



PRESENTATION

Korea Reunification

a NJ Project





The South Korea equity market is “per se” a highly attractive market with an outrageous and unmotivated discount of about 50% on other developed markets— on top of that, this market offers a free option on some form of rapprochement with the North Korea, provided that the portfolio is adequately positioned.

*This represents the objective of the of **NicheJungle**’s project Korea Reunification*



*In order to fully benefit from a future rapprochement between the South and the North Korea, the project NicheJungle **Korea Reunification** is invested in companies that will gain the most from the enormous wave of investments that this event would trigger. This is a portfolio completely different from those of the main Korean indices/ETFs/Funds. Relative to these indices/ETFs/Funds, the portfolio of the NJ project **Korea Reunification**, beside having the mentioned free option, can also boast cheaper valuations, lower correlation with the main Asian/global equity markets and a higher diversification*

*HISTORY:
Where does the Korean split come from?*



HISTORY

- Korea has a long history, independent from China, that goes back more than 2000 years
- For more than 1500 years the country was divided in smaller kingdoms fighting each other
- The Country was united and ruled by the Joseon Dynasty from 1392 to 1910 (**here on the side the map of country during the Joseon period**)
- Modern Korean culture, etiquette, language and norms were created in the first two centuries of this period. Also, the population belief of being a nation starts from here. Therefore, **the roots between North and South Korea are deep grounded in history.**
- The country was annexed to Japan as a colony in 1910 and had remained so till the end of the second World War



Original map of Joseon empire made by Kim Jeong-ho (Seoul Museum)



HISTORY

- After the Japan's defeat, in 1945, the Korea was divided into two zones along an imaginary line, the 38th parallel: the North was occupied by the Soviets and the South controlled by the US
- It was originally intended that the two zones would eventually be reunited
- In 1948 the two zones set up their own governments: a communist government in the North (**led by Kim Il-sung, here pictured**) and a democratic one in the South
- In 1950 the North invaded the South and quickly took control of most of it

THE DYNASTY: KIM IL SUNG, HIS SON, KIM JONG IL, AND HIS GRANDSON, KIM JONG UN



Source: Free Press Journal



HISTORY

- The situation reversed thanks to the arrival of the US forces, that pushed the Northern troops close to the Chinese border
- Then China stepped in, driving the Southern forces below the 38th parallel
- In July 1953, a cease-fire was signed

PHASES OF KOREAN WAR



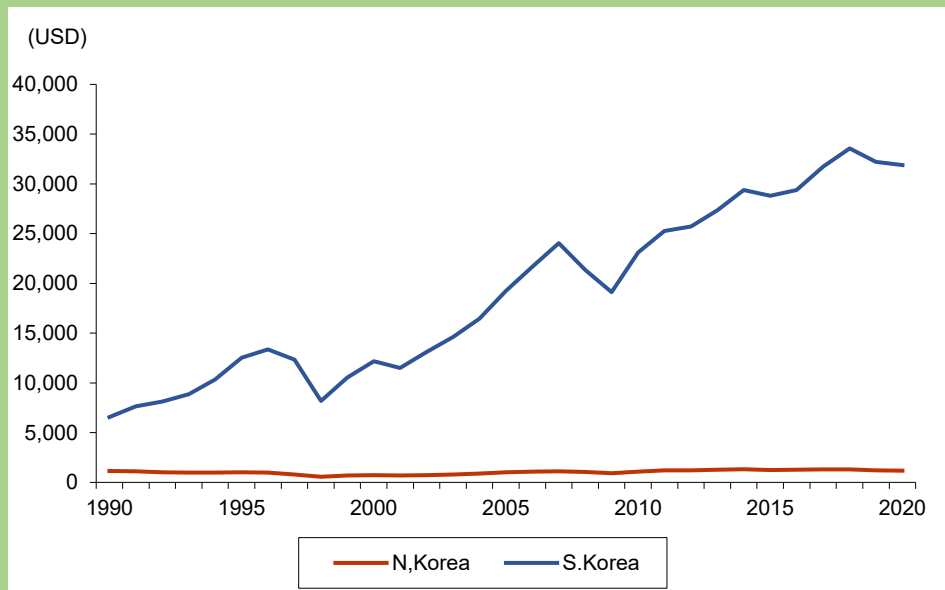
Source: canadiansoldier review



OPPOSITE SITUATIONS

During the last decades, the growth path of the two countries greatly diverged

GDP PER CAPITA GROWTH *



Source: Korean Statistical Information Service

COMPARISON OF TWO KOREAS: GDP & PER CAPITA GDP

Nominal GDP (2020 – bln US\$)

South Korea	1,631
North Korea	18.7

Export (2020 bln US\$)

South Korea	512.8
North Korea	0,156

GDP per capita (2020 - US\$)

South Korea	28,361
North Korea	725,3

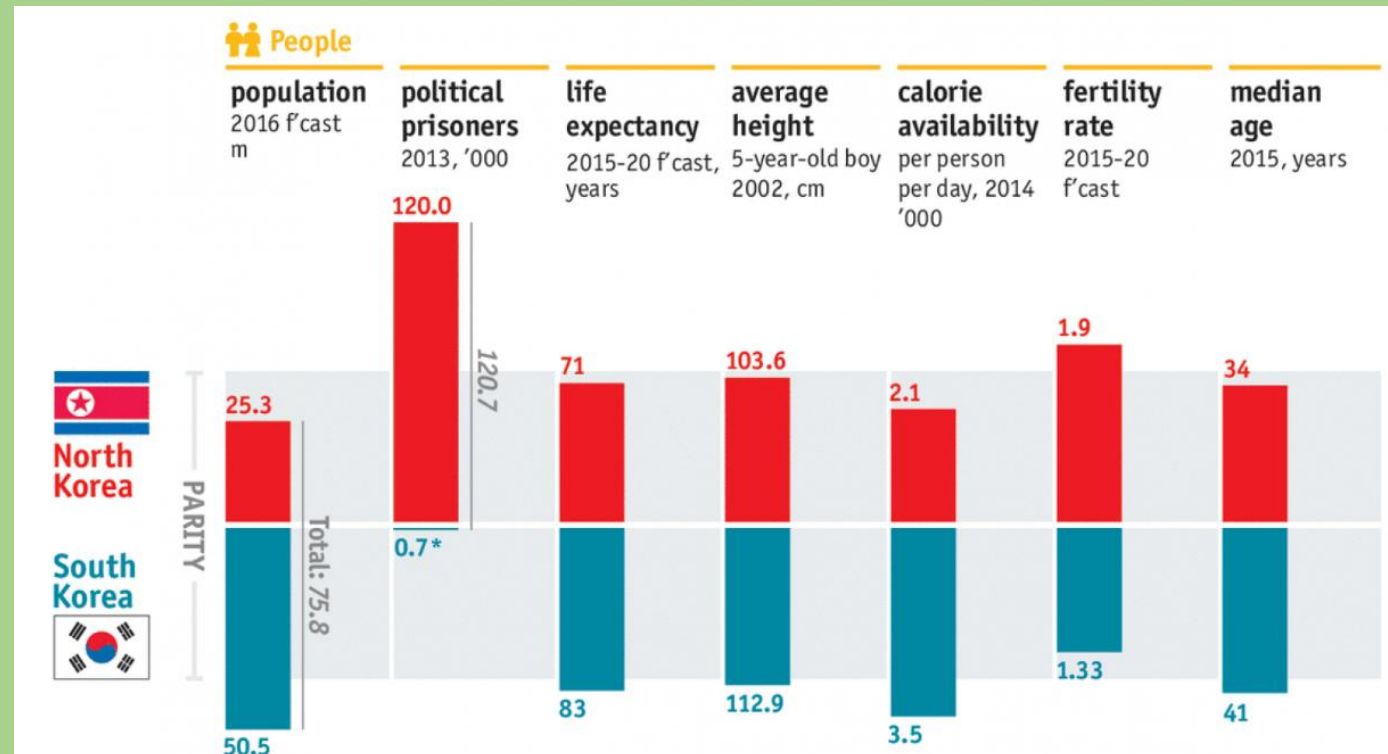
Import (2020 bln US\$)

South Korea	467
North Korea	0.558

Source: BOK, Kostat



NORTH KOREA Vs SOUTH KOREA

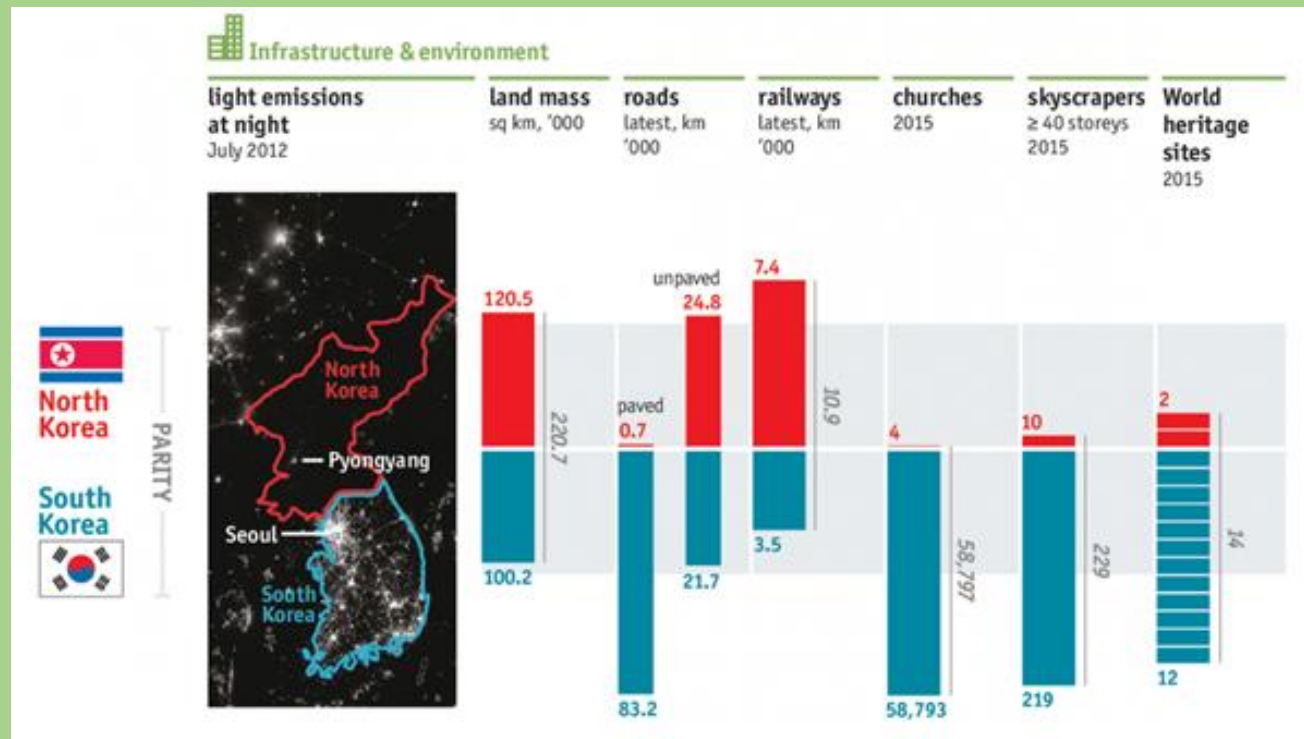


South Korean population is about twice the size of North Korean's

North Korean population is much younger and fertile



NORTH KOREA Vs SOUTH KOREA



Source: The Economist

North Korea's territory is 20% bigger of South Korea's

North Korea's road network is modest and mostly unpaved

North Korea has an old, though extensive, rail network



OPPOSITE SITUATIONS

North Korea

- ❑ Hermit autocracy where the power still in the hand of Kim dynasty
- ❑ Self-sufficiency ideology, called «Juche», led to poverty and starvation
- ❑ Highly dependent on China
- ❑ A heavily militarised and nuclearised State
- ❑ It invests almost 20% of the GDP in defense to keep the population under control

South Korea

- ❑ By the 80s the country climbed out of poverty and moved to modern democracy
- ❑ Korea has now considered as a developed country
- ❑ It's a strong US ally
- ❑ Now a strong and fair democracy getting rid of the nepotism and bribery of the Chaboel superpower era
- ❑ It is the world's biggest investor in terms of R&D relative to GDP
- ❑ It is home to some of the biggest industrial conglomerates
- ❑ From tech start ups, to music, from fashion to food, South Korea is on a wave (called K wave) that should take the country to grow significantly in the next decade



IS THERE A SUPPORT FOR REUNIFICATION?

- According to **SOUTH KOREA CONSTITUTION**,
Art. 3: “*The territory of the Republic of Korea shall consist of the Korean peninsula and its adjacent islands.*”
Art. 4: “*The Republic of Korea shall seek unification and shall formulate and carry out a policy of peaceful unification based on the principles of freedom and democracy.*”
- In 1969, South Korea established a **MINISTRY OF NATIONAL UNIFICATION**. This minister “*establishes and implements long-term policies for national unification*”, as well as “*coordinates inter-Korean dialogue and public education sources on reunification*”.
- More than 70% of South Koreans support the reunification
(Survey released by the unification ministry – Nov. 2014)



Ministry of Unification

About MOU

What We Do

South-North Relations

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Unification Minister Meets US Senator Edward Markey

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2022 Ministry of Unification Work Plan

2022.07.29

ROK Government's Proposal to hold Working-level Contacts for Cooperation in Publi...

2022.05.16

Archives of Inter-Korean Talks to be Released to the Public on a Trial Basis

2022.05.03

Key Inter-Korean events from 2009 to Present

Weekly Report on North Korea

White Paper

Government Complex - Seoul, 208 Sejong-daero/Sejong-ro, Jongno-gu, Seoul 03171, Republic of Korea

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2022 Ministry of Unification Work Plan

created: 2022-07-22
hit: 657

<Press Release>

Ministry of Unification will pursue peaceful unification based on the basic free and democratic order to realize a denuclearized, peacefu
l, and prosperous Korean Peninsula

-2022 Ministry of Unification Work Plan -
July 22, 2022

On July 22, Unification Minister Kiwon Youngse reported to the President on 2022 Work Plan of the Ministry of Unification(MOU) at the
President's Office in Yongsan.

As the year 2022 is the first year of the Yoon Suk Yeol administration, the Ministry of Unification briefed on its policy design for the next
five years and ways to forge a driving force to implement unification policy in the first year of the administration.

The Ministry of Unification's 2022 Work Plan is as follows.

The Yoon Suk Yeol government's policy vision on unification and North Korea is to achieve a "denuclearized, peaceful, and prosperous
Korean Peninsula" by promoting peaceful unification based on the basic free and democratic order.

* In doing so, the Government will seek to implement Article 4 of the ROK Constitution.
(Article 4: The Republic of Korea shall seek unification and shall formulate and carry out a policy of peaceful unification based on the ba
sic free and democratic order.)

https://www.unikorea.go.kr/eng_unikorea/

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JUNGLE

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IS THERE A SUPPORT FOR REUNIFICATION?

SOUTH KOREA:

PUBLIC OPINION

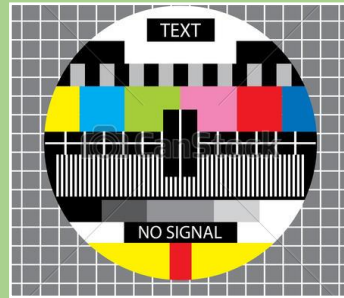
- ☐ South Korea's support still solid, but falling among the younger generation
- ☐ Common roots with North Korea are so deeply entrenched in the cultural tissue of the country that a reunification would probably receive broad support from the population

POLITICS

- ☐ Politicians have historically played the Reunification card to win the elections
- ☐ However, the recent election of Yoon Suk-yeol, a conservative, who is less supportive of a full political reunification, represents a watershed versus the past

CHINA: SUPPORT FOR A PEACEFUL REUNIFICATION IN PRINCIPLE, BUT PREFERS THE STATUS QUO

KOREAN PENINSULA: THREE SCENARIOS



The status quo



Korea reunification

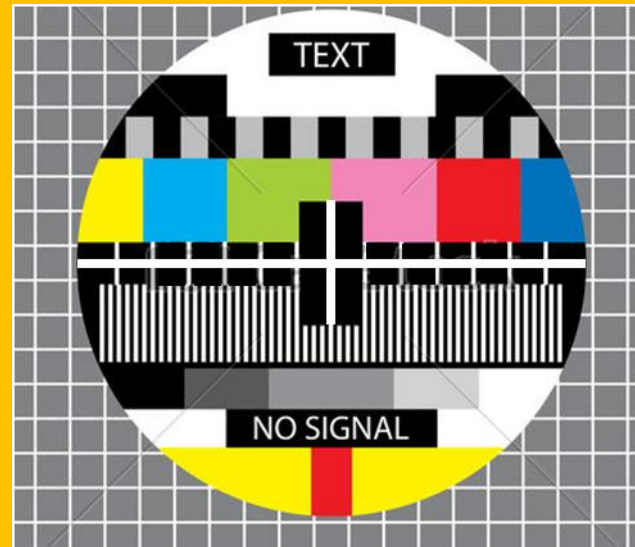


The adoption of a Market Economy and the rapprochement between the two Koreas

THREE SCENARIOS

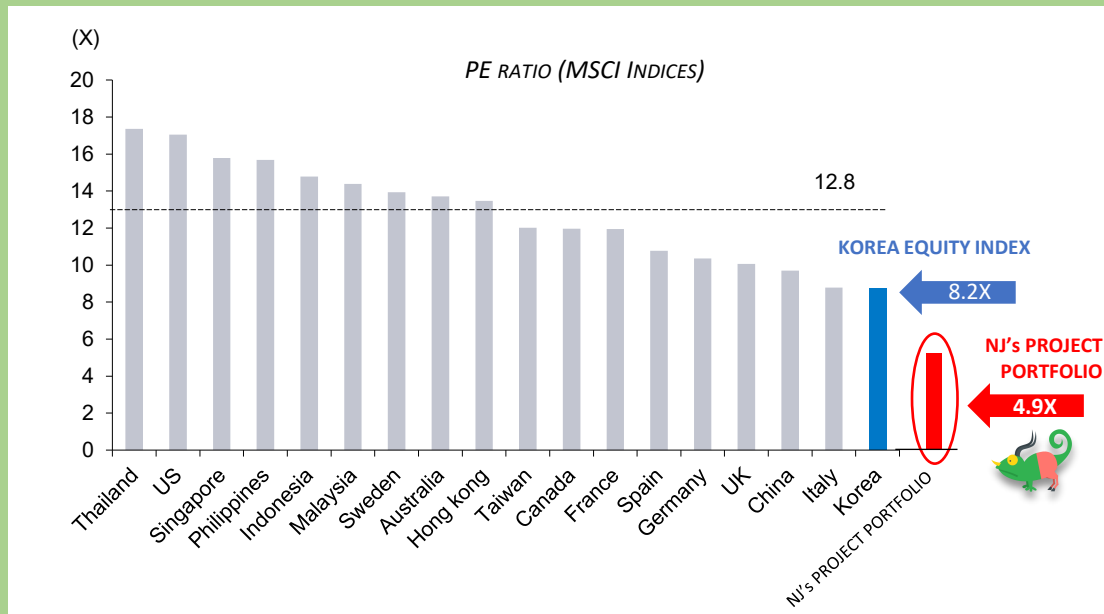


First scenario:
STATUS QUO

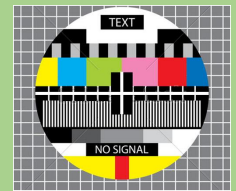
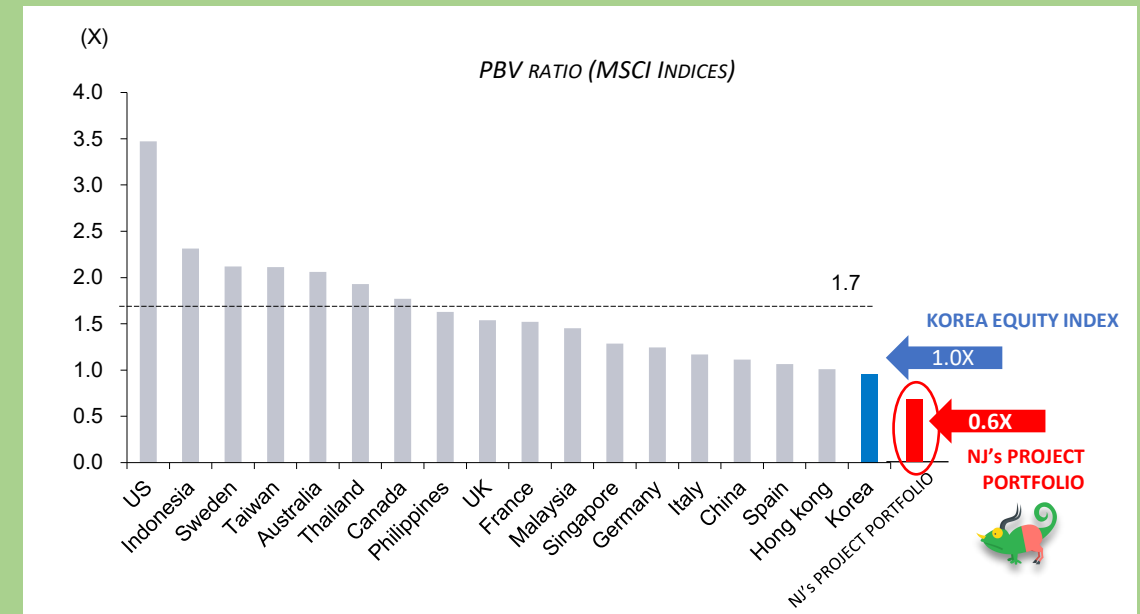




IF IN THE «STATUS QUO» SCENARIO THE KOREAN EQUITY LOOKS ATTRACTIVE, THE PROJECT'S PORTFOLIO LOOKS EVEN MORE ATTRACTIVE: **4.9X P/E AND 0.6X P/BV (0.75X TBV)!**



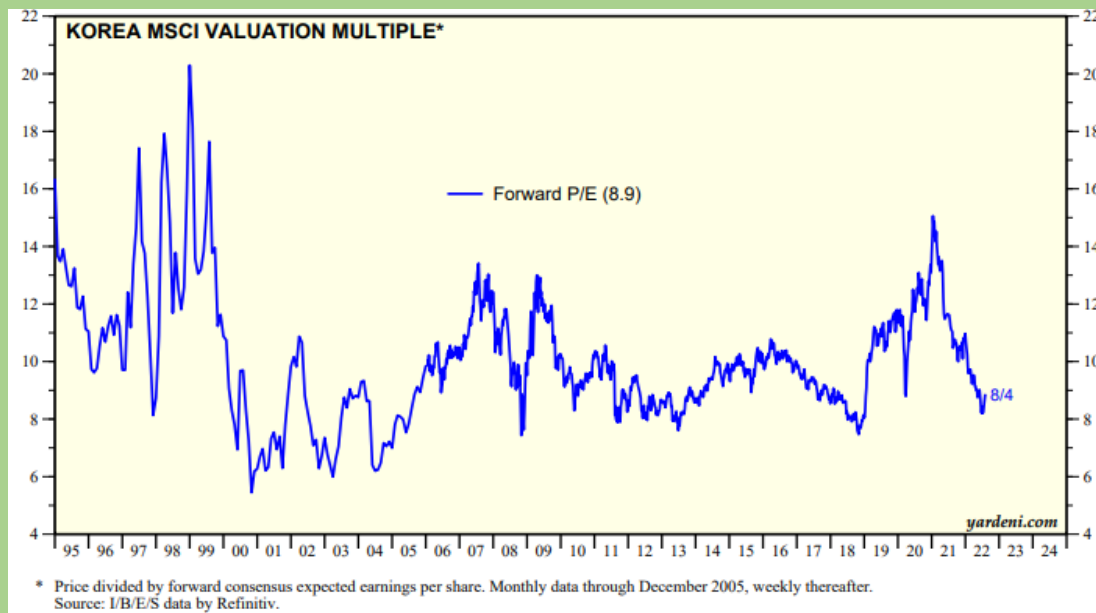
Source: Thomson Reuters 15/08/22





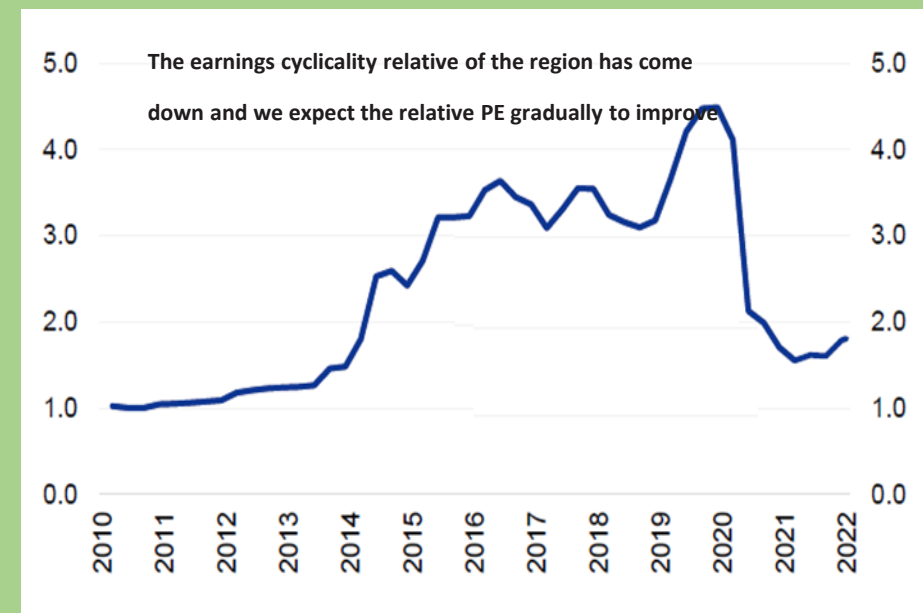
IN THE «STATUS QUO» SCENARIO THE KOREAN EQUITY LOOKS ATTRACTIVE

KOREA: HISTORICAL FORWARD P/E (MSCI INDEX)



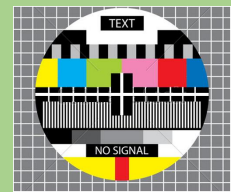
Source: Yardeni

KOREA: VOLATILITY OF FORWARD EARNINGS GROWTH RELATIVE TO REGION



Volatility of forward earnings growth relative to MSCI Asia ex-Japan markets' median (rolling 5 years)

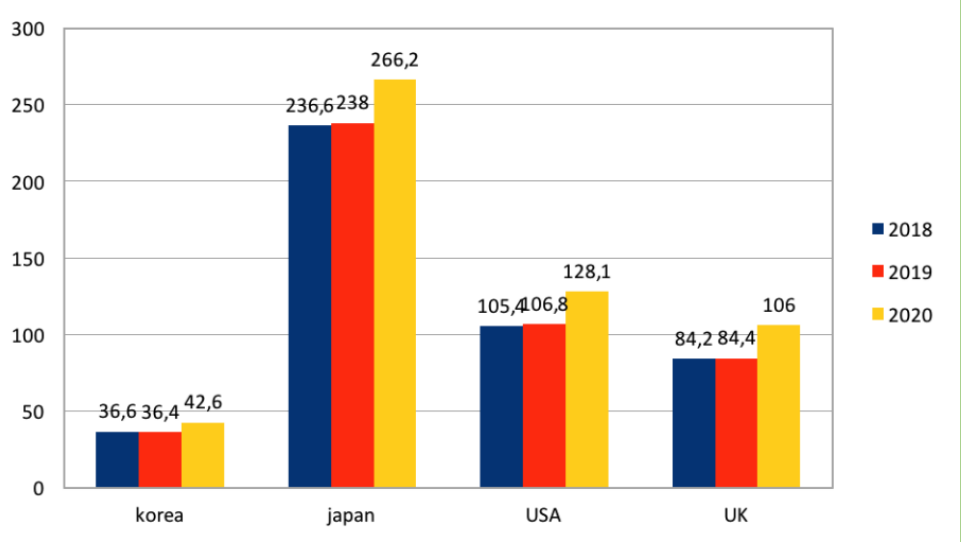
Source: DataStream, MSCI, I/B/E/S, GS





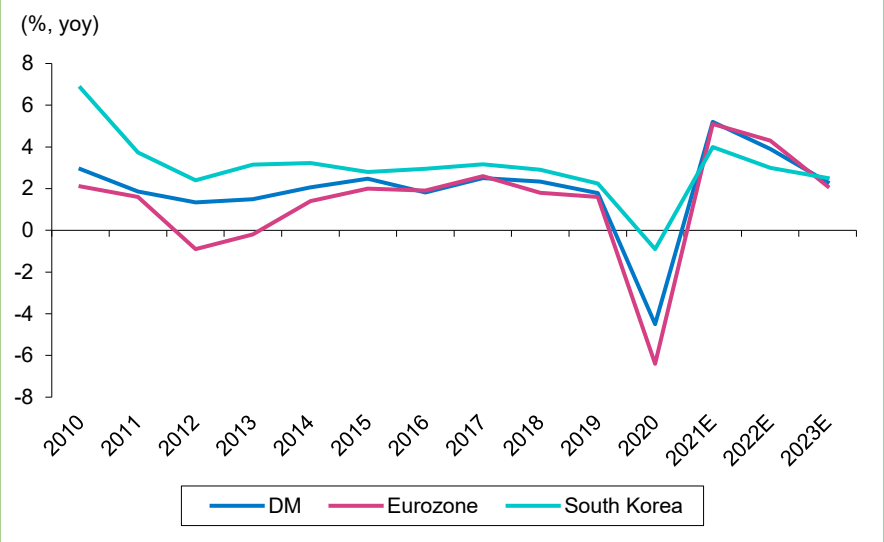
KOREA'S DEBT IS LOW AND THE GDP GROWTH IS HISTORICALLY RESILIENT

KOREA'S DEBT-TO-GDP

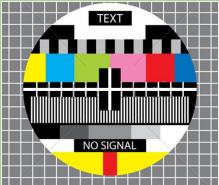


Source: IMF

KOREA'S GDP GROWTH



Source: Bloomberg

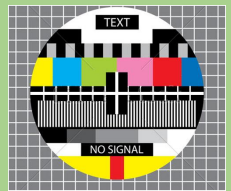




VISIBLE RERATING TRIGGERS IN THE STATUS QUO CASE

- *Corporate governance improvements*
- *Unwinding of the control chains*
- *Dividends growth*
- *Leading globally in many vital sectors (semiconductors, Ev Batteries, Energy storage, 5G, MicroLED, robotics, pharma CDMO)*
should sustain economic growth, investments and consumption
- *Reshoring from China*
- *Inclusion in the MSCI DM Index*
- *Korean cultural wave (music, cinematography, art, fashion, food) should lead to significant tourism growth*

Those triggers should act powerfully on the NJ's project portfolio





SECOND SCENARIO:
GERMAN-STYLE REUNIFICATION





A FAVOURABLE SENTIMENT TO THE REUNIFICATION

- According to SOUTH KOREA CONSTITUTION,

Art. 3: *“The territory of the Republic of Korea shall consist of the Korean peninsula and its adjacent islands.”*

Art. 4: *“The Republic of Korea shall seek unification and shall formulate and carry out a policy of peaceful unification based on the principles of freedom and democracy.”*
- The sentiment is very favorable: more than **70%*** of South Koreans support the reunification



THE COUNTRY HAS PREPARED FOR LONG

- According to the South Korea's Financial Services Commission (FSC), the modernization of North Korea would need 500 bln \$ over the next 20 years, mainly energy and transportation infrastructure **
- The public debt has been kept low on this purpose
- A Ministry has been set up in 1969 to study and arrange the reunification plans

https://www.unikorea.go.kr/eng_unikorea/

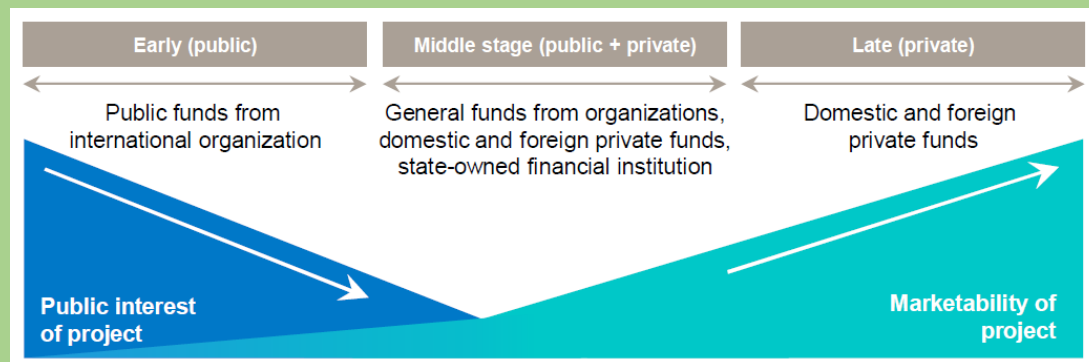
The screenshot shows the official website of the Ministry of Unification of South Korea. The main header includes the ministry's name in Korean and English, along with navigation links for 'About MOU', 'What We Do', 'South-North Relations', and 'Press'. A large banner features a photo of the Unification Minister meeting with US Senator Edward Markey. Below the banner, there are sections for 'Press Releases', 'Press Briefings', and 'Speeches'. A table lists recent press releases, including the '2022 Ministry of Unification Work Plan' dated 2022.07.22. To the right, a detailed view of the '2022 Ministry of Unification Work Plan' is shown, dated July 22, 2022. It outlines the ministry's commitment to peaceful unification based on the basic free and democratic order, and details the government's policy vision for the next five years.





THE COST OF REUNIFICATION WOULD BE HEAVY THOUGH BEARABLE

- According to the FSC, the cost of reunification should not burden the South-Koreans population
- Public resources should play a relevant role only in the first phase, when the environment for private investment isn't favorable yet
- South Korea public debt has been kept in view of the reunification and can well support the first phase of investments
- A significant amount of money will come from the savings from the army as South Korea will be able to reduce it dramatically. South Korea spends about 45 bln USD per year to keep one of the biggest army in the world to prepare against an invasion from North Korea



Source: FSC

Prevalent role played by the private sector, although not in the first phase





OPPORTUNITIES FROM A STRAIGHT REUNIFICATION

STRONG INVESTMENTS CYCLE

LONG TERM INCREASE IN PRIVATE CONSUMPTION

GEOPOLITICAL RISK REMOVED

RISKS FROM A STRAIGHT REUNIFICATION

COST OVERRUN

INTERNAL STABILITY

MARKET VOLATILITY





THIRD SCENARIO:

**THE ADOPTION OF A MARKET ECONOMY AND THE
RAPPROCHEMENT BETWEEN THE TWO KOREAS**





MARKET ECONOMY ADOPTION

This is the path successfully undergone by China and Vietnam:

The progressive adoption of the market economy, though maintaining a strong State grip

Compared to a straight reunification scenario, this scenario would imply:

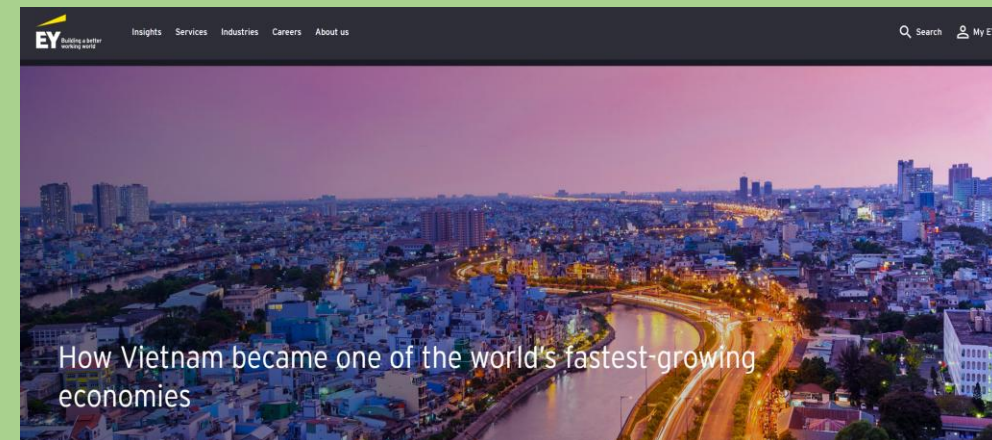
- a) positive economic effects spread across a longer period of time
- b) strongly reduced the economical and political risks
- c) lower market volatility



THE VIETNAM CASE: DOI MOI REVOLUTION

- Promote multi-sector economic system (phase 1) 1986-1991
- Lay foundation for market economy (phase 2) 1992-2005
- Establish market economy (phase 3) 2006-2010

HEADER OF AN EY RESEARCH ON THE VIETNAM BOOMING ECONOMY FOLLOWING THE DOI MOI REVOLUTION

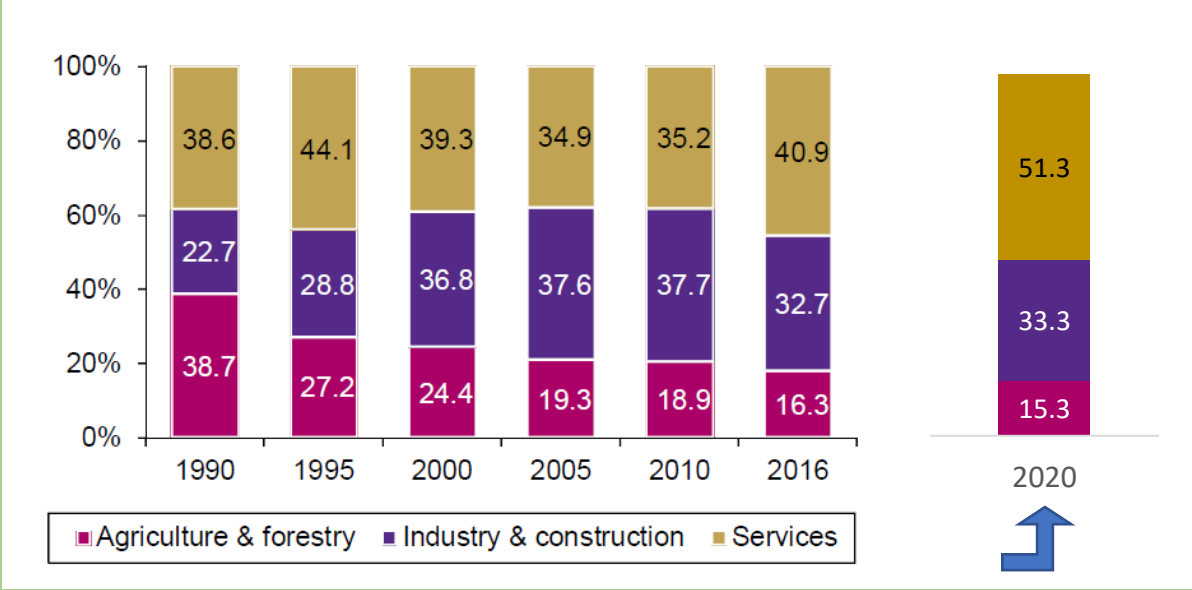


Source: EY



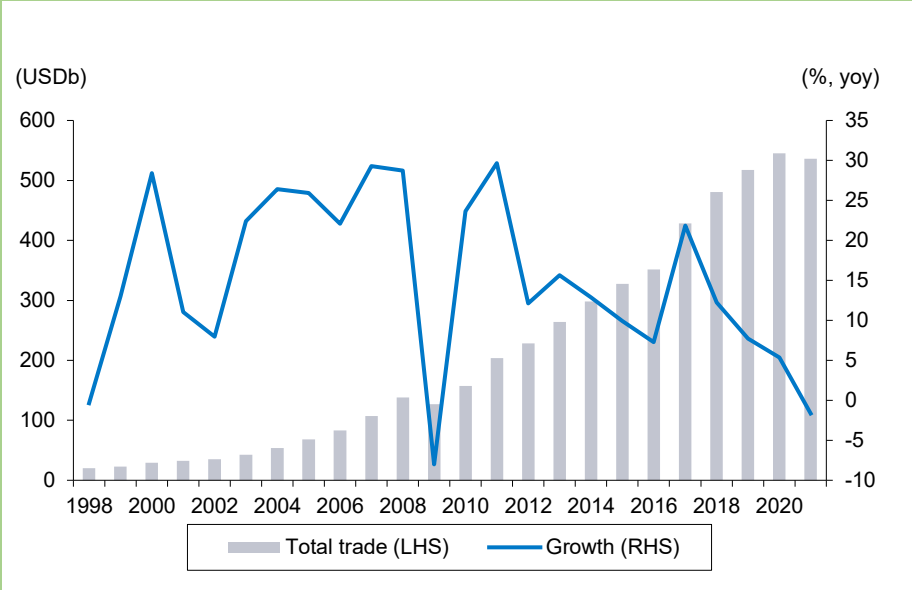
THE VIETNAM CASE: NEIGHBOURS STATES GREATLY BENEFITTED OF ITS INDUSTRY SHIFT AND TOTAL TRADE GROWTH

VIETNAM: GDP BREAKDOWN BY INDUSTRY



Source: World Bank, Bloomberg

VIETNAM: TOTAL TRADE





WHILE MANY ARE THE SIMILARITIES OF VIETNAM AND CHINA WITH NORTH KOREA THERE ARE ALSO SOME DIFFERENCES:

- After 65 years of *juche* (North Korea self-reliance ideology) the entrepreneurship in North Korea is much less than it was in Vietnam in the 80s, where collectivisation lasted just 10 years
- Urbanization was a powerful factor in the development of Vietnam and China but in North Korea 60% of the population already live in the cities
- North Korea has in the past attracted foreign investments that were later seized: this limits the new investments flows
- North Korea population median age is already 34 while in Vietnam and China it was about 20 when the process started and this can limit the growth trajectory



THE GERMAN CASE

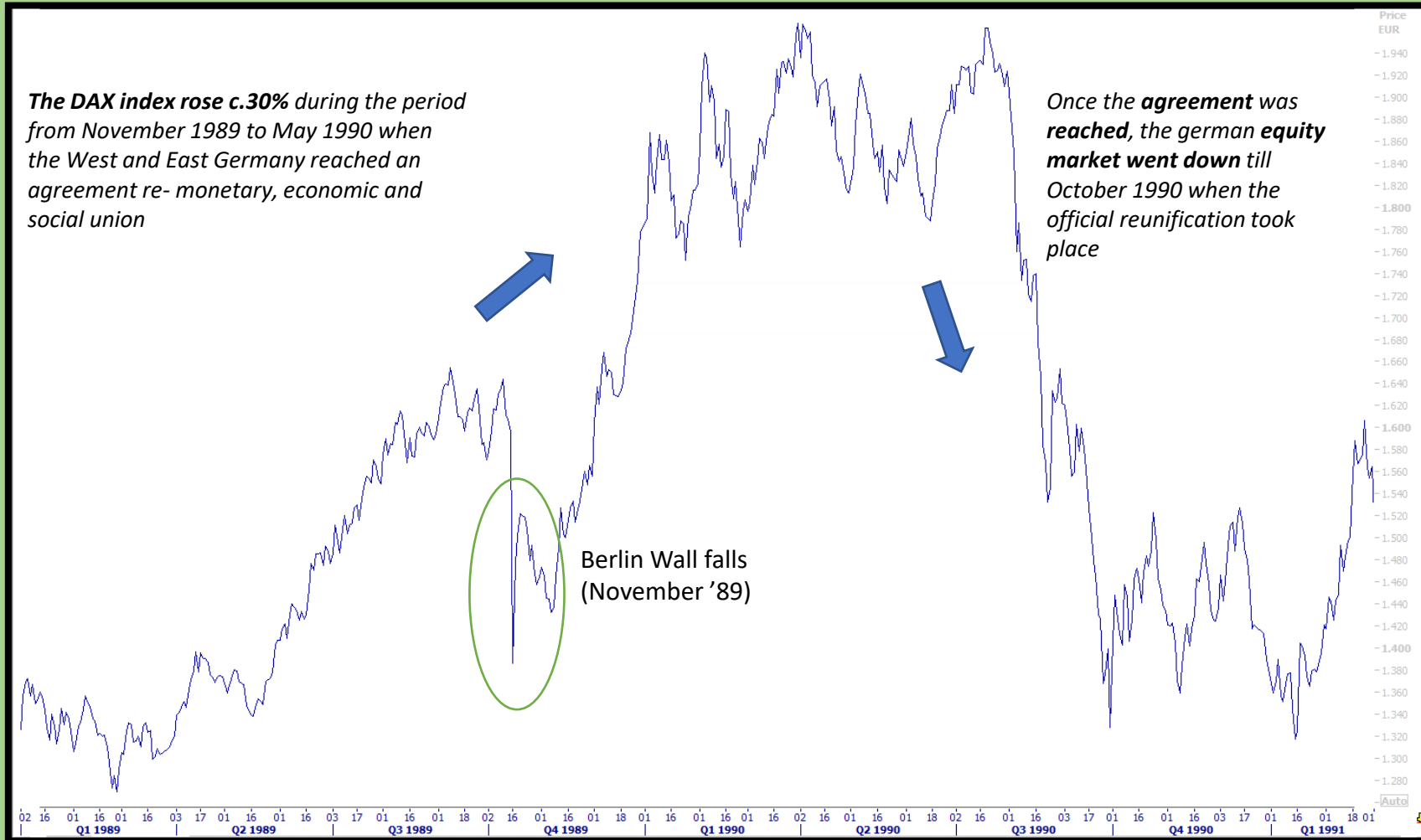


THE GERMAN-REUNIFICATION

- What happened to the German Index (DAX) after the fall of the Berlin Wall?
- Positive and negative effects of reunification
- Read-across for Korea

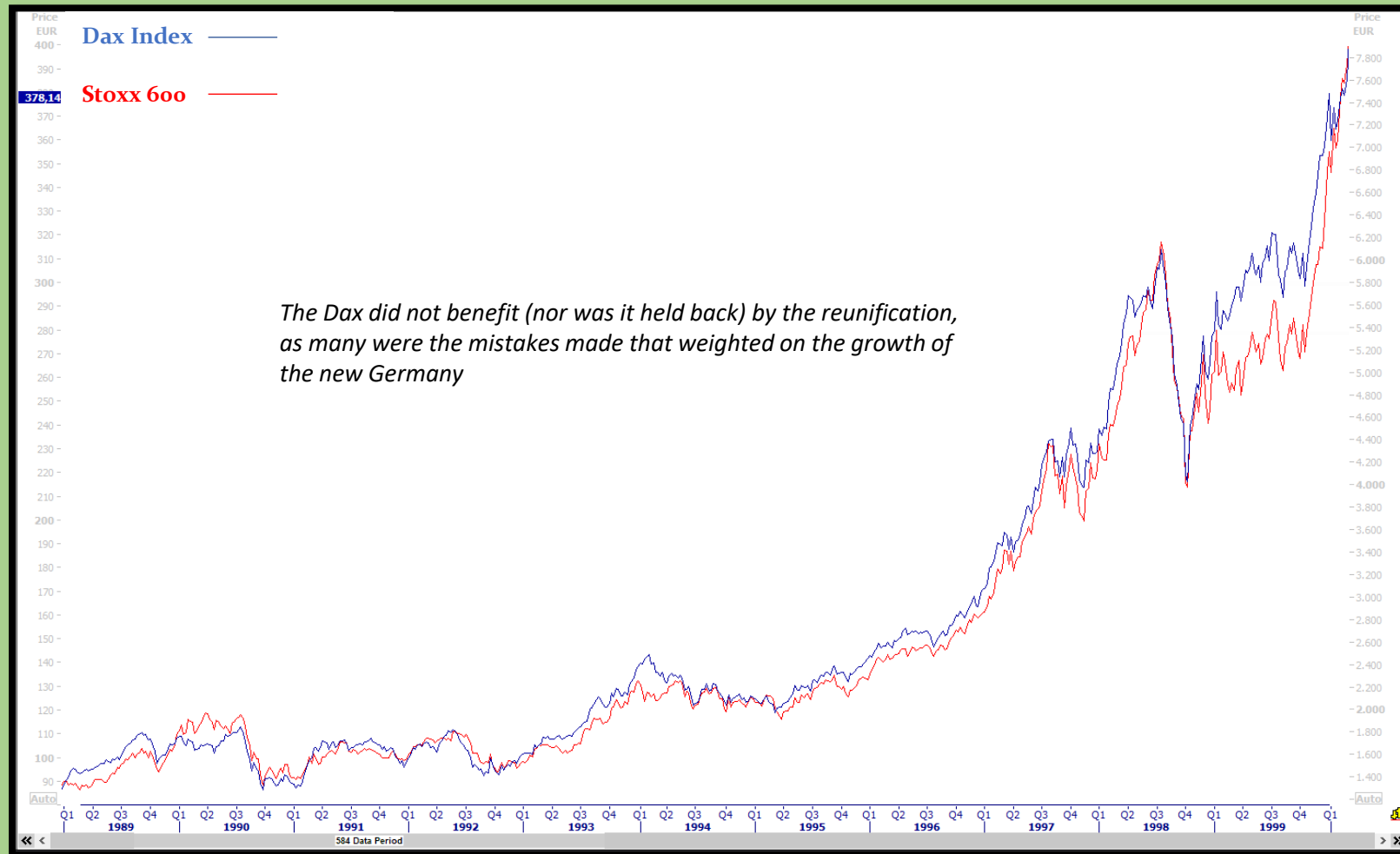


HIGH VOLATILITY IN THE DAX INDEX AT THE TIME OF THE FALL OF BERLIN WALL



Source: Reuters, Niche AM

DAX INDEX AND STOXX600

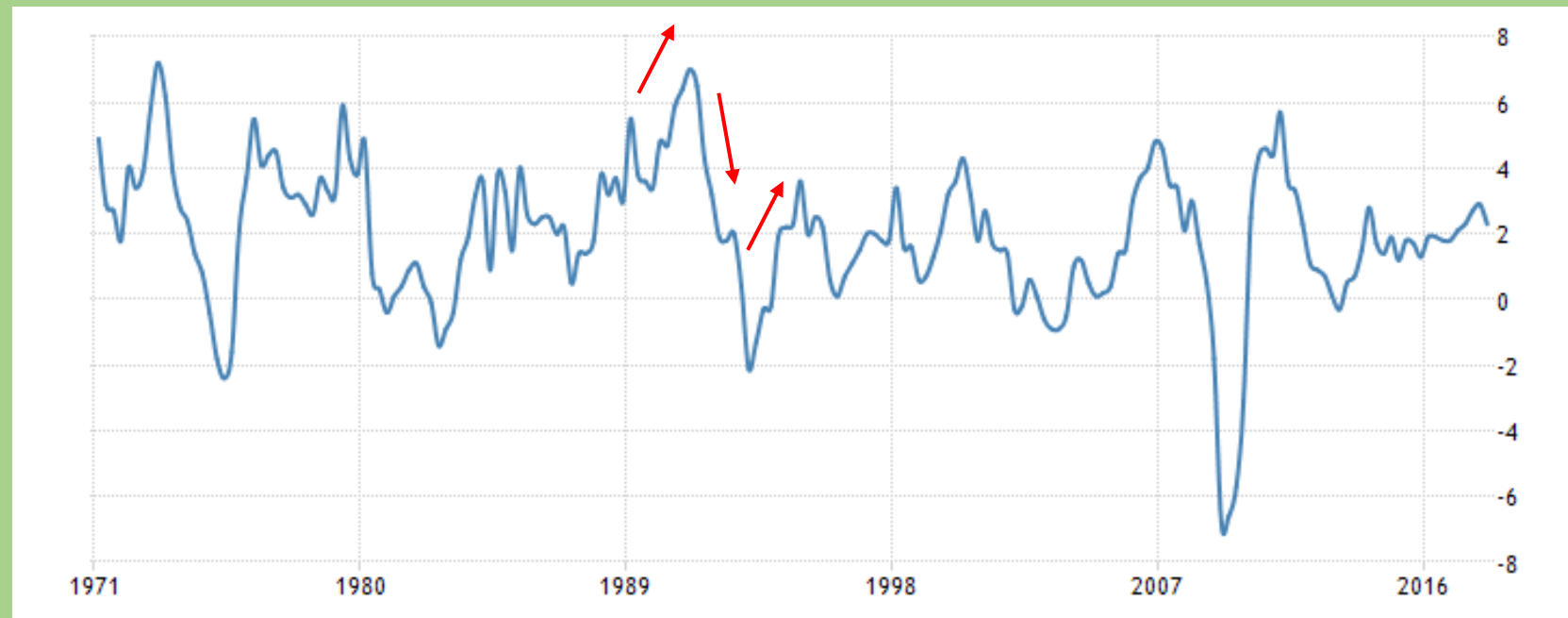


Source: Reuters, Niche AM



THE GERMAN-REUNIFICATION

GERMANY GDP ANNUAL GROWTH RATE



Source: Tradingeconomics.com – Federal Statistical Office



THE GERMAN UNIFICATION WAS A TOTALLY NEW EXPERIMENT, MANY WERE THE UNFORESEEN PROBLEMS AND THE MISTAKES MADE:

- Property rights confusion scared off potential investors
- Exchange rate was set for political and technical reasons too high and wage inflation ran fast, hindering the competitiveness of East Germany
- Infrastructure took too long to be upgraded, holding back investors
- **Slow introduction to a market economy and over-hasty adjustment of wages to prevent disruption hampered long-term growth**
- Limited opening to foreign investors
- Excessive rise in interest rates slowed down the economy



AS THE CONSEQUENCE THE SHORT TERM ECONOMIC BENEFITS WERE LIMITED:

- West Germany went into a brief a small boom followed by a slow down
- East Germany went into a deep recession
- It took Germany 15 years to economically to first digest the unification
- Most of Eastern Germany is still an economically and socially depressed region compared to the Western Germany
- Money transferts more than market forces drove German reunification

LONGER TERM, THE ADVANTAGES ARE CLEAR:

- Huge geopolitical derisking
- Wealth redistribution
- Future growth opportunities from productivity increase in the East
- Creation of a world superpower

“Even if the two parts were only separated for 41 years – that’s less than two generations – the citizens of east and west were socialised in such a different way that in retrospect the idea that integration would be swift was utopian.” Dr Reiner Klingholz, Director of Berlin Institute for Population and Development



Lesson learnt:

- Productivity has to be preserved
- Shift to market economy has to be swift
- Foreign investments have to be fostered
- Immigration flows have to be managed



HOWEVER HERE THE TASK CAN BE EVEN MORE CHALLENGING

KOREA

South Korea's GDP is more than **40 times** greater than the North's



South's **population** is **2 times** greater than the North's



South's **Per-capita GDP** is **22 times** greater than the North's



GERMANY

The difference between West Germany GDP and East Germany GDP in 90's was **10 times**

West population was **4 times** greater than the East's

West per-capita GDP was **3 times** greater than the East's

German-style unification through huge income support could cost much more than it did in Germany and eventually involve too much risk



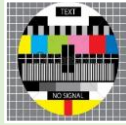
Germany read-across for Korea

- From an economic and social standpoint, in the short to mid-term, North and South Korea would likely be better off in case of rapprochement, integrating economically and socially but remaining independent (scenario 2)
- From a political, economic and social standpoint, in the long term, a straight reunification would be a no-return choice, assuring lasting and peace and prosperity for the whole area (scenario 3)



Scenario analysis final remarks

Status Quo?
Unlikely
20% chance



Status quo. In case the status quo prevails (we put 20% of chances that this is the case in 5 years timeframe) the Korea market is still very attractive and one of the most interesting equity market globally

Full Political Reunification
Unlikely
20% chance



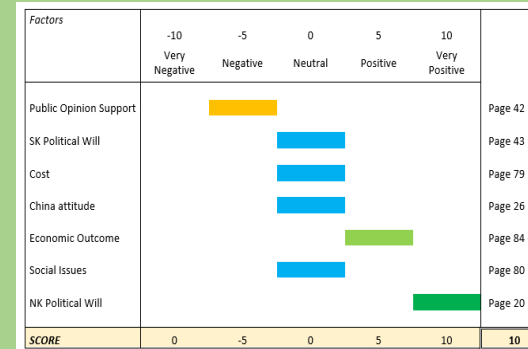
Full political Reunification. In case a straight reunification takes place (we put 20% of chances) the opportunities will outweigh the integration risks and we see a better absolute upside than in the first and third scenario, although the market volatility risk will remain elevate and longer-term issues could emerge (in this case the best time to sell is likely to be when the reunification is announced)

Economic rapprochement
Likely
60% chance



Economy rapprochement. In case North Korea undergoes a Vietnam or China development scenario (60% of chances) that will lead to a gradual rapprochement with South Korea, we see a significative upside provided by a decrease of the risk premium and new growth opportunities; this is by far the best scenario in terms of the combination of significant long-term market upside and moderate volatility

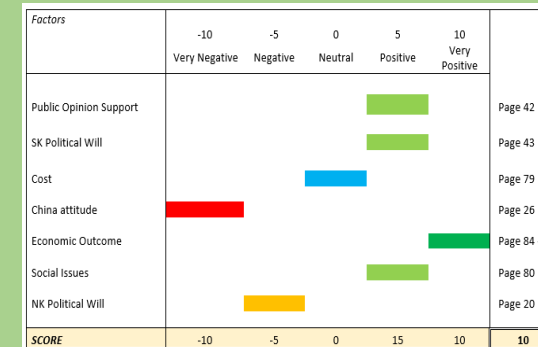
STATUS QUO – MATRIX SCORE



Source: NicheAM - n. of pag on the right side refer to the in-depth research



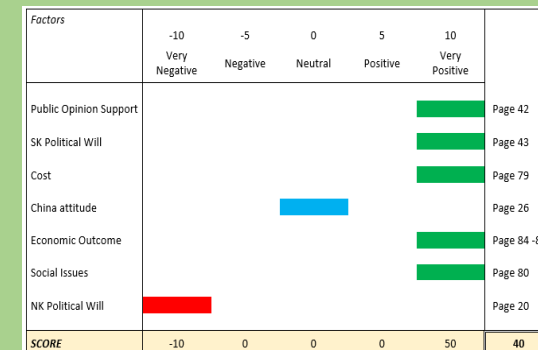
FULL POLITICAL REUNIFICATION – MATRIX SCORE



Source: NicheAM - n. of pag on the right side refer to the in-depth research

Score		%	median
MAX - 70			
MIN - 0			
0-5	Highly unlikely	0-10%	5%
from 10 to 20	Unlikely	15-25%	20%
from 25 to 35	More unlikely than likely	30-50%	40%
from 35 to 45	More likely than unlikely	50%-70%	60%
from 50 to 60	Likely	75-85%	80%
from 65 to 70	Highly likely	90-100%	95%

ECONOMY RAPPROCHEMENT– MATRIX SCORE



Source: NicheAM - n. of pag on the right side refer to the in-depth research



Conclusions



Scenario	Score	Probability
Status Quo (a)	10	20%
Full Political Reunification (b)	10	20%
Economic Rapprochement (c)	40	60%
Korea Reunification (b+c)		80%

	Status quo	Full Political reunification	Economic Rapprochement
Probability (5 years horizon)	20%	20%	60%
EPS Cagr '22-'26° (nominal)	8%	14%	11%
re-rating 5Y from ESP growth (a)	44%	89%	68%
DPS (b)	15%	15%	15%
re-rating from "triggers" * (c)	20%	20%	20%
re-rating from geopol. risk rem. (d)	0%	20%	20%
Possible Returns (a+b+c+d)	93%	153%	133%
Annualized possible return	14%	20%	18%

* «Triggers» = Corporate governance improvements, Dividends growth, Inclusion in the MSCI DM Index

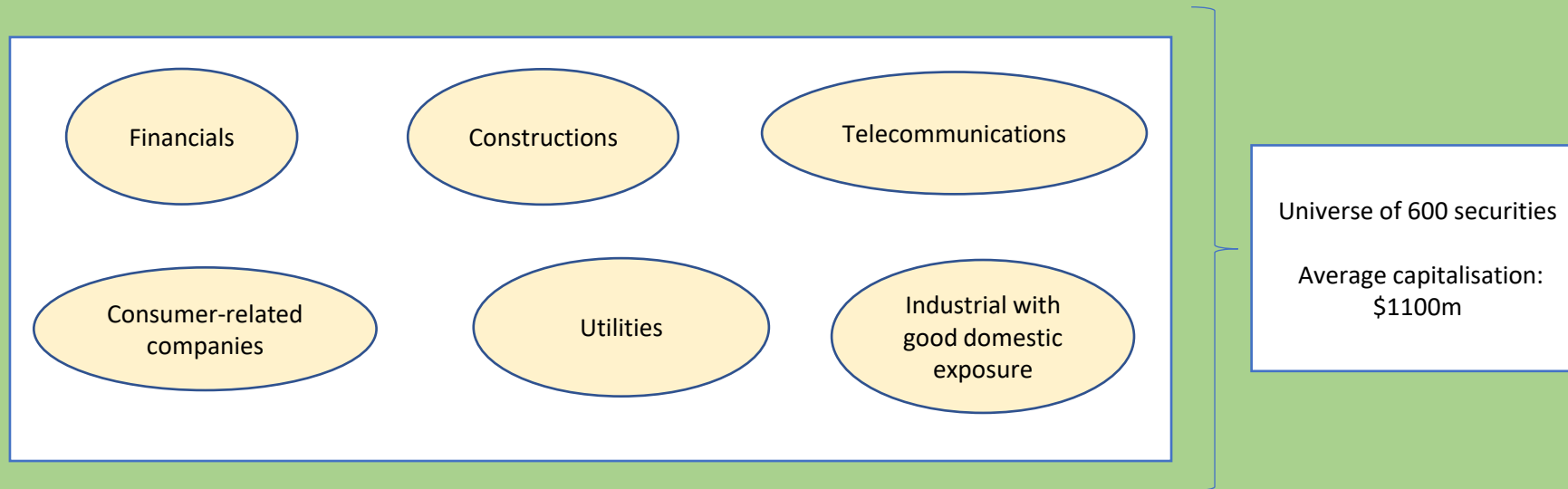
Source: Thomson Reuters I/B/E/S, Niche AM

Those targets are very conservative: 1) the end P/E of the project's portfolio in case of the "status quo" (no reunification, nor rapprochement) would be 8x, still more than 40% below the Developed Countries average; 2) the yearly EPS growth assumptions are nominal that means, in the STATUS QUO CASE, about 5% real EPS growth, way below consensus (7%-9%); 3) The 20% rerating related to the decrease of geopolitical risk is modest and in that case the market could over-react taking it to 40%/50%. This is to say that the potential upside could well be twice our target, in all 3 cases. This leaves us with a solid safety margin as this is always the case with NJ approach.



Korea Reunification Portfolio

How to gain exposure to a country with great potential and multiple attractions and, at the same time, expose oneself to the great benefits of a possible reunification?



The universe identified is 31% of the Kospi index in terms of capitalisation

A very attractive universe in terms of valuation ($P/E < 7x$) with an average EPS growth above 10%

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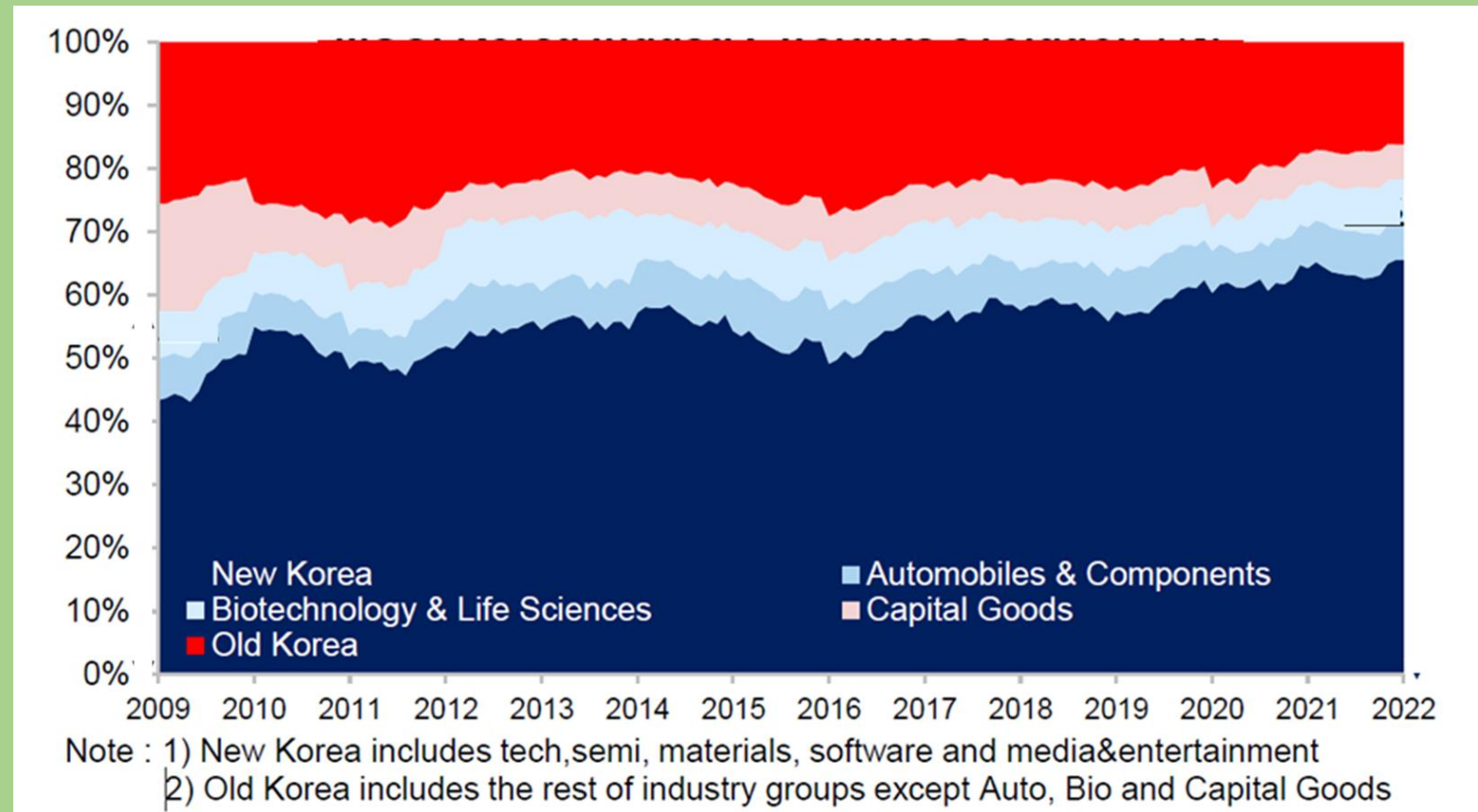
Free implied option on reunification with North Korea

Our portfolio at launch is trading at about 5x P/E 2023 and P/TBV below 0.8x with an average EPS growth of 11% : AN ANOMALY



A universe of securities that lost weight within the Kospi index in the last decade

MSCI KOREA INDUSTRY WEIGHTS EVOLUTION (%)



Growth sectors now represents almost 70% of the Kospi index.

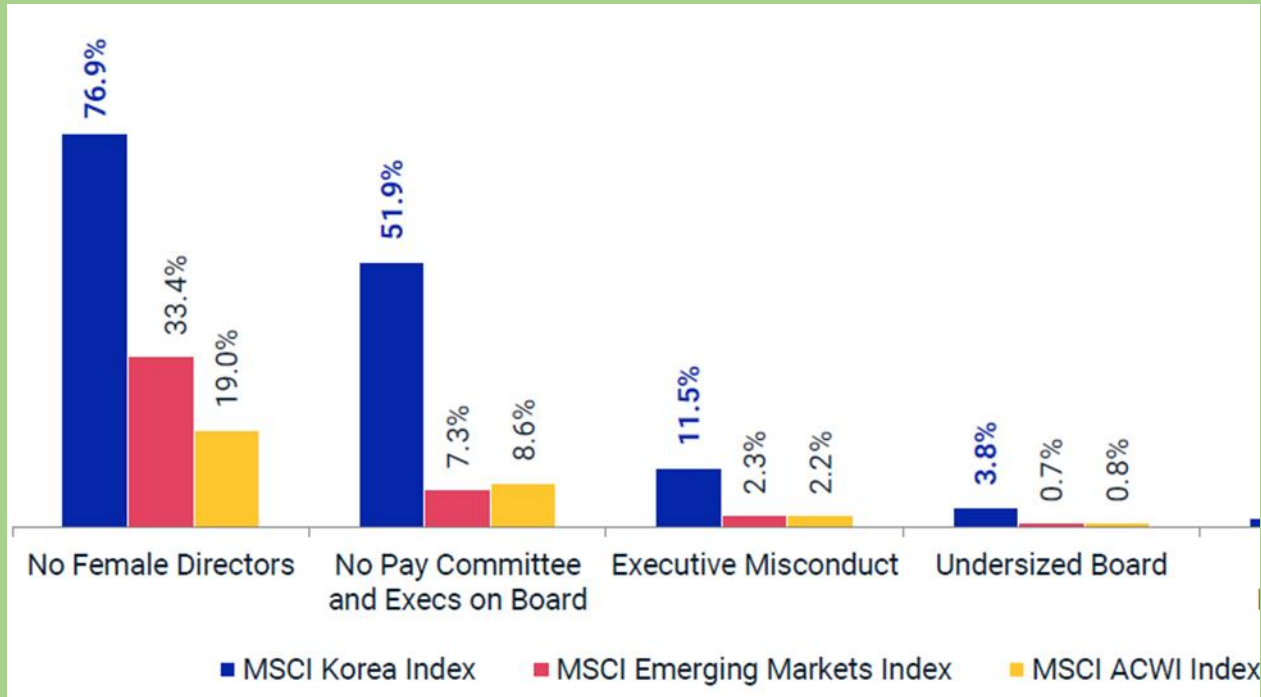
This generates a lot of opportunities for value investors in neglected “Old” economy Korean stocks

Source: FacSet, MSCI, GS

Sustainability: significant room for engagement in Korea

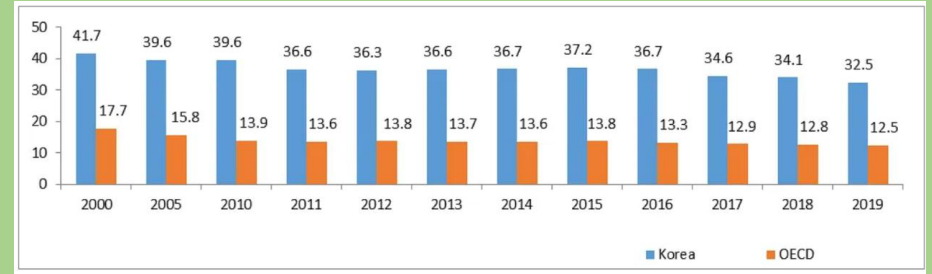


MAIN SOUTH-KOREAN CORPORATE GOVERNANCE ISSUES



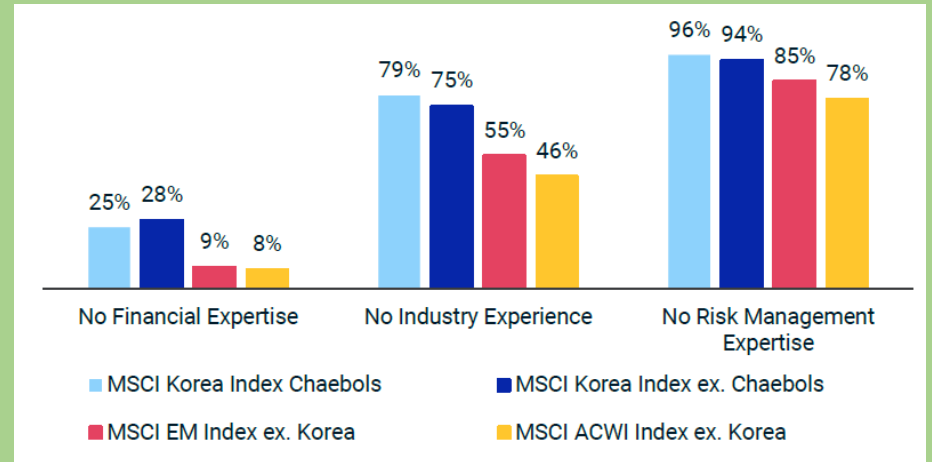
Source: MSCI ESG Research as of 5/03/2020

GENDER WAGE GAP IN KOREA (2000-2019)

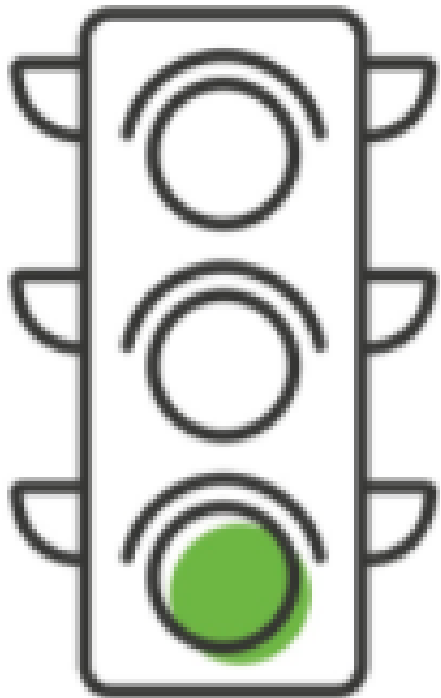


Source: stats.oecd.org

INSUFFICIENT NON-EXECUTIVE DIRECTOR EXPERTISE



The project invests in companies that are instrumental to the achievement one or more sustainable development goals (SDGs) as defined by UN. The project will achieve this positive objective while trying to minimize the negative impact of its investments.



- **The fund will fall under Article 8 of the SFDR** ("light green"), i.e., it will promote, among other things, environmental or social features, provided that the companies in which it invests respect good governance practices
- Exclusion of investments in companies exposed to armaments, tobacco and fossil fuels
- If the project invested in small companies that do not offer sufficient information in terms of sustainability, a documented engagement process will be carried out with the aim of improving sustainability culture and compliance within the investee company
- A scoring system will be used to identify key sustainability risk factors. This analysis will be combined with direct engagement with investee companies when needed
- The fund will seek to invest primarily in securities issued by companies that have a positive "impact" instrumental in achieving the United Nations **Sustainable Development Goals** ("SDGs")

Valuation Gap Report

A Valuation Gap report is published at the launch of the project and updated every 6 months, highlighting the level of potential upside of the portfolio

- This is a document that presents the theoretical fair valuation of the portfolio according to the project manager
- A prudent, systematic, transparent, simple methodology is applied
- The valuation is conducted line by line for each stock
- The fund will return the investors' money once the portfolio valuation target has been reached



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