Dalton Investments

This document is provided for informational purposes only, and does not constitute a solicitation of any shares in any investment vehicle managed by Dalton Investments. Such solicitations can only be made to qualified investors by means of the private placement memorandums, which describe, among other things, the risks of making an investment. Additionally, this presentation does not constitute investment advice of any kind.

All of the information in this document relating to Dalton Investments or its affiliates (collectively, "Dalton" or the "Firm") is communicated solely by Dalton, regulated by the U.S. Securities and Exchange Commission (SEC). SEC registration does not imply SEC endorsement. No representation or warranty can be given with respect to the accuracy or completeness of the information, or with respect to the terms of any future offer of transactions conforming to the terms hereof. Certain assumptions may have been made in the analysis which resulted in any information and returns/results detailed herein. No representation is made that any results/returns indicated will be achieved or that all assumptions in achieving these returns have been considered or stated. Additional information is available on request. Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on market conditions. Unless otherwise indicated, figures presented are preliminary, unaudited, subject to change and do not constitute Dalton's standard books and records.

PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE PERFORMANCE. THE VALUE OF THE INVESTMENTS AND THE INCOME FROM THEM CAN GO DOWN AS WELL AS UP AND AN INVESTOR MAY NOT GET BACK THE AMOUNT INVESTED. THESE INVESTMENTS ARE DESIGNED FOR INVESTORS WHO UNDERSTAND AND ARE WILLING TO ACCEPT THESE RISKS. PERFORMANCE MAY BE VOLATILE, AND AN INVESTOR COULD LOSE ALL OR A SUBSTANTIAL PORTION OF ITS INVESTMENT.

Any estimates, projections or predictions (including in tabular form) given in this communication are intended to be forward-looking statements. Although Dalton believes that the expectations in such forward-looking statements are reasonable, it can give no assurance that any forward-looking statements will prove to be correct. Such estimates are subject to actual known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those projected. These forward-looking statements speak only as of the date of this communication. Dalton expressly disclaims any obligation or undertaking to update or revise any forward-looking statement contained herein to reflect any change in its expectations or any change in circumstances upon which such statement is based.

Please note that neither the Funds/Composites nor the Investment Manager/Investment Advisor complies with the requirements of the Alternative Investment Fund Managers Directive ("AIFMD") of the European Union. No direct or indirect offering or placement of shares by or on behalf of the Funds/Composites or the Investment Manager may be made to or with investors in member states of the European Union in breach of either the applicable requirements under the AIFMD or the private placement regime in each relevant member state.

November 2023

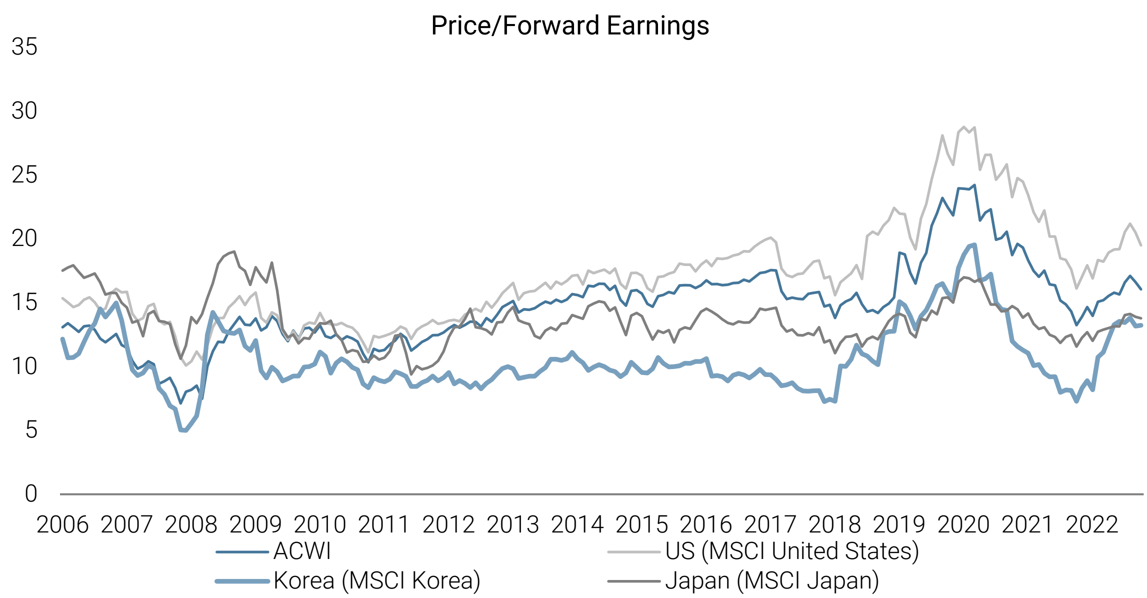
Korea – The next great Asian value opportunity

After many years of being labelled as an eternal "value trap," the Japanese equity market has emerged as an investment hotspot in 2023. In a world of high equity market valuations and record levels of corporate leverage, investors have rightly begun to focus on Japan's cheap assets, hordes of cash and accelerating corporate governance reform. While Dalton continues to believe that Japan represents a standout opportunity globally, we recommend that investors also consider the opportunity in Korea, a country that shares many of the same characteristics: a historically unloved market, full of highly discounted and high-quality assets, and a market where corporate governance reform is paving the way for engaged managers like Dalton to unlock value. In this update, we lay out our investment case for a dedicated Korean allocation.

The cheapest major equity market

In our view, Korea is the cheapest major equity market in the world. As Chart 1 shows, Korea trades at a steep discount to the rest of the world (and even to Japan) on a price-to-earnings and price-to-book basis. However, digging below the surface reveals that certain segments of the Korean market are even more deeply discounted, chiefly the Korean holding companies that historically have been viewed as having very poor corporate governance. Despite what we would argue are compelling recent improvements in governance standards and corporate behavior, Chart 2 shows that these conglomerates continue to trade close to their biggest ever discount to net asset value of around 60%.

Chart 1 – Valuations are attractive



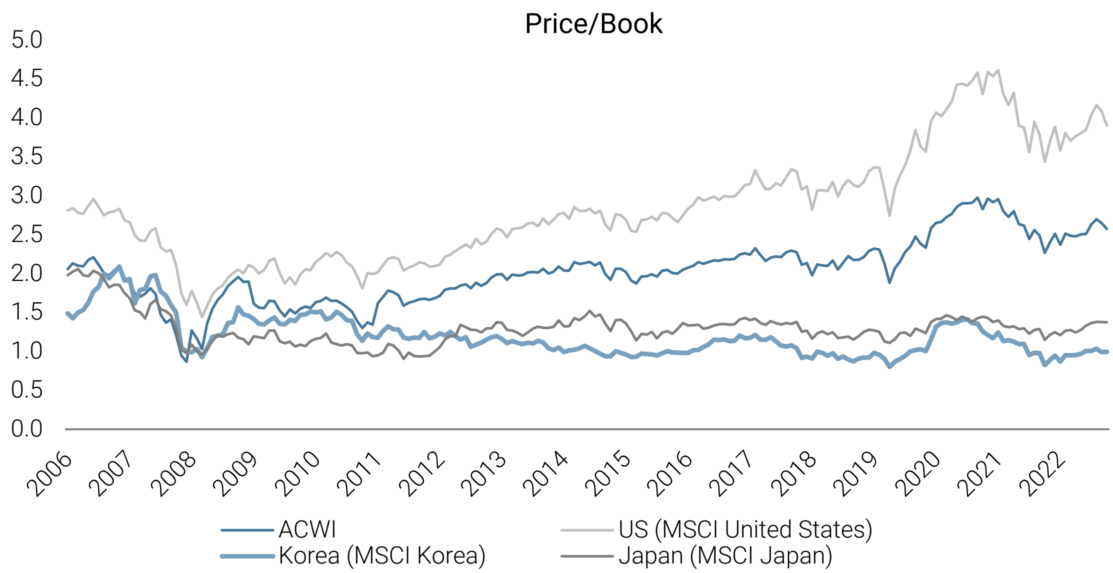
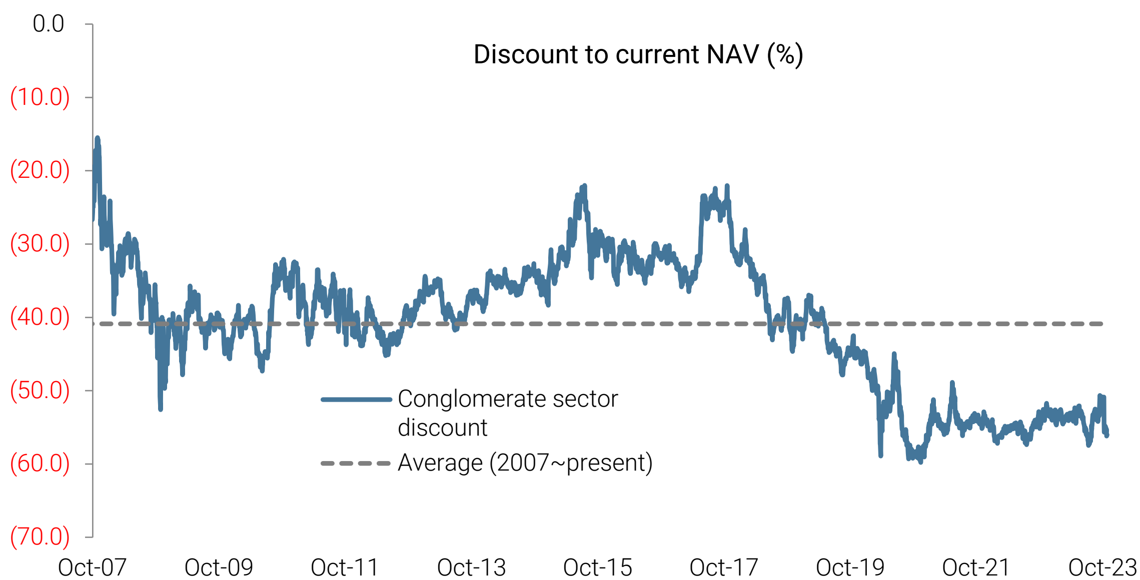


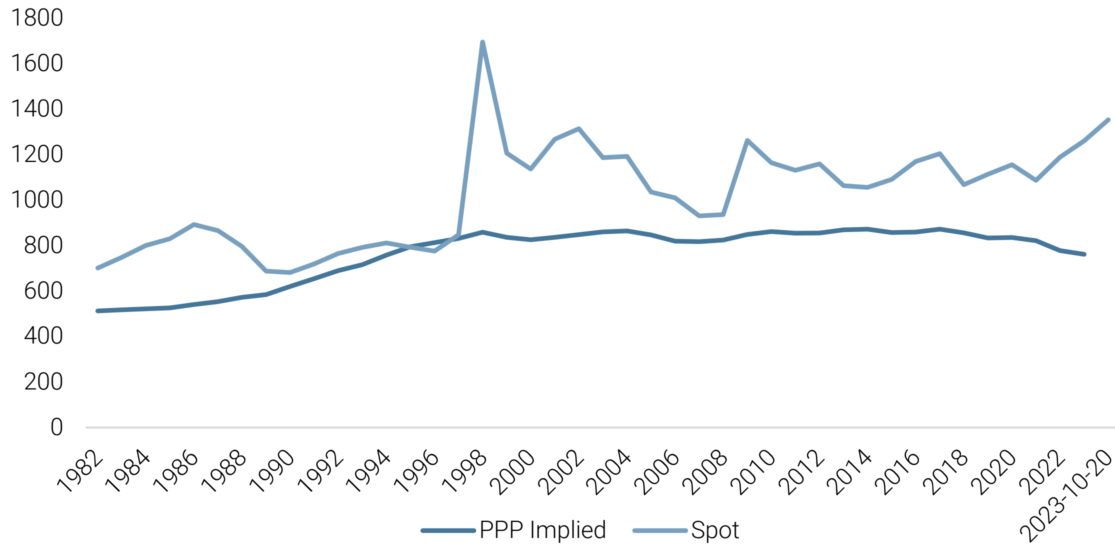
Chart 2 – Conglomerates are trading at record discounts to NAV



<u>A currency near record levels of weakness</u>

In addition to having some of the cheapest public equity assets globally, the Korean Won is also trading at depressed levels against most major currencies (and the US Dollar in particular). While we are certainly not arguing that purchasing power parity has any predictive power, especially in the short-term, Chart 3 shows that even by its own perma-cheap standards, the Won is approaching a major dislocation. The depressed Won makes the Korean export-driven economy incredibly competitive, with the potential for a future revaluation providing an additional tailwind for foreign investors.

Chart 3 – South Korean Won to US Dollar: spot rate vs implied rate using purchasing power parity



<u>A government actively seeking your investment</u>

Beginning with Prime Minister Abe, Japan's prime ministers have assumed the role of chief salesman for the Japanese stock market. Korea now seems to be following suit, making changes designed to appeal to foreign capital. We believe that this change in mood can be partly explained by the recognition that Korean savers urgently need an alternative to the overheated Korean real estate market and that the government pension plan is increasingly underfunded (more on both later). Below we detail several historic headaches for foreign investors and how the government is addressing them:

- Painful local stock market registration process eliminated – Starting December 14, 2023, foreign investors will no longer need to register in advance with the Financial Supervisory Service to invest in the Korean market. This change will eliminate a major roadblock for foreign investors and make it easier for them to access the Korean market.
- Non-standard FX trading practices addressed – Currently, the Korean won can only be traded through local Korean banks, and only from 9am to 3.30pm Korea time. Foreign financial institutions can now apply for permits to participate in the onshore Dollar-Won interbank market, with extended trading hours until 2am (or close of business in London).
- Lack of English language reporting addressed – Large Korean companies (or those with large foreign shareholder ratios) will be required to publish reports in English as of 2024, with smaller companies to follow in 2026.
- Taxes on interest income and capital gains on foreign investment in sovereign debt exempted – The Korean government recently exempted taxes on interest income and capital gains for non-residents and foreign companies' investment in Korean treasuries and monetary stabilization bonds, aligning the country with global standards.

Korean President Yoon Suk Yeol has specifically stated his target of achieving developed market status for Korea with key index providers. Following improvements such as the tax change mentioned above, index provider FTSE Russell has raised the possibility of upgrading Korea's bond market in March 2024. FTSE Russell already labels Korea as a developed equity market. However, dominant equity index provider MSCI has so far refused to upgrade Korea's emerging market status. While Korea has long warranted developed market status based on its economic development, as well as the size and liquidity of its stock market, concerns about market accessibility (including the afore mentioned FX market complexities) have prohibited MSCI from applying developed market status. While there remain hurdles to overcome, (for example, the Korean market prohibits short selling - another of MSCI's requirements), the power of a potential promotion to MSCI's developed market index cannot be underestimated. According to Goldman Sachs, such a change would result in a near-term inflow of $55bn of foreign capital, though critics have challenged that such flows may disproportionately benefit larger cap stocks such as Samsung Electronics. The next opportunity for a promotion by MSCI is June 2024.

A dynamic, innovative and culturally important economy

Korea, the 4th largest Asian economy, and 12th largest in the world, has transformed from an old industries powerhouse to become a high-tech economy, boasting the highest number of patents globally per GDP. While many still view Korea purely in terms of its old industries, the list below shows Korea as an economy and society clearly on the move!

- Semiconductors
    - Dominant memory position (70% global market share in DRAM, 50% in NAND)
    - Leading market positions in key non-memory areas (including image sensors, logic, and automotive)
    - One of only two true players in advanced node foundries
- Electric Vehicles (EV)
    - A leader in fuel cell technology
    - 30% global market share in EV batteries
    - Leading market positions in key EV materials (such as cathodes, anodes and copper foil)
- Auto
    - Korean auto companies continue to gain global market share
    - Hyundai-Kia Motor Group rose to be a top 3 global auto maker in 2022 and is making great strides in EV and hybrids
- IT and Mobile platforms
    - Unlike in other major economies, home-grown Korean technology companies dominate domestic search, e-commerce, chat apps and fin-tech
    - Korean chat apps are also dominant in many Asian nations such as Japan, Taiwan and Thailand
- Healthcare
    - A leader in aesthetics: Botox, dental implants, cosmetics, aesthetic equipment, etc.
    - A leader in skin grafts and cartilage
- Consumer
    - K-Pop is a global phenomenon, with an accelerating global fanbase
    - Korean content is gaining global popularity through smash hits such as Squid Game and Parasite

- Korean online and mobile games are globally popular
- Korean fashion and food have a major cultural impact throughout Asia and beyond

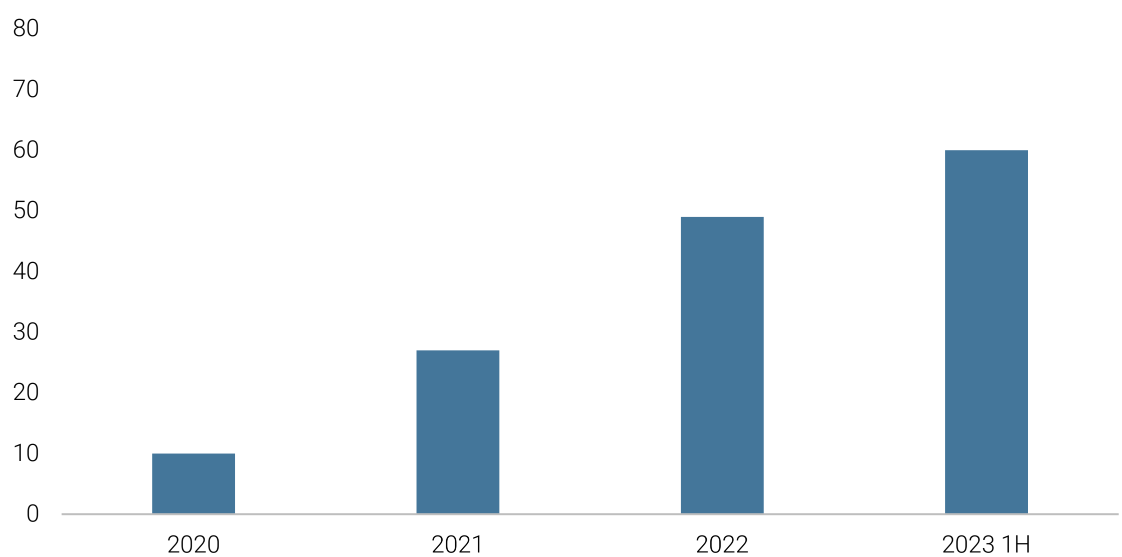
We believe that Korea's cultural influence should not be underestimated in terms of importance. According to US News, Korea's global cultural influence ranking jumped from 31st in 2017 to 7th in 2022, driving tourism, as well as industries such as cosmetics, and generating an estimated $40bn economic impact.

Increasing activism driving change

As shareholder activism in Japan has gained momentum in recent years, Dalton has observed the power of public and private engagement to produce significant positive reforms in capital allocation, board diversity, alignment of interests between company management and their shareholders, and ESG practices. Dalton has a well-rehearsed engagement playbook in Japan, which we believe can deliver similarly strong results in Korea, albeit with the understanding of the cultural and corporate differences between the nations. In fact, we have already seen major positive results in Korea following our engagement, even in behemoths such as SK Holdings, which implemented a large share buyback and took steps to simplify its corporate structure in response to our actions (even thanking Dalton in a public group-wide board meeting). We are confident that our 27 years of experience, local knowledge and reputation will enable Dalton to successfully drive change in the Korean market.

Chart 4 shows the rising number of shareholder proposals received each year in Korea, with correspondingly similar trends in activists taking board seats and making unsolicited bids for companies. Indeed, analytics company Insightia believes that Korea has now grown to become the 5th largest activist market in the world.

Chart 4 – The number of Korean companies receiving shareholder proposals by year



Positive changes in capital allocation by Korean companies

Korea's blend of top-down government leadership and bottom-up activism, driven by many local players, is catalyzing a major transformation in Korean corporate capital allocation. As Chart 5 shows, the shareholder return rate (the sum of dividends and share buybacks divided by net income) in Korea has historically been miserable, with companies choosing instead to pile excess cash on their balance sheets. We argue that the country's historic poor capital allocation, limited focus on minority shareholders, and high cash balances present a unique opportunity in Korea, in contrast to the US, where corporates have never been more levered.

Chart 6 shows that while shareholder returns paid by Korean corporates have risen by more than 140% over the last 10 years, there remains significant room for improvement.

Chart 5 – Comparing 10-year shareholder return rates

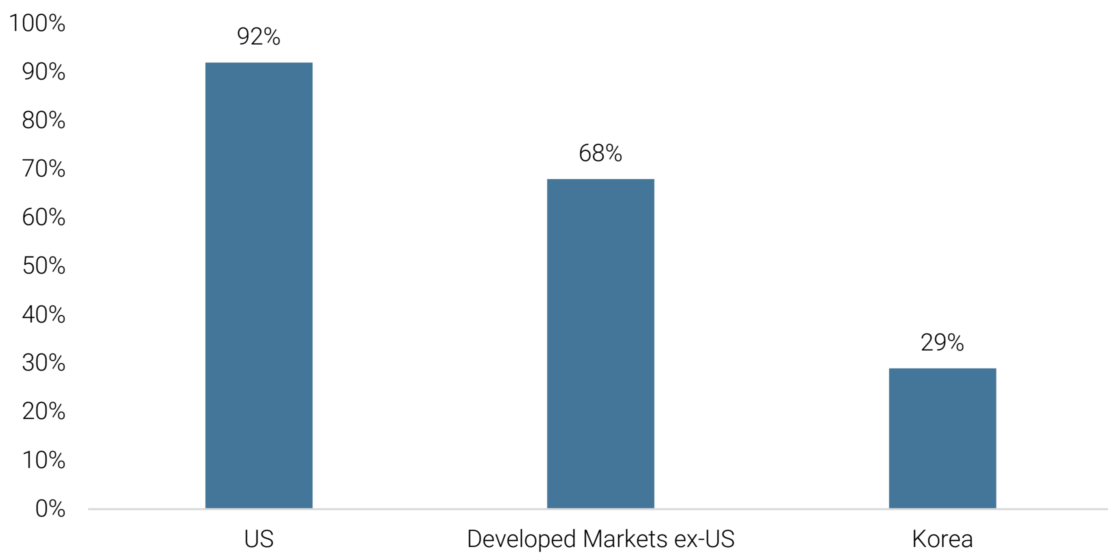
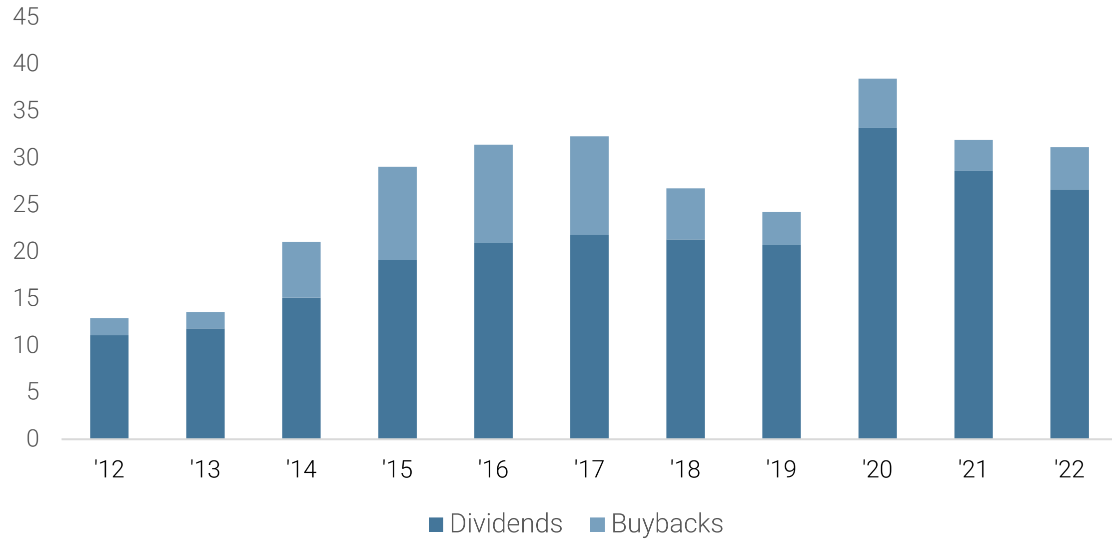


Chart 6 – KOSPI total dividends and buybacks (KRW Trn)



A supportive investor base

The Korean National Pension Scheme (NPS) is the largest shareholder in the Korean stock market, owning around $113bn of Korean equity, or 7% of the total market. This is similar to the situation in Japan, where the Government Pension Investment Fund (GPIF) owns 6% of the market. In both cases, the pension funds face major structural issues and are desperate for higher rates of return to cover shortfalls.

In Japan, the GPIF has become an activist investor, forcing its underlying managers to vote with the recommendations of international proxy voting firms like ISS and Glass Lewis, or explain their reasons for not doing so. We expect the NPS to take a similarly proactive approach over time, as it is in their interests as shareholders to seek better returns. The NPS started down this path in 2018 by signing the Korean stewardship code. At Dalton, we are aligned with the NPS as shareholders and signed the Korean stewardship code in 2017, becoming the first US investment manager to do so.

Private pensions in Korea have been slow to follow the NPS's lead in investing in the stock market. As Chart 7 shows, the average Korean private pension has only 5% in equities, compared to 60% in the US. However, as Chart 8 shows, these retirement equity assets have begun to increase rapidly and we expect this trend to continue, providing a steady stream of high-return-seeking investment into the domestic market. Indeed, Korea recently implemented a "default option" for its private retirement pensions, meaning that Koreans will have to choose from select investment products as the default options for their pension investment, rather than leaving their pension savings in cash and cash equivalents (as had often been the case in the past). This positive initiative was recommended by Dalton to the financial market special committee of the previous ruling party in Korea, and we are delighted to see it implemented.

Retail investors are also driving increased domestic equity participation in Korea, as more and more individual Koreans open brokerage accounts and invest in their domestic market (Chart 9).

We expect this trend to continue as Korean households slowly reduce their disproportionately large real estate investments (Chart 10), in response to the government's efforts to restrict price increases in the country's highly inflated property market. We have seen the power of increasing domestic equity investment in other countries, such as India, particularly during periods of foreign outflows. In Korea, we have also observed the pleasing trend of retail investors becoming forceful activists, demanding corporate reforms and putting more pressure on companies to improve shareholder value. Finally, increasing retail participation has added volatility and inefficiency to the Korean market, providing even greater potential opportunity for disciplined managers such as Dalton.

Chart 7 – Estimated Equity Exposure of Private Retirement Pensions

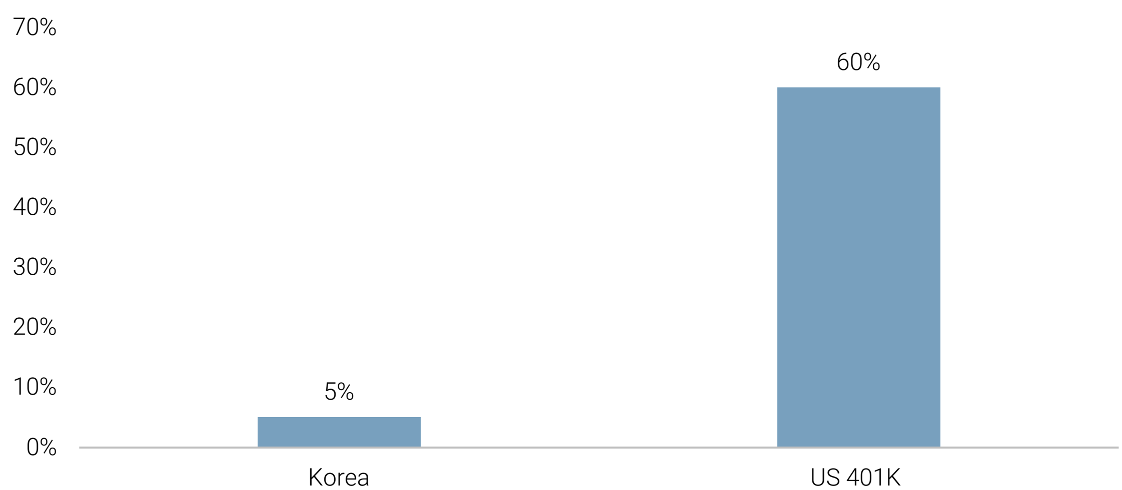


Chart 8 – Korea Private Retirement Pension Assets ($Bn)

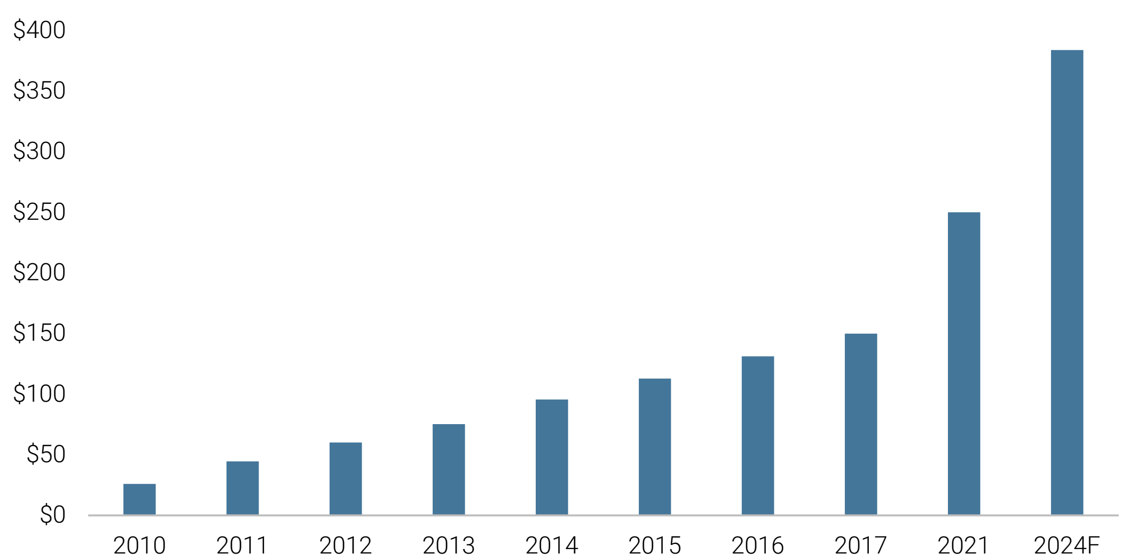


Chart 9 – Number of Koreans investing in Korean Equities (thousands)

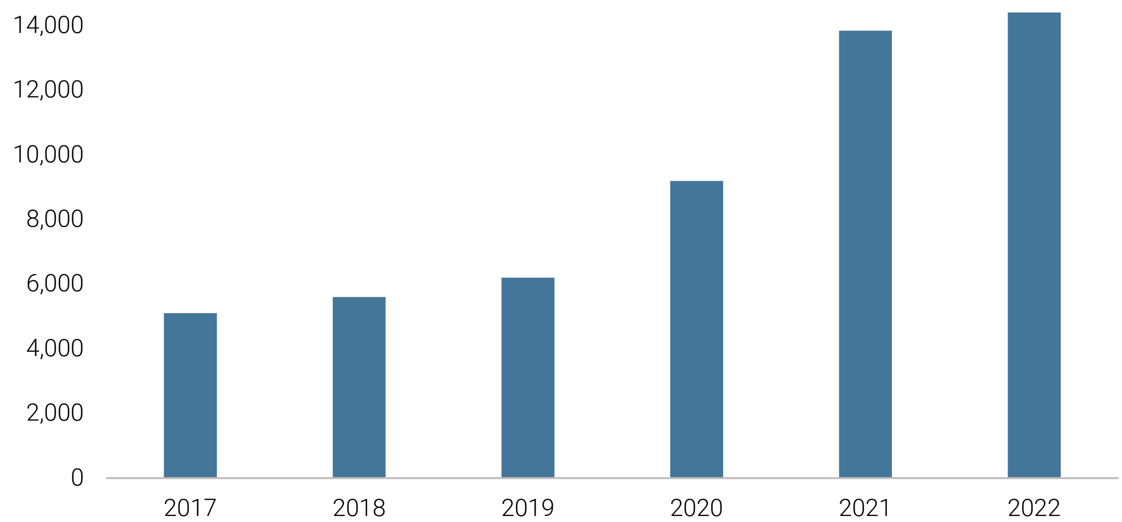
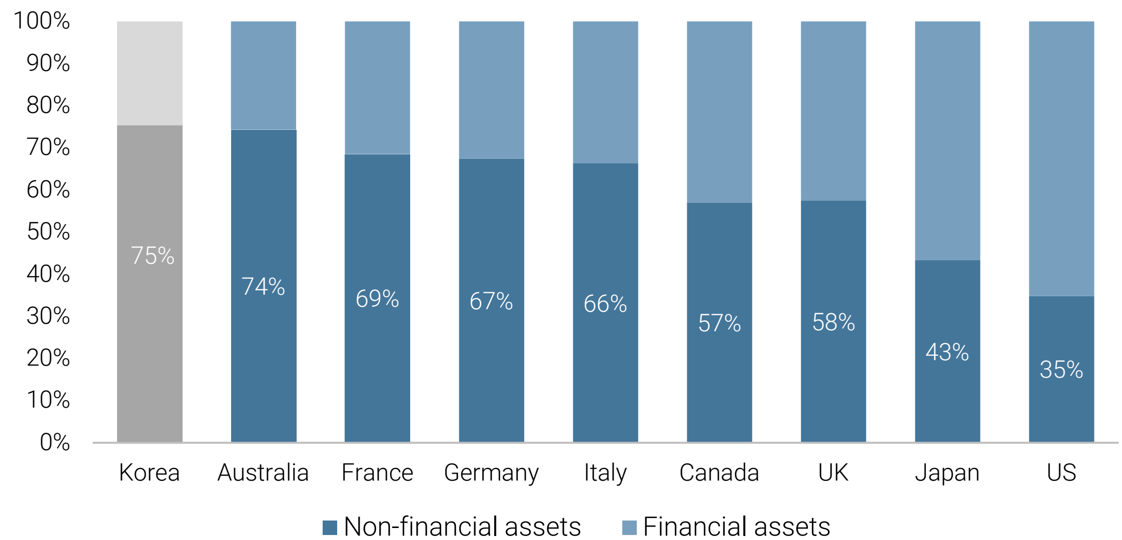


Chart 10 – % of Household Investments in Non-Financial vs Financial Assets (Estimated, 2013 - 2016)



A country in a geopolitical sweet spot

The conventional wisdom is that geopolitics presents only risks for Korea. With a rogue nuclear-armed state to the north and a long history as the "shrimp stuck between two whales" (Japan vs China; US vs Russia), we understand the concerns. However, at Dalton, we believe that Korea's geopolitical position is actually compelling. While it is firmly within the US sphere of influence in Asia (along with Japan, Taiwan and Australia), it has the unique advantage of being one of very few countries that can sell to both sides in the current US/China standoff. It is also poised to benefit from the structural onshoring/friend-shoring trend as companies move their supply chains away from China.

As a result, Korean companies are expected to gain significant market share in many important advanced industries, such as semiconductors, EVs, the EV battery value chain, renewable energy manufacturing (solar, wind, ESS, fuel cell, etc.), nuclear power, and shipbuilding. Korea also has a strong relationship with Middle Eastern and Eastern European nations, which could lead to large infrastructure-related projects and direct investment in Korean technology and culture (which is already happening from Middle Eastern sovereign wealth funds).

In our interactions with major asset owners around the world (particularly in the US), we see pressure to reduce or eliminate exposure to China as the country becomes more authoritarian and aligns itself more closely with Russia. Korea does not face the same headline risk and could benefit as asset owners continue to rotate their exposure away from China.

Conclusion

We believe Korea is one of the most compelling equity market opportunities in the world and warrants a dedicated place in investor portfolios. Given Dalton's depth of experience in the market (CIO Jamie Rosenwald actually received just the 10^{th} ever foreign investor registration when the Korean market opened to foreigners in 1992!), our strong track record in picking Korean stocks and our demonstrated ability to drive fundamental improvements in Asian companies through active engagement, we believe we are in a unique position to deliver compelling risk adjusted returns in the country for clients.