4.57 million	33.41%	64.53%	56.21%
MIRAE ASSET DISCOVERY EQUITY FOCUS FI MULTIMERCADO	December 2008	5.18 million	31.42%	61.73%	51.80%
Ibovespa (Benchmark)	-	-	22.81%	41.12%	28.83%

Source: Mirae Asset Global Investments (Brazil), Comissão de Valores Mobiliários [Securities and Exchange Commission of Brazil].

Exhibit 7 India: Percentage of Household Savings Invested in Mutual Funds, 2004-2008

Source: Casewriter, based on Reserve Bank of India Annual Report, 2007-08.

Exhibit 8a India's Leading Domestic* Mutual Fund Companies (June 2009)

Firm	Assets (USD billions)	Market Share
Reliance Capital AMC	23.550	16.1%
HDFC AMC	17.000	11.7%
ICIC Prudential AMC	15.254	10.5%
UTI AMC	14.778	10.1%
Birla Sun Life AMC	12.235	8.4%

* Less than 50% foreign ownership

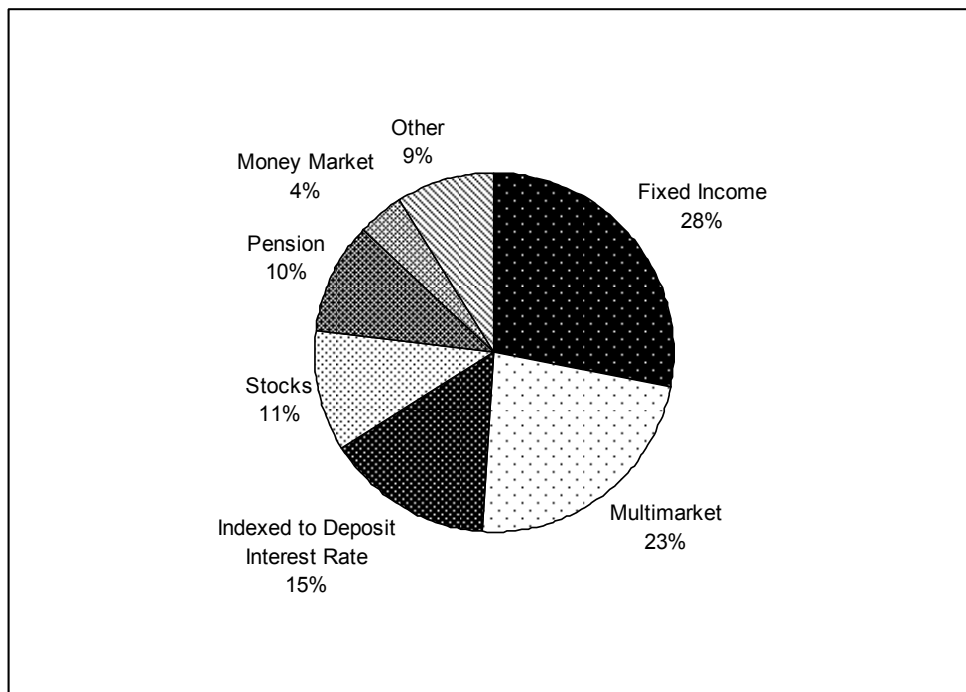
Exhibit 8b India's Leading Foreign-invested** Mutual Fund Companies (June 2009)

Firm	Assets (USD billions)	Market Share
Franklin Templeton AMC*** (US)	5.538	3.8%
HSBC AMC	2.088	1.4%
Fidelity Fund Management	2.038	1.4%
Principal PNB AMC	1.890	1.3%
Fortis Investment Management	1.745	1.2%

** More than 50% foreign ownership

*** Wholly-owned subsidiary of US parent

Source: Casewriter, based on data from India AMFI (The Association of Mutual Funds in India).

Exhibit 9 Brazil: Composition of Domestic Investment Funds, June 2009

Source: Casewriter, based on data from Anbima – Brazilian Financial and Capital Markets Association, http://www.anbid.com.br/documentos_download/fundos_investimentos/boletins_mensais/Boletim_Mar10.pdf.

Exhibit 10a Brazil's Leading Domestic Mutual Fund Companies (June 2009)

Firm	Assets (USD billions)	Market Share
BB-NOSSA CAIXA	128.51	20.9%
ITAÚ-UNIBANCO	110.24	18.0%
BRADESCO	82.34	13.4%
CAIXA	47.30	7.7%

Exhibit 10b Brazil's Leading International Mutual Fund Companies (June 2009)

Firm	Assets (USD billions)	Market Share
BANCO SANTANDER (BRASIL) SA	42.39	6.9%
HSBC	26.08	4.2%
UBS PACTUAL	20.56	3.3%
BNY MELLON ARX INVESTIMENTOS LTDA	10.29	1.7%
CREDIT SUISSE HEDGING GRIFFO COR VAL S.A	9.82	1.6%

Source: Anbima – Brazilian Financial and Capital Markets Association.

Exhibit 11 Capital Markets and Mutual Fund Markets as a % of GDP, Selected Countries, 2008

	Stock Market Capitalization	Mutual Funds
USA	86.20%	68.6%
Brazil	81.20%	38.4%
South Korea	89.80%	29.6%
United Kingdom	105.60%	26.7%
Japan	67.00%	10.0%
India	101.00%	7.1%
China	81.30%	6.4%
Vietnam	10.50%	N/A

Source: Casewriter, from data from the Country Finance Reports 2009, the Economist Intelligence Unit, and Global Financial Data.

Exhibit 12 Mirae Asset's Global Presence (2009)



Source: Mirae Asset.

Exhibit 13 Performance of Mirae Asset's Domestic Funds, 2001-2009

Performance to end 2009							
AUM (NAV)		(Price return* based on KRW value)					
Fund Name (abbrev.)	Inception Date	US\$millions	1 year	2 years	3 years	5 years	Inception
Korea Discovery	July 2001	1,070	58.57%	-2.60%	59.59%	226.47%	833.95%
Korea Independence	February 2001	1,110	52.24%	-2.55%	46.91%	196.83%	839.26%

* The KOSPI, the major Korean stock market index, is calculated using the price return method.

Excess Over Benchmark						
(Price return based on KRW value)						
Fund Name (abbrev.)	Benchmark	1 Year	2 Years	3 Years	5 Years	Inception
Korea Discovery	KOSPI	8.92%	8.70%	42.28%	138.64%	650.47%
Korea Independence	KOSPI	2.59%	8.75%	29.60%	109.00%	658.23%

Note: For class discussion only. This data was initially prepared only for Mirae Asset's internal assessment and not for marketing purposes.

Source: Mirae Asset.

Exhibit 14a Mirae Asset Global Investments Group Financials, 1997-2009* (in Korean won billions)

	Total Assets	Liabilities	Capital	Net Profit
FY 2009 (Est.)	1,079.7	111.1	968.7	324.3
FY 2008	776.0	110.1	665.9	204.8
FY 2007	568.5	121.4	447.1	186.8
FY 2006	266.0	40.0	226.1	50.9
FY 2005	150.3	27.4	123.1	32.6
FY 2004	113.4	24.5	88.9	10.0
FY 2003	64.8	8.7	56.1	6.5
FY 2002	67.5	14.0	53.6	4.3
FY 2001	66.2	13.8	52.4	1.1
FY 2000	70.6	20.7	49.8	0.9
FY 1999	66.1	25.7	40.3	32.1
FY 1998	15.7	3.7	11.9	2.8
FY 1997	1.8	0.6	1.1	0.2

* For fiscal year ending March 31 of the following year.

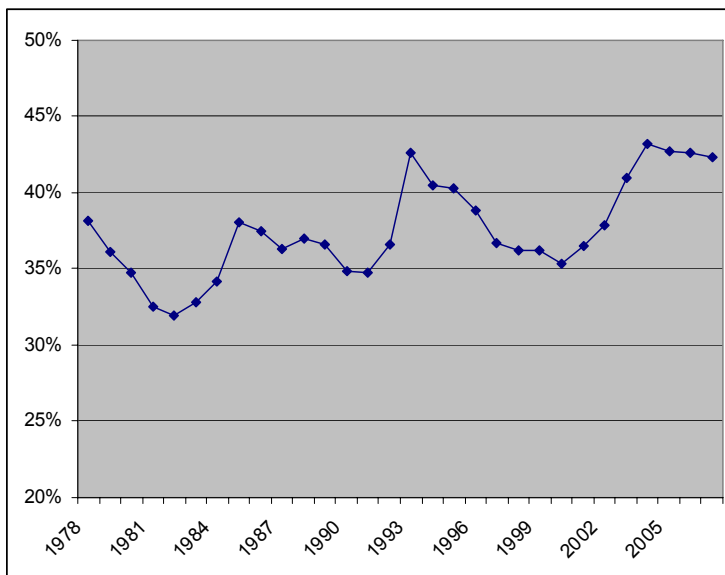
Source: Mirae Asset.

Exhibit 14b Peer Group Financials (in USD millions)

	Name	AUM	Net Profit
September 2009	Franklin Resources Inc	523,400	896.8
December 2009	Invesco Ltd	423,100	322.5
December 2009	Alliance Bernstein Holdings	496,000	578.5
December 2009	Nomura Asset Management	237,600	71.7*
December 2009	Mirae Asset Global Investments	58,700	148*

* as of March 2009

Source: Company websites.

Exhibit 15 China's Total Savings Rate, 1978-2007

Source: Casewriter, based on data from China National Bureau of Statistics.

Exhibit 16 Growth of China's Investment Fund Industry, 1998-2009

	Asset Management Companies	Closed-End Funds	Open-Ended Funds	Total Funds	Net Asset Value (RMB Billions)
1998	6	5	0	5	10
1999	10	22	0	22	57
2000	10	33	0	33	85
2001	15	48	3	51	82
2002	21	54	17	71	121
2003	34	54	56	110	256
2004	45	54	107	161	325
2005	53	54	164	218	469
2006	58	53	254	307	857
2007	59	35	306	341	3167
2008	60	59	446	505	1940

Source: Casewriter, based on data provided by Mirae Asset.

Exhibit 17 Foreign-Invested Joint Venture Funds in China

Date	Joint Venture	Investors	Share
April 2006	Lord Abbett China Asset Management	Lord Abbett & Co. (US)	49%
		Changjiang Securities	30%
		Tsinghua Holdings	21%
June 2006	First State Cinda Fund Management	Cinda Asset Management Company	54%
		Colonia First State Global Asset Management (Australia)	46%
July 2006	Lombarda China Fund Management	Banca Lombarda e Piemontese (Italy)	49%
		Guodu Securities Co.	47%
		Pingdingshan Coal Group	4%
November 2006	KBC-Goldstate Fund Management	Goldstate Securities	51%
		KBC Asset Management (Belgium)	49%
August 2007	AXA SPDB Investment Managers	Shanghai Pudong Development Bank	51%
		AXA (France)	39%
		Shanghai Dragon Investment	10%
April 2008	ABC-CA Fund Management	Agricultural Bank of China	52%
		Crédit Agricole (France)	33%
		Chalco	15%
November 2008	Minsheng Royal Fund Management	China Minsheng Banking Corp.	60%
		Royal Bank of Canada (Canada)	30%
		Three Gorges Finance	10%

Source: Casewriter, compiled from press reports.

Endnotes

¹ Moon Ihlwan, "Seoul's High-Stakes Shell Game," *BusinessWeek*, February 14, 2000.

² Moon Ihlwan, "Another Sword Hanging Over Seoul," *BusinessWeek*, April 13, 1998.

³ "Korea to encourage establishment of overseas securities investment funds," *The Korea Herald*, December 8, 1999.

⁴ "Mirae Asset in S.Korea's 2nd biggest IPO in 2006," *Reuters News*, February 1, 2006.

⁵ *Investment & Pensions Europe Magazine* ranked Mirae Asset as the largest investor in emerging market equities in 2008. *Investment & Pensions Europe*, July/August 2008, pp. 53-54.