Private Equity Funds
The Financial Investment Services and Capital Markets Act was revised in Jul. 2015 to streamline the regulatory system for private equity funds and ease regulations regarding the market entry, management and sales of PEFs.

<Key Changes in the Amended Law>
- Reached the number of PEF categories from the previous four to two groups
- Eased regulations on the market entry, management and sales of PEFs
- Strengthened the supervision of PEF investors and managers
- Introduced a system to prevent a possible use of PEFs in expanding or financing large companies

<Key Measures to Facilitate Private Capital Inflow in the Venture Investment Market>
- Incentivize venture capitals with strong performances in attracting private capitals, and expand call options for equity stakes in fund-of-funds
- Provide tax incentives for companies’ VC investments
- Offer incentives (e.g., highly evaluate a large company’s equity investment in VCs in the win-win growth index) and continue deregulation efforts

Venture Capitals
Legal requirements differ for different types of venture capitals in Korea.

VC for SME & Startups
- Defined as a “stock company” under the Commercial Act
- Capital requirement: KRW 20 billion
- Professional requirements (attorneys, accountants, etc.)
- Social credibility requirements

VC for SME Start-ups
- Defined as a “limited company” under the Commercial Act
- No capital requirement (Equity shares of limited partnership company: No less than 1%)
- Professional requirements (attorneys, accountants, etc.)

Source: Small and Medium Business Administration, Jul. 2015

Success Case
Venture Capital
The accumulated amount of fund raised by the “Foreign VC Investment Fund” surpassed the KRW 1 trillion mark as of Jul. 2016.

The Foreign VC Investment Fund is run by foreign VCs on the condition that Korean fund-of-funds makes a capital investment into the fund and reinvest a certain proportion of the fund back into Korean startups.

Altos Ventures, a US venture capital run by a Korean–American CEO, is investing in 29 top Korean venture companies as of Feb. 2017.
Private Equity Fund
Korean private equity funds raised USD 8.7 billion in 2015, up 4% from the previous year, exceeding the 10 trillion mark for the first time ever. The number of new PE/VC capital also hit a record high of 560.

PEF investments reached the highest ever of USD 10.92 billion in 2015, up 161% from 2014. PEF exits amounted to USD 4.95 billion, up 66% YoY.

Venture Capital
As the Korean venture capital market has been rapidly growing by 15.2% over the last 4 years (2013-2016), the amount of new investments recorded USD 1.78 trillion in 2016 replacing the previous year, exceeding the 10 trillion mark for the first time. The number of new PEF capitals also hit a record high of 76.

Venture Capital Fundraising, Investment and Exit Trends
New PEF capital amounted to USD 14.8 billion at the end of 2016, up 15.9% from 2015. The stock of investment sources for venture capital in Korea hit a new record made in 2015.

Investment Exits and Exit Profits by Industry (2015)
By industry, the biotechnology/medical sector earned the highest rate of return at 211.3%, followed by ICT services (168%), games (142.8%), others (132.9%), and distribution/services (111.1%), all of which are higher than the average of 102%.

By growth stage, the rate of return was 68.2% for companies at the early stage (3 years or less), 124.5% at the expansion stage (3-7 years), and 94% at the later stage (7 years or more). Only the companies in the expansion stage were better off than the average.

Exit Profits and Exit Profits by Industry (USD million, no. of companies)
Korea’s Private Equity Fund and Venture Capital Industry

Investment Exits and Exit Profits by Industry (2015)

Investment Exits and Exit Profits by Industry (2015)

New Venture Capital Investment by Year

Competitiveness
Greater Investment Opportunities in the PEF Industry
Korean PEF industry has successfully gone through preparation and takeoff, and now a growing number of firms are withdrawing their investments and developing a distinct competitiveness in their management abilities.

The industry has reached the highest level of growth ever since the inception of relevant institutions by every measure in terms of the size of fundraising, investment and exit.

Booming VC Market
Korea’s venture capital investments are enjoying a boom, breaking the 2000 record during the dot-com bubble for two years in a row in 2015 and 2016.

Venture capital will remain as an attractive investment alternative in this period of prolonged low interest rates and the lack of investable assets.

Strengthen the VC ecosystem
Of the 13 new venture capital firms registered in Korea in 2016, eight companies were established through the investments made by startups or other venture capitals. This is a testament to the industry’s virtuous cycle where investment leads to further growth and reinvestment.

Responding to the Fourth Industrial Revolution
Over the last decade, Korea has recorded higher growth rates than other advanced countries, in terms of the market capitalization of the industries closely related to the Fourth Industrial Revolution such as the software/services, pharmaceutical and biotechnology sectors.