

KOREA FUND INC
Form N-CSR
August 30, 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: June 30, 2016

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Item 1. Report to Shareholders

Annual Report

June 30, 2016

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The Korea Fund, Inc. Portfolio Manager's Report

June 30, 2016 (unaudited)

During the fiscal year from July 1, 2015 to June 30, 2016, the MSCI Korea (Total Return) Index fell by 0.33% in Korean Won terms and 3.48% in US Dollar terms. The KOSPI Index, with higher exposure to small and mid-cap stocks, fell by 5.01% and 8.01% in Korean Won and US Dollar terms, respectively. The market's decline was driven by a number of external factors. Firstly, expectations of rising US interest rates led to a strong US Dollar against many emerging market currencies, thus prompting outflows from emerging equity markets to which Korea was not immune. Secondly, the Renminbi started to depreciate following a few years of steady appreciation. The pace of depreciation accelerated in the summer of 2015 and early 2016, causing fears that China might pursue competitive devaluation. Given China is Korea's largest trading partner, a weaker Renminbi would have negative implications for the Korean economy. Thirdly, China's economic slowdown, together with Saudi Arabia's changes in crude production strategy, led to price weakness across a broad range of commodities including crude oil. As a result, economies highly dependent on China or commodities faced a significant slowdown in growth. As a result of weak external demand and lower commodity prices, Korea's exports registered a decline of 10.8% in the second half of 2015, and 10.0% in the first half of 2016.

Given weak global demand, oversupply was seen in a number of sectors including semiconductor, auto, display panels and shipping. In particular, there was significant financial distress in the shipping and shipbuilding industries, and in some cases debt restructuring was required or considered. So far, state-owned banks have borne the brunt of the credit costs, and the hit to private sector banks have not been as serious. However, if the economic deterioration continues, there will be a higher risk that levels of non-performing loans will rise at private sector banks as well.

The summer of 2015 marked a reversal of the housing market in Korea. During the first half of 2015, housing transaction volumes rose significantly while prices also saw modest gains, supported by rising rents and record low interest rates. However, the stronger housing market was accompanied by faster growth in mortgage loans, and the government became concerned about the household debt increase. In July 2015, the Korean government introduced a set of new policies aimed at tightening housing loans. This dealt a blow to market sentiment and housing transactions declined in the subsequent months, although prices remained largely stable. During the first five months of 2016, nationwide housing transactions fell by 18.8% compared to the same period last year.

Fund's Performance

From July 1, 2015 to June 30, 2016, the total return of The Korea Fund, Inc.'s (the Fund) Net Asset Value (NAV) was -8.35% (net of fees) in USD terms, underperforming the Fund's benchmark MSCI Korea (Total Return) Index, which returned -3.48%.

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The Korea Fund, Inc. Portfolio Manager's Report

June 30, 2016 (unaudited) (continued)

Over the reporting period, stock selection in the technology and consumer discretionary sectors contributed to the Fund's underperformance. The slowdown in personal computer and mobile phone shipments were worse than we expected, which led to weak memory chip prices and drove down the share price of SK Hynix, one of the world's largest memory chipmakers. In the consumer sector, the Fund was hurt by holdings in Hotel Shilla, a duty free store and hotel operator. In late 2015 the government surprisingly granted duty free licenses to new operators, increasing the number of duty free stores in downtown Seoul. The concerns over intensified competition led to a sharp decline in Hotel Shilla's share price. In the industrial sector, Hyundai Development, a local residential housing developer, also detracted from performance as sentiment in the housing market soured on tighter government regulation and increasing supply.

Positive contributors over the period include LG Household & Healthcare, whose cosmetics products continued to enjoy solid demand from Chinese consumers. The company's household goods and beverage division also benefited from improving profit margins. Investment in BGF Retail, a convenience store operator, added to performance as the company expanded its store network and grew same store sales amid increasing single person household customers.

Outlook

We continue to hold a cautious view on Korea's export outlook, as global demand is unlikely to recover in the near term. In our view, there are pockets of strength in the technology industry where new products such as OLED display panels and 3D NAND memory chips drive strong demand. Petroleum products are also seeing healthy demand as the low crude oil prices stimulated more consumption. But for many traditional export sectors such as auto, ships and steel, we believe the demand outlook remains problematic.

On the domestic front, we believe the medium term outlook of the housing market is still positive. The Bank of Korea cut the interest rate by 25bps to 1.25% in June 2016, and may cut further in the second half of 2016. The record low interest rates, combined with rising rents, should provide support to housing demand, in our view. Moreover, housing prices are still reasonable relative to household income and mortgage payment burden. Given the weak economy and the upcoming Presidential election in 2017, we believe the government is unlikely to over-regulate the housing market, which has a meaningful impact on domestic demand.

In view of the highly uncertain macro outlook, the Fund expects to maintain a relatively defensive stance in the near term. We continue to look for companies with earnings improvement and reasonable valuation. We also favor those companies with dominant positions in their industries and relatively stable cash flows.

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The Korea Fund, Inc. Portfolio Manager's Report

June 30, 2016 (unaudited) (continued)

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.

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

June 30, 2016 (unaudited)

Total Return⁽¹⁾	1 Year	5 Year	10 Year
Market Price	-8.75%	-3.09%	1.95%
Net Asset Value (NAV)	-8.35%	-2.99%	1.53% ⁽²⁾
MSCI Korea (Total Return) ⁽³⁾	-3.48%	-2.48%	3.05%
MSCI Korea (Price Return) ⁽³⁾	-4.88%	-3.50%	1.90%
KOSPI ⁽⁴⁾	-8.01%	-2.76%	2.28%

Premium (Discount) to NAV:

June 30, 2006 to June 30, 2016

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

Market Price	\$32.33
NAV ⁽⁵⁾	\$36.68
Discount to NAV	-11.86%

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

Samsung Electronics Co., Ltd. Manufacturer of electronic parts	23.0%
Coway Co., Ltd. Engaged in the provision of water purifiers	6.8%
SK Hynix, Inc. Manufacturer of memory and non-memory semiconductors	6.0%
Hyundai Development Co. Civil engineering and architecture construction businesses	5.9%
Dongbu Insurance Co., Ltd. Provider of a variety of non-life insurance services	5.3%
KT&G Corp. Producer of tobacco products	5.1%
Kangwon Land, Inc. Casino and hotel services provider	4.5%
Samsung Fire & Marine Insurance Co., Ltd. Insurance company specialized in the non-life insurance business	4.3%
Hankook Tire Co., Ltd. Manufacturer and distributor of tires	4.0%
SK Telecom Co., Ltd. Provider of wireless communication services	3.8%

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The Korea Fund, Inc. Performance & Statistics

June 30, 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.
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.
- (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.
- (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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June 30, 2016

Shares		Value
COMMON STOCK 96.5%		
Aerospace & Defense 5.1%		
36,420	Hanwha Techwin Co., Ltd.	\$ 1,548,652
135,743	Korea Aerospace Industries Ltd.	8,702,812
34,353	LIG Nex1 Co., Ltd. (c)	2,919,216
		13,170,680
Auto Components 5.5%		
228,903	Hankook Tire Co., Ltd.	10,183,978
419,170	Hanon Systems	3,836,216
		14,020,194
Banks 3.0%		
23,000	KB Financial Group, Inc.	654,026
212,952	Shinhan Financial Group Co., Ltd.	6,999,520
		7,653,546
Commercial Services & Supplies 1.2%		
55,800	KEPCO Plant Service & Engineering Co., Ltd.	3,154,776
Construction & Engineering 5.9%		
433,450	Hyundai Development Co.	15,037,513
Electronic Equipment, Instruments & Components 1.5%		
167,600	LG Display Co., Ltd.	3,880,531
Food & Staples Retailing 2.0%		
27,200	BGF retail Co., Ltd. (c)	5,064,493
Hotels, Restaurants & Leisure 4.5%		
320,457	Kangwon Land, Inc.	11,627,791
Household Durables 7.2%		
190,431	Coway Co., Ltd.	17,339,234
8,590	Hanssem Co., Ltd.	1,196,377
		18,535,611
Industrial Conglomerates 1.1%		
38,700	LG Corp.	2,152,177
4,134	SK Holdings Co., Ltd.	730,680
		2,882,857
Insurance 11.1%		
225,900	Dongbu Insurance Co., Ltd.	13,597,033
104,300	Hyundai Marine & Fire Insurance Co., Ltd.	2,659,600
104,550	Korean Reinsurance Co.	1,112,285

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48,485	Samsung Fire & Marine Insurance Co., Ltd.	11,136,023
		28,504,941
	Machinery 1.6%	
76,200	Hyundai Elevator Co., Ltd. (c)(d)	4,129,245
	Metals & Mining 0.3%	
1,940	Korea Zinc Co., Ltd.	860,291
	Oil, Gas & Consumable Fuels 5.5%	
125,800	S-Oil Corp.	8,336,656
45,700	SK Innovation Co., Ltd.	5,630,888
		13,967,544

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

June 30, 2016 (continued)

Shares		Value
	Personal Products 2.2%	
5,818	LG Household & Health Care Ltd.	\$ 5,681,596
	Semiconductors & Semiconductor Equipment 6.0%	
542,391	SK Hynix, Inc.	15,434,810
	Specialty Retail 0.9%	
37,475	Hotel Shilla Co., Ltd. (c)	2,223,433
	Technology Hardware, Storage & Peripherals 23.0%	
47,263	Samsung Electronics Co., Ltd.	58,859,032
	Tobacco 5.1%	
110,100	KT&G Corp.	13,039,691
	Wireless Telecommunication Services 3.8%	
51,460	SK Telecom Co., Ltd.	9,667,623
	Total Common Stock (cost \$168,633,093)	247,396,198
	SHORT-TERM INVESTMENTS 3.9%	
	Collateral Invested for Securities on Loan (b) 3.9%	
9,822,428	BlackRock T-Fund, Institutional Class (cost \$9,822,428)	9,822,428
	Total Investments (cost \$178,455,521) (a) 100.4%	257,218,626
	Liabilities in excess of other assets (0.4%)	(929,434)
	Net Assets 100.0%	\$256,289,192

Notes to Schedule of Investments:

- (a) Securities with an aggregate value of \$247,396,198, representing 96.5% 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) Purchased with cash collateral received from securities on loan.
- (c) A portion of securities on loan with an aggregate value of \$9,384,046; cash collateral of \$9,822,428 was received with which the Fund invested in the BlackRock T-Fund Institutional Class.
- (d) Non-income producing.
- (e) 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 6/30/16
Investments in Securities Assets				
Common Stock	\$	\$ 247,396,198	\$	\$ 247,396,198
Collateral Invested for Securities on Loan	9,822,428			9,822,428
Totals	\$ 9,822,428	\$ 247,396,198	\$	\$ 257,218,626

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At June 30, 2016, there were no transfers between Levels 1 and 2.

Securities Lending Transactions Accounted for as Secured Borrowings:

	Remaining Contractual Maturity of the Agreements As of June 30, 2016				Total
	Overnight and Continuous	Up to 30 days	30 - 90 days	Greater than 90 days	
Securities Lending Transactions					
Common Stock	\$ 9,822,428	\$	\$	\$	\$ 9,822,428
Gross amount of recognized liabilities for securities lending transactions					\$ 9,822,428

See accompanying Notes to Financial Statements 06.30.16 The Korea Fund, Inc. Annual Report 7

Table of Contents**The Korea Fund, Inc. Statement of Assets and Liabilities**

June 30, 2016

Assets:	
Investments, at value, including securities on loan of \$9,384,046 (cost \$178,455,521)	\$257,218,626
Cash	918,833
Foreign currency, at value (cost \$9,570,956)	9,655,337
Dividends receivable (net of foreign withholding taxes)	174,856
Securities lending income receivable, including income from invested cash collateral (net of rebates)	27,784
Prepaid expenses and other assets	166,681
Total Assets	268,162,117
Liabilities:	
Payable for collateral for securities on loan	9,822,428
Payable for investments purchased	1,527,573
Investment management fees payable	154,414
Accrued expenses and other liabilities	368,510
Total Liabilities	11,872,925
Net Assets	\$256,289,192
Net Assets:	
Common Stock:	
Par value (\$0.01 per share, applicable to 6,987,896 shares issued and outstanding)	\$69,879
Paid-in-capital in excess of par	203,065,171
Dividends in excess of net investment income	(216,537)
Accumulated net realized loss	(25,478,037)
Net unrealized appreciation	78,848,716
Net Assets	\$256,289,192
Net Asset Value Per Share	\$36.68

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Table of Contents**The Korea Fund, Inc. Statement of Operations**

Year ended June 30, 2016

Investment Income:

Dividends (net of foreign withholding taxes of \$765,178)	\$3,785,253
Securities lending income, including income from invested cash collateral (net of rebates)	251,067
Interest (net of foreign withholding taxes of \$1,355)	8,950
Total Investment Income	4,045,270

Expenses:

Investment management	2,043,259
Directors	387,966
Legal	299,670
Insurance	158,216
Custodian and accounting agent	139,285
Audit and tax services	109,083
Stockholder communications	39,221
Transfer agent	25,121
New York Stock Exchange listing	23,837
Miscellaneous	45,083
Total Expenses	3,270,741
Net Investment Income	774,529

Realized and Change in Unrealized Gain (Loss):

Net realized loss on:

Investments	(2,755,565)
Foreign currency transactions	(35,707)
Payments from Affiliates (See Note 9)	23,127

Net change in unrealized appreciation/depreciation of:

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Investments	(27,590,029)
Foreign currency transactions	131,047
Net realized and change in unrealized loss	(30,227,127)
Net Decrease in Net Assets Resulting from Investment Operations	\$(29,452,598)

See accompanying Notes to Financial Statements 06.30.16 The Korea Fund, Inc. Annual Report 9

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	Year ended June 30, 2016	Year ended June 30, 2015
Investment Operations:		
Net investment income (loss)	\$774,529	\$(175,924)
Net realized gain (loss)	(2,768,145)	18,069,387
Net change in unrealized appreciation/depreciation	(27,458,982)	(40,798,793)
Net decrease in net assets resulting from investment operations	(29,452,598)	(22,905,330)
Distributions to Stockholders from Net Realized Gains	(31,317,886)	
Common Stock Transactions:		
Cost of shares repurchased	(12,398,811)	(25,782,648)
Total decrease in net assets	(73,169,295)	(48,687,978)
Net Assets:		
Beginning of year	329,458,487	378,146,465
End of year*	\$256,289,192	\$329,458,487
*Including dividends in excess of net investment income of:	\$(216,537)	\$(955,359)
Shares Activity:		
Shares outstanding, beginning of year	7,353,874	7,988,733
Shares repurchased	(365,978)	(634,859)
Shares outstanding, end of year	6,987,896	7,353,874

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The Korea Fund, Inc. Notes to Financial Statements

June 30, 2016

1. Organization and Significant Accounting Policies

The Korea Fund, Inc. (the Fund) is registered under the Investment Company Act of 1940 and the rules and regulations thereunder, as amended, as a closed-end, non-diversified management investment company organized as a Maryland corporation, and accordingly, follows the investment company accounting and reporting guidance of the Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 946 Financial Services Investment Companies. Allianz Global Investors U.S. LLC (AllianzGI U.S. or the Investment Manager) serves as the Fund's investment manager. AllianzGI U.S. is an indirect, wholly-owned subsidiary of Allianz Asset Management of America L.P. (AAM). AAM is an indirect, wholly-owned subsidiary of Allianz SE, a publicly traded European insurance and financial services company. The Fund has authorized 200 million shares of common stock with \$0.01 par value.

The Fund's investment objective is to seek long-term capital appreciation through investment in securities, primarily equity securities, of Korean companies. There can be no assurance that the Fund will meet its stated objective.

The preparation of the Fund's financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) requires the Fund's management to make estimates and assumptions that affect the reported amounts and disclosures in the Fund's financial statements. Actual results could differ from those estimates.

In the normal course of business, the Fund enters into contracts that contain a variety of representations that provide general indemnifications. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred.

In June 2014, the FASB issued an Accounting Standards Update (ASU) 2014-11 that expands secured borrowing accounting for certain repurchase agreements. ASU 2014-11 also sets forth additional disclosure requirements for certain transactions accounted for as sales, in order to provide financial statement users with information to compare to similar transactions accounted for as secured borrowings. ASU 2014-11 became effective for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The Fund has adopted the ASU. The financial statements have been modified to provide enhanced disclosures surrounding secured borrowing transactions, if any. See the Notes to Schedule of Investments for additional details.

The following is a summary of significant accounting policies consistently followed by the Fund:

(a) Valuation of Investments

Portfolio securities and other financial instruments for which market quotations are readily available are stated at market value. Market value is generally determined on the basis of official closing prices, last reported sales prices, or if no sales or closing prices are reported, on the basis of quotes obtained from a quotation reporting system, established market makers, or independent pricing services. Investments in mutual funds are valued at the net asset value per share (NAV) as reported on each business day.

Portfolio securities and other financial instruments for which market quotations are not readily available, or for which a development/event occurs that may significantly impact the value of a security, are fair-valued, in good faith, pursuant to procedures established by the Board of Directors (the Board), or persons

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acting at their discretion pursuant to procedures established by the Board. The Fund's investments are valued daily and the Fund's NAV is calculated as of the close of regular trading (normally 4:00 p.m. Eastern Time) on the New York Stock Exchange (NYSE) on each day the NYSE is open for business using prices supplied by an independent pricing service or broker/dealer quotations, or by using the last sale or settlement price on the exchange that is the primary market for such securities, or the mean between the last bid and ask quotations. For foreign equity securities (with certain exceptions, if any), the Fund fair values its securities daily using modeling tools provided by a statistical research service. This service utilizes statistics and programs based on historical performance of markets and other economic data (which may include changes in the value of U.S. securities or security indices).

Short-term debt instruments maturing in 60 days or less are valued at amortized cost, if their original term to maturity was 60 days or less, or by amortizing premium or discount based on their value on the 61st day prior to maturity, if the original term to maturity exceeded 60 days.

Investments initially valued in currencies other than the U.S. dollar are converted to the U.S. dollar using exchange rates obtained from pricing services. As a result, the NAV of the Fund's shares may be affected by changes in the value of currencies in relation to the U.S. dollar. The value of securities traded in markets outside the United States or denominated in currencies other than the U.S. dollar may be affected significantly on a day that the NYSE is closed. The prices used by the Fund to value securities may differ from the value that would be realized if the securities were sold and these differences could be material to the Fund's financial statements.

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The Korea Fund, Inc. Notes to Financial Statements

June 30, 2016 (continued)

1. Organization and Significant Accounting Policies (continued)

(b) Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (*i.e.*, the exit price) in an orderly transaction between market participants. The three levels of the fair value hierarchy are described below:

Level 1 quoted prices in active markets for identical investments that the Fund has the ability to access

Level 2 valuations based on other significant observable inputs, which may include, but are not limited to, quoted prices for similar assets or liabilities, interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates or other market corroborated inputs

Level 3 valuations based on significant unobservable inputs (including the Investment Manager's and the Valuation Committee's own assumptions and securities whose price was determined by using a single broker's quote)

The valuation techniques used by the Fund to measure fair value during the year ended June 30, 2016 were intended to maximize the use of observable inputs and to minimize the use of unobservable inputs.

The Fund's policy is to recognize transfers between levels at the end of the reporting period. An investment asset's or liability's level within the fair value hierarchy is based on the lowest level input, individually or in aggregate, that is significant to the fair value measurement. The objective of fair value measurement remains the same even when there is a significant decrease in the volume and level of activity for an asset or liability and regardless of the valuation techniques used. Investments categorized as Level 1 or 2 as of period end may have been transferred between Levels 1 and 2 since the prior period due to changes in the valuation method utilized in valuing the investments.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The following are certain inputs and techniques that the Fund generally uses to evaluate how to classify each major category of assets and liabilities within Level 2 and Level 3, in accordance with U.S. GAAP.

Equity Securities (Common Stock) Equity securities traded in inactive markets and certain foreign equity securities are valued using inputs which include broker-dealer quotes, recently executed transactions adjusted for changes in the benchmark index, or evaluated price quotes received from independent pricing services that take into account the integrity of the market sector and issuer, the individual characteristics of the security, and information received from broker-dealers and other market sources pertaining to the issuer or security. To the extent that these inputs are observable, the values of equity securities are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

(c) Investment Transactions and Investment Income

Investment transactions are accounted for on the trade date. Realized gains and losses on investments are determined on an identified cost basis. Interest income on uninvested cash is recorded upon receipt. Dividend income is recorded on the ex-dividend date. Korean-based corporations have generally adopted calendar year-ends, and their interim and final corporate actions are normally approved, finalized and announced by their boards of directors and stockholders in the first

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and third quarters of each calendar year. Generally, estimates of their dividends are accrued on the ex-dividend date principally in the prior December and/or June period ends. These dividend announcements are recorded by the Fund on such ex-dividend dates. Any subsequent adjustments thereto by Korean corporations are recorded when announced. Presently, dividend income from Korean equity investments is earned primarily in the last calendar quarter of each year, and will be received primarily in the first calendar quarter of the following year. Certain other dividends and related withholding taxes, if applicable, from Korean securities may be recorded subsequent to the ex-dividend date as soon as the Fund is informed of such dividends and taxes. Dividend and interest income on the Statement of Operations are shown net of any foreign taxes withheld on income from foreign securities.

(d) Federal Income Taxes

The Fund intends to distribute all of its taxable income and to comply with the other requirements of Subchapter M of the U.S. Internal Revenue Code of 1986, as amended, applicable to regulated investment companies. Accordingly, no provision for U.S. federal income taxes is required. The Fund may be subject to excise tax based on distributions to stockholders.

Accounting for uncertainty in income taxes establishes for all entities, including pass-through entities such as the Fund, a minimum threshold for financial statement recognition of the benefit of positions taken in filing tax returns (including whether an entity is taxable in a particular jurisdiction), and requires certain expanded tax disclosures. In accordance with provisions set forth under U.S. GAAP, the Investment Manager has reviewed the Fund's tax positions for all open tax years.

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The Korea Fund, Inc. Notes to Financial Statements

June 30, 2016 (continued)

1. Organization and Significant Accounting Policies (continued)

As of June 30, 2016, the Fund has recorded no liability for net unrecognized tax benefits relating to uncertain income tax positions they have taken. The Fund's federal income tax returns for the prior three years, as applicable, remain subject to examination by the Internal Revenue Service.

(e) Foreign Investment and Exchange Controls in Korea

The Foreign Exchange Transaction Act, the Presidential Decree relating to such Act and the regulations of the Minister of Strategy and Finance (formerly known as Minister of Finance and Economy) issued thereunder impose certain limitations and controls which generally affect foreign investors in Korea. Through August 18, 2005, the Fund had a license from the Ministry of Finance and Economy to invest in Korean securities and to repatriate income received from dividends and interest earned on, and net realized capital gains from, its investments in Korean securities or to repatriate from investment principal up to 10% of the NAV (taken at current value) of the Fund (except upon termination of the Fund, or for expenses in excess of Fund income, in which case the foregoing restriction shall not apply). Under the Foreign Exchange Transaction Act, the Minister of Strategy and Finance has the power, with prior (posterior in case of urgency) public notice of scope and duration, to suspend all or a part of foreign exchange transactions when emergency measures are deemed necessary in case of radical change in the international or domestic economic situation. The Fund could be adversely affected by delays in, or the refusal to grant, any required governmental approval for such transactions.

The Fund relinquished its license from the Korean Ministry of Finance and Economy effective August 19, 2005. The Fund had engaged in negotiations with the Korean Ministry of Finance and Economy concerning the feasibility of the Fund's license being amended to allow the Fund to repatriate more than 10% of Fund capital. However, the Ministry of Finance and Economy advised the Fund that the license cannot be amended as a result of a change in the Korean regulations. As a result of the relinquishment of the license, the Fund is subject to the Korean securities transaction tax equal to 0.3% of the fair market value of any portfolio securities transferred by the Fund on the Korea Exchange and 0.5% of the fair market value of any portfolio securities transferred outside of the Korea Exchange. The relinquishment did not otherwise affect the Fund's operations. For the year ended June 30, 2016, the Fund incurred \$467,276 in transaction taxes in connection with portfolio securities transferred by the Fund on the Korea Exchange.

Certain securities held by the Fund may be subject to aggregate or individual foreign ownership limits. These holdings are in industries that are deemed to be of national importance.

(f) Dividends and Distributions

The Fund declares dividends from net investment income and distributions of net realized capital gains, if any, at least annually. The Fund records dividends and distributions on the ex-dividend date. The amount of dividends from net investment income and distributions from net realized capital gains is determined in accordance with federal income tax regulations, which may differ from U.S. GAAP. These book-tax differences are considered either temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their federal income tax treatment; temporary differences do not require reclassification. To the extent dividends and/or distributions exceed current and accumulated earnings and profits for federal income tax purposes, they are reported as dividends and/or distributions to stockholders from return of capital.

(g) Foreign Currency Translation

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The Fund's accounting records are maintained in U.S. dollars as follows: (1) the foreign currency market values of investments and other assets and liabilities denominated in foreign currencies are translated at the prevailing exchange rate at the end of the period; and (2) purchases and sales, income and expenses are translated at the prevailing exchange rate on the respective dates of such transactions. The resulting net foreign currency gain (loss) is included in the Fund's Statement of Operations.

The Fund does not generally isolate that portion of the results of operations arising as a result of changes in foreign currency exchange rates from the fluctuations arising from changes in the market prices of securities. Accordingly, such foreign currency gain (loss) is included in net realized and unrealized gain (loss) on investments. However, the Fund does isolate the effect of fluctuations in foreign currency exchange rates when determining the gain (loss) upon the sale or maturity of foreign currency denominated debt obligations pursuant to U.S. federal income tax regulations; such amount is categorized as foreign currency gain (loss) for both financial reporting and income tax reporting purposes.

At June 30, 2016, the Korean WON/U.S. \$ exchange rate was WON 1,151.85 to U.S. \$1.

(h) Securities Lending

The Fund may engage in securities lending. The loans are secured by collateral at least equal, at all times, to the market value of the loaned securities. During the term of the loan, the Fund will continue to receive any dividends or amounts

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The Korea Fund, Inc. Notes to Financial Statements

June 30, 2016 (continued)

1. Organization and Significant Accounting Policies (continued)