OPINION

Nam, Chaewoo

Implications of Policies to Revitalize the Venture Investment Market through Private Capital Inflows

The government aims to realize its goal of "becoming one of the world's four leading venture powerhouses" by transitioning the public-led market structure to a private-sector-centered one through expanded participation of statutory funds and retirement pensions, as well as the establishment of a 150 trillion won National Growth Fund. By providing private investors with incentives for risk sharing and profit maximization, it can offer an efficient investment vehicle to access the high returns of the venture capital market, which has been difficult to access until now. The National Growth Fund is expected to play a pivotal role in securing flexibility in capital deployment and immediacy in achieving policy objectives through efficient role division and collaboration with existing policy funds.

Statutory funds and retirement pensions have significant potential to contribute to the venture market as high-quality patient capital. The 67 statutory funds should consider venture investment as part of alternative investments to enhance returns and diversify risks, and make efforts to convert them into medium-risk, medium-return investment vehicles with a fund-of-funds structure to control their high-risk attributes. While defined benefit retirement pensions can actively pursue venture investments through the allowance of outsourced chief investment officer services even under the current contract-based governance structure, defined contribution retirement pensions, whose investment decision-making is fragmented, require prior governance restructuring for collective management and regulatory relaxation. A sophisticated and phased inflow strategy should be pursued, such as including illiquid alternative assets in the underlying assets of target date funds, which are eligible products for default options.

* All opinions expressed in this paper represent the author's personal views and thus should not be interpreted as Korea Capital Market Institute's official position.

* Ph.D., Senior Research Fellow, Fund & Pension Department, Tel: 82-2-3771-0827, E-mail: zeuss@kcmi.re.kr

The government's venture investment promotion, pursued as a policy package, represents a desirable policy direction that can facilitate the renewed leap forward of Korea's venture ecosystem, but market-friendly implementation that considers the unique attributes of individual private capital must be a prerequisite. To prevent side effects such as valuation issues due to temporary oversupply of investment funds and moral hazard among venture capitalists, phased capital deployment based on market absorption capacity and strengthened discipline on asset managers centered on long-term performance must be supported. By concurrently expanding exit infrastructure such as M&A and secondary markets, Korea should lead qualitative advancement beyond quantitative growth of the domestic venture investment market.

Introduction

The government is pursuing multifaceted policy efforts to expand private capital inflows into Korea's venture capital market, which has been driven by public funds, under the goal of "leaping forward to become one of the world's top four venture powerhouses." Expanding venture investments by statutory funds and retirement pension funds was presented as a presidential campaign pledge, and a substantial portion of the 150 trillion won National Growth Fund is expected to function as a catalyst for private capital inflows into the venture market. The Business Development Company(BDC), which passed the National Assembly in August 2025 and is scheduled to be implemented from March of this year, is also expected to facilitate private capital inflows, including individual investors, into the venture capital market. If these government policies are swiftly promoted and effectively implemented, the domestic venture ecosystem is expected to establish a foundation for a new leap forward, at least in terms of capital supply and demand.

In fact, activating the venture ecosystem has been a policy agenda pursued without exception by all previous governments. However, this administration's market activation policy is differentiated in that it represents a proactive response to transform Korea's venture capital market, which has been led by public funds, into one centered on private capital. The purpose is to create a venture ecosystem substantially led by private capital by expanding the range of investors from domestic venture capital markets centered on public funds of funds[1] based on government finances to include pension funds, financial institutions, and individuals. To incentivize private participation, the basic direction of government policy aims for a structure in which the government absorbs a substantial portion of the risks associated with venture investments while private investors take most of the returns from successful investments. This serves as an incentive mechanism for voluntary private participation and also provides an efficient investment vehicle for accessing the high profitability of the venture capital market, which has been difficult for private entities or individuals to access until now.

Against this backdrop, this study examines the main contents of various government policies aimed at expanding private capital inflows into the venture capital market promoted under the new administration, and seeks to summarize policy implications for the efficient implementation of these policy measures. While government policies promoted simultaneously across multiple fronts can be expected to create synergistic effects as a kind of policy package in terms of market supply and demand, from the perspective of general partners(GPs), the concentrated fund formation and competitive operating environment create circumstances in which it becomes more difficult to secure quality investment opportunities. Accordingly, concerns have been raised that venture funds formed in vintage years when private capital inflows are concentrated may be liquidated with performance below expectations. From this perspective, it is necessary to understand the fundamental attributes of private capital required by recent government policies to expand venture investments, and based on this, to present a mid- to long-term roadmap for policy implementation. Venture investment requires quality patient capital that flows in continuously. For the domestic venture capital market, which faces difficulties in both quantity and quality of capital, to take a leap forward, it is important that an appropriate scale of capital flows in continuously and is allocated efficiently.

National Growth Fund: Achieving Flexible and Immediate Policy Objectives

Last year, the government announced a plan through the National Growth Fund Public

1) The implementation of policy funds generally takes the form of a fund-of-funds structure, with Korea Venture Investment Corporation(KVIC) and the Agricultural Policy Insurance and Finance Service being representative public fund-of-funds operators. Although the nature of their capital sources differs, the market perceives venture fund investments through fund-of-funds structures by policy financial institutions such as Korea Growth Investment Corporation(K-Growth) and public pension funds represented by the National Pension Service as part of government-operated public funds-of-funds implemented through government policy.

Briefing to raise over 150 trillion won in funding over the next five years to support advanced strategic industries and the overall venture ecosystem.[2)] The 150 trillion won fund will be financed by government budget, public and private pension funds, financial institutions, and public participation funds, and is planned to support ten advanced strategic industries including artificial intelligence, semiconductors, biotechnology, future mobility, robotics, hydrogen, displays, and defense, as well as the overall venture ecosystem. Examining the fund disbursement method, two-thirds of the total funding(100 trillion won) will be provided as policy financing in the form of loans such as infrastructure project financing or ultra-low-interest loans, while the remaining 50 trillion won will be provided as investment-based financial support, meaning equity investments in companies or fund commitments. This includes all funding needs required at each growth stage of venture companies, from equity investment-based venture capital for early-stage startups to large-scale private debt for scale-up purposes.

Table 1. Scale of National Growth Fund Support by Funding Method(5-year basis)

(Unit: Trillion won)

By Type		Direct Investment	Indirect Investment	Infrastructure Investment/Loan	Ultra-Low-Interest Loan
Scale	Total	15.0	35.0	50.0	50.0
	Fund	7.5	7.5	10.0	50.0
	Private	7.5	27.5	40.0	-

Source: Financial Services Commission

This year, KRW 10 trillion out of the total KRW 30 trillion National Growth Fund is planned to flow into the market through direct or indirect investment methods. This includes financial support in the form of an integrated package for mega-projects in advanced strategic industries,[3)] along with the venture capital market represented by venture investment. Support for AI transformation in manufacturing, support across the entire value chain, and support for regional growth and scale-up companies overlap with existing policy funds(industrial sector funds) of individual government ministries, including the Fund of Funds managed by the

2) Financial Services Commission, 2025. 9. 10, KRW 150 Trillion National Growth Fund for Korea's Economic Rebound, Press release.

3) The government defines semiconductors, secondary batteries, vaccines, displays, hydrogen, future mobility, bio, artificial intelligence, defense, and robotics as the 10 major advanced strategic industries through the Advanced Strategic Industries Act and other legislation.

Ministry of SMEs and Startups. Therefore, the National Growth Fund Task Force emphasizes inter-ministerial collaboration to ensure efficient support by distinguishing the scope from industrial sector funds for industrial development of each ministry. For example, while the Fund of Funds plays a role in fostering early-stage venture companies, the National Growth Fund focuses on scaling up the advanced strategic industry ecosystem and large-scale infrastructure(facility investment). Along with this division of roles, collaboration measures such as matching investment from the National Growth Fund may be considered when individual ministries' industrial sector funds have large-scale promising investment cases.

To summarize the above discussion, the National Growth Fund can function as an immediate and flexible policy fund that can be executed with top priority to achieve the policy objective of revitalizing the venture ecosystem. In contrast, statutory funds and retirement pension reserves, which will be discussed later, are funds that can flow into the market in earnest only after an effective investment market is established and the effectiveness of investment vehicles is confirmed to some extent. Meanwhile, the financing and investment execution of the National Growth Fund are closely linked to policies for expanding venture investment by statutory funds and retirement pensions. Currently, while the National Growth Fund is proceeding with concrete implementation plans such as direct and indirect investment at a rapid pace in terms of fund execution,[4)] the feasibility of raising private capital, which accounts for 79% of the total mother fund, remains unclear in terms of financing. Venture investment by statutory funds through the National Growth Fund can be divided into participation as a limited partner(LP) in the mother fund and contribution as an LP in sub-funds.

Statutory Funds: Alternative Investment Vehicles for Medium- to Long-term Asset Allocation

Statutory funds refer to policy-oriented funds established under relevant laws with financial sources from government budgets, proprietary operations, and levies to fulfill specific policy objectives as part of government fiscal activities. Currently, there are 67 statutory funds in

4) For example, the National Growth Fund announced seven mega-projects to be prioritized as target projects for direct investment, infrastructure investment and financing, and ultra-low interest loans, and publicly announced the selection of four fiscal fund-of-funds managers for operating general policy funds and public participation funds through indirect investment methods, targeting asset management companies with fund-of-funds management track records and assets under management of KRW 1 trillion or more.

Korea, including the National Pension Fund, and surplus funds are managed through traditional assets such as stocks and bonds, as well as alternative assets including venture investments, according to each fund's asset allocation plan. In managing surplus funds of statutory funds, venture investment is part of alternative investment executed from the perspective of investment diversification to enhance returns and distribute risk. While the purpose of alternative investment and the role of alternative assets differ across individual funds, they generally aim to improve risk-adjusted returns within a medium-risk, medium-return structure positioned between stocks and bonds.

Therefore, for statutory funds to flow into the venture investment market in earnest, efforts are needed to transform the commonly perceived high-risk, high-return nature of venture investment into a medium-risk, medium-return investment vehicle. Direct investment in individual venture companies is inherently ultra-high-risk investment, but investment in venture funds(sub-funds) that diversify across multiple venture companies through indirect investment can be classified as relatively controlled high-risk, high-return investment. Fund-of-funds(mother funds) that diversify investments across such venture funds can be considered medium-risk, medium-return alternative investment vehicles, at least in terms of return volatility.[5] Therefore, the substantial risk that statutory funds executing venture investments in this structure must bear is liquidity risk, as higher returns relative to risk are attributable to illiquidity premium. Mother funds have a lifespan of over 10 years and are mostly designed as closed-end funds that are non-redeemable. The Trade Insurance Fund's venture investment, known as the first case of statutory fund venture investment through the Public Fund Investment Pool, was also a case of participating as an LP in a mother fund focused on secondary investments managed by Korea Venture Investment Corporation(KVIC). Except for some pension-type funds, LP investment at the sub-fund level represents a risk level difficult for most statutory funds to bear, so an open-end fund-of-funds(mother fund) structure that allows redemption would be a suitable investment vehicle.

Regarding the types of statutory funds, most operational funds are not only small to medium-sized but also manage most or all of their capital as short-term funds with maturities of less than one year, making alternative investments(venture investments) premised on

5) According to Korea Venture Investment Corporation(KVIC), the realized return on a fund-of-funds basis for the public Fund of Funds demonstrates a medium-risk, medium-return structure at approximately 8%.

illiquidity premium unsuitable. The type with high potential for inflow into the venture investment market would be financial funds. Despite many financial funds such as K-SURE, KODIT, and KIBO being large-scale funds with substantial assets under management, their portfolio composition has been relatively conservative; however, active investment diversification including alternative investments is currently being pursued due to recent changes in supervisory ministries.[6] For large funds adopting OCIO-style delegated management that have not yet made separate asset allocations for venture investment, more active venture investment incentives are possible through amendments to relevant laws and regulations.[7] The Public Fund Investment Pool system, established for efficient management of statutory funds, has recently expanded its target institutions to public entities such as state-owned enterprises, with assets under management exceeding 60 trillion won, making it an effective policy tool for channeling statutory funds into the venture market. The Public Fund Investment Pool has already established an asset class called "venture investment co-invested with the Fund of Funds" separately from existing alternative assets within the investment pool's investable asset classes to expand venture investment.

The key point in expanding venture investment by statutory funds is that different approaches are needed by fund type. Large funds capable of participating as LPs in venture funds need to be incentivized to newly establish or increase the proportion of venture investment in their own asset allocation process, while financial funds and others need to activate investment vehicles in the form of fund-of-funds such as mother fund LPs using the Public Fund Investment Pool. The inflow of retirement pension reserves into the venture market, pursued for the same policy objectives, presents yet another different aspect.

Retirement Pensions: Gradually Expanding High-Quality Patient Capital

The type of capital suitable for venture investment is so-called high-quality patient capital. The management of pension assets, which presupposes long-term investment, precisely

6) A recent example of this is the case of the Korea Trade Insurance Corporation Fund, which participated as a mother fund LP in the ‘LP First Step Fund of Funds’ jointly operated by the Investment Pool and Korea Venture Investment Corporation(KVIC) through the Pension Fund Investment Pool.

7) For example, in the case of the Radioactive Waste Management Fund, despite its AUM exceeding KRW 5 trillion and being managed through a dedicated investment manager(OCIO), no separate capital allocation to venture investments has yet been implemented.

corresponds to this. Korea's venture ecosystem has also relied mostly on the National Pension Fund to serve as a catalyst for venture investment, excluding policy funds. This is the background for promoting the inflow of retirement pension reserves into the venture market. As of the end of 2025, Korea's retirement pension system, which has been in place for 20 years since its introduction, has grown externally into massive reserves of 450 trillion won. However, in terms of reserve management, most funds are allocated to principal-guaranteed products(deposits), and low returns in the early 2% range are being noted due to restrictive operational regulations. Therefore, the necessity of channeling retirement pension reserves into the venture market should be presented from the perspective of building a diversified risk portfolio to enhance returns from the supplier's(retirement pension) standpoint, not from the demander's(venture ecosystem) perspective.

Currently, retirement pensions not only have a negligible investment proportion in risk assets such as listed stocks,[8] but direct investment in unlisted stocks is prohibited regardless of the system type, so the inflow of retirement pensions into the venture market can be considered fundamentally blocked. However, given that pension asset management basically aims for indirect investment utilizing external experts, a policy to channel retirement pensions into the venture market can be pursued by actively developing collective investment vehicles(funds) in the form of indirect or fund-of-funds structures for unlisted stocks and utilizing them. In other words, the key to expanding retirement pension venture investment is providing appropriate investment vehicles, and it is emphasized that the process must be very gradual, considering the fragmented nature of decision-making authority in retirement pension reserve management. This means it is not a matter that can be comprehensively promoted through IPS revision like expanding venture investment by statutory funds. In order to secure investor confidence in venture investment and realize such gradual investment expansion, efforts to rationally reform the governance structure and operational regulations of the current retirement pension system must precede.

Since the operational characteristics of DB-type and DC-type(including IRP) retirement pensions are very different, the strategy for expanding retirement pension venture investment also needs to be discussed by system type. In terms of governance structure, the situation

8) Nam, Chaewoo(2024), According to the research ‘Long-term Projections of Retirement Pension Reserves and Capital Market Impact’, the asset allocation ratio of retirement pension reserves to domestic stocks is less than 1.6%.

differs between the current contract-type system and the fund-type governance structure currently being discussed for introduction. DB-type reserves are structured so that companies are responsible for investment performance and manage them, so in principle, it can be interpreted that there are no direct regulatory restrictions on venture investment. This is because under current laws and supervisory regulations, DB-type plans only prohibit direct investment in unlisted stocks, while indirect investment through venture funds is not institutionally impossible. Considering the high risk-aversion tendency of DB reserves, various forms of efficient fund-of-funds structured venture investment vehicles mentioned earlier should be actively presented.

In the case of DC-type and IRP, since individuals bear investment risk, measures are needed to simultaneously pursue stability and enhanced investment convenience. In the long term, fund-type retirement pensions that operate pooled funds should be introduced, but even under the current contract-type governance structure, the presentation of new financial products and related institutional reforms should be implemented in parallel to enable retirement pensions to make venture investments. Representative examples include publicly offered private equity fund-of-funds that incorporate multiple venture funds and the utilization of recently introduced Business Development Companies(BDCs). Looking at overseas cases, movements are observed to expand illiquid alternative assets, including venture investment, as underlying assets of asset allocation funds such as TDFs.[9] Given that asset allocation funds are utilized as major eligible products for default options, a strategy to expand retirement pension venture investment through them may be more effective.

Conclusion

The government's policy initiative to promote venture investment consists of a policy package comprising the expansion of venture investments by statutory funds, the inflow of retirement pension reserves into the venture market, and the facilitation of private capital inflows through the National Growth Fund. While all these policies aim to expand the supply of capital to venture and innovative companies, they differ fundamentally in terms of the nature of capital, risk-bearing entities, and execution methods. Given the necessity of fostering a risk

9) For example, the United Kingdom introduced the Long-Term Asset Fund(LTAF) regime to promote alternative investments by pension funds.

capital market in the national economy, the policy direction of promoting a resurgence of the venture ecosystem by attracting various forms of private capital is desirable. However, the implementation of such government policies must be pursued through a rational and market-friendly structure that fully considers the inherent characteristics of private capital.

When a policy mix with the same objective is implemented simultaneously and aggressively without sufficient coordination, a temporary excess in capital supply may occur in the venture market. Since the supply of quality venture companies eligible for venture investment is difficult to expand in the short term, there is a high likelihood of rapid increases in corporate valuations as capital supply concentrates on limited investment targets. While such valuation increases are initially perceived as investment activation, they may subsequently lead to failures in securing follow-on investments or delays in exits, resulting in deteriorating fund performance and capital inefficiency. As policy funds become more abundant and loss-cushioning structures are strengthened, the possibility of moral hazard among venture capitalists also increases. Problems such as relaxed investment screening standards, risk transfer to public funds, relationship-based investment increases, and short-term performance distortions may arise.

Specific policy management mechanisms must be devised to mitigate these side effects. First, it is necessary to gradually adjust the scale of funds injected into the market through the policy package and manage execution based on market absorption capacity. Annual execution targets should be flexibly set in conjunction with quality investment opportunities rather than based simply on monetary amounts. Strengthened discipline regarding fund managers and investment quality is required. When allocating policy funds, performance evaluation indicators should be designed around long-term exit performance and risk management metrics rather than short-term execution rates. Infrastructure development for the exit market must be reinforced. Without concurrent measures such as M&A activation, listing system improvements, and secondary market development, temporary capital excess may lead to market bottlenecks. From this perspective, a strategy of utilizing retirement pension reserves as patient capital that gradually expands as long-term investment assets, rather than aggressively deploying them during short-term overheating periods, is desirable. If a phased approach tailored to the nature of capital, strict governance, and expansion of exit infrastructure are implemented in parallel, this policy package pursued from multiple directions could become a turning point leading to a structural leap forward for our venture ecosystem.