

## Macquarie Korea Infrastructure Fund

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### **MACQUARIE KOREA INFRASTRUCTURE FUND** **Fact Check for the 19 Sep 2018 EGM**

Macquarie Korea Infrastructure Fund (“MKIF”) provides the following fact check for the major misconceptions about MKIF in relation to the Extraordinary General Meeting of Shareholders on 19 September 2018.

#### **Fact Check: Top 10 Misconceptions about MKIF**

##### **1. Are the fees paid to Macquarie Korea Asset Management Co., Ltd. (“Macquarie”) equivalent to 32% of dividends, and therefore excessive? No**

Platform claims that Macquarie’s fees paid by MKIF are excessive as they comprise 32% of distributions paid to shareholders. However, based on the Korea Finance and Investment Association’s published statistics, the average base fees as a % of dividends for 1,651 non-indexed listed equities funds exceeds 100%. Average base fee rate for such funds over the past 12 years comprised 1.63% of NIV<sup>1</sup>, whereas the average dividend yield for all KOSPI stocks was less than 1.60%.

#### Last 1 year fees and returns

(Source: KOFIA website)

	Dividend Yield	Total Return	Fees / Dividend	Fees / Total Return	Fees / NIV
MKIF	7.5%	11.4%	17.8%	11.3%	1.2%
Large-cap Income Funds Avg.	1.4%	7.4%	99.7%	25.2%	1.3%
All Active Listed Equities Funds Avg.	n/a	6.8%	> 100%	21.2%	1.5%
KOSPI Avg.	1.9%	-1.0%	n/a	n/a	n/a

(As of 30 June 2018)

In fact, MKIF’s fees paid to Macquarie over the last year were equivalent to 1.2% of NIV<sup>1</sup>, which is less than the 1.3% average for large-cap income funds and 1.5% average for all 1,651 active listed equities funds. MKIF’s fees as a percentage of dividends was only 17.8% over the last year, substantially less than the 99.7% for large-cap income funds and 100+% for all active listed equities funds. Notably, MKIF’s dividend yield and total return far exceeded these equities funds.

##### **2. Are termination fees payable by MKIF to Macquarie under Macquarie’s management agreement unenforceable? No**

1. Represents market value of Net Investment Value: equivalent to market capitalization + net debt (if applicable)

Upon a change in manager, termination fees under MKIF's management agreement with Macquarie are valid and enforceable. Based on a legal opinion provided by Korea's largest law firm, such fees constitute "liquidated damages" and are therefore enforceable.

Such termination provision has always been publicly disclosed since MKIF's IPO, and more recently has been laid out in detail on page 64 of MKIF's prospectus issued on 12 September 2017.

### **3. Has MKIF not made any investments for the past decade? No**

The following summarizes the history of MKIF's investments deployed to date:

2017~2018년: KRW 120 billion (2 investments)

2007~2013년: KRW 1.13 trillion (7 investments)

2002~2006년: KRW 1.09 trillion (9 investments)

The only years without investment activity were 2014 through 2016, during which period, in response to an increasingly complex regulatory and low interest rate environment, Macquarie obtained a landmark administrative ruling to expand its statutory mandate to cover all public and private infrastructure projects, whereas it was previously limited to government sponsored PPP projects such as toll-road. Also, Macquarie utilized this time to prepare for and successfully execute the first follow-on public offering by a Korean listed fund, allowing MKIF to deploy new investments in 2017 and 2018.

### **4. Are there only 2 Macquarie staff dedicated to MKIF? No**

Macquarie has a total of 27 professionals dedicated to the management of MKIF (12 investment and asset management, 2 investor relations, 5 finance, 4 legal/risk/compliance, 4 operational support). In addition to these dedicated staff, Macquarie has an additional 15 infrastructure professionals located in Korea and 480 globally, whose combined expertise and experience contribute to the successful management of MKIF, which embodies Macquarie's "one firm" management philosophy.

### **5. Has KORAMCO Asset Management Co., Ltd. ("KORAMCO") secured debt commitments of KRW 500 billion which are capable of backstopping any liquidity needs triggered upon a change in manager? No**

KORAMCO has not provided evidence of their receipt of binding debt commitments from any financial institution. KORAMCO, however, has presented evidence of certain financing, which 1) constitute non-binding "expressions of interest", 2) fail to disclose the identity of the provider, and 3) fail to stipulate any terms, including, most importantly, interest rate. Therefore, the authenticity and substance of KORAMCO's claimed financing have yet to be verified. Even if we assume that the proposed expression of interest becomes binding up to KRW 500 billion, it would highly likely be insufficient to service the (i) exercised amount of the appraisal rights, (ii) repayment of the existing outstanding borrowing, (iii) manager termination fee, and (iv) other operating expenses of MKIF, under the legal borrowing limit of MKIF which is 30% of its paid in capital.

### **6. Are infrastructure investment returns de facto government-backed obligations, which means that MKIF is classified as a "passively managed" fund? No**

None of MKIF's assets' investment returns represent government-backed obligations. MKIF is an actively managed fund. MKIF invests primarily in controlling equity stakes, which means that

returns are determined by the success of Macquarie management. This is unlike most Korean infrastructure funds, which primarily invest in project financing and infrastructure debt. There are very few comparable Korean funds that focus on the equity tranches of infrastructure assets.

Minimum revenue guarantees by local governments comprise an insignificant component of MKIF's 9.4% annual returns over the last 12 years. Macquarie is also unaware of any other Korean infrastructure funds that have generated returns near or exceeding those of MKIF. MKIF's returns also far exceed Korean government bond rates, typically ranging between 2~3%. This suggests that MKIF and government bonds are not comparable asset classes.

**7. Will a change in manager guarantee a 40% increase in MKIF's share price? No**

Platform's claim that a change in manager will result in 40% share price appreciation contradicts analysis published by equity research analysts covering MKIF. Such Platform claims also risk breaching Korean capital markets regulations, and we urge investors to take caution and undertake their own independent evaluation prior to making their final decisions.

Analysts, however, do suggest that, based on the fact that MKIF has been trading at a 7~8% dividend yield for the past 12 years, Macquarie's fees of around 1% account for 1/7 to 1/8 of MKIF's value. This, however, also assumes that an alternative manager would be able to generate the same level of returns as achieved by MKIF under Macquarie's management.

**8. Do Macquarie's performance fees restrict further MKIF share price appreciation and decrease dividends? No**

On 10 August 2018, Macquarie announced amendments to MKIF's fee structure which, apply stricter performance fee standards over a longer period. Performance fees are subject to a minimum cash distribution per share of 600 won (based on 2018 real value and to be adjusted for inflation thereafter), which means that Macquarie will not be entitled to receive any performance fees if it would result in failure to achieve this minimum cash distribution to shareholders. Also, performance fees will no longer be payable on a quarterly basis, but will now be payable 1) on an annual basis and 2) paid out in 1/3 installments over a 3-year period. The second and third installments will only be payable if MKIF continues to meet the minimum return hurdle for those years on a cumulative basis.

**9. Will reduction of Macquarie's fees result in lower toll fares for users? No**

Macquarie's management fees have been agreed by shareholders and MKIF prior to MKIF's IPO, and are independent of the toll fare determination process. Toll fares are set following ongoing negotiations with local and central governments and accordingly stated in the Concession Agreement, which take into consideration, among many other factors, the impact on profitability of the project companies that MKIF invests in. As is the case with MKIF shareholder distributions, Macquarie's management fees are paid out of the surplus distributions paid by such project companies to MKIF.

**10. Is "empty voting" lawful, and should shareholders who have only borrowed shares for one day on the record date deserve to be treated equally with all other shareholders who actually own shares? We do not believe so**

Based on legal advice obtained by MKIF, empty voting violates and undermines the spirit and letter of the "1 share 1 vote" corporate democracy as prescribed by the Korean corporate code, the Korean Commercial Code, and the capital markets regulations governing the proxy solicitation

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process. We believe that empty voting not only distorts the majority shareholder opinion, but also deprives those shareholders whose shares have been lent out without their knowing of their right to vote and also may result in substantial financial harm as such shareholders are also deprived of their right to exercise appraisal rights.

We do not believe that Platform or any other shareholder would find it acceptable should Macquarie have engaged in empty voting in order to affect the vote in Macquarie's favor.

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This release does not take into account the investment objectives, financial situation and particular needs of the investor. Before making an investment in MKIF, the investor or prospective investor should consider whether such an investment is appropriate to their particular investment needs, objectives and financial circumstances and consult an investment adviser if necessary.

MKIF or Macquarie Korea Asset Management Co., Ltd.(MKAM) is not an authorised deposit-taking institution for the purposes of the Banking Act 1959 (Commonwealth of Australia). The obligations of this entity do not represent deposits or other liabilities of Macquarie Bank Limited ABN 46 008 583 542 (MBL). MBL does not guarantee or otherwise provide assurance in respect of the obligations of these entities.

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