

KOREA FUND INC
Form N-CSRS
February 23, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES
Investment Company Act file number 811-04058

The Korea Fund, Inc.
(Exact name of registrant as specified in charter)

1633 Broadway, New York, NY 10019
(Address of principal executive offices) (Zip code)

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Lawrence G. Altadonna

1633 Broadway,

New York, New York 10019

(Name and address of agent for service)

Registrant's telephone number, including area code: 212-739-3371

Date of fiscal year end: June 30, 2017

Date of reporting period: December 31, 2016

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Item 1. Report to Shareholders

Semi-Annual Report

December 31, 2016

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The Korea Fund, Inc. Portfolio Manager's Report

December 31, 2016 (unaudited)

During the six-month period from July 1, 2016 to December 31, 2016, the MSCI Korea (Total Return) Index rose by 9.83% in Korean Won terms and 4.74% in US Dollar terms. The Korean market advanced in the third quarter as investors believed that interest rates would stay lower for longer in the wake of Brexit. In the fourth quarter of 2016, the Korean market corrected on the influence peddling scandal surrounding President Park, South Korea's President, and later recovered as the market reacted to the rally in the US equities market following Donald Trump's election as US President.

In late October, the Korean media revealed that President Park's confidante Ms. Choi Soon Sil, who did not hold any office, had exerted undue influence in various government policies. There were suspicions that some corporates were pressured to donate funds to Ms. Choi's foundations, and later received favors from the government. Investor sentiment was hurt by the political uncertainty and worries that major business groups might be implicated in the scandal. Despite President Park's formal apologies, the scandal escalated and led to a massive public demonstration demanding her resignation. Although President Park refused to step down immediately, she was eventually impeached by the national assembly.

Donald Trump's surprise victory in the US presidential election was probably the most important macro development during the period under review. It introduced plenty of uncertainty regarding future US trade, foreign relations, and fiscal and monetary policies. Given President Trump's policy on tax cuts, strong fiscal spending and a more hawkish monetary stance, US bond yields rose significantly and Korean bond yields followed suit.

In the face of the rising threat from North Korea, the South Korean government in July decided to install Terminal High Altitude Area Defense (THAAD), a US army anti-ballistic missile system. China criticized this decision and expressed its belief that THAAD would help the US monitor missile activities in China and hurt China's security interests. It was suspected that China has since taken a number of measures to retaliate against Korea, including restrictions of Korean movie/TV shows in China, and reduction of outbound tourism to Korea.

At a more detailed level, the technology sector was a major driver of the Korean market's gain. Products such as memory chips and display panels enjoyed better pricing following improvements in their supply-demand balance. Banking was the other strong performer. As a result of declining interest rates, banks' interest margins had been under pressure for the past few years. They seemed to have stabilized from the third quarter of 2016, as banks became more selective in lending and had some success in holding up their lending rates.

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The Korea Fund, Inc. Portfolio Manager's Report

December 31, 2016 (unaudited) (continued)

Fund's Performance

From July 1, 2016 to December 31, 2016, the total return of The Korea Fund, Inc.'s (the Fund) Net Asset Value (NAV) was -0.80% (net of fees) in US Dollar terms, underperforming the Fund's benchmark MSCI Korea (Total Return) Index, which returned 4.74%.

Performance Attribution Review

Over the reporting period, stock selection in the financials and industrials sectors contributed to the Fund's underperformance versus its benchmark. In the financial sector, the Fund's performance was hurt by holdings in insurers Dongbu Insurance and Samsung Fire & Marine, following the latter's surprise announcement to voluntarily cut auto insurance premiums. The announcement raised concerns of a potential heightening of competition between auto insurers, which could lead to a reversal of the current positive underwriting cycle. In addition, the Korean market's rotation out of defensive names following the spike in market interest rates drove down the share price of consumer stocks such as Coway, a promoter of air purifier and water filtration devices, and KT&G Corporation, a tobacco and ginseng company. In the industrial sector, the share price of Hanwha Techwin, a manufacturer of aircraft engines, ground defense systems, and military radar and communications systems, was hit by worries that the domestic political scandal would lead to delays in government orders.

Positive contributors over the period include SK Hynix, a semiconductor manufacturer, based on the improved supply-demand balance in the semiconductor industry. The Fund's position in Hyundai Development, a residential housing developer, also contributed to its performance on the back of a solid housing market and delivery of strong quarterly earnings. The underweight position in the cosmetics sector helped performance, as China-related stocks underperformed as a result of investor concern over China's retaliation against Korea's installation of THAAD.

Outlook

The impeachment of President Park is being reviewed by Korea's Constitutional Court. If the Court upholds the impeachment, a new presidential election would be held within 60 days. In that case, a candidate from the opposition Minjoo Party would likely win the next presidency, in our view. At this time, it is not clear what, if any, major policy changes would be made. Traditionally, the Minjoo Party is more left leaning and anti-chaebol (chaebols are large family-controlled business conglomerate structures in South Korea).

During his campaign, President Trump voiced support for renegotiating trade agreements he deemed unfair to the US, and had specifically criticized the US-Korea Free Trade Agreement. If the US were to pursue more protectionist trade policies, Korean exporters, especially auto and

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The Korea Fund, Inc. Portfolio Manager's Report

December 31, 2016 (unaudited) (continued)

technology companies, may be negatively affected. On the other hand, if President Trump carried through on his pledge to aggressively cut taxes and increase fiscal spending, the resulting fiscal deficits could push up bond yields. Under that scenario, we believe Korea bond yields would likely follow, which would have implications on the outlook and valuation of various sectors.

We will continue to monitor these policy developments in the coming months and adjust the portfolio accordingly. We intend to continue to look for companies with earnings improvement and at a reasonable valuation.

The information contained herein has been obtained from sources believed to be reliable but the investment manager and its affiliates do not warrant the information to be accurate, complete or reliable. The opinions expressed herein are solely those of the Fund's Portfolio Manager and are subject to change at any time and without notice. Past performance is not indicative of future results. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Investors should consider the investment objectives, risks, charges and expenses of any mutual fund carefully before investing. This and other information is contained in the Fund's annual and semiannual reports, proxy statement and other Fund information, which may be obtained by contacting your financial advisor or visiting the Fund's website at www.thekoreafund.com.

This information is unaudited and is intended for informational purposes only. It is presented only to provide information on investment strategies and opportunities. The Fund seeks long-term capital appreciation through investment in securities, primarily equity securities, of Korean companies. Investing in non-U.S. securities entails additional risks, including political and economic risk and the risk of currency fluctuations, as well as lower liquidity. These risks, which can result in greater price volatility, will generally be enhanced in less diversified funds that concentrate investments in a particular geographic region. The Fund is a closed-end exchange traded management investment company. This material is presented only to provide information and is not intended for trading purposes. Closed-end funds, unlike open-end funds, are not continuously offered. After the initial public offering, shares are sold on the open market through a stock exchange, where shares may trade at a premium or a discount. Holdings are subject to change daily.

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December 31, 2016 (unaudited)

Total Return⁽¹⁾	Six Month	1 Year	5 Year	10 Year
Market Price	-0.40%	1.10%	0.62%	0.56%
Net Asset Value (NAV)	-0.80%	2.64%	0.97%	0.30% ⁽²⁾
MSCI Korea (Total Return) ⁽³⁾	4.74%	8.75%	2.59%	2.50%
MSCI Korea (Price Return) ⁽³⁾	3.42%	6.98%	1.29%	1.24%
KOSPI ⁽⁴⁾	-1.92%	0.31%	1.15%	0.84%

Premium (Discount) to NAV:

December 31, 2006 to December 31, 2016

Industry Breakdown (as a % of net assets):**Market Price/NAV:**

Market Price	\$31.88
NAV ⁽⁵⁾	\$36.06
Discount to NAV	-11.59%

Ten Largest Holdings (as a % of net assets):

Samsung Electronics Co., Ltd. Manufacturer of electronic parts	24.3%
SK Hynix, Inc. Manufacturer of memory and non-memory semiconductors	8.0%
Coway Co., Ltd. Engaged in the provision of water purifiers	5.4%
Hyundai Development Co. Civil engineering and architecture construction businesses	4.8%
Samsung Fire & Marine Insurance Co., Ltd. Insurance company specialized in non-life insurance business	4.4%
Dongbu Insurance Co., Ltd. Provider of a variety of non-life insurance services	4.1%
Kangwon Land, Inc. Casino and hotel services provider	3.9%
Hanwha Techwin Co., Ltd. Engaged in surveillance, aeronautics, optoelectronics, automations and weapons technology businesses	3.7%
Samsung Life Insurance Co., Ltd. Insurance company specialized in life insurance business	3.7%
Hankook Tire Co. Ltd. Manufacturer and distributor of tires	3.4%

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The Korea Fund, Inc. Performance & Statistics

December 31, 2016 (unaudited) (continued)

Notes to Performance & Statistics:

- (1) **Past performance is no guarantee of future results.** Total return is calculated by determining the percentage change in NAV or market price (as applicable) in the specified period. The calculation assumes that all dividends and distributions, if any, have been reinvested. Total return does not reflect broker commissions or sales charges in connection with the purchase or sale of Fund shares. Total return for a period of more than one year represents the average annual total return. Total return for a period of less than one year is not annualized.
Performance at market price will differ from results at NAV. Although market price returns typically reflect investment results over time, during shorter periods returns at market price can also be influenced by factors such as changing views about the Fund, market conditions, supply and demand for the Fund's shares, or changes in the Fund's dividends.
An investment in the Fund involves risk, including the loss of principal. Total return, market price and NAV will fluctuate with changes in market conditions. This data is provided for information purposes only and is not intended for trading purposes. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one-time public offering and once issued, shares of closed-end funds are traded in the open market through a stock exchange. NAV is equal to total assets less total liabilities divided by the number of shares outstanding. Holdings are subject to change daily.
- (2) See Note 8 in the Notes to Financial Statements.
- (3) Morgan Stanley Capital International (MSCI) Korea Index is a market capitalization-weighted index of equity securities of companies domiciled in Korea. The index is designed to represent the performance of the Korean stock market and excludes certain market segments unavailable to U.S. based investors. The MSCI Korea (Total Return) returns assume reinvestment of dividends (net of foreign withholding taxes) while the MSCI Korea (Price Return) returns do not and, unlike Fund returns, do not reflect any fees or expenses. It is not possible to invest directly in an index. Total return for a period of more than one year represents the average annual return. Total return for a period of less than one year is not annualized.
- (4) The Korea Composite Stock Price Index (KOSPI) is an unmanaged capitalization-weighted index of all common shares on the Stock Market Division of the Korea Exchange (formerly the Korea Stock Exchange). The KOSPI returns, unlike Fund returns, do not reflect any fees or expenses. It is not possible to invest directly in an index. Total return for a period of more than one year represents the average annual return. Total return for a period of less than one year is not annualized.
- (5) The NAV disclosed in the Fund's financial statements may differ from this NAV due to accounting principles generally accepted in the United States of America.

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December 31, 2016 (unaudited)

Shares		Value
COMMON STOCK 98.6%		
Aerospace & Defense 8.0%		
251,500	Hanwha Techwin Co., Ltd.	\$ 9,038,729
149,143	Korea Aerospace Industries Ltd.	8,251,491
35,953	LIG Nex1 Co., Ltd.	2,393,673
		19,683,893
Auto Components 3.8%		
172,903	Hankook Tire Co., Ltd.	8,312,424
120,810	Hanon Systems	1,028,816
		9,341,240
Banks 7.4%		
134,800	Hana Financial Group, Inc.	3,479,194
193,570	KB Financial Group, Inc.	6,840,657
206,952	Shinhan Financial Group Co., Ltd.	7,760,939
		18,080,790
Construction & Engineering 4.8%		
314,867	Hyundai Development Co.	11,697,718
Electronic Equipment, Instruments & Components 0.5%		
46,148	LG Display Co., Ltd.	1,197,349
Food & Staples Retailing 4.6%		
54,400	BGF retail Co., Ltd.	3,682,955
49,240	E-MART, Inc.	7,456,249
		11,139,204
Hotels, Restaurants & Leisure 3.9%		
320,457	Kangwon Land, Inc.	9,482,496
Household Durables 7.5%		
180,012	Coway Co., Ltd.	13,157,959
31,147	Hanssem Co., Ltd.	5,120,579
		18,278,538
Insurance 14.0%		
195,650	Dongbu Insurance Co., Ltd.	10,129,176
129,200	Hyundai Marine & Fire Insurance Co., Ltd.	3,363,064
104,550	Korean Reinsurance Co.	986,140
48,485	Samsung Fire & Marine Insurance Co., Ltd.	10,773,188
96,440	Samsung Life Insurance Co., Ltd.	8,976,187
		34,227,755

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Machinery 3.0%		
152,740	Hyundai Elevator Co., Ltd. (b)	7,250,054
Media 2.5%		
131,500	Innocean Worldwide, Inc.	6,197,807
Metals & Mining 2.8%		
17,520	Korea Zinc Co., Ltd.	6,891,461
Oil, Gas & Consumable Fuels 0.4%		
7,900	SK Innovation Co., Ltd.	956,042
Semiconductors & Semiconductor Equipment 8.0%		
535,181	SK Hynix, Inc.	19,692,562

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December 31, 2016 (unaudited) (continued)

Shares		Value
	Technology Hardware, Storage & Peripherals 24.3%	
40,019	Samsung Electronics Co., Ltd.	\$ 59,560,760
	Tobacco 2.1%	
59,980	KT&G Corp.	5,017,315
	Wireless Telecommunication Services 1.0%	
13,730	SK Telecom Co., Ltd.	2,544,732
	Total Investments (cost \$174,479,341) (a) 98.6%	241,239,716
	Other assets less liabilities 1.4%	3,512,910
	Net Assets 100.0%	\$244,752,626

Notes to Schedule of Investments:

- (a) Securities with an aggregate value of \$241,239,716, representing 98.6% of net assets, were valued utilizing modeling tools provided by a third-party vendor. See Note 1(a) and Note 1(b) in the Notes to Financial Statements.
- (b) Non-income producing.
- (c) Fair Value Measurements See Note 1(b) in the Notes to Financial Statements.

	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs	Value at 12/31/16
Investments in Securities Assets				
Common Stock	\$	\$ 241,239,716	\$	\$ 241,239,716

At December 31, 2016, there were no transfers between Levels 1 and 2.

See accompanying Notes to Financial Statements 12.31.16 The Korea Fund, Inc. Semi-Annual Report

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The Korea Fund, Inc. Statement of Assets and Liabilities

December 31, 2016 (unaudited)