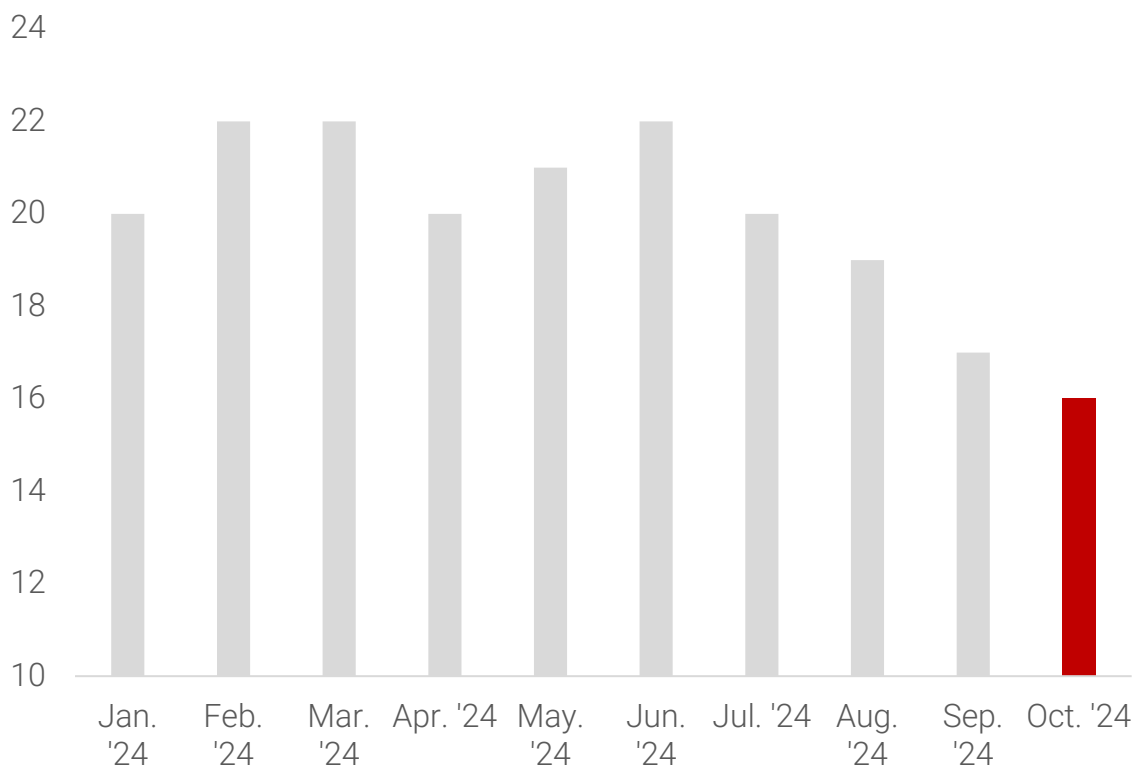


Korea: Scrapping Tax on Capital Gains; Is Commercial Law Revision Next?

On November 4th, South Korea’s opposition Democratic Party Leader Lee Jae-Myung announced his support for the government’s plan to scrap the country’s upcoming capital gains tax. Lee explained that the decision was driven by concerns over the Korean stock market being too weak and the potential negative impact the tax could have on Korea’s 15 million retail stock investors. Some senior members of the left-leaning Democratic Party have been adamant about implementing the new capital gains tax, which had been agreed with the right leaning People Power Party a few years ago. However, investor sentiment has soured due to the overhang of the tax that has been regarded as one of the main reasons behind the decline in trading volume on the Korean stock market in the second half of 2024 (see Chart 1).

The Korean stock market has been the worst performer in Asia year to date, with the main KOSPI index down 8.5% in US dollar terms (2.5% in Korea Won terms) and the KOSDAQ (an electronic trading platform similar to the NASDAQ in the US) down 18.3% in USD (13% in KRW) through November 4th. All other Asian markets have generated positive year to date returns, with the exception of Laos.

Chart 1 – Korean Monthly Average Trading Value (KRW T)



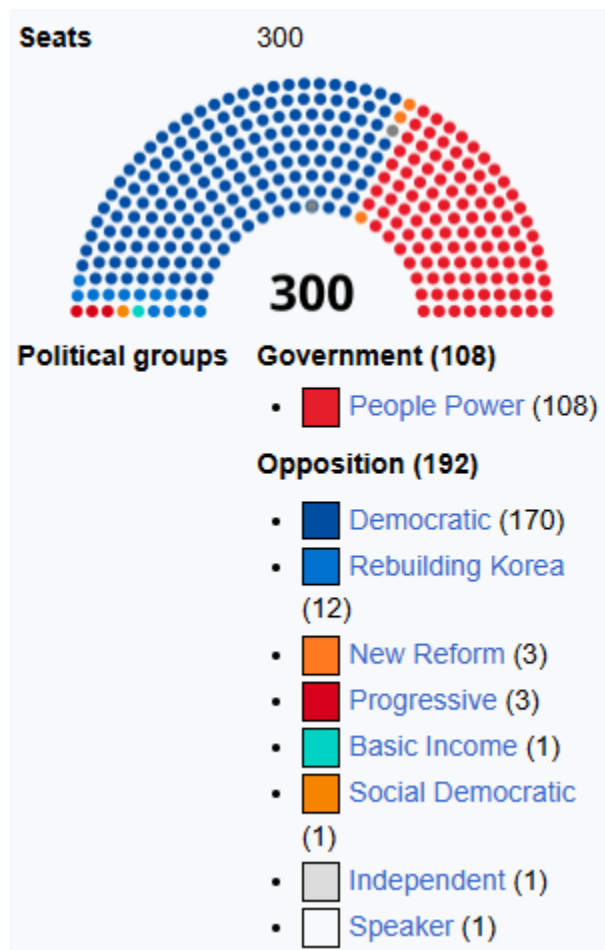
Source: Korea Exchange

The decision by South Korea's left-leaning Democratic Party to scrap the capital gains tax, alongside the right-leaning Yoon administration's introduction of the Corporate Value-Up Program, reflects a shift in the political landscape regarding the stock market. The stock market has now become a significant political priority, with both sides focusing on addressing the "Korea Discount" and boosting market performance.

Lee Jae-Myung, the Democratic Party Leader, emphasized during his announcement that the party's next objective is to revise Korea's commercial law. The proposed changes would expand the fiduciary duty of corporate boards to explicitly include shareholders' interests. Currently, the law mandates fiduciary duty only to the company, leaving no clear legal framework to address conflicts and issues among shareholders, including the unfair treatment of minority shareholders by controlling shareholders. Investors have long called for this revision to help reduce the "Korea Discount" which stems in part from governance issues and shareholder rights.

With the Democratic Party holding a majority in Korean National Assembly (see Chart 2), this revision could mark another pivotal moment for the Korean stock market, potentially improving corporate governance and investor confidence.

Chart 2 – Current Breakdown of the Korean National Assembly by party



Source: Wikipedia

Dalton Investments

We believe that Korea remains one of the most undervalued major equity markets globally, and current investor sentiment continues to be among the weakest. At Dalton, we are encouraged by the growing political consensus around enhancing stock market valuations, which signals a stronger alignment of interests with minority shareholders like Dalton. This political momentum, combined with the high quality of Korean companies that remain deeply discounted, presents a compelling opportunity for shareholder engagement. We are optimistic and excited about the potential to unlock significant value in these underappreciated, high-quality companies as reforms and market improvements take shape.



James Lim

Partner, Portfolio Manager

DISCLAIMER

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, Inc. 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, Inc., that is regulated by the U.S. Securities and Exchange Commission (SEC), or its affiliates (collectively, "Dalton" or the "Firm") is communicated solely by Dalton. 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.