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# Mirae Asset Korea Equity Fund

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PM Commentary

April, 2013

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## PM comment on North Korea provocation

Recently, as the level of threat by North Korea increase, so has the stock market volatility of South Korea.

Historically, North Korea had made military provocations to gain upper hand in negotiations. Thus in previous incidents, the impact of North Korean threat was limited given the fact that market participants often considered it as a one-off non-economic event. Likewise, though the recent market correction has treaded longer than before, it is not an event which has material impact on corporate fundamentals, in our view.

Over the past week, investor sentiment rapidly deteriorated due to two main factors which are perceived to be different from previous provocations. One is North Korea's emphasis on its nuclear weapon and long-range ballistic missiles. Accordingly, tensions between North Korea and the West heightened while the U.S. military responded by deploying a missile in Guam to intercept any sort of missile launch. Second is the absence of a mediator. In previous incidents, tensions abated once China expressed concerns over North Korea's actions. However, since Jung Un Kim assumed power, North Korea has focused on its nuclear program rather than compromising with the outside world and the role of China has become limited. Given such concerns, investors turned cautious with foreign investors being net-sellers.

However, one must keep in mind that in the past there was no incident where North Korean threat damaged the fundamentals of South Korean economy and corporate activities. Though there were short-term stock market corrections, there was no significant negative impact on corporate earnings.

We view that recent market anxiety has increased due to lack of visibility on the outcome of North Korea's provocations, despite the low possibility of an actual war. Moreover, amid continued concerns over weak earnings growth and depreciation of JPY, we view that North Korean threat was a trigger point in foreign investor sell-off.

However, as the U.S. government tries to defuse tensions through daily statements and as China offers to reduce friction, we view North Korean risk is likely to peak-out this week in which the missile test is scheduled. KOSPI Index is currently at 1,900pt-level, trading at P/E and P/B of 8.6x and 1.0x, respectively, providing a good buying opportunity.

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