

KOREA FUND INC  
Form N-CSRS  
February 25, 2016  
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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**  
**(Address of principal executive offices)**

**10019**  
**(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, 2016**

**Date of reporting period: December 31, 2015**

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**Item 1. Report to Shareholders**

Semi-Annual Report

December 31, 2015

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**The Korea Fund, Inc. Portfolio Manager's Report**

December 31, 2015 (unaudited)

Over the six-month period ending December 31, 2015, the MSCI Korea Index (Total Return) declined by 2.28% in Korean Won (KRW) terms and 7.04% in US Dollar (USD) terms, as a result of slower than expected growth in both the Korean and global economies. The Korea Fund, Inc.'s (the Fund) US Dollar performance was weaker in this period as capital outflows and the rise in US interest rates led to a depreciation of the Korean Won.

During the summer of 2015, the Korean economy was negatively affected by MERS (Middle East Respiratory Syndrome). Domestic consumption was hurt as consumers avoided crowded areas such as hyper markets and department stores. The tourism industry was hurt even more as many group tours were canceled and there was no recovery until after September. Facing yet another slowdown in the economy, the Bank of Korea cut its policy rate to a record low of 1.5%.

In the second half of the calendar year, rising expectations of an US rate hike increasingly put downward pressure on emerging market currencies and financial markets. Despite its sound financial system and strong current account surplus, Korea was not immune and saw its currency depreciate with heightened volatilities. With the growth outlook deteriorating, outflows from the equity market were significant. Throughout 2015, Korea's export growth was in negative territory, and for the full year was down by 7.9%. Major export products including steel, auto, display panels and machinery all saw a sharp decline due to a slowdown in many emerging market economies. While many heavy industries suffered, there were bright spots. Cosmetics exports, for example, grew by 54% in 2015. Korean cosmetics have been gaining popularity in the region for some time and demand is accelerating as Asian middle class income continues to grow. Meanwhile, imports into Korea declined by 17% in 2015 partly due to the acute fall in oil prices. This resulted in a record high US\$90.4 billion current account surplus that expanded by 91% from the previous year and amounted to over 7% of Korea's GDP.

Since 2014, the Korean government has implemented policies to boost the housing market, in the hope that it would provide much needed support to the domestic economy. Activities in the housing market did recover with a strong pick-up in transaction volume while prices also registered modest gains. However, in view of the continued growth in domestic household debt and a potential rise in US interest rates, the government announced a new set of mortgage policies in July 2015. This mainly includes: 1) shifting to fixed rates/principal amortizing loans from current variable rates/bullet-type loans; 2) focusing more on the borrowers' ability to repay the loan in addition to collateral value and incorporating principal of other debts in the assessment of creditworthiness. These regulations are scheduled to be implemented in January 2016. In the fourth quarter of 2015, the government tightened mortgage lending further by introducing debt-to-income and debt-to-value restrictions for the first time in provincial cities. These policies slowed down the recovery in the housing market, but we believe in the longer term should improve credit quality of mortgages in the banking system.

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### **The Korea Fund, Inc. Portfolio Manager's Report**

December 31, 2015 (unaudited) (continued)

#### **Fund's Performance**

During the period from July 1, 2015 to December 31, 2015, the total return of the Fund on Net Asset Value ( NAV ) basis was -11.43% (net of fees) in USD terms. The market price performance was down 10.11% during the reporting period, closing at USD31.85 per share, representing a discount of 10.16% to NAV. The Fund's NAV price underperformed the benchmark by 4.39% during the period. Holdings in the construction sector contributed to the underperformance, as share prices corrected sharply on concerns over a cyclical downturn in the housing market. Exposure to the technology sector also hurt performance as memory chip prices fell due to weaker than expected demand from personal computers and smartphones. On the other hand, the Fund's investments in cosmetics and insurance stocks contributed positively to returns.

#### **Market Outlook**

As in many other countries, low interest rates have benefitted asset prices in Korea including those of real estate and equities. We expect monetary policy in Korea to remain accommodative. Whilst the Federal Reserve has started raising interest rates, it is unlikely for the Bank of Korea (BOK) to immediately follow. The headline inflation, currently at 1.3%, is still below the BOK's target. In addition, the Korean Won has been quite firm against other emerging market currencies, which may give the BOK another reason to refrain from raising rates given the already weak exports.

The Renminbi's small devaluation in August 2015 brought additional worries about the prospects of Korean exports. This concern has intensified following the Renminbi's accelerated depreciation in recent months. We believe a continued depreciation of the Renminbi would put downward pressure on the Korean Won. Moreover, it might signal worse than expected weakness in the Chinese economy and therefore negative implications for Korean exports. There would also be a secondary impact as Korea also exports to many emerging economies that depend on Chinese demand.

On the domestic front, one of brighter spots in the economy has been the housing market, especially in the Seoul metropolitan area. Whilst the housing market recovery lost some momentum towards the end of 2015 on concerns over tighter mortgage policies and rising supply, we believe the medium term outlook remains positive. Although apartment presale volume was indeed high during the year, the units launched had been well absorbed by the market. Moreover, after construction companies pushed out much of their inventory accumulated during the market downturn in prior years, unit supply in 2016 is expected to fall significantly. On the other hand, rents remain high and continue to put pressure on tenants to buy their own homes. Given that housing price increases have been moderate and price income ratios are still low, the risk of a severe downturn in the housing market seems limited in our view. Barring an economic crisis in Asia, we believe the housing market recovery is likely to resume after a period of consolidation.

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**The Korea Fund, Inc. Portfolio Manager's Report**

December 31, 2015 (unaudited) (continued)

Given the challenging macro picture, it looks increasingly important for Korea to implement structural reforms in order to secure longer term growth. In our view, an obvious area where reform is needed is corporate governance. The government has introduced various initiatives and regulations to change Korean chaebols' opaque ownership holdings and low regard for minority shareholders' interests. In 2014, Korea's National Assembly passed the Tax Revision Bill, which lowered tax rates on dividend income and introduced a new 10% tax on undistributed earnings. At the same time, the National Pension Service, the largest institutional investor in Korea, also started to be more vocal in demanding corporate governance improvement. As a result, there was a notable increase in capital return during the past year, in the form of higher dividends and share buybacks. We expect this trend to continue in 2016, although it will take time before Korea can match other Asian markets in the level of capital return.

The labor market is another area where we believe reform is needed. Rigid employment contracts and strong labor unions contribute to relatively high wage levels in the country. In the auto industry, for instance, Korean workers earn 25% higher wages than their Japanese peers. The high wages encourage companies to use more part-time workers who enjoy little job security. While labor reform has always been politically controversial in Korea, the government made some progress by allowing wage ceilings for senior workers. This helps companies allocate more resources towards rewarding younger or more productive workers, instead of having to pay top salaries to those with long tenure. If the government can continue with this policy direction and make the labor market more flexible, we believe it would help the corporate sector regain some competitiveness, as well as improve income distribution in the workforce.

*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](http://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*

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**The Korea Fund, Inc. Portfolio Manager's Report**

December 31, 2015 (unaudited) (continued)

*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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**Table of Contents****The Korea Fund, Inc. Performance & Statistics**

December 31, 2015 (unaudited)

<b>Total Return<sup>(1)</sup></b>	<b>Six Month</b>	<b>1 Year</b>	<b>5 Year</b>	<b>10 Year</b>
Market Price	-10.11%	-2.80%	-1.22%	2.00%
Net Asset Value ( NAV )	-11.43%	-4.06%	-1.36%	1.10% <sup>(2)</sup>
MSCI Korea (Total Return) <sup>(3)</sup>	-7.04%	-6.66%	-1.66%	2.86%
MSCI Korea (Price Return) <sup>(3)</sup>	-8.05%	-7.94%	-2.78%	1.63%
KOSPI <sup>(4)</sup>	-10.05%	-4.02%	-1.54%	2.06%

**Premium (Discount) to NAV:**

December 31, 2005 to December 31, 2015

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

Market Price	\$31.85
NAV <sup>(5)</sup>	\$35.45
Discount to NAV	-10.16%

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

Samsung Electronics Co., Ltd. Manufacturer of electronic parts	19.8%
SK Hynix, Inc. Manufacturer of memory and non-memory semiconductors	6.6%
LG Household & Health Care Ltd. Manufacturer of household goods, cosmetics and beverages	5.9%
Hyundai Development Co. Civil engineering and architecture construction businesses	5.8%
Dongbu Insurance Co., Ltd. Provider of a variety of non-life insurance services	5.3%
Coway Co., Ltd. Engaged in the provision of water purifiers	5.0%
Samsung Fire & Marine Insurance Co., Ltd. Insurance company specialized in the non-life insurance business	4.6%
Shinhan Financial Group Co., Ltd. Provider of financial products and services	4.4%
SK Telecom Co., Ltd. Provider of wireless communication services	3.9%
Hotel Shilla Co., Ltd. Operates hotels and duty free shops	3.7%



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**The Korea Fund, Inc. Notes to Performance & Statistics**

December 31, 2015 (unaudited) (continued)

- (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. 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 due to accounting principles generally accepted in the United States of America.

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December 31, 2015 (unaudited)

Shares		Value
<b>COMMON STOCK 95.4%</b>		
<b>Aerospace &amp; Defense 3.1%</b>		
57,043	Korea Aerospace Industries Ltd.	\$ 3,765,563
45,353	LIG Nex1 Co., Ltd. (b)	4,003,271
		7,768,834
<b>Auto Components 2.4%</b>		
83,834	Halla Visteon Climate Control Corp.	3,681,663
62,203	Hankook Tire Co., Ltd.	2,481,013
		6,162,676
<b>Automobiles 2.9%</b>		
49,070	Hyundai Motor Co.	6,188,891
25,048	Kia Motors Corp.	1,116,890
		7,305,781
<b>Banks 6.1%</b>		
433,590	DGB Financial Group, Inc.	3,693,765
23,000	KB Financial Group, Inc.	647,997
335,952	Shinhan Financial Group Co., Ltd.	11,285,215
		15,626,977
<b>Capital Markets 1.0%</b>		
69,800	Samsung Securities Co., Ltd.	2,449,715
<b>Construction &amp; Engineering 5.8%</b>		
452,350	Hyundai Development Co.	14,781,939
<b>Construction Materials 1.9%</b>		
50,293	Hanil Cement Co., Ltd.	4,507,606
33,600	Sungshin Cement Co., Ltd. (b)	263,333
		4,770,939
<b>Food &amp; Staples Retailing 1.4%</b>		
24,300	BGF retail Co., Ltd.	3,517,946
<b>Food Products 1.5%</b>		
3,877	Orion Corp.	3,829,554
<b>Hotels, Restaurants &amp; Leisure 3.1%</b>		
241,107	Kangwon Land, Inc.	7,869,342
<b>Household Durables 5.9%</b>		
178,431	Coway Co., Ltd.	12,704,634
11,990	Hanssem Co., Ltd.	2,349,365

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<b>Household Products 5.9%</b>		
16,953	LG Household & Health Care Ltd.	15,053,971
<b>Industrial Conglomerates 1.7%</b>		
73,700	LG Corp.	4,430,284
<b>Insurance 11.6%</b>		
225,900	Dongbu Insurance Co., Ltd.	13,515,930
104,300	Hyundai Marine & Fire Insurance Co., Ltd.	3,195,755
104,550	Korean Reinsurance Co.	1,257,068
44,785	Samsung Fire & Marine Insurance Co., Ltd.	11,707,071
		29,675,824

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**Table of Contents****The Korea Fund, Inc. Schedule of Investments**

December 31, 2015 (unaudited) (continued)

Shares		Value
	<b>Internet &amp; Catalog Retail 5.0%</b>	
406,263	Interpark Corp.	\$ 7,868,923
529,883	Interpark Holdings Corp.	4,939,586
		12,808,509
	<b>IT Services 1.2%</b>	
14,334	SK C&C Co., Ltd.	2,920,480
	<b>Metals &amp; Mining 0.3%</b>	
1,940	Korea Zinc Co., Ltd.	772,699
	<b>Oil, Gas &amp; Consumable Fuels 0.6%</b>	
22,000	S-Oil Corp.	1,473,697
	<b>Semiconductors &amp; Semiconductor Equipment 6.6%</b>	
654,891	SK Hynix, Inc.	16,917,758
	<b>Specialty Retail 3.7%</b>	
142,175	Hotel Shilla Co., Ltd.	9,309,492
	<b>Technology Hardware, Storage &amp; Peripherals 19.8%</b>	
47,263	Samsung Electronics Co., Ltd.	50,409,858
	<b>Wireless Telecommunication Services 3.9%</b>	
54,860	SK Telecom Co., Ltd.	10,040,375
	Total Common Stock (cost \$188,547,603)	242,950,649
	<b>RIGHTS 0.0%</b>	