

# **Due Diligence Document**

**KB Asset Management Co., Ltd.**

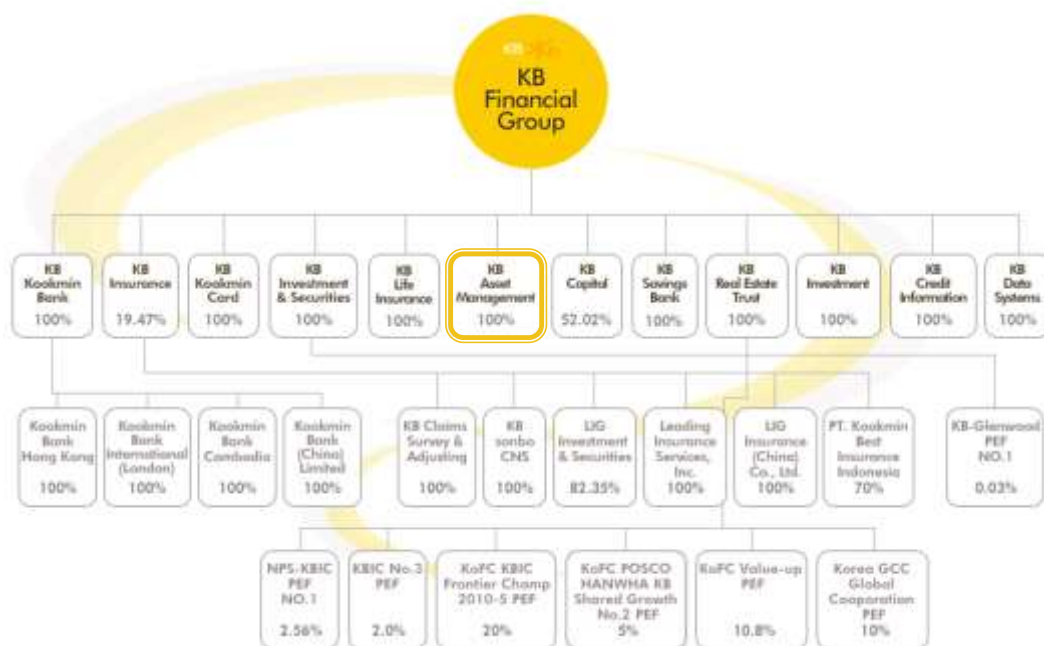
**September 15<sup>th</sup>, 2015**

# 1. Company Information

1.1 Please describe your current group and legal structure chart giving full names and showing corporate entities.

## <Overview of KB Financial Group>

- A leading financial group with the largest customer base and the most extensive branch network in the country.
- Legal Name of Group: KB Financial Group Inc.
- Location: 84, Namdaemunro, Jung-gu, Seoul, Korea
- Year Established: September 29<sup>th</sup>, 2008
- Paid-in Capital: 1.7 billion USD (As of December 31<sup>st</sup>, 2014)
- Number of Shares Authorized on Articles of Incorporation: 1,000 million
- Listed on: The Korea Exchange (KRX) since October 10<sup>th</sup>, 2008
- Credit Rating: “AAA”, which is the highest.
- Total Assets: 338 billion USD (As of December 31<sup>st</sup>, 2014)
- No. of Subsidiaries: 11 domestic subsidiaries encompassing banking, credit cards, securities, life insurance, asset management, real estate trust, venture capital, credit information, data system, and savings bank and overseas entities in the U.S., the U.K., New Zealand, India, China, Hong Kong, Japan, Vietnam, Cambodia, and Myanmar.
- Affiliated organizations (As of June 30<sup>th</sup>, 2015)



\* Legal-affiliate : Hwang-Mok Park, KIM&CHANG, SHIN&KIM

\* Accounting-affiliate: Samil PriceWaterhouseCoopers

- Outline of key events in the history of the organization
  - Sep., 2008 KB Financial Group Inc. established and listed on the New York Stock Exchange
  - Oct., 2008 KB Financial Group Inc. listed on the Korea Exchange
  - Oct. 2009 Included in the Dow Jones Sustainability Asia Pacific Index (CDP Korea Chapter)
  - July, 2010 Won a Platinum Award at the Vision Awards Annual Report Competition, in the banking category, for two consecutive years (LACP of the U.S.)
  - June, 2012 Excellence in Corporate Governance Award (Korea Corporate Governance Service)
  - July, 2012 First prize in 2012 Transparent Management Awards (Korean Institute of Certified Public Accountants)
  - Nov, 2012 Launched a local arm in China and a branch in Beijing
  - May, 2013 Picked as Best Places to Work by university students (Campus Job & Joy of Korea Economic Daily)
  - July, 2013 Youngrok Lim elected as the new Chairman and CEO
  - Oct., 2013 Included in the DJSI Asia/Pacific Index for five consecutive years (Dow Jones, SAM, Korea Productivity Center)
  
- **Please describe changes (including the relationship with your immediate parent company, and the group as a whole) within the last 12 month.**
  - July 2, 2014 Korea GCC Global Corporation PEF was included as a lower-tier subsidiary company
  - June 24, 2015 KB Insurance CO., LTD was included as a subsidiary company

Six companies in total were included as lower-tier subsidiary companies with the inclusion of KB Insurance CO., LTD as a subsidiary company: KB Claims Survey & Adjusting; KB Sonbo CNS; Leading Insurance Services, Inc.; LIG Insurance (China) Co., Ltd.; PT. KB Insurance Indonesia; LIG Investment & Securities Co., Ltd.

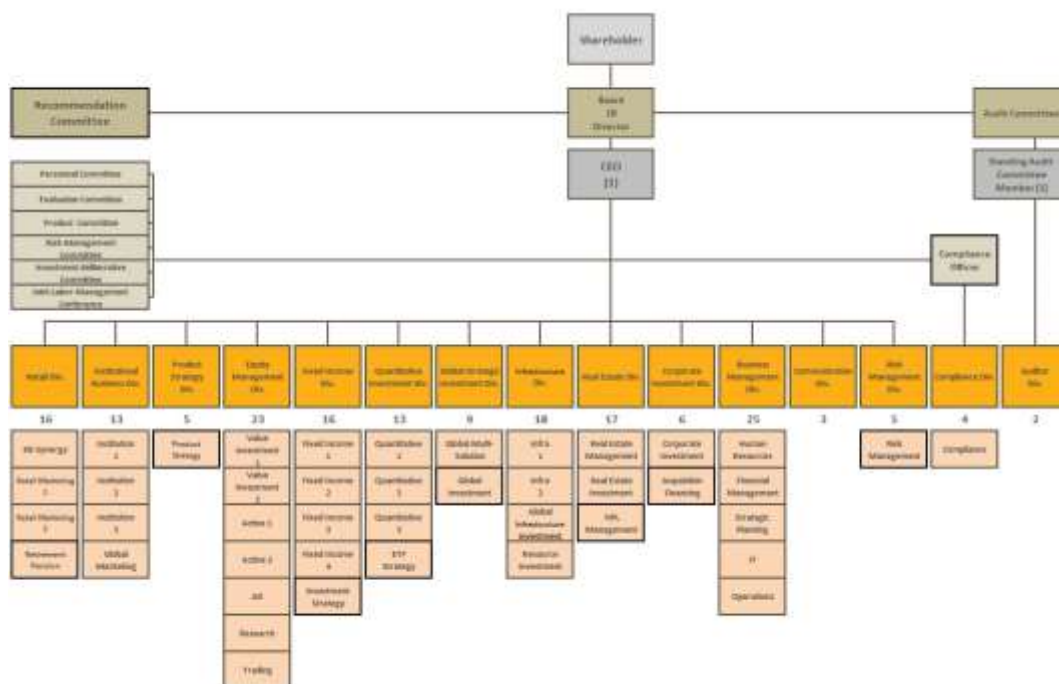
**1.2 Briefly describe the organizational structure of the company and provide a functional org chart. In particular highlight the internal control system of your company and confirm if the internal audit, risk management and compliance function are independent functions.**

**<Company Overview>**

- Legal Name of Company: KB Asset Management Co., Ltd. (KBAM)

- Location: 25F, Shinhan Investment Corp. 70, Yeoui-daero, Yeongdeungpo-gu, Seoul, South Korea
- Year Established: April 28<sup>th</sup>, 1988
- Business Type: Financial service
- Business Item: Investment Trust, Advice
- Ownership: Shareholders: KB Financial Group 100%
- Parent Company: KB Financial Group, which is Korea's largest financial group.
- Outline of key events in the history of the organization
  - Apr., 1988            The Company established under the name of Kookmin Investment Consultation
  - Dec., 1992            Acquired by H&CB (Housing & Commercial Bank)
  - Dec., 1992            Name changed to Jooeun Investment Consultation Co. due to change in ownership
  - July, 1997            Name changed to Jooeun Investment Trust Management Co., Ltd
  - Jan., 2000            ING Group forms a strategic alliance with H&CB  
ING Insurance International entered into a joint venture arrangement with H&CB
  - June, 2002            Name changed to KB Investment Trust Management Co., Ltd
  - Apr., 2004            Name changed to KB Asset Management Co., Ltd
  - July, 2013            Heekwon Lee elected as the CEO
- License/Registration: As of 2009 in accordance with the Financial Investment Services and Capital Markets Act (FSCMA), KBAM holds permissions: 1) to trade in collective investments, 2) to act as an intermediary for collective investments, 3) to operate with all types of collective investment vehicles, 4) to provide advisory services for collective investments, 5) to perform discretionary investment services.
- Number of Employees: As of July 31st, total number of employees is 183 (10 Divisions 5 Departments, and 43 Teams)

- Organizational chart (Management structure)



- As seen in the above organization chart, KBAM has divisions of internal audit, risk management and compliance, which function independently.

**1.3 In addition to Investment Management, do you provide any other services? If so please specify the nature of these services.**

No other services are being provided. KBAM devotes all of its resources to investment management.

**1.4 Please provide details of your company's global staff annual turnover in %.**

Position	As Of Jul 2015			During 2014			During 2013		
	Gained	Lost	Total	Gained	Lost	Total	Gained	Lost	Total
Analysts	7	3	4	5	4	1	4	1	3
Executives	0	1	(1)	0	0	0	2	2	0
Portfolio Managers	9	2	7	2	1	1	5	5	0
Sales-Related Staff	11	2	9	3	2	1	5	1	4
Operation/Support Staff	8	6	2	6	6	0	7	6	1
Others	4	1	3	5	2	3	8	2	6
<b>Total</b>	<b>39</b>	<b>15</b>	<b>24</b>	<b>21</b>	<b>15</b>	<b>6</b>	<b>31</b>	<b>17</b>	<b>14</b>

Position	As Of Jul 2015			During 2014			During 2013		
	Gained	Lost	Total	Gained	Lost	Total	Gained	Lost	Total
Annual Turnover	8.8%			9.6%			11.6%		

Position	During 2012			During 2011		
	Gained	Lost	Total	Gained	Lost	Total
Analysts	2	0	2	2	1	1
Executives	1	0	1	0	2	(2)
Portfolio Managers	5	4	1	3	2	1
Sales-Related Staff	3	3	0	7	2	5
Operation/Support Staff	9	2	7	10	7	3
Others	6	1	5	4	1	3
Total	26	10	16	26	15	11
Annual Turnover	7.5%			12.7%		

1.5 Please provide a copy of your company's most recent external control report e.g. SSAE 16 / ISAE 3402, or equivalent e.g. external auditor certification.

Please refer to the attached file "External Control Report+Financial Statement".

1.6 Please provide a copy of the latest ADV Form if applicable.

Not applicable.

1.7 What regulatory status and license(s) does the company have and what supervisory authority has granted the status/license and when? Please attach a copy of the authorization. Has any regulatory approval been refused or withdrawn?

No refusal has been made. Please refer to the attached file "Notice of License\_Notarial Certificate" and "Registered Particulars\_Notarial Certificate" for further specifics regarding licenses.

## 1.8 Is any aspect of the investment management activity delegated to a third party?

If Yes:

### 1) Please provide details of the delegated entity (name, address, regulatory status) and information as to which function(s) are delegated.

- KBAM operates various Korea-domiciled overseas investment funds in order to satisfy Korean investor's various investment needs.
- KBAM takes the position that it chooses to delegate investment management rather than directly manage investments when delegation of investment management is believed to be more in the interest of investors
- Criteria in determining delegated investment managers are their expertise and market position in relevant regions. If required, a multi-manager system is put in place, in which multiple investment managers manage a single fund together.
- KBAM is expected to cover even more investments that it directly manages, given its upward trajectory in overseas investments and material and human resources.
- A list of overseas investment managers is as follows:

#### <Delegated Function: Investment>

Name of Delegated Entities	Name of Delegated Funds	Address	Regulatory Status	Asset Manager Rating <sup>1</sup>	Remarks
FULLERTON	KB ASEAN Focus Equity Fund	60B Orchard Road #06-18 Tower 2 The Atrium@Orchard, Singapore, 238891	Limited, Financial service	-	-
	KB Vietnam Focus Equity Fund			3-star	-
	KB VPIC Equity Fund			-	Liquidated on August 30, 2012
JF	KB China Equity Fund	21st floor, Chater House, 8 Connaught Road Central, Hong Kong	Limited, Financial service	3-star	-

<sup>1</sup> The above asset manager ratings are defined by Morningstar Global Category Ratings, if required, adopting the methodology of weighted-average considering the size of AUM.

Name of Delegated Entities	Name of Delegated Funds	Address	Regulatory Status	Asset Manager Rating <sup>1</sup>	Remarks
GAM		16 <sup>th</sup> floor, Two Exchange Square, Hong Kong	Limited, Financial service	3-star	-
HAMON		3510-3515 Jardine House, 1 Connaught Place, Central, Hong Kong	Limited, Financial service	2-star	-
Blackfriars	KB Euro-convergence Equity Fund	9 Cloak Lane, London, EC4R 2RU	Limited, Financial service	3-star	-
JF	KB India Equity Fund	21 <sup>st</sup> floor, Chater House, 8 Connaught Road Central, Hong Kong	Limited, Financial service	Not Available	-
MELLON BRAZIL	KB Brazil Equity Fund	Avenida Borges de Medeiros, No. 633, suites 401, 402, 403 – Leblon, in the City of Rio de Janeiro, State of Rio de Janeiro.	Limited, Financial service	4-star	-
HERMES	KB MENA Equity Fund	The Gate Building, West Wing, Level 6, P.O. Box 30727, Dubai, the United Arab Emirates	Limited, Financial service	5-star	-
HSBC (Hong Kong)	KB India Leading Growth Equity Fund	Level 22, HSBC Main Building, 1 Queen's Road Central, Hong Kong	Limited, Financial service	1-star	-
HSBC (HALBIS)	KB Russia Leading Growth Equity Fund	8 Canada Square London E14 5HQ United Kingdom	Limited, Financial service	3-star	-
Bosera (A-share)	KB Mainland China Master Equity Fund	Suite 4109, 41/F Jardine House, 1 Connaught Place, Central, Hong Kong	Limited, Financial service	Not Available	-



Name of Delegated Entities	Name of Delegated Funds	Address	Regulatory Status	Asset Manager Rating <sup>1</sup>	Remarks
Harvest (A-share)		Suites 1301-1304 Two Exchange Square, 8 Connaught Place, Central, Hong Kong	Limited, Financial service	Not Available	-
Palisade Capital	KB US Small-cap Growth Master Equity Fund	One Bridge Plaza North, Suite 695, Fort Lee, New Jersey 07024, United States of America	Limited Liability Company, Financial Service	Not Available	-
JPM N.Y	KB Global Infrastructure Private Special Asset Fund	270 Park Avenue, New York, NY 10017	Incorporation, Financial Service	Not Available	-
Pioneer	KB Eurozone Core Equity Fund	1 George's Quay Plaza, George's Quay, Dublin 2, Ireland	Limited, Financial service	3-star	-
Partners Group	KB PG Energy Infra Private Special Asset Fund	Heron Tower, 14 <sup>th</sup> floor, 110 Bishopsgate, London, EC2N 4AY, United Kingdom	Limited, Financial service	Not Available	-

- Upon clients' request, KBAM outsources investment management to domestic managers, occasionally employing a multi-manager system.

<Delegated Function: Investment>

Name of Delegated Entities	Name of Delegated Funds	Address	Regulatory Status	Asset Manager Rating	Remarks
Shinyoung AM	KB Starchoice Equity Fund 1	6 <sup>th</sup> and 7 <sup>th</sup> floor, 6, Gukjegeumyung-ro 8-gil, Yeongdeungpo-gu, Seoul, Korea	Limited, Financial service	5 -star	-
Assetplus AM	KB Starchoice Equity Fund 2	Richtogether Center, 14, Pangyoyeok-ro	Limited, Financial service	Not Available	-

Name of Delegated Entities	Name of Delegated Funds	Address	Regulatory Status	Asset Manager Rating	Remarks
		192beon-gil, Bundang-gu, Seongnam-si, Gyeonggi-do, Korea			
Dongbu AM	KB Starchoice Equity Fund 2	19 <sup>th</sup> floor, 57, Yeouinaru-ro, Yeongdeungpo-gu, Seoul, Korea	Limited, Financial service	3-star	-
Shinyoung AM	KB Smart Private Master Equity Fund (FoFs)	6th and 7th floor, 6, Gukjegeumyung-ro 8-gil, Yeongdeungpo-gu, Seoul, Korea	Limited, Financial service	5-star	-
MidasAsset AM	KB Smart Private Master Equity Fund (FoFs)	3th floor KTB Building, 66, Yeoui-daero, Yeongdeungpo-gu, Seoul, Korea	Limited, Financial service	4-star	-
Eastspring Investments	KB Smart Private Master Equity Fund (FoFs)	15 <sup>th</sup> floor, 70, Yeoui-daero, Yeongdeungpo-gu, Seoul, Korea	Limited, Financial service	3-star	-

- Other than those listed above, KBAM outsources NAV calculation. The purpose is to focus KBAM's resources to investment management.

**<Delegated Function: NAV Calculation>**

Name of Delegated Entity	Delegated Function	Address	Regulatory Status
KB Kookmin Bank	NAV Calculation	26, Gukjegeumyung-ro 8-gil, Yeongdeungpo-gu, Seoul, Korea	Limited, Financial Service

2) Please provide details of the control and monitoring framework in place over the delegated activity.

- KBAM set out a “Guidelines for Outsourcing Services to a Third Party” based on ample experience in working with multiple overseas investment managers and has complied with the provisions whenever investment management was delegated.
- In compliance with the provisions, KBAM carries out due diligence and receives from delegated investment managers compliance reports specifically on delegated functions on a quarterly basis.
- For more information, please refer to the attached file “Guidelines for Outsourcing Services to a Third Party”.

**1.9 Please provide details of your insurance cover in relation to your professional activities (e.g. insured activities, amount of liability, insurance company).**

- Insured Activities:
  - D&O (Directors & Officers Liability Insurance)
    - An insurance covering executives’ financial losses incurred by lawsuits against their wrongful acts. The policy also covers litigation expenses.
    - Persons Covered: Members of the Board of Directors, including outside directors, vice president, vice president of bank, directors, etc.
    - Most probable incidents: Shareholder derivative lawsuits
    - Special Agreement: Employment practices liability insurance
  - FIPI (Financial Institution Professional Indemnity)
    - An insurance covering losses from claims of damages raised by clients regarding services provided by employees
    - Most probable incidents: Compensation for damages from employee’s ordering mistakes and incomplete sales of products

- Amount of Liability

Total Limit of Liability	Additional Limit of Liability for D&O
20 billion KRW (17.1 million USD)	50 billion KRW (42.7 million USD)

\* KRW converted to USD using the basic rate on 31<sup>st</sup> of July, 2015

- Insurance Companies:
  - Insurer in charge and other insurers
    - Insurer in charge: LIG Insurance
    - Other insurers : 5 insurers (LIG Insurance, Samsung Fire & Marine Insurance, Merits Fire & Marine Insurance, Hyundai Marine & Fire Insurance and Dongbu Fire Insurance)

### 1.10 Please provide:

- Financial Statement: Please refer to the attached file “External Control Report+Financial Statement”.
- Current Trade Register Extract: Please refer to the attached file “Current Trade Register Extract”.

### 1.11 External Auditor’s name and address:

- Name: Samil PricewaterhouseCoopers
- Address: 92, Hangang-daero, Yongsan-gu, Seoul

### 1.12 Please provide details of the current AuM including split per investment product and strategy.

Name of Composite	NAV (Unit: USD)
CSI100 Index	31,370,060
EuroStoxx50 Index (Currency Hedged)	47,207,023
FTSE ChinaA50 Index 1.5 (Currency Hedged)	9,374,704
HSCEI Index (Currency Hedged)	36,677,007
KOSPI200 Enhanced Index	1,022,681,283
KOSPI200 Passive Index	774,709,198
KOSPI200 Reverse Index	26,027,392
KOSPI200&HSCEI Index (Currency Hedged)	3,893,322
KOSPI200 Quantitative active Index	20,528,094
KTB Index	227,418,534
M&A Theme Equity	3,153,217
MKF Raw Material Index (Currency Hedged)	15,121,043
MMF_Government Bond	4,625,278,772
MMF_Regular Bond	176,790,325
Nikkei225 Index (Currency Hedged)	42,280,234
S&P500 Index (Currency Hedged)	29,033,628
S&P500 Index 1.5 (Currency Hedged)	1,878,451
Government -public Bond (within a year)	2,064,507
Government-public Bond (Maturity date within 3 years)	272,150,779
Korea Equity Goal Shift	20,892,276
Korea Value Balanced Growth Equity&Bond	51,312,710

Name of Composite	NAV (Unit: USD)
Korea Value Equity	3,173,234,715
Korea Balanced Value Bond	173,163,385
Korea Long-short	8,530
Korea Dividend Equity	80,061,009
Korea Dividend balanced	42,278,962
Korea Growth Equity	4,086,288,643
Korea Balanced Growth Equity	242,955,464
Korea Balanced Growth Bond	223,073,275
Korea Export Equity Index	5,847,891
Korea System	53,600,936
Korea System Goal Shift	73,749,530
Korea System Accumulative Purchase	741,138
Korea System balanced	104,933,888
Korea Outstanding Corp. Index	12,848,326
Korea Index balanced	61,262,442
Korea Small-middle Equity	2,432,527,283
Korea Quantitative Active Equity	11,215,133
Korea Portfolio Insurance	11,356,972
Government Bond (Maturity date within 3 years)	249,968,810
Matured Government Bond	251,135,303
Global High Yield Bond (FoFs)	132,527
Global High Yield Bond (FoFs)_Monthly payment	735,482
Global Value Equity (exchange exposure)	866,220
Global Growth Equity (Currency Hedged)	1,973,839
Global balanced (Currency Hedged)	4,962,847
Global balanced (Currency Hedged)_Monthly payment	168,099
Gold Index	22,656,321
Eastern Asia Equity Index (Currency Hedged)	8,239,763
Russia Growth Equity (Currency Hedged)	16,755,735
Russia Equity (Currency Hedged)	3,041,287
Russia Equity Accumulative Purchase	756,950
Leverage Index	41,161,117
Leverage Index1.5	52,550,437
Matching Maturity Fixed Income	54,070,035
MK Big5 Corp. Equity Index	48,293,059

Name of Composite	NAV (Unit: USD)
USA Small Cap. Growth Equity	5,129,920
Vietnam Equity (Currency Hedged)	9,400,998
Brazil Equity (Currency Hedged)	22,164,976
BRICS Equity (Currency Hedged)	13,513,434
BRICS balanced (Currency Hedged)	1,073,544
ASEAN Equity (Currency Hedged)	19,472,778
Asia (ex Japan) Equity (Exchange exposure)	1,175,391
Asia (ex Japan) Equity-Finance (Exchange exposure)	129,336
Bank Debenture (Maturity date within a year)	214,034,789
Bank Debenture (Maturity date within 2 years)	126,395,550
Bank Debenture (Maturity date within 3 years)	1,154,767,719
Emerging Equity-Global (Currency Hedged)	13,938,167
Emerging Equity-Eastern Europe (Currency Hedged)	6,975,400
Emerging Bond-Local Currency (Currency Hedged)	77,506,150
India Equity (Currency Hedged)	27,260,971
Japan Equity (exchange exposure)	57,568
Japan Equity (Currency Hedged)	275,625
China A Share (Currency Hedged)	147,772,729
China Equity (Currency Hedged)	416,569,365
Middle East-North Africa Equity (Currency Hedged)	7,081,164
Balanced Bond (Maturity date within a year)	292,302,430
Balanced Bond (Maturity date within 3 years)	675,625,376
Matured Balanced Bond	2,608,189,966
KOSDAQ Elite 30 Index	10,363,242
Speculative Risk Grade (Maturity date within a year)	95,606
Korea-China Active Equity (Currency Hedged)	2,112,691
Overseas-issued Korea Bond	51,070,088
Hedge Fund Global FoFs	174,551
Balanced Strategic Bond	432,372,081
Corporate Bond over A0 (Maturity date within 3 years)	1,119,174,587
Matured Corporate Bond over A0	53,700,312
<b>Total</b>	<b>26,496,334,417</b>

\* KRW converted to USD using the basic rate on 31<sup>st</sup> of July, 2015

**1.13 Please provide background information about the company's establishment and key staff including biographies of key individuals.**

- Please find the relevant content on question 1.2 regarding company's establishment background.
- As to the status of shareholders, please see the table below:

**<Shareholders Owning More Than Five Percent>**

(Unit: Share)

Classification	Name of Shareholder	No. of Shares Owned	Proportion of Shares Owned	Remarks
Shareholders Owning More Than 5% of Outstanding Shares	National Pension Service	36,383,211	9.42%	As of December 31, 2014
	The Bank of New York Mellon	32,474,273	8.41%	As of December 31, 2014
Employee Stock Ownership Plan		2,179,751	0.56%	-

- As to the biographies of relevant division heads and the CEO, please refer to the table below:

Name	Title	Academic and Professional Background		Years of Experience	
				Industry	KBAM
Heekwon Lee	CEO	1978-2011	Head of Investment Finance Division at KB Kookmin Bank	36.8	3.5
		2012-2013	Vice President at KB Asset Management		
		2013-Present	CEO of KB Asset Management		
Woongpil Choi	CIO	1999	B.A. in Applied Statistics at Yonsei University	16.5	5.8
		1998-1999	LNG Carrier Dep. of Hyundai Merchant Marine		
		1999-2002	Sector Manager of Equity Management Team at Dongwon Securities		
		2002-2004	Sector Manager of Investment Adviser Dep. at Dongwon Investment Management		
		2004-2006	Sector Manager of Korea Investment Management		
		2006-2009	Asset Management Dep. at Korea Investment Value Asset Management		
2009-Present	Managing Director of Value Management Office of Equity Management Division at KB Asset Management				

Name	Title	Academic and Professional Background		Years of Experience	
Donghoon Moon	Head of Fixed Income Division	1983	B.A. in Food and Resource Economics at Korea University	26.4	25.5
		1985	M.A. in Business at Korea University		
		1988-2006	Head of Marketing Team, Head of Credit Analysis Team, and Head of Fixed Income Division at KB Asset Management		
		2006-2007	Director of Capital Market Team at Hanyang Securities		
		2007-2007	CEO of SAT Consulting Korea		
		2007-Present	Head of Fixed Income Division at KB Asset Management		
Minho Kim	Head of Institutional Business Division	1990	B.A. in Business at Korea University	25.3	9.4
		1990-2004	Institutional Business Team at Hyundai Securities		
		2004-2006	Institutional Business Team at Eastspring Investments		
		2006-Present	Head of Institutional Business Division at KB Asset Management		

## 2. Expertise in Portfolio Management

### 2.1 For how long have you been involved in Portfolio Management?

Since the establishment of KB Asset Management in 1988.

### 2.2 Please describe the specialists, method, knowledge and the experience of the people involved. Please state if the quantitative and qualitative personnel resources are sufficient.

- Out of 87 asset management companies in Korea, KBAM ranked 6<sup>th</sup> in the number of employees as of June 30<sup>th</sup>, 2015. The total number of employees on average was 58, while KBAM's was 176. The average total number of employees was also in contrast with the number of portfolio managers of KBAM, which was 107 as of the date mentioned.
- For the recent 10 years, while Korea's fund market, excluding separately managed accounts, has grown by 73 percent on average, KBAM's AUM has grown by 114%. KBAM's notable growth is unprecedented in the market, which has been a driver for KBAM to be able to attract brightest



minds and highest performing managers in the market.

Name	Job Title	Division/ Dept.	Hire Date	KB Asset Management				Months of Experience Including in KBAM				Highest Degree of Education	Professional Certificate
				Months of Experience (Total)	Portfolio Mngt.	Research	Others	Months of Experience (Total)	Portfolio Mngt.	Research	Others		
Woongpil Choi	Managing Director	Equity Division	9-Nov-2009	69	69			198	187		11	Bachelor's degree	
Younghyun Jung	Senior Manager	Equity Division/ Value Team 1	9-Nov-2009	69	55	14		91	55	36		Bachelor's degree	
Junbum Park	Assistant Manager	Equity Division/ Value Team 1	5-Nov-2012	33		33		45		45		Bachelor's degree	
Jongeun Song	Assistant Manager	Equity Division/ Value Team 1	13-Jan-2014	19		19		43		43		Bachelor's degree	
Younggu Nam	Manager	Equity Division/ Value Team 2	14-Feb-2011	53	18	35		67	18	49		Bachelor's degree	
Soohyung Kim	Assistant Manager	Equity Division/ Value Team 2	17-Feb-2014	17		17		50		50		Bachelor's degree	
Hyosub Sim	General Manager	Equity Division/ Active Team 1	13-Mar-2006	112	78	34		199	78	121		Bachelor's degree	
Minjae Shin	General Manager	Equity Division/ Active Team 1	12-Aug-2002	156	78	36	42	156	78	36	42	Bachelor's degree	CFA, AICPA
Sungho Yang	General Manager	Equity Division/ Active Team 1	13-Feb-2006	113	73	40		175	73	102		Bachelor's degree	FRM
Jihyun Jo	Senior Manager	Equity Division/ Active Team 1	1-Sep-2010	59	23	36		109	23	86		Bachelor's degree	
Kyungjin Kim	General Manager	Equity Division/ Active Team 2	30-Mar-2015	4	4			175	89	86		Bachelor's degree	
Byunghoon Jung	General Manager	Equity Division/ AR Team	1-Oct-2013	22	22			163	163			Bachelor's degree	
Heonseok Park	Manager	Equity Division/ AR Team	17-Mar-2014	17	6	11		61	6	55		Master's degree	FRM
Eunpyo Kang	Assistant Manager	Equity Division/ AR Team	6-May-2015	2		2		53		53		Bachelor's degree	AICPA
Kyungmin Kim	Senior Manager	Equity Division/ Research Team	14-Mar-2011	53	52	1		96	52	44		Master's degree	
Chanwoo Park	Senior Manager	Equity Division/ Research Team	29-Jul-2010	60	5	55		138	33	105		Bachelor's degree	
Doonam Choi	Manager	Equity Division/ Research Team	1-Sep-2009	71	22	49		111	22	89		Bachelor's degree	
Kitae Kim	Assistant Manager	Equity Division/ Research Team	13-May-2015	3		3		53		53		Bachelor's degree	CFA

Name	Job Title	Division/ Dept.	Hire Date	KB Asset Management				Months of Experience Including in KBAM				Highest Degree of Education	Professional Certificate
				Months of Experience (Total)	Portfolio Mngt.	Research	Others	Months of Experience (Total)	Portfolio Mngt.	Research	Others		
Jaekyung Kim	Staff	Equity Division/ Research Team	14-Apr- 2015	4		4		29		29		Bachelor's degree	
Eunyoung Nam	Staff	Equity Division/ Research Team	27-Jul- 2015	0		0		29		29		Bachelor's degree	
Kitae Song	Staff	Equity Division/ Research Team	27-Jul- 2015	0		0		32		32		Bachelor's degree	
Jiyong Lee	Staff	Equity Division/ Research Team	27-Jul- 2015	0		0		31		31		Bachelor's degree	
Donghoon Moon	Senior Managing Director	Fixed Income Division	12-Nov- 2007	93	93			327	324		3	Master's degree	
Chuljun Han	Director	Fixed Income Division/ Team 1	1-May- 1993	267	267			267	267			Master's degree	
Sungsoo Ko	Manager	Fixed Income Division/ Team 1	9-Nov- 2009	69	55	14		69	55	14		Bachelor's degree	
Jaeok Kim	Director	Fixed Income Division/ Team 2	1-Sep- 2010	59	59			182	182			MBA	CFA, AICPA
Kyungsun Son	Manager	Fixed Income Division/ Team 2	17-Jan- 2011	54		54		105		105		Bachelor's degree	KICPA, Licenced Tax Accountant
Sangwoo Jung	Manager	Fixed Income Division/ Team 2	4-Oct- 2011	46	46			97	67		30	Bachelor's degree	
Junwon Kang	General Manager	Fixed Income Division/ Team 3	4-Nov- 2013	21	21			192	146	46		Master's degree	
Myungkyun Kim	Assistant Manager	Fixed Income Division/ Team 3	1-Nov- 2011	45	25	20		45	25	20		Bachelor's degree	FRM
Jonghyuk Lee	General Manager	Fixed Income Division/Te am 4	5-Jun- 2009	74	74			145	145			Master's degree	
Hakseoung Lee	Manager	Fixed Income Division/ Team 4	12-May- 2014	15	15			90	15	75		Master's degree	FRM
Eunah Jung	Director	Fixed Income Division/ Investment Strategy Team	6-Apr- 2015	4		4		253	116	137		Master's degree	KICPA, FRM, CFA
Sunyoung Kwon	Assistant Manager	Fixed Income Division/ Investment Strategy Team	20-Apr- 2015	3		3		40		40		Bachelor's degree	KICPA
Kyungseok Moon	Managing Director	Quantativ e Division	1-Oct- 2004	130	130			254	235		19	Bachelor's degree	
Seungkwon Im	Director	Quantativ e Division/ Team 1	20-Jun- 2005	121	121			222	121	101		Master's degree	
Jungah Kim	Senior Manager	Quantativ e Division/ Team 1	10-May- 2004	135	135			151	135	16		Bachelor's degree	

Name	Job Title	Division/ Dept.	Hire Date	KB Asset Management				Months of Experience Including in KBAM				Highest Degree of Education	Professional Certificate
				Months of Experience (Total)	Portfolio Mngt.	Research	Others	Months of Experience (Total)	Portfolio Mngt.	Research	Others		
		Team 1											
Seyoung Mo	Manager	Quantitative Division/ Team 1	25-Oct-2007	93	93			116	93		23	Bachelor's degree	
Euhyun Jung	Staff	Quantitative Division/ Team 1	26-Feb-2013	29	2		27	29	2		27	Bachelor's degree	
Seungchul Kim	General Manager	Quantitative Division/ Team 2	19-Jun-2009	73	73			163	163			Master's degree	
Younghoon Kwon	Manager	Quantitative Division/ Team 2	30-Nov-2009	68	68			68	68			Bachelor's degree	
Kwangwoon Bae	General Manager	Quantitative Division/ Team 3	16-Apr-2012	39	39			154	154			Master's degree	
Seungjae Huh	Senior Manager	Quantitative Division/ Team 3	1-Sep-2008	83	83			161	130		31	Bachelor's degree	

\* As of July 31<sup>st</sup>, 2015

**2.3 Do you have an Asset Manager rating (e.g Fitch AMR)? In case you outsource a part of your investment management activity, please provide your delegate(s)' rating if they have any.**

- Not Available.
- Please refer to the table on question 1.8 to see our delegates' ratings.

**2.4 What is your main Business? What investment areas do you specialize in? Since when have you been operating in this area?**

- Main business areas:
  - KBAM's business objectives are to undertake the following business activities:
    - a) Investment trading of collective investment security
    - b) Investment agent business of collective investment security
    - c) Collective investment of all types of collective investment schemes
    - d) Investment advisory business
    - e) Discretionary investment business
    - f) Other businesses approved by Financial Investment Services and Capital Markets Act and other relevant regulations
    - g) Businesses incidental to each of the foregoing businesses
  - The company may concurrently engage in businesses other than what are specified above after obtaining approval and validation in accordance with provisions of applicable laws.
  - Asset breakdown (As of July 31<sup>st</sup>, 2015)

(Unit: 1 million USD)

Asset Class	Total	Fund	SMA
Equity	9,304.2	5,771.8	3,532.4

Asset Class	Total	Fund	SMA
Balanced	4,254.7	4,132.6	122.2
Bond	11,567.6	5,261.9	6,305.7
FoF	351.7	342.9	8.8
MMF	7,795.3	7,795.3	0.0
Derivative	1,166.3	1,118.3	47.9
Real Estate	1,029.4	1,029.4	0.0
Special Asset	4,087.5	4,042.8	44.7
Others	20.6	N/A	20.6
Total	39,577.1	29,494.9	10,082.2

\* Source: KOFIA (Korea Financial Investment Association)

## 2.5 In case you outsource a part of your investment management activity, what are your delegate(s)' specialties?

- Managers that KBAM selects to delegate investment management activity to are companies with strong expertise and market position in terms of investments or investment regions.
- KBAM selects investment managers in compliance with internal guidelines and conducts due diligence on companies expected to be selected. In addition, KBAM receives quarterly compliance reports specifically on delegated functions from delegated managers as well as conducting due diligence on an annual basis.

## 3. Audit and Legal

### 3.1 Please provide details of the Internal Audit function, as applicable, including details on the oversight of any delegated or outsourced function.

- KBAM implements an unbiased self-audit that is classified as follows and has an authority to audit third parties in accordance with relevant regulations. It also monitors whether outsourcing contracts are stipulated on fair terms:

Classification	Contents
Financial Audit	Evaluate correctness and usefulness of accounting information
Compliance Audit	Inspect the validity of compliance monitoring system and propose measures for improvement

Classification	Contents
Operational Audit	Examine appropriateness of organizational framework and performance evaluation
Management Audit	Examine appropriateness of electronic risk management
Information Technology audit	Inspect safety and soundness of IT-related processes

- Please refer to the attached file “Guidelines for Outsourcing Services to a Third Party” for information on oversight of delegated function.

**3.2 Are there provisions under supervisory law for the organization of your Internal Audit function? If yes, what are they? Please provide details.**

Provisions of Supervision	
Regulation on Examination of and Sanctions against Financial Institutions [Amended on August 31, 2006. FSC 2006-56]	<p>Article 40 (Self-audit)</p> <p>(1) A financial institution shall prepare and conduct a self-audit on an annual basis for the purpose of preventing improper and unreasonable business activities and financial incidents. It shall also submit an annual or quarterly audit plans to the Governor when required.</p> <p>(2) A financial institution shall immediately report to the Governor the details of and opinion regarding the measures against illegal or improper acts, which is imperative or important, discovered in the course of a self-audit under Paragraph (1).</p>
Financial Investment Services and Capital Markets Act [Amended by Act No. 10063, Mar. 12, 2010]	<p>Article 26 (Formation of Audit Committee)</p> <p>(1) Each financial investment business entity (excluding those specified by Presidential Decree, considering the size of assets, etc.; hereafter the same shall apply in this Article) shall possess an audit committee under Article 415-2 of the Commercial Act (hereinafter referred to as the “audit committee”).</p> <p>(2) The audit committee shall comply with the following requisites:</p> <ol style="list-style-type: none"> <li>1. Two-thirds or more of all committee members shall be Outside Directors;</li> <li>2. At least one of the committee members shall be an expert in accounting or finance as prescribed by Presidential Decree; and</li> <li>3. The representative of the audit committee shall be an outside</li> </ol>

## Provisions of Supervision

director.

- (3) A person who falls under any of the following subparagraphs may not become a non-outside-director member of the audit committee, and a non-outside-director member of the audit committee shall lose his/her office if he/she comes to fall under any of the following subparagraphs after being appointed as a member of the audit committee. Provided, that a person who currently serves or served as a member of the audit committee and is not a standing auditor or an outside director of the company may become a non-outside-director member of the audit committee, notwithstanding subparagraph 2:
1. A significant shareholder of the company;
  2. A person who is a standing executive or a full-time employee of the company or a person who was a standing executive or a full-time employee during the preceding two years; and
  3. A person who possesses a potential to influence the management of the company or who has a difficulty in faithfully performing his/her duties as a non-outside-director member of the audit committee due to any other reason, as specified by Presidential Decree.
- (4) Where the number of Outside Directors does not comply with the requisites for the formation of an audit committee under paragraph (2), owing to retirement or death of an outside director or any other unexpected cause or event, the financial investment business entity shall fill such vacancy at the first general meeting of shareholders 524 Ministry of Government Legislation held after such cause or event occurs in order to come into compliance with the requisites of paragraph (2).
- (5) The proviso to Article 415-2 (2) of the Commercial Act shall not apply to the formation of the audit committee under paragraph (1).
- (6) Article 409 (2) and (3) of the Commercial Act shall apply mutatis mutandis to the appointment of Outside Directors who become members of the audit committee.

### 3.3 Have there been any material findings in the Internal Audit Report in the last five years?

No material finding has been made.

### 3.4 Has there been any qualified audit opinion by external auditors in the last five years?

No qualified audit opinion has been made.

### 3.5 Please provide date of external auditors' appointment whether there a policy in place to regularly change the audit company?

- Aiming to achieve efficiency in communication and auditing process, subsidiaries of KB Financial Group Inc., including KB Asset Management, have a policy to appoint the same auditor with the group. KB Financial Group appointed PWC as the external auditor on March 10th, 2014 and KBAM subsequently underwent an internal process to enter into a separate contract with PWC and appointed the firm as its external auditor on April 23rd, 2014.
- The Group has a policy to newly appoint an external auditor every 3 years. External auditors appointed are not allowed to enter into contracts that are not relevant to auditing and hurts its nature of independence.
- The Audit Committee is responsible for granting approval to the appointment of an external auditor and also has a policy of supervision of external auditor.

### 3.6 Please provide details of your internal and external legal counsel.

Legal Counsel	Name	Phone	Address
Internal (Individual)	Eugene Lim	82-2-2167-8397	25F, Shinhan Investment Corp. 70, Yeoui-daero, Yeongdeungpo-gu, Seoul 150-712, Korea
External (Law Firm)	Shin & Kim	82-2-316-4114	8th Floor, State Tower Namsan, 100 Toegy-ro, Jung-gu, Seoul 100-052, Korea
	Daeryook & Aju	82-2-563-2900	7/11/12/13F, Donghoon Tower, 702-19, Yeoksam - dong, Gangnam-gu , Seoul 135-513, Korea

### 3.7 Have there been any criminal or civil proceedings against the company, its principals, partners or

directors in the last five years?

<b>Date of Institution of Suit</b>	June 23 <sup>rd</sup> , 2014
<b>Case No.</b>	2015Na22566
<b>Court</b>	A High court (Second Circuit)
<b>Type of Lawsuit</b>	Civil Rights
<b>Case Description</b>	A plaintiff, former employee of KBAM filed a lawsuit against KBAM for an additional stipend without accepting KBAM's stipend calculation method. The 1st trial court recognized that KBAM's remuneration system has not violated the LABOR STANDARD ACT and admitted only 7% of what was originally requested by the plaintiff. Only the plaintiff appealed. The case is now pending before the 2nd trial.
<b>Status</b>	1 <sup>ST</sup> Trial → 2 <sup>nd</sup> Trial → 3 <sup>RD</sup> Trial (*Pending before 2nd trial)

<b>Date of Institution of Suit</b>	April 17 <sup>th</sup> , 2009 (Date of filing of a lawsuit for the 1st trial); July 1 <sup>st</sup> , 2015 (Date of transfer of remand after reversal)
<b>Case No.</b>	2015Na17915
<b>Court</b>	A High court (Second Circuit)
<b>Type of Lawsuit</b>	A suit for damage
<b>Case Description</b>	A plaintiff, an institutional investor of a real-estate fund filed a lawsuit to get a compensation for damage due to unfinished construction of a building that the real estate fund invested. A plaintiff alleged that KBAM violated duty of care and fiduciary duty. However, 1st court only partially recognized the violation of fiduciary duty and stated that KBAM is not liable for the damage due to the duty of care as it has not violated the duty. Both plaintiff and defendant appealed but the case was dismissed by the 2nd court. Both parties appealed to the 3rd court but in the 3rd court the case was reversed and remanded to the 2nd court. The case is pending before a 2nd trial now.
<b>Status</b>	1 <sup>ST</sup> Trial → 2 <sup>nd</sup> Trial → 3 <sup>RD</sup> Trial (*Pending before 2nd trial)

<b>Date of Institution of Suit</b>	January 3 <sup>rd</sup> , 2014
<b>Case No.</b>	2014Da826
<b>Court</b>	The Supreme Court
<b>Type of Lawsuit</b>	A suit for damage
<b>Case Description</b>	A plaintiff, an institutional investor of a real-estate fund filed a lawsuit to get a compensation for damage due to unfinished construction of a building that the real estate fund invested. A plaintiff alleged that KBAM violated duty of care and fiduciary duty. However, 1 <sup>st</sup> court only partially recognized the violation of fiduciary duty and stated that KBAM is not liable for the damage due to the duty of care as it has not violated the duty. (A lawsuit of other institutional investors about same fund in the case 2015Na17945) Both plaintiff and defendant appealed but the appeal was rejected in the 2 <sup>nd</sup> court. Both parties appealed to the 3 <sup>rd</sup> court. The case is pending before the 3 <sup>rd</sup> court now.
<b>Status</b>	1 <sup>ST</sup> Trial → 2 <sup>nd</sup> Trial → 3 <sup>RD</sup> Trial



	(*Pending before 3 <sup>RD</sup> Trial)
--	---

<b>Date of Institution of Suit</b>	October 24 <sup>th</sup> , 2013
<b>Case No.</b>	2013Na2022902
<b>Court</b>	A High court (Second Circuit)
<b>Type of Lawsuit</b>	A suit for damage
<b>Case Description</b>	A plaintiff, an investor of a real estate fund filed a lawsuit requesting a reimbursement of subscription price of Beneficiary Certificate that was entirely depreciated, alleging that KBAM violated a fiduciary duty. However, the court recognized that KBAM has not violated the fiduciary duty which specifies sufficient notification of possible risks and dismissed the request. The plaintiff appealed but the appeal was dismissed. The case closed.
<b>Status</b>	Dismissal of intermediate appeal

<b>Date of Institution of Suit</b>	May 23 <sup>rd</sup> , 2013
<b>Case No.</b>	2013Na30655
<b>Court</b>	A High court (Second Circuit)
<b>Type of Lawsuit</b>	A suit for damage
<b>Case Description</b>	A plaintiff, an investor of MMF filed a lawsuit to get a compensation for damage, alleging that the damage was caused by a disposition of deteriorated CP(Commercial Paper securities) in CBO(Cash Buy Out) method and it was conducted without asking the investor's opinion. However, the court stated a defendant KBAM does not have a duty to ask the investor's opinion and follow it, and a selection of CBO method is not a violation of a duty of care, ruling against the plaintiff. Only the plaintiff appealed. The 2 <sup>nd</sup> court decided ordered compulsory mediation. The plaintiff accepted the mediation and agreed to receive 14% of the requested money as a compromise. Thus, mediation was settled and it has the same effect with final conclusion.
<b>Status</b>	2 <sup>nd</sup> Trial → A compulsory mediation was made

<b>Date of Institution of Suit</b>	September 22 <sup>nd</sup> , 2011
<b>Case No.</b>	2011GaHap99240
<b>Court</b>	The first instance court
<b>Type of Lawsuit</b>	A suit for damage
<b>Case Description</b>	A plaintiff, an investor of a real estate fund filed a lawsuit to get a compensation for damage, alleging that a portfolio manager of a defendant KBAM breached trust deed. However, the court recommended a judicial compromise and the judicial compromise was settled with the rate lower than requested by the plaintiff.
<b>Status</b>	1 <sup>ST</sup> Trial → Settled by a judicial compromise

#### 4. Regulatory Supervision

**4.1 Please provide details of the legislative framework under which the company is regulated/authorized to provide portfolio management services (e.g. MiFID, etc.)**

Financial Investment Services and Capital Markets Act.

**4.2 Please provide details of any recent interactions (visits, communication, etc.) with regulatory authorities.**

No interaction has been made.

**4.3 Are there any specific obligations (e.g. corporate governance provisions) that the company is subject to under local law?**

KBAM operates in compliance with Financial Investment Services and Capital Markets Act, Financial Holding Companies Act, and Act on Corporate Governance of Financial Companies<sup>2</sup>. Please visit the website for the Ministry of Government Legislation <http://www.moleg.go.kr/main.html> to access the content of the relevant legislations.

**4.4 Have the company, parent company, principals or employees have been the subject of any actions, sanctions or warnings from a regulatory body or been the subject to investigation in the last five years?**

---

<sup>2</sup> The official English name of the statute is yet to be announced. Please later refer to [http://elaw.klri.re.kr/eng\\_service/lawNameList.do](http://elaw.klri.re.kr/eng_service/lawNameList.do) to find the official statute name.

<KB Financial Group Inc.>

(July 1<sup>st</sup>, 2010 – June 30<sup>th</sup>, 2015)

Date	Persons subject to sanction/punishment	Punishment/Sanction Imposed	Grounds and Applicable Statutes	KBAM's Subsequent Actions	KBAM's Measures for Prevention
Nov. 11 <sup>th</sup> , 2013	KB Financial Group	Institutional caution	Undisclosed information, etc. were unlawfully provided [FINANCIAL HOLDING COMPANIES ACT Article 48-3 (2) ]	Internal control has been strengthened and persons involved received penalty	Intensified oversight over executives and employees
	Former chairman, one person	Equivalent to cautionary warning	Undisclosed information was unlawfully provided [FINANCIAL HOLDING COMPANIES ACT Article 48-3 (2) ]		
	Former vice president, one person	Salary reduction for three months			
Sep. 12 <sup>th</sup> , 2014	KB Financial Group	Institutional warning	Soundness of management of the financial holdings company was impeded due to exercising of unfair influence [FINANCIAL HOLDING COMPANIES ACT Article 50 (1), Article 57 (1) ]	Internal control has been strengthened and persons involved received penalty	Intensified oversight over executives and employees
			* The group was to receive an institutional warning for illegitimate provision of information to the third party when subsidiary's credit card business was spun off, no additional measures were taken on this matter since the institution previously received an institutional warning from the same inspection on June 26 <sup>th</sup> , 2014 (An additional notice regarding the institutional warning on Sep. 12 <sup>th</sup> , 2014 was made) [Notification of Financial Supervisory Service: Feb. 11 <sup>th</sup> , 2015]		
	Incumbent president, one person	Suspension of duties for three months	Soundness of management of the financial holdings company was impeded due to exercising of unfair influence [FINANCIAL HOLDING COMPANIES ACT Article 50 (1), Article 57 (1)]		
	Incumbent senior managing director, one person	Suspension duties for three months: one person			

<KB Asset Management>

(July 1<sup>st</sup>, 2010 – June 30<sup>th</sup>, 2015)

Date	Persons subject to Punishment/Sanction	Punishment/Sanction Imposed	Grounds and Applicable Statute	KBAM's Subsequent Actions	KBAM's Measures for Prevention
Dec. 23 <sup>rd</sup> , 2010	KB Asset Management	Institutional warning	The indirect investment property was operated without appropriateness and prospectuses that may cause a misunderstanding were made and used. [INDIRECT INVESTMENT ASSET MANAGEMENT BUSINESS ACT, Article 167, Article 56]	The matter was reported to the BOD and employees involved received penalty	Intensified instruction and supervision
	Former representative director	Equivalent to cautionary warning			
	Former investment manager	Equivalent to suspension of duties for six month			
	Former investment manager	Equivalent to suspension of duties for three months			
	Supervisor	Salary reduction for three months			
	Chief Compliance Officer	Caution			
May 2 <sup>nd</sup> , 2013	Employee	Caution, one person	The regulation that prevents trades between discretionary investment property and collective investment property was violated [FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT Article 98 (2)-5 / Article 85 (5) of the said Act]	The matter was reported to the BOD and the employee involved received penalty	
Nov. 5 <sup>th</sup> , 2013	KB Asset Management	A fine for negligence of 87.5 million KRW	The regulation that prevents cross trades between collective investment properties and related properties was violated	The matter was reported to the BOD and employees involved received penalty	Intensified instruction and supervision
	Former and current employees, 15 persons	Reprimand, one current employee			
		Caution, six current employees			
		Notice of illegitimate activities, eight formal employees			
June 22 <sup>nd</sup> , 2015	KB Asset Management	Institutional caution and fine for negligence of 50 million KRW	Bond distribution schedule predetermined for each investment trust property was violated. [FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT Article 80, 85, 98, etc.] Limitations on trading of financial investment instruments by executives or employees were violated. [FINANCIAL INVESTMENT SERVICES AND CAPITAL MARKETS ACT Article 63, Article 64 of Enforcement Decree of the said Act]	The matter was reported to the BOD and employees involved received penalty	Intensified instruction and supervision

Date	Persons subject to Punishment/Sanction	Punishment/Sanction Imposed	Grounds and Applicable Statute	KBAM's Subsequent Actions	KBAM's Measures for Prevention
	Employee	Reprimand	Bond distribution schedule predetermined for each investment trust property was violated.		
	Employee	Request of Action			
	Executive	Notice of illegitimate activities, one person (A fine for negligence of 25 million KRW)	Limitations on trading of financial investment instruments by executives or employees were violated.		
	Employee	Salary reduction for three months (A fine for negligence 21.8 million KRW), one person			
	Employee	Reprimand (A fine for negligence of 25 million KRW), two persons			
	Employee	Reprimand (A fine for negligence of 22.5 million KRW), one person			
	Employee	Caution (A fine for negligence of 25 million KRW), two persons			
	Employee	Caution, two persons			

## 5. Processes

### 5.1 Please provide details on the following items:

#### 1) Investment process in relation to the investment selection and decision before investment.

##### <Investment Philosophy>

- Active Management
  - The aim is to achieve excess returns based on thorough fundamental research & concentrated investment.
  - Research capability is much stressed. Sector managers are in charge of investment universe and model portfolio. They conduct their own company analyses and invest with conviction. The focus is on stock selection based on bottom-up approach.
- Long-term Approach
  - Portfolios are managed based on a long-term perspective rather than a short-term momentum.

- Preemptive investments are made based on research focusing on a long-term perspective.
- Thorough Risk Management
  - Market and credit risks are constantly monitored so that upcoming and subsequent changes are identified.
  - Changes are met with appropriate responses while the effect on the stock holdings is examined.

**<Investment Process>**

- Growth Style

01 Universe	02 Model Portfolio	03 Actual Portfolio
<ul style="list-style-type: none"> <li>✓ <b>Stock Review</b> <ul style="list-style-type: none"> <li>• Valuation</li> <li>• Growth</li> <li>• Company visit (1,000 times per year)</li> <li>• Non-Deal Roadshow</li> <li>• Interview with Management, etc.</li> </ul> </li> <li>✓ <b>Basic Criteria</b> <ul style="list-style-type: none"> <li>• Market cap: KRW 300 Billion</li> <li>• Financial Requirements</li> </ul> </li> <li>✓ <b>Stock Selection</b> <ul style="list-style-type: none"> <li>• Focused analysis on companies by conducting company visits and assessing financial and managerial risks in a qualitative and quantitative manner</li> <li>• No. of stock holdings is approx. 250</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>✓ <b>Sector Weight</b> <ul style="list-style-type: none"> <li>• Market neutral</li> </ul> </li> <li>✓ <b>Stock Selection within Each Sector</b> <ul style="list-style-type: none"> <li>• Top picks by each sector manager</li> </ul> </li> <li>✓ <b>Reaching Agreement</b> <ul style="list-style-type: none"> <li>• Communication or debate between portfolio and sector managers</li> </ul> </li> <li>✓ <b>Model Portfolio Construction</b> <ul style="list-style-type: none"> <li>• Around 45 stocks</li> </ul> </li> <li>✓ <b>Incentives for research managers are determined based on MP's performance compared to the market</b></li> </ul>	<ul style="list-style-type: none"> <li>✓ <b>Team Management</b></li> <li>✓ <b>MP Replication Ratio, 60%</b> <ul style="list-style-type: none"> <li>• Team discretion, 40%</li> </ul> </li> <li>✓ <b>Actual Portfolio Construction</b> <ul style="list-style-type: none"> <li>• Around 45 stocks</li> </ul> </li> <li>✓ <b>Portfolio Management</b> <ul style="list-style-type: none"> <li>• Monitoring valuation, earnings forecast, price attractiveness, etc.</li> <li>• Analyzing performance attribution</li> <li>• Responding to market and credit risk</li> </ul> </li> <li>✓ <b>Incentives for portfolio managers are determined based on AP's performance compared to the MP</b></li> </ul>
<ul style="list-style-type: none"> <li>✓ <b>Determined by the research team</b></li> <li>✓ <b>Reviewed on a monthly basis</b></li> <li>✓ <b>Final Call: CIO</b></li> </ul>	<ul style="list-style-type: none"> <li>✓ <b>Determined by the research team</b></li> <li>✓ <b>Reviewed on a weekly basis or ad hoc</b></li> <li>✓ <b>Final Call: CIO</b></li> </ul>	<ul style="list-style-type: none"> <li>✓ <b>Determined by the management team</b></li> <li>✓ <b>Final Call: Portfolio management team</b></li> </ul>

\* Criteria to be included in the investment Universe:

- ① Market capitalization: 300 billion KRW and above
- ② Trading volume within last 3 months: 1 billion KRW and above
- ③ Companies that have not posted net losses in the last 3 consecutive years
- ④ Companies that have not been included in the investment warnings list of Korea Exchange in the last 2 years.

- Value Style

01 Universe	02 Actual
<ul style="list-style-type: none"> <li>✓ <b>Stock Review</b> <ul style="list-style-type: none"> <li>• Valuation</li> <li>• Growth</li> <li>• Company visit (1,000 times per year)</li> <li>• Non-Deal Roadshow</li> <li>• Interview with Management, etc.</li> </ul> </li> <li>✓ <b>Basic Criteria</b> <ul style="list-style-type: none"> <li>• Market cap: KRW 100 Billion</li> <li>• Financial Requirements</li> </ul> </li> <li>✓ <b>Stock Selection</b> <ul style="list-style-type: none"> <li>• Strong BM, Cash flow, Franchise value and structural growth</li> <li>• Margin of safety , 30%</li> <li>• No. of stock holdings is approx. 100</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>✓ <b>Team Management</b></li> <li>✓ <b>MP Replication ratio, 60%</b> <ul style="list-style-type: none"> <li>• Team discretion, 40%</li> </ul> </li> <li>✓ <b>Actual Portfolio Construction</b> <ul style="list-style-type: none"> <li>• Around 45 stocks</li> </ul> </li> <li>✓ <b>Portfolio Management</b> <ul style="list-style-type: none"> <li>• Monitoring valuation, earnings forecast, price attractiveness, etc.</li> <li>• Analyzing performance attribution</li> <li>• Responding to market and credit risk</li> </ul> </li> <li>✓ <b>Incentives for portfolio managers are determined based on AP's performance compared to the MP</b></li> </ul>
<ul style="list-style-type: none"> <li>✓ <b>Determined by Research Team</b></li> <li>✓ <b>Reviewed on a monthly basis</b></li> <li>✓ <b>Final Call: CIO</b></li> </ul>	<ul style="list-style-type: none"> <li>✓ <b>Determined by Management Team</b></li> <li>✓ <b>Final Call: Portfolio management team</b></li> </ul>

**2) Investment compliance process (pre- and post-trade checks) to ensure compliance with applicable rules and regulations including the handling and escalation of breaches.**

- Pre Compliance System (Real Time Basis): Restrictions, rules, and regulations are pre-checked and an order that violates relevant rules is systemically blocked.
- Post-Trade system: The Division has “Daily Compliance Monitoring System” in Star F trading system and Pre Caution Daily Reports and Post Compliance Reports are published on a daily basis.
- KBAM’s Compliance Division consists of the following four members:

Name	Position	Working Months		Career	Authority
		Industry	KBAM		
Byung-tae Cho	Division Head	267	267	KBAM Equity Mngt. Div.; KBAM Compliance Dept.	Chief Compliance Officer
Eun-ha Noh	Team Head	132	132	KBAM Operation; KBAM Compliance	Overall compliance and internal control
Kwon-young Ha	Assistant Manager	91	23	MiraeAM Compliance; KBAM Compliance	Investment compliance
Eugene Lim	Attorney at law	3	3	-	Legal advice

\* As of July 31<sup>st</sup>, 2015

### 3) Trading and settlement process, including:

- **Order Placing and Trade Allocation and Best execution**

- Guidelines for order placing, trade allocation, and best execution are listed as follows:

Orders from multiple funds placed on the same asset at the same price are treated as a single order and transaction results are allocated to the multiple funds in a pre-determined way.

When an actual transaction falls short of orders, the transaction results are allocated, using pre-determined ratio, the division of orders for each fund and the sum of orders.

After placing an order on the internal order system, traders transfer the order to brokers using FIX, an automated order transfer system. In case of an emergency, traders transfer orders using registered phones and an authorized messaging program. All communication using phones and messaging programs is recorded.

In addition, Chief Compliance officer conducts a daily inspection on pre-allocation.

- **Trade Matching (Reconciliation to Broker Confirmation)**

- In Korea, securities transactions are settled in KSD and thus confirmation from brokers is not required. Please refer to the answer for question 5.4.

- **Correction and Compensation of trading errors**

- Regulations on ordering and pre-allocating procedures are designed not only for fairness of trade but also for reduction of trading errors. Other instruments to reduce trading errors are FIX and recording of entire trade information.
- Approximately 98% of orders regarding Korean stocks are placed using FIX and no error has been found for previous two years. Errors found are corrected through investigation of trade records. The investigation and correction process is be supervised by Chief Compliance Officer. If KBAM is liable for an error, employees in charge are brought to a personnel committee to reveal causes and accountability of the error.

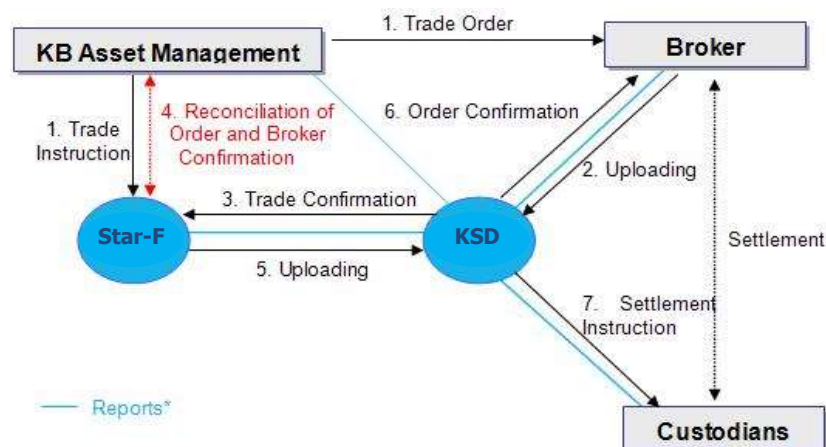
- **Handling of transactions with related parties**

- There are two types of transactions, which involves either investment or broker selection. If transactions are related to investment, KBAM complies with the regulations such as Articles 98. 2, 2, 3, and 7 of the Financial Investment Services and Capital Markets Act. The condition of transaction with related parties should be based on fair terms for the third party as well as for KBAM. The transactions with related parties should have an objective and appropriate grounds. KB Financial Group has its own principles regarding consignment within the group that all of its subsidiaries observe.
- If transactions are related to broker selection, KBAM complies with Internal Control Standards and Criteria for Selecting Investment Advisories. Brokers and portfolio managers are evaluated based on the stated policy and criteria. Each broker and portfolio manager's trade allocation plans and their actual performance are reported to the Chief Compliance Officer.



4) Portfolio reconciliation process between Investment Manager front office system and the administrator's/custodian's fund accounting system (back office).

- KBAM uses "NFMS" and "Star-F" systems for portfolio and order management. Apart from these essential packages, KBAM uses third party's market data platforms, such as Bloomberg, Reuters, Market Point, and Check.
- Portfolio managers use "Star-F", KBAM's internal front-office system, to put an order to trader by which, in turn, traders transfer the order to broker. Star-F shows all investment activities as well as other relevant information. It helps portfolio managers view information on investments of funds.
- "AITAS" is a fund accounting system that is used by the operation team to input funds' trades and deliver settlement instructions to custodian bank. The fund administrator calculates fund's NAV using data in AITAS.
- All securities are settled through a system called "SAFE" provided by Korea Securities Depository (KSD). KSD, as the securities settlement organization in Korea, provides securities settlement infrastructure, controls settlement risk, and contributes to enhance the stability of the financial system in Korea. It also provides transfer agency service.



- In between market closing when all daily trading is finished and 19:00, a fund administrator and Korea Securities Depository input the trading records for calculation of fund NAV. The process of settlement and NAV verification is done in two steps:
  - 1) Reconciliation of Fund Manager System records with those of Kookmin Bank, which is the fund administrator.
  - 2) Reconciliation of Fund administrators' records with those of KSD. If they are not reconciled, the process is not closed.

## 5) Overview of valuation process and flow.

- KBAM delegates calculation of the Net Asset Value per Unit to the fund administrator, such as Kookmin Bank, in which case the fees payable to the Fund Administrator are borne by funds.
- KBAM evaluates portfolio assets based on the market price thereof in accordance with Article 238(1) of the Financial Investment Services and Capital Markets Act (FSCMA). Provided, that if there is no reliable market price available as of the valuation date, it may be evaluated based on the fair value.
- KBAM organizes and operates a Collective Investment Asset Valuation Committee as prescribed in Article 238(2) of the FSCMA, which will carry out the valuation of the portfolio asset.
- KBAM complies with “Guideline for Accounting for Collective Investments”, which is the industry standard for valuation of funds, and has a valuation procedure in accordance with Article 238(3) of the FSCMA, which involves confirmation from a trustee on valuation of portfolio assets so that fairness and correctness are ensured.

Instrument Type	Price Source	Valuation Method
Commercial Paper	Bond Pricing Co.	Fair value
Certificates of deposit	Bond Pricing Co.	Fair value
Time Deposit	N.A.	Face value plus accrued interest
Forward contract	Bond Pricing Co.	Fair value
Futures, Options-exchange traded	Koscom	Mark-to-market (Closing price)
Futures, Options-not exchange traded	Bond Pricing Co.	Fair value
OTC Derivative Products	Bond Pricing Co	Fair value
Equities	Koscom & Bloomberg	Mark-to-market (Closing price)
Bond	Bond Pricing Co	Fair value

\* Koscom : Market data service provider

## 6) Overview of collateral management process and flow.

- KBAM carries out collateral management using KSD’s collateral management system when dealing with transactions that require collateral management, such as OCT derivatives transaction, Repo

transaction, and loan transaction.

- Transactions involving OTC derivatives
    - KBAM manages collaterals for secured OTC derivatives transaction through KSD to exercise rights to collaterals, assess value of collaterals, and maintain appropriate amount of collaterals.
    - After an OTC derivative transaction is executed, a holder of rights to collaterals and a provider of collaterals notify KSD of the transaction. KSD then checks whether details of the conditions on the collaterals of both parties match each other by using its own matching system.
    - The matched details of the collateral management go through KSD's daily calculation process. Collaterals' value is assessed daily and calculation results determine whether a margin call is required.
  - Repo transaction (Repurchase Agreement transaction)
    - After a Repo transaction is executed, a seller of Repo or a brokerage records conditions of the transaction on KSD's Repo system. When the conditions are verified, relevant securities in the seller's deposit account are transferred to a buyer's securities account.
    - KSD assesses market value of the securities on a daily basis during the duration of the transaction and notifies whether a margin call is required after comparing the market value of the securities with collaterals required.
  - Loan transaction
    - When executing a loan transaction, all the related tasks, such as concluding loan transactions, managing collateral and collateral rights of loaned securities, and collateral securities are processed via KSD's system.
    - After a transaction is concluded, a borrower sets a collateral for securities borrowed with cash or stocks in accordance with borrower's rate of collaterals of KSD.
    - KSD assesses value of collateral securities on a daily basis and notifies whether a margin call is required.
- In the S. Korean market, most collateral management takes place in relation to the above transactions and the transactions are managed through KSD's collateral management system, including receipt and provision of collaterals and valuation of collaterals.

**5.2 Please provide details on the technical infrastructure (systems, tools, interfaces) that is used for the investment management activity including whether the systems are proprietary or from third party vendors.**

- Star-F (KB Star Front System): Star-F is a proprietary trading system for the entire assets. It is specifically developed for trading and has enhanced pre-trade compliance and order/execution convenience.

- FMS (Fund Management System): FMS is a proprietary fund management system. It supports a research function for fund managers and allows an integration of management strategy, research, and marketing. A plan is underway to enhance the system to function as middle- and back-supporting system.
- KB MPUstar: KB MPUstar is a proprietary program to streamline equity management process. KB MPUstar allows users to build portfolios and simulate investment returns while helping evaluate performance of portfolio managers and sector managers.
- Other Information-providing system: Apart from its proprietary systems, KBAM also uses Bloomberg, IBES Data, Data Stream, Check, Market Point, Infomax, and Reuter. In addition, KBAM flexibly adds useful information systems to the already existing line-ups.

**5.3 Please confirm whether you outsource to any third party system, the compilation, distribution and consultation of management board/strategic documents.**

- KBAM runs most of the businesses on its own.
- NAV calculation is outsourced to a third party specialized in the business so that KBAM can focus on investment management while stability in the function of NAV calculation is secured. Still, KBAM takes the responsibility for the results of NAV calculation.
- KBAM's operation teams consist of top-tier managers with solid footing in the business, who have know-how, key competence, and experience in not only funds domiciled in Korea but in other regions.
- Please also refer to the answers to question 1.8 for more information on delegation of business.

**5.4 Have there been any significant changes to the investment management process (e.g. systems, personnel, procedures) in the last 12 months? If yes, please detail.**

No significant changes were made.

## 6. Compliance

### 6.1 Please describe the structure of your compliance organization and who is responsible for the compliance function.

Name	Position	Working Months		Career	Authority
		Industry	KBAM		
Byung-tae Cho	Division Head	267	267	KBAM Equity Mngt. Div.; KBAM Compliance Dept.	Chief Compliance Officer
Eun-ha Noh	Team Head	132	132	KBAM Operation; KBAM Compliance	Overall compliance and internal control
Kwon-young Ha	Assistant Manager	91	23	MiraeAM Compliance; KBAM Compliance	Investment compliance
Eugene Lim	Attorney at law	3	3	-	Legal advice

\* As of July 31<sup>st</sup>, 2015

### 6.2 Please describe your internal control framework and provide details of the compliance monitoring framework.

- KBAM has a Compliance Officer and Compliance Division that supports compliance officer. The division acts as an independent module to ensure the division's autonomy and transparency.
- We serve regular and at any time training to whole employee to make our business are suitable for FSCMA and other related external/internal regulations through from the step of developing Funds to subscription and redemption etc.
- We develop and maintain an Internal Control System - Compliance Policy and Program - to conduct our investment efficiently.

### 6.3 How do you ensure that compliance with all applicable laws and regulations is given at any time? How do monitor regulatory changes and ensure that measures are taken to comply with new regulations in a timely manner?

- KBAM has put in place compliance procedures focused on legal and compliance issues.
- On a daily basis, review the change of regulation and rules and internal company rules are enacted and amended by Compliance Division.
- To comply with the changed regulations, Compliance Division provides training and advice to executives and employees.

**6.4 Please provide details of your compliance manual and explain how often the manual is reviewed and updated. When was the last update undertaken? In particular, could you please provide a copy of the following policies:**

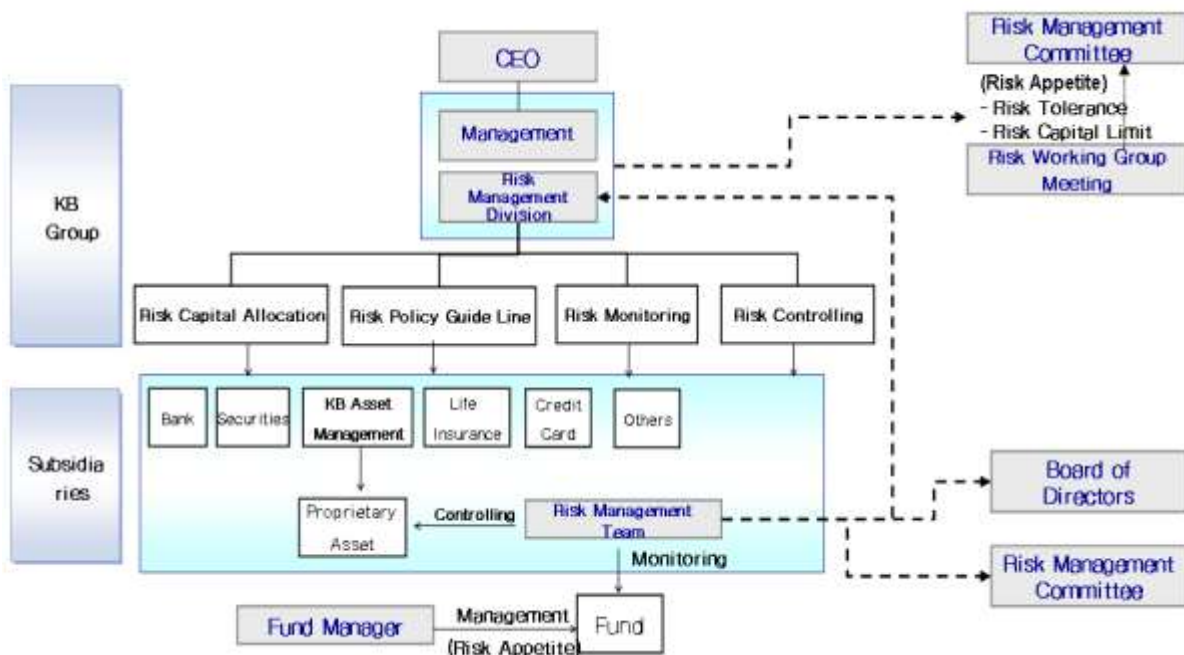
- KBAM’s Internal Control Standards are reviewed and revised on an ad hoc basis. The last update of Internal Control Standards was on May 31st, 2012. Its sub-standards are amended on an ad hoc basis when required.
- **Please find for each item below attached files named as follows:**
  - **Best Execution:** “Guidelines for Applying Predetermined Asset Allocation Standards”
  - **Exercise of Voting Rights:** “Guidelines for Exercise of Voting Rights”
  - **Cluster Munition:** “Compliance\_Cluster Munition\_Letter”
  - **Valuation/Pricing:** Basically, valuation is based on the fair market value. If the fair value is not available, KBAM complies with the industry standard “Guideline for Accounting for Collective Investments<sup>3</sup>”. For further information, please refer to question 5.1.5.
  - **Conflict of Interest:** “Internal Control Regulations”
  - **Personal Trading:** “Personal Securities Trading Guidelines”
  - **Privacy and Data Protection:** “Internal Control Rules on Management of Means of Information and Communication and Computer Equipment for Business Use”
  - **Customer Complaints:** “Complaint Management Guidelines”
  - **Remuneration Policy:** “Rules on Employee Performance Evaluation” and “Rules on Employee Remuneration and Retirement Benefits”
  - **Inducements (Gifts):** Guidelines for Providing and Accepting Benefits

## **7. Risk Management**

**7.1 Please describe the structure of your risk management function and how the independence from the portfolio management function is ensured.**

---

<sup>3</sup> The official English name of the guideline is yet to be announced. Please later refer to <http://law.kofia.or.kr/service/main/main.do> to find the official name.



7.2 Please detail the risk management framework and explain how all material risk categories (including operational risks) are covered.



7.3 What tools and systems are used for risk management purposes? Please specify if these are proprietary or external tools/systems.

KBAM uses MPUStar and NFMS as quantitative tools. MPUStar is used to simulate equity portfolio construction, manage Model Portfolio, analyze performance of managers, sectors, and individual stocks,

and gain information on individual companies (e.g. financial data, market consensus, etc.) NFMS is a proprietary system which has a variety of functions and provides information encompassing market data, indices, fund simulation, trading, accounting, compliance, risk, and marketing. NFMS is constantly upgraded by the IT team.

## **8. Data Security and Emergency Plan**

### **8.1 Please describe the measures taken by you to ensure that the confidentiality of data (e.g. our data, fund and/or investor data, etc.) is safeguarded and to prevent data loss or manipulation by unauthorized third parties, including data held at delegates if applicable.**

- KBAM ensures data security based on the three principles as follows:
  - Keeping confidentiality: Only the staff of the IT team in charge are allowed to access DB.
  - Preventing data loss: All DBs are backed up on a regular basis – daily, weekly, and monthly. A back-up of the entire data is done on a monthly basis.
  - Preventing unauthorized use of data: KBAM has introduced a DRM(Digital Rights Management) solution to block an access to data by an unauthorized party
- If a third party has to access KBAM's data, KBAM requires the third party to insert a confidentiality statement in the agreement and receives a written pledge on data security.

### **8.2 Do you have provisions for business continuity/disaster recovery? Please provide details including date of last review, frequency of testing and date/results of last test undertaken.**

BCP, Business Continuity Plan aims for the fastest recovery from disasters to minimize the impact of physical disaster on clients and employees. The training has been conducted on an annual basis since 2004. There are three BCP teams: command team, recovery team, and IT team. Command team controls the overall process of BCP and functions as a control tower during a disaster. Recovery team works mainly with business operation recovery and focuses on operational issues such as legal, compliance, and HR issues. IT team closely liaises with the command team and concentrates in technical recovery such as data restoration. When a disaster occurs, BCP teams work together following BCP flow chart to make sure rapid recovery and minimal damage. A BCP simulation training session will be held in October 2015. Please also refer to the attached "BCP Training Material" for detailed information on our BCP.

### **8.3 In case of outsourced activities how do you ensure that your delegate has an adequate emergency plan**



## implemented?

As specified on the Guidelines for Outsourcing Services to a Third Party, any and all outsourcing agreements signed by and between the Company and the Service Provider shall contain as prescribed in Article 42(2) of the Financial Investment Services and Capital Markets Act, Article 46(2) of the Enforcement Decree of the Act, and Article 4-4(2) of the Rules on Financial Investment Services: Emergency plans to ensure business continuity, such as installation of a back-up system. Provided, however, that the Company may not consider, or may otherwise consider, any of the following in making decisions on outsourcing, depending on the characteristics, importance, and risk of the services to be outsourced.