K-pop ETF creator hopes to woo US investors with Korean star appeal

New thematic ETF investing in firms that manage South Korea's largest pop groups was filed for launch in the U.S. and will be the first outside of Asia

By Lisa Kim | June 29, 2022

Contents Technologies, a South Korea-based intellectual property technology start-up, has partnered with a U.S. exchange-traded fund provider to launch a new K-pop ETF in the U.S.

Exchange Traded Concepts, an Oklahoma-based white-label company with US$8.6 billion in assets under management, **filed** an application for the KPOP ETF in April for approval by the U.S. **Securities and Exchange Commission**. If approved, the fund would mark the first of its kind to be listed in the U.S. or Europe.

The K-pop ETF comprises entertainment and media companies listed in South Korea that have a minimum market capitalisation of W100 billion (US$78 million), according to the filing.

Lee Jang-won, CEO and co-founder of Contents Technologies, believes there is a growing interest among K-pop fans, and retail and institutional investors in investing in South Korea's entertainment industry, which is an engaging theme that is not easy for global investors to access.

"Even if there are some ups and downs, as long as the industry is more of a movement, and as K-pop positions itself as the leader among Asian music fans, I think it's a long-term, upward trend that we're betting on, and therefore, a good theme," Lee says.

Lee, 29, who made the Forbes 30 Under 30 Asia list in 2018, co-founded Contents Technologies in December 2020, and the start-up grabbed headlines in South Korea after it raised W17 billion from pre-series A funding earlier this year.

The K-pop ETF will consist of around 30 companies in an index designed by CT Investments, a wholly owned subsidiary of Contents Technologies. The ETF is likely to have exposure to Hybe, the entertainment agency behind K-pop sensation BTS, YG Entertainment, the agency behind popular girl group Black Pink, and CJ ENM, a media and entertainment company.

The K-pop ETF will invest at least 80% of its net assets in securities of companies in the Kpop index created by CT Investments. The fund will be rebalanced every quarter, according to the SEC filing.

There are currently only three Korean equities themed ETFs listed on U.S. exchanges. These are the **iShares MSCI** South Korea ETF, Franklin **FTSE** South Korea ETF and Direxion Daily MSCI South Korea Bull 3× Shares ETF.

Lee believes that providing more access to Korean equities via the K-pop ETF can help increase the value of entertainment stocks in the country, which are undervalued.

"I think one of the reasons Korean K-pop stocks are undervalued, to a degree, is because fans and global investors aren't able to easily bet on this category," he says.

"The K-pop ETF can help these stocks find the right price," he adds.

The once niche genre, K-pop, has become a multibillion-dollar cash cow, with various revenue streams such as albums, concerts and souvenirs, and has even tapped into the world of non-fungible tokens, or NFTs.

The estimated economic effect of a single BTS concert held post Covid stands at W1.2 trillion, according to the state-run Korea Culture and Tourism Institute.

Thematic funds have also been rising in popularity, with global assets in these strategies more than tripling to US$806 billion over the three years ending in 2021, according to **Morningstar** data.

Lee hopes that in the best-case scenario, the marriage between the interest in K-pop and thematic ETFs could help the product attract upwards of US$10 billion.

But not long after Exchange Traded Concepts filed to launch the K-pop-focused ETF, South Korea's music and entertainment industry stocks were hit by an unexpected bombshell.

In a pre-recorded video released on June 14, the seven band members of BTS gathered around a dining table munching on snacks before suddenly announcing, "we're going on a hiatus now".

The announcement immediately hit the stock market the following day. Shares of the band's successful management agency, Hybe, plummeted around 27% on the morning of June 15, according to the **Korea Exchange** data.

On the same day, the only K-pop ETF listed in South Korea, the NH-Amundi Hanaro K-pop & Media ETF, which has more than a 20% portfolio allocation to Hybe, fell around 7%, according to the Korea Exchange data.

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"It is highly likely that a military conscription was indirectly described as a hiatus," Lee Ki-hoon, a Seoul-based Hana Financial Investment analyst, said in a research note on June 15.

Lee put Hybe's revenue estimate for 2023 at W1.6 trillion and operating profit at W200 billion.

Contents Technologies' Lee says BTS's decision was "definitely a shock" but adds that the timing has been fortunate considering the ETF has not yet been launched.

"The first thing that came to mind was, thank God it didn't happen after we listed," he says, pointing to the fact that Hybe has clawed back losses from the nose-dive recorded on the morning of June 15.

Nevertheless, Hybe's shares have fallen 58% year to June 24, massively underperforming the broader Kospi's 21% loss, according to the Korea Exchange data.

While numerous K-pop bands have a global fanbase, BTS remains hugely influential, making history across music charts, Guinness World Records and awards ceremonies like the Grammy's.

Reflecting the band's appeal in the U.S., BTS visited the White House briefing room in May this year to speak against anti-Asian hate crimes.

But Contents Technologies' Lee says "K-pop is larger than BTS, for sure" and that the industry will continue to thrive with major entertainment agencies SM, JYP and YG producing top K-pop bands.

"I think K-pop is more than a category or a genre. It's more like a pronoun," he adds.

Some ETF experts are sceptical about the potential success of the K-pop ETF, saying it is a narrow strategy created due to hyper-competition in the thematic fund landscape.

"There might be some people who might look at this strategy as an investment. But in my opinion, a K-pop ETF consisted of Korean entertainment and media companies is too narrow," says an ETF expert at a global asset manager who did not wish to be named.

Another ETF specialist cautions that retail investors must perform due diligence when picking a specific theme, review the investment rationale and examine how the stocks were selected.

Besides the one K-pop ETF listed in South Korea, there are two ETFs that track media companies. The two are **Mirae Asset** Tiger Media Contents ETF and **Samsung** Kodex Media & Entertainment ETF.

The three strategies posted minus 33% in median returns in the past six months as of June 24, according to Korea Exchange data.

Lee defends the lacklustre performance of the three K-pop and media ETFs, claiming that data show Contents Technologies' K-pop ETF performed "substantially better" against the market in backtesting.

"A big part of K-pop income stream comes from concerts, which has been near zero in the last two years. With concerts coming back, I'm pretty optimistic," Lee says.

Some ETF experts say most white-label ETFs do not perform well due to a lack of resources for the marketing and distribution push strategies need to succeed in the competitive market.

Lee admits that how ETFs fare in the market in part depend on marketing power and experience.

"But it also depends on the uniqueness of the product, and whether there are alternatives," he adds.

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