

KOREA FUND INC
Form N-CSRS
February 25, 2016
Table of Contents

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)

Edgar Filing: KOREA FUND INC - Form N-CSRS

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

Table of Contents

Item 1. Report to Shareholders

Semi-Annual Report

December 31, 2015

Table of Contents

1-4	<u>Portfolio Manager's Report</u>
5-6	<u>Performance & Statistics</u>
7-8	<u>Schedule of Investments</u>
9	<u>Statement of Assets and Liabilities</u>
10	<u>Statement of Operations</u>
11	<u>Statement of Changes in Net Assets</u>
12-17	<u>Notes to Financial Statements</u>
18	<u>Financial Highlights</u>
19	<u>Stockholder Meeting Results/Proxy Voting Policies & Procedures</u>
20-21	<u>Privacy Policy</u>
22-24	<u>Matters Relating to the Directors - Consideration of the Investment Management Agreement</u>

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

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

Table of Contents

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.

4 The Korea Fund, Inc. Semi-Annual Report 12.31.15

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

December 31, 2015 (unaudited)

Total Return⁽¹⁾	Six Month	1 Year	5 Year	10 Year
Market Price	-10.11%	-2.80%	-1.22%	2.00%
Net Asset Value (NAV)	-11.43%	-4.06%	-1.36%	1.10% ⁽²⁾
MSCI Korea (Total Return) ⁽³⁾	-7.04%	-6.66%	-1.66%	2.86%
MSCI Korea (Price Return) ⁽³⁾	-8.05%	-7.94%	-2.78%	1.63%
KOSPI ⁽⁴⁾	-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 ⁽⁵⁾	\$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%

Table of Contents

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.

6 The Korea Fund, Inc. Semi-Annual Report 12.31.15

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

December 31, 2015 (unaudited)

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

Edgar Filing: KOREA FUND INC - Form N-CSRS

15,053,999

Household Products 5.9%		
16,953	LG Household & Health Care Ltd.	15,053,971
Industrial Conglomerates 1.7%		
73,700	LG Corp.	4,430,284
Insurance 11.6%		
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

12.31.15 The Korea Fund, Inc. Semi-Annual Report

7

Table of Contents

The Korea Fund, Inc. Schedule of Investments

December 31, 2015 (unaudited) (continued)

Shares		Value
	Internet & Catalog Retail 5.0%	
406,263	Interpark Corp.	\$ 7,868,923
529,883	Interpark Holdings Corp.	4,939,586
		12,808,509
	IT Services 1.2%	
14,334	SK C&C Co., Ltd.	2,920,480
	Metals & Mining 0.3%	
1,940	Korea Zinc Co., Ltd.	772,699
	Oil, Gas & Consumable Fuels 0.6%	
22,000	S-Oil Corp.	1,473,697
	Semiconductors & Semiconductor Equipment 6.6%	
654,891	SK Hynix, Inc.	16,917,758
	Specialty Retail 3.7%	
142,175	Hotel Shilla Co., Ltd.	9,309,492
	Technology Hardware, Storage & Peripherals 19.8%	
47,263	Samsung Electronics Co., Ltd.	50,409,858
	Wireless Telecommunication Services 3.9%	
54,860	SK Telecom Co., Ltd.	10,040,375
	Total Common Stock (cost \$188,547,603)	242,950,649
	RIGHTS 0.0%	
	Banks 0.0%	
59,540	BNK Financial Group, Inc., strike price KRW 6,750.00, expires 1/14/16 (b) (cost \$0)	67,535
	Total Investments (cost \$188,547,603) (a) 95.4%	243,018,184
	Other assets less liabilities 4.6%	11,828,715
	Net Assets 100.0%	\$ 254,846,899

Notes to Schedule of Investments:

- (a) Securities with an aggregate value of \$238,947,378, representing 93.8% 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	Level 3 Significant Unobservable	Value at 12/31/15
--------------------------	--	--	----------------------

Edgar Filing: KOREA FUND INC - Form N-CSRS

Investments in Securities Assets	Inputs		Inputs	
Common Stock:				
Aerospace & Defense	\$ 4,003,271	\$ 3,765,563	\$	\$ 7,768,834
All Other		235,181,815		235,181,815
Rights	67,535			67,535
Totals	\$ 4,070,806	\$ 238,947,378	\$	\$ 243,018,184

At December 31, 2015, there were no transfers between Levels 1 and 2.

Glossary:

KRW South Korean Won

8 The Korea Fund, Inc. Semi-Annual Report 12.31.15 See accompanying Notes to Financial Statements

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

December 31, 2015 (unaudited)

Assets:	
Investments, at value (cost \$188,547,603)	\$243,018,184
Cash	32,286,726
Foreign currency, at value (cost \$8,496,417)	8,456,621
Dividends receivable (net of foreign withholding taxes)	2,932,604
Securities lending income receivable, including income from invested cash collateral (net of rebates)	307
Prepaid expenses	68,220
Total Assets	286,762,662
Liabilities:	
Payable for shares repurchased	209,426
Distributions payable to stockholders	31,317,886
Investment management fees payable	177,557
Accrued expenses and other liabilities	210,894
Total Liabilities	31,915,763
Net Assets	\$254,846,899
Net Assets:	
Common Stock:	
Par value (\$0.01 per share, applicable to 7,187,647 shares issued and outstanding)	\$71,876
Paid-in-capital in excess of par	209,267,006
Undistributed net investment income	372,286
Accumulated net realized loss	(9,287,657)
Net unrealized appreciation	54,423,388
Net Assets	\$254,846,899
Net Asset Value Per Share	\$35.46

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

Six Months ended December 31, 2015 (unaudited)

Investment Income:

Dividends (net of foreign withholding taxes of \$606,419)	\$3,000,138
Securities lending income, including income from invested cash collateral (net of rebates)	97,555
Interest	2,322
Total Investment Income	3,100,015

Expenses:

Investment management	1,122,545
Directors	190,927
Legal	166,356
Insurance	83,128
Custodian and accounting agent	78,164
Audit and tax services	55,026
Stockholder communications	25,251
New York Stock Exchange listing	13,829
Transfer agent	12,600
Miscellaneous	24,544
Total Expenses	1,772,370
Net Investment Income	1,327,645

Realized and Change in Unrealized Gain (Loss):

Net realized gain (loss) on:

Investments	13,723,532
Foreign currency transactions	(266,778)
Payments from Affiliates (See Note 9)	1,188

Net change in unrealized appreciation/depreciation of:

Edgar Filing: KOREA FUND INC - Form N-CSRS

Investments	(51,882,553)
Foreign currency transactions	(1,757)
Net realized and change in unrealized loss	(38,426,368)
Net Decrease in Net Assets Resulting from Investment Operations	\$(37,098,723)

10 The Korea Fund, Inc. Semi-Annual Report 12.31.15 See accompanying Notes to Financial Statements

Table of Contents

The Korea Fund, Inc. Statement of Changes in Net Assets

	Six Months ended December 31, 2015 (unaudited)	Year ended June 30, 2015
Investment Operations:		
Net investment income (loss)	\$1,327,645	\$(175,924)
Net realized gain	13,457,942	18,069,387
Net change in unrealized appreciation/depreciation	(51,884,310)	(40,798,793)
Net decrease in net assets resulting from investment operations	(37,098,723)	(22,905,330)
Distributions to Stockholders from Net Realized Gains	(31,317,886)	
Common Stock Transactions:		
Cost of shares repurchased	(6,194,979)	(25,782,648)
Total decrease in net assets	(74,611,588)	(48,687,978)
Net Assets:		
Beginning of period	329,458,487	378,146,465
End of period*	\$254,846,899	\$329,458,487
*Including undistributed (dividends in excess of) net investment income of:	\$372,286	\$(955,359)
Shares Activity:		
Shares outstanding, beginning of period	7,353,874	7,988,733
Shares repurchased	(166,227)	(634,859)
Shares outstanding, end of period	7,187,647	7,353,874

See accompanying Notes to Financial Statements 12.31.15 The Korea Fund, Inc. Semi-Annual Report **11**

Table of Contents

The Korea Fund, Inc. Notes to Financial Statements

December 31, 2015 (unaudited)

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 Funds 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 adoption of ASU 2014-11 did not have an impact on the Fund's financial statements.

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

Edgar Filing: KOREA FUND INC - Form N-CSRS

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.

Table of Contents

The Korea Fund, Inc. Notes to Financial Statements

December 31, 2015 (unaudited) (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 six months ended December 31, 2015 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

Edgar Filing: KOREA FUND INC - Form N-CSRS

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.

Table of Contents

The Korea Fund, Inc. Notes to Financial Statements

December 31, 2015 (unaudited) (continued)

1. Organization and Significant Accounting Policies (continued)

As of December 31, 2015, 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 six months ended December 31, 2015, the Fund incurred \$269,855 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

Edgar Filing: KOREA FUND INC - Form N-CSRS

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 December 31, 2015, the Korean WON/U.S. \$ exchange rate was WON 1,172.55 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 equivalent thereto, on the loaned securities while receiving a fee from the borrower and/or earning interest on the

Table of Contents

The Korea Fund, Inc. Notes to Financial Statements

December 31, 2015 (unaudited) (continued)

1. Organization and Significant Accounting Policies (continued)

investment of the cash collateral. Securities lending income is disclosed as such in the Statement of Operations. Income generated from the investment of cash collateral, less negotiated rebate fees paid to borrowers and transaction costs, is allocated between the Fund and securities lending agent. Cash collateral received for securities on loan is invested in securities identified in the Schedule of Investments and the corresponding liability is recognized as such in the Statement of Assets and Liabilities. Loans are subject to termination at the option of the borrower or the Fund.

Upon termination of the loan, the borrower will return to the lender securities identical to the loaned securities. The Fund may pay reasonable finders' fees, administration and custodial fees in connection with a loan of its securities and may share the interest earned on the collateral with the borrower. The Fund bears the risk of delay in recovery of, or even loss of rights in, the securities loaned should the borrower or the securities fail financially. The Fund also bears the risk of loss in the event the securities purchased with cash collateral depreciate in value.

The Fund did not have any securities on loan at December 31, 2015.

(i) Rights

The Funds may receive rights. A right is a privilege granted to existing shareholders of a corporation to subscribe for shares of a new issue of common stock before it is issued. Rights normally have a short life, usually two to four weeks, are freely transferable and entitle the holder to buy the new common stock at a lower price than the public offering price. Rights may entail greater risks than certain other types of investments. Generally, rights do not carry the right to receive dividends or exercise voting rights with respect to the underlying securities, and they do not represent any rights in the assets of the issuer. In addition, their value does not necessarily change with the value of the underlying securities, and they cease to have value if they are not exercised on or before their expiration date. If the market price of the underlying stock does not exceed the exercise price during the life of the right, the right will expire worthless. Rights may increase the potential profit or loss to be realized from the investment as compared with investing the same amount in the underlying securities.

2. Principal Risks

In the normal course of business, the Fund trades financial instruments and enters into financial transactions where risk of potential loss exists due to, among other things, changes in the market (market risk) or failure of the other party to a transaction to perform (counterparty risk). The Fund is also exposed to other risks such as, but not limited to, foreign currency risk.

To the extent the Fund directly invests in foreign currencies or in securities that trade in, and receive revenues in, foreign currencies, or in derivatives that provide exposure to foreign currencies, it will be subject to the risk that those currencies will decline in value relative to the U.S. dollar, or, in the case of hedging positions, that the U.S. dollar will decline in value relative to the currency being hedged. Currency rates in foreign countries may fluctuate significantly over short periods of time for a number of reasons, including economic growth, inflation, changes in interest rates, intervention (or the failure to intervene) by U.S. or foreign governments, central banks or supranational entities such as the International Monetary Fund, or the imposition of currency controls or other political developments in the United States or abroad. As a result, the Fund's investments in foreign currency-denominated securities may reduce the returns of the Fund. The local emerging market currencies in which the fund may be invested may experience substantially greater volatility against the U.S. dollar than the major convertible currencies in developed countries.

Edgar Filing: KOREA FUND INC - Form N-CSRS

The Fund is subject to elements of risk not typically associated with investments in the U.S., due to concentrated investments in foreign issuers located in a specific country or region. Such concentrations will subject the Fund to additional risks resulting from future political or economic conditions in such country or region and the possible imposition of adverse governmental laws or currency exchange restrictions affecting such country or region, which could cause the securities and their markets to be less liquid and prices more volatile than those of comparable U.S. companies.

The market values of securities may decline due to general market conditions (market risk) which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates, adverse changes to credit markets or adverse investor sentiment. They may also decline due to factors that affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry. Equity securities and equity-related investments generally have greater market price volatility than fixed income securities, although under certain market conditions fixed income securities may have comparable or greater price volatility. Credit ratings downgrades may also negatively affect securities held by the Fund. Even when markets perform well, there is no assurance that the investments held by the Fund will increase in value along with the broader market. In addition, market risk includes the risk that geopolitical events will disrupt the economy on a national or global level.

Table of Contents

The Korea Fund, Inc. Notes to Financial Statements

December 31, 2015 (unaudited) (continued)

2. Principal Risks (continued)

The Fund is exposed to counterparty risk, or the risk that an institution or other entity with which the Fund has unsettled or open transactions will default. The potential loss to the Fund could exceed the value of the financial assets recorded in the Fund's financial statements. Financial assets, which potentially expose the Fund to counterparty risk, consist principally of cash due from counterparties and investments. The Investment Manager seeks to minimize the Fund's counterparty risk by performing reviews of each counterparty and by minimizing concentration of counterparty risk by undertaking transactions with multiple customers and counterparties on recognized and reputable exchanges. Delivery of securities sold is only made once the Fund has received payment. Payment is made on a purchase once the securities have been delivered by the counterparty. The trade will fail if either party fails to meet its obligation.

3. Investment Manager/Sub-Administrator

The Fund has an Investment Management Agreement (the "Management Agreement") with the Investment Manager. Subject to the supervision of the Fund's Board, the Investment Manager is responsible for managing, either directly or through others selected by it, the Fund's investment activities, business affairs, and other administrative matters. Pursuant to the Management Agreement, the Investment Manager receives an annual fee, payable monthly, at the annual rate of 0.75% of the value of the Fund's average daily net assets up to \$250 million; 0.725% of the next \$250 million of average daily net assets; 0.70% of the next \$250 million of average daily net assets; 0.675% of the next \$250 million of average daily net assets and 0.65% of average daily net assets in excess of \$1 billion. For the six months ended December 31, 2015, the Fund paid investment management fees at an effective rate of 0.75% of the Fund's average daily net assets.

The Investment Manager has retained its affiliate, Allianz Global Investors Fund Management LLC (the "Sub-Administrator" or "AGIFM") to provide administrative services to the Fund. The Investment Manager, and not the Fund, pays a portion of the fee it receives as Investment Manager to the Sub-Administrator in return for its services. The Sub-Administrator is an indirect, wholly-owned subsidiary of AAM.

4. Investments in Securities

For the six months ended December 31, 2015, purchases and sales of investments, other than short-term securities were \$52,836,086 and \$89,615,798, respectively.

5. Income Tax Information

At December 31, 2015, the cost basis of portfolio securities for federal income tax purposes was \$188,937,303. Gross unrealized appreciation was \$71,187,355; gross unrealized depreciation was \$17,106,474; and net unrealized appreciation was \$54,080,881. The difference between book and tax cost basis was attributable to wash sale loss deferrals.

6. Discount Management Program

On November 2, 2015, the Fund announced that it would continue its share repurchase program under which the Fund will continue to repurchase, in each twelve month period ended June 30, up to 10% of its common shares outstanding as of the close of business on June 30 the prior year, but will permit shares to be

Edgar Filing: KOREA FUND INC - Form N-CSRS

repurchased at differing discount trigger levels that will not be announced. The Fund will repurchase shares at a discount, in accordance with procedures approved by the Board. Subject to these procedures, the timing and amount of any shares repurchased will be determined by the Board and/or its Discount Management Committee in consultation with the Investment Manager.

For the six months ended December 31, 2015, the Fund repurchased 166,227 shares of its common stock on the open market, which represented approximately 2% of the shares outstanding as of June 30, 2015 at a total cost, inclusive of commissions (\$0.03 per share), of \$6,194,979 at a per-share weighted average discount to NAV of 9.56%. For the year ended June 30, 2015, the Fund repurchased 634,859 shares of its common stock on the open market, which represented approximately 8% of the shares outstanding at June 30, 2014 at a total cost, inclusive of commissions (\$0.03 per share), of \$25,782,648 at a per-share weighted average discount to NAV of 9.25%.

7. Fund Ownership

At December 31, 2015, the City of London Investment Group PLC, Lazard Asset Management LLC, 1607 Capital Partners and Aberdeen Asset Management held approximately 32%, 14%, 7% and 6%, respectively, of the Fund's outstanding shares.

8. Fund Shares Issued

On December 22, 2008, the Fund declared a capital gain distribution of \$90.30 per share. The distribution was made in newly issued Fund shares, based on the Fund's market price per share on January 26, 2009 (Pricing Date), unless a cash election was made. The total cash distribution was limited to 20% of the aggregate dollar amount of the total

distribution (excluding any cash paid in lieu of fractional shares). On January 29, 2009 (the payable date) the Fund issued 8,007,555 shares based on the market price of \$21.99 per share on the Pricing Date. NAV total return for periods

Table of Contents

The Korea Fund, Inc. Notes to Financial Statements

December 31, 2015 (unaudited) (continued)

8. Fund Shares Issued (continued)

that include December 2008 and January 2009 had been calculated assuming that this capital gain distribution was paid entirely in newly issued Fund shares priced at the Fund's NAV at the close of business on the Pricing Date. In addition, the Fund adjusted its NAV on December 31, 2008 for purposes of calculating performance by using the actual number of shares outstanding on such date (excluding any estimate of shares to be issued upon reinvestment).

9. Payments from Affiliates

During the six months ended December 31, 2015, the Investment Manager reimbursed the Fund \$1,188 for realized losses resulting from a trading error.

There were no payments from affiliates for the year ended June 30, 2015.

10. Subsequent Events

In preparing these financial statements, the Fund's management has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued.

There were no subsequent events identified that require recognition or disclosure.

Table of Contents

The Korea Fund, Inc. Financial Highlights

For a share of stock outstanding throughout each period:

	Six Months ended December 31,	Year ended June 30,				
	2015 (unaudited)	2015	2014	2013	2012	2011
Net asset value, beginning of period	\$44.80	\$47.33	\$38.53	\$40.51	\$54.59	\$38.54
Investment Operations:						
Net investment income (loss)	0.18(1)	(0.02)(1)	(0.14)(1)	(0.13)(1)	(0.14)	0.01
Net realized and change in unrealized gain (loss)	(5.29)	(2.84)	8.56	(2.26)	(8.72)	16.29
Total from investment operations	(5.11)	(2.86)	8.42	(2.39)	(8.86)	16.30
Dividends and Distributions to Stockholders from:						
Net investment income						(0.30)
Net realized gains	(4.35)				(5.45)	
Total dividends and distributions to stockholders	(4.35)				(5.45)	(0.30)
Common Stock Transactions:						
Accretion to net asset value resulting from share repurchases	0.12	0.33	0.38	0.41	0.23	0.05
Net asset value, end of period	\$35.46(3)	\$44.80	\$47.33	\$38.53	\$40.51	\$54.59
Market price, end of period	\$31.85	\$40.57	\$42.72	\$34.47	\$36.56	\$49.27
Total Return:(2)						
Net asset value	(11.40)%(3)	(5.35)%	22.84%	(4.89)%	(15.25)%	42.52%
Market price	(10.11)%	(5.03)%	23.93%	(5.72)%	(15.59)%	42.75%
RATIOS/SUPPLEMENTAL DATA:						
Net assets, end of period (000s)	\$254,847	\$329,458	\$378,146	\$334,829	\$387,629	\$549,089
Ratio of expenses to average net assets	1.18%(4)	1.13%	1.13%	1.14%	1.12%	1.10%
Ratio of net investment income (loss) to average net assets	0.88%(4)	(0.05)%	(0.33)%	(0.31)%	(0.29)%	0.02%
Portfolio turnover rate	19%	51%	60%	35%	43%	83%

- (1) Calculated on average shares outstanding.
- (2) Total return is calculated by subtracting the value of an investment in the Fund at the beginning of the specified period from the value at the end of the year and dividing the remainder by the value of the investment at the beginning of the period and expressing the result as a percentage. 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 on net asset value may reflect adjustments to conform to U.S. GAAP. Total investment return for a period of less than one year is not annualized.
- (3) Payments from Affiliates increased net asset value and total return on net asset value by less than \$0.01 and 0.01%, respectively.
- (4) Annualized.

Table of Contents

The Korea Fund, Inc. Stockholder Meeting Results/Proxy Voting Policies &

Procedures (unaudited)

Stockholder Meeting Results:

The Fund held its annual meeting of stockholders on October 29, 2015. Stockholders voted as indicated below:

	Affirmative	Against	Abstain
Re-election of Marran H. Ogilvie Class III to serve until 2018	4,066,724	86,227	11,937
Re-election of Richard A. Silver Class III to serve until 2018	4,084,414	68,401	12,074

Messrs. Christopher B. Brader, Joseph T. Grause, Jr. and Julian Reid continue to serve as Directors of the Fund.

Proxy Voting Policies & Procedures:

A description of the policies and procedures that the Fund has adopted to determine how to vote proxies relating to portfolio securities and information about how the Fund voted proxies relating to portfolio securities held during the most recent twelve month period ended June 30 is available (i) without charge, upon request, by calling the Fund's stockholder servicing agent at (800) 254-5197; (ii) on the Fund's website at www.thekoreafund.com; and (iii) on the Securities and Exchange Commission website at www.sec.gov.

Table of Contents

The Korea Fund, Inc. Privacy Policy (unaudited)

Please read this Policy carefully. It gives you important information about how Allianz Global Investors U.S. and its U.S. affiliates (AllianzGI US, we or us) handle non-public personal information (Personal Information) that we may receive about you. It applies to all of our past, present and future clients and shareholders of AllianzGI US and the funds and accounts it manages, advises, sub-advises, administers or distributes, and will continue to apply when you are no longer a client or shareholder. As used throughout this Policy, AllianzGI US means Allianz Global Investors U.S. LLC, Allianz Global Investors Fund Management LLC, Allianz Global Investors Distributors LLC, NFJ Investment Group LLC and the family of registered and unregistered funds managed by one or more of these firms. AllianzGI US is part of a global investment management group, and the privacy policies of other Allianz Global Investors entities outside of the United States may have provisions in their policies that differ from this Privacy Policy. Please refer to the website of the specific non-US Allianz Global Investors entity for its policy on privacy.

We Care about Your Privacy

We consider your privacy to be a fundamental aspect of our relationship with you, and we strive to maintain the confidentiality, integrity and security of your Personal Information. To ensure your privacy, we have developed policies that are designed to protect your Personal Information while allowing your needs to be served.

Information We May Collect

In the course of providing you with products and services, we may obtain Personal Information about you, which may come from sources such as account application and other forms, from other written, electronic, or verbal communications, from account transactions, from a brokerage or financial advisory firm, financial advisor or consultant, and/or from information you provide on our website.

You are not required to supply any of the Personal Information that we may request. However, failure to do so may result in us being unable to open and maintain your account, or to provide services to you.

How Your Information Is Shared

We do not disclose your Personal Information to anyone for marketing purposes. We disclose your Personal Information only to those service providers, affiliated and non-affiliated, who need the information for everyday business purposes, such as to respond to your inquiries, to perform services, and/or to service and maintain your account. This applies to all of the categories of Personal Information we collect about you. The affiliated and non-affiliated service providers who receive your Personal Information also may use it to process your transactions, provide you with materials (including preparing and mailing prospectuses and shareholder reports and gathering shareholder proxies), and provide you with account statements and other materials relating to your account. These service providers provide services at our direction, and under their agreements with us, are required to keep your Personal Information confidential and to use it only for providing the contractually required services. Our service providers may not use your Personal Information to market products and services to you except in conformance with applicable laws and regulations. We also may provide your Personal Information to your respective brokerage or financial advisory firm, custodian, and/or to your financial advisor or consultant.

In addition, we reserve the right to disclose or report Personal Information to non-affiliated third parties, in limited circumstances, where we believe in good faith that disclosure is required under law, to cooperate with regulators or law enforcement authorities or pursuant to other legal process, or to protect our rights or property, including to enforce our Privacy Policy or other agreements with you. Personal Information collected by us may also be transferred as part of a corporate sale, restructuring, bankruptcy, or other transfer of assets.

Security of Your Information

Edgar Filing: KOREA FUND INC - Form N-CSRS

We maintain your Personal Information for as long as necessary for legitimate business purposes or otherwise as required by law. In maintaining this information, we have implemented appropriate procedures that are designed to restrict access to your Personal Information only to those who need to know that information in order to provide products and/or services to you. In addition, we have implemented physical, electronic and procedural safeguards to help protect your Personal Information.

Privacy and the Internet

The Personal Information that you provide through our website, as applicable, is handled in the same way as the Personal Information that you provide by any other means, as described above. This section of the Policy gives you additional information about the way in which Personal Information that is obtained online is handled.

Online Enrollment, Account Access and Transactions: When you visit our website, you can visit pages that are open to the general public, or, where available, log into protected pages to enroll online, access information about your account, or conduct certain transactions. Access to the secure pages of our website is permitted only after you have created a User ID and Password. The User ID and Password must be supplied each time you want to access your account information online. This information serves to verify

20 The Korea Fund, Inc. Semi-Annual Report 12.31.15

Table of Contents

The Korea Fund, Inc. Privacy Policy (unaudited) (continued)

your identity. When you enter Personal Information into our website (including your Social Security Number or Taxpayer Identification Number and your password) to enroll or access your account online, you will log into secure pages. By using our website, you consent to this Privacy Policy and to the use of your Personal Information in accordance with the practices described in this Policy. If you provide Personal Information to effect transactions on our website, a record of the transactions you have performed while on the site is retained by us. For additional terms and conditions governing your use of our website, please refer to the Investor Mutual Fund Access Disclaimer which is incorporated herein by reference and is available on our website.

Cookies and Similar Technologies: Cookies are small text files stored in your computer's hard drive when you visit certain web pages. Cookies and similar technologies help us to provide customized services and information. We use these technologies on our website to improve our website and services, including to evaluate the effectiveness of our site, and to enhance the site user experience. Because an industry-standard Do-Not-Track protocol is not yet established, our website will continue to operate as described in this Privacy Policy and will not be affected by any Do-Not-Track signals from any browser.

Changes to Our Privacy Policy

We may modify this Privacy Policy from time-to-time to reflect changes in related practices and procedures, or applicable laws and regulations. If we make changes, we will notify you on our website and the revised Policy will become effective immediately upon posting to our website. We also will provide account owners with a copy of our Privacy Policy annually. We encourage you to visit our website periodically to remain up to date on our Privacy Policy. You acknowledge that by using our website after we have posted changes to this Privacy Policy, you are agreeing to the terms of the Privacy Policy as modified.

Obtaining Additional Information

If you have any questions about this Privacy Policy or our privacy related practices in the United States, you may contact us via our dedicated email at PrivacyUS@allianzgi.com.

Table of Contents**The Korea Fund, Inc. Matters Relating to the Directors Consideration of the****Investment Management Agreement** (unaudited)

The Investment Company Act of 1940 requires that both the full Board of Directors and a majority of the Directors who are not interested persons of the Investment Manager and its affiliates (the Independent Directors), voting separately, annually approve the continuation of your Fund's investment management agreement (the Management Agreement) with the Investment Manager. Your Fund's Board is comprised of five Directors, all of whom are Independent Directors. At an in-person meeting held on October 29, 2015, the Board approved the renewal of the Management Agreement. The Board's review process and considerations in approving the Management Agreement are set forth below.

Review Process. The Board of Directors considers matters bearing on your Fund and the Management Agreement at each of its meetings. Specifically, the Board maintains an Investment Committee, comprised of all of the Directors and chaired by an experienced investment professional, which reviews investment related matters throughout the year. The Board (i) met four times during the past year to discuss Fund matters and at the regular quarterly meetings dedicated a substantial amount of time to reviewing the Investment Manager and its management of your Fund, (ii) met with senior management and portfolio managers of your Fund and the Investment Manager at each regular meeting, and (iii) received extensive information throughout the year regarding the management of your Fund, including information regarding various functions performed by the Investment Manager, such as portfolio management, compliance monitoring and portfolio trading practices. In addition, the Board continued its engagement of Morningstar Associates, LLC (Morningstar) a leading third party research provider in connection with its ongoing review of your Fund's performance, and received detailed information from Morningstar at each quarterly meeting on the investment performance of a peer group comprised of investment companies and other funds investing in the Korean equity market managed in both the U.S. and other financial centers worldwide. The Board considers this group to represent the significant funds in the space, but which, it is noted, use differing benchmarks, including the MSCI Korea Index (Total Return) (the MSCI Korea Index), or more frequently, the Korea Stock Exchange KOSPI Index (the KOSPI Index). The Board also considered detailed information from Morningstar concerning the consistency of investment style of the Investment Manager and the risk relative to return of your Fund's investment portfolio.

In addition to the information the Board received at each quarterly meeting, in connection with its annual contract review, the Board received and relied upon materials provided by the Investment Manager, which included, among other items: (i) data supplied by Lipper, Inc. (Lipper), a leading third party provider of mutual fund information on the total return investment performance of your Fund over various time periods and the investment performance of a peer group of funds, (ii) information provided by Lipper on your Fund's management fees and total expenses as well as the management fees and total expenses of a peer group of funds, (iii) information regarding the investment performance of comparable market indices, (iv) information regarding the management fees of comparable portfolios of other clients of the Investment Manager and your Fund's former sub-adviser (the Former Sub-Adviser) (as personnel of the Former Sub-Adviser continued to provide services to your Fund as associated persons of the Investment Manager), including open-end funds and other clients, (v) the profitability to the Investment Manager from its relationship with your Fund, (vi) descriptions of various administrative functions performed for your Fund by the Sub-Administrator, an affiliate of the Investment Manager, pursuant to an agreement between the Investment Manager and the Sub-Administrator, and (vii) information regarding the overall organization of the Investment Manager and the Sub-Administrator, including information regarding senior management, portfolio managers and other personnel providing investment management, administrative and other services to your Fund. During the course of the contract review process, the Directors made various requests for additional information or explanations from the Investment Manager regarding information that had been provided, to which management responded either in writing or orally. The Board was assisted in its evaluation of the Management Agreement by counsel for your Fund, with whom it met separately from the Investment Manager.

The Directors' conclusion as to the continuation of the Management Agreement was based on a comprehensive consideration of all information provided to the Board and not the result of any single issue. Some of the factors that figured particularly in the Directors' deliberations are described below, although individual Directors may have evaluated the information presented differently from one another, giving different weights to various factors. It is also important to recognize that the Board's review of your Fund's Management Agreement is the result of years of review and discussion, rather than one particular period. The Directors' conclusions may be based, in part, on their consideration of these arrangements during the course of the year and in prior years.

Nature, Quality and Extent of Services. The Board considered the terms of the Management Agreement, including the scope of advisory services provided under the Management Agreement. The Board noted that, under the Management Agreement, the Investment Manager provides portfolio management and administrative services to your Fund. The Board noted that personnel of the Former Sub-Adviser provide portfolio management services to your Fund as associated persons of the Investment Manager. The Board also noted that the compliance personnel of the Former Sub-Adviser act as associated persons of the Investment Manager and report directly to the Investment Manager's chief compliance officer. The Board observed that the Investment Manager delegates primary responsibility for administrative services to the Sub-Administrator. The Board considered the experience and skills of senior management and investment

Edgar Filing: KOREA FUND INC - Form N-CSRS

personnel, the resources made available to such personnel, the ability of the Investment Manager and the Sub-Administrator to attract and retain high-quality personnel, and the organizational depth and stability of the Investment Manager and the Sub-Administrator.

22 The Korea Fund, Inc. Semi-Annual Report 12.31.15

Table of Contents

The Korea Fund, Inc. Matters Relating to the Directors Consideration of the

Investment Management Agreement (unaudited) (continued)

The Board reviewed your Fund's performance over various periods and compared those returns to various agreed-upon performance measures, including market indices and peer groups compiled by Lipper, Morningstar, and the Board itself.

In the course of these deliberations, the Board took into account information provided by the Investment Manager in connection with the contract review meeting, as well as during investment review meetings conducted with portfolio management personnel during the course of the year regarding your Fund's performance. The Board observed that, although its own peer group maintained by Morningstar of 17 or 18 (varying for the one-, three- and five-year periods) comparative investible products in the Korean space was appropriate, there were limitations in the comparative performance data provided by Lipper, given that this peer group also includes Pacific funds (excluding Japan), which are generally not similarly situated to your Fund. In its review of your Fund's performance against the aforementioned peer group of Korea funds maintained by Morningstar, the Board observed that your Fund's performance ranked in the 3rd quartile for the one-year period and the 2nd quartile for the three- and five-year periods ended September 30, 2015. The Board also noted that most of the funds in the peer group used the KOSPI Index as a benchmark and that the Fund's benchmark, the MSCI Korea Index, had underperformed the KOSPI Index for each of the one-, three-, and five-year periods. In connection with this review, the Board noted that this peer group contains funds both registered under the Investment Company Act of 1940 and entities registered in other jurisdictions that are subject to alternative regulatory regimes than your Fund with differing regulatory investment restrictions and may calculate their performance using differing methodologies, which the Board noted would affect particularly the comparative performance of such entities.

The Board observed that your Fund's total return performance had outperformed the MSCI Korea Index for each of the one-, three-, and five-year periods ended September 30, 2015. The Board further observed that your Fund's total return performance (based on net assets) had underperformed the KOSPI Index for the one- and three-year periods, and had outperformed the KOSPI Index for the five-year period ended September 30, 2015. In addition, the Board noted a higher level of volatility in performance over time among the funds in the peer group assembled by Morningstar, resulting in most such funds having periods of poor performance relative to their peers from time to time.

The Board discussed in detail the overall investment performance of your Fund. The Board discussed the depth of the Fund's management team and noted the improvement in the Fund's performance against its benchmark since the Fund's portfolio manager had been replaced.

On the basis of this evaluation, the ongoing review of investment results by the Board in conjunction with the Investment Manager, the Board concluded that the nature, quality and extent of services provided by the Investment Manager and the Sub-Administrator was sufficient to support renewal of the Management Agreement.

Fees and Expenses. The Board considered your Fund's investment management fee schedule, total expense ratio and comparative information provided by Lipper regarding investment management fee rates paid to other investment advisers by, and total expense ratios of, comparable funds. The Board observed, and inquired about, the decrease in size of your Fund's Lipper peer group, noting that due to changes in certain of the Lipper peer group funds' portfolios, Lipper had reclassified certain funds to a different Lipper group. With respect to management fees paid to other investment advisers by comparable funds, the Board noted that the effective fee rates paid by your Fund were the median, and less than the mean, of the five-member peer group compiled by Lipper (based on the management fees paid by your Fund for your Fund's fiscal year ended June 30, 2015). The Board also considered the management fees charged by the Investment Manager and the Former Sub-Adviser to other clients, including open-end funds with investment strategies comparable to that of your Fund, and noted that the management fees paid by your Fund, with few exceptions, were generally lower than the fees paid by such clients of the Investment Manager and the Former Sub-Adviser. With respect to the sub-administration fee paid to the Sub-Administrator, the Board noted that the fee is paid by the Investment Manager out of its fee and not directly by your Fund. The Board also noted that it was not clear whether the peer funds selected by Lipper were charged such fees by their investment managers. The Board noted that your Fund's total operating expenses were less than both the median and the mean of the five-member peer group compiled by Lipper (based on the operating expenses for your Fund's fiscal year ended June 30, 2015).

Edgar Filing: KOREA FUND INC - Form N-CSRS

The Board noted that, because your Fund is closed-end and does not make a continuous offer of its securities, your Fund's size was relatively fixed and it would be unlikely that the Investment Manager would realize economies of scale from your Fund's growth other than through capital gain. The Board noted its option to reconsider the management fee breakpoint levels in the future when your Fund's assets grow substantially or should there be an opportunity to raise new money.

On the basis of the information provided, the Board concluded that management fee was reasonable and appropriate in light of the nature, quality and extent of services provided by the Investment Manager and the Sub-Administrator.

Profitability. The Board reviewed detailed information regarding revenues received by the Investment Manager under the Management Agreement. In considering the profitability of the Investment Manager, the Board noted that the Sub-Administrator is an affiliate of the Investment Manager and is paid by the Investment Manager and, therefore, did not

Table of Contents

The Korea Fund, Inc. Matters Relating to the Directors Consideration of the

Investment Management Agreement (unaudited) (continued)

consider its profitability separately. Based on the information provided, the Board concluded that the pre-tax profits realized by the Investment Manager in connection with the management of your Fund were not unreasonable.

Other Benefits to the Investment Manager and Its Affiliates. The Board also considered the character and amount of other incidental benefits received by the Investment Manager and its affiliates, including any fees received by the Sub-Administrator for administrative services provided to your Fund. The Board also considered benefits to the Investment Manager and the Former Sub-Adviser related to brokerage allocations, including research generated by broker dealers, along with the incidental public relations benefits to the Investment Manager and Sub-Administrator related to your Fund's advertising opportunities. The Board concluded that management fees were reasonable in light of these indirect benefits.

Compliance. The Board considered the significant attention and resources dedicated by the Investment Manager, Former Sub-Adviser and Sub-Administrator to documenting and enhancing their compliance processes. The Board noted in particular (i) the experience and seniority of the Investment Manager's chief compliance officer and (ii) the substantial commitment of resources by the Investment Manager, Former Sub-Adviser and Sub-Administrator to compliance matters.

Based on their evaluation of factors that they deemed to be material, including those factors described above, the Board determined that the Management Agreement should be continued for an additional one-year period commencing January 1, 2016.

Table of Contents

Directors

Julian Reid
Chairman of the Board of Directors
Christopher B. Brader

Joseph T. Grause, Jr.

Marran H. Ogilvie

Richard A. Silver

Officers

Joseph Quirk
President & Chief Executive Officer
Lawrence G. Altadonna
Treasurer, Principal Financial & Accounting Officer

Thomas J. Fuccillo
Secretary & Chief Legal Officer
Richard J. Cochran
Assistant Treasurer
Thomas L. Harter
Chief Compliance Officer

Investment Manager/Administrator

Allianz Global Investors U.S. LLC

1633 Broadway

New York, NY 10019

Sub-Administrator

Allianz Global Investors Fund Management LLC

1633 Broadway

New York, NY 10019

Custodian & Accounting Agent

State Street Bank & Trust Co.

801 Pennsylvania Avenue

Kansas City, MO 64105-1307

Transfer Agent, Dividend Paying Agent and Registrar

American Stock Transfer & Trust Company, LLC

6201 15th Avenue

Brooklyn, NY 11219

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP

1100 Walnut, Suite 1300

Kansas City, MO 64106

Legal Counsel

Ropes & Gray LLP

Prudential Tower

800 Boylston Street

Boston, MA 02199

This report, including the financial information herein, is transmitted to the stockholders of The Korea Fund, Inc. for their information. It is not a prospectus, circular or representation intended for use in the purchase of shares of the Fund or any securities mentioned in this report.

The financial information included herein is taken from the records of the Fund without examination by an independent registered public accounting firm, who did not express an opinion herein.

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that from time to time the Fund may purchase shares of its common stock in the open market.

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission (SEC) for the first and third quarters of its fiscal year on Form N-Q. The Fund's Form N-Q is available on the SEC's website at www.sec.gov and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling (800) SEC-0330. The information on Form N-Q is also available on the Fund's website at www.thekoreafund.com.

Information on the Fund is available at www.thekoreafund.com or by calling the Fund's stockholder servicing agent at (800) 254-5197.

AZ612SA-123115

AG1-2015-12-21-14022

Table of Contents

ITEM 2. CODE OF ETHICS

Not required in this filing.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT

Not required in this filing.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Not required in this filing

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANT

Not required in this filing

ITEM 6. SCHEDULE OF INVESTMENTS

(a) The registrant's Schedule of Investments is included as part of the report to shareholders filed under Item 1 of this form.

(b) Not applicable.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES

Not required in this filing

ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES

Not required in this filing

ITEM 9. PURCHASE OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED COMPANIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share ¹	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ²	
			Announced Plans or Programs ²	Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs ²
July 1-31, 2015	36,830	\$ 39.33	36,830	735,387
August 1-31, 2015	43,044	36.69	43,044	698,557
September 1-30, 2015	30,130	35.80	30,130	655,513
October 1-31, 2015	44,356	38.38	44,356	625,383

November 1-30, 2015				581,027
December 1-31, 2015	11,867	32.11	11,867	581,027
Totals	166,227		166,227	

¹ Subject to fees of up to \$0.03 per share repurchased.

² On November 2, 2015, the Fund announced that it would continue its share repurchase program under which the Fund will continue to repurchase, in each twelve month period ended June 30, up to 10% of its common shares outstanding as of the close of business on June 30 the prior year, but will permit shares to be repurchased at differing discount trigger levels that will not be announced. The Fund will repurchase shares at discount, in accordance with procedures approved by the Board. Subject to these procedures, the timing and amount of any shares repurchased will be determined by the Board and/or its Discount Management Committee in consultation with the Investment Manager.

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There have been no material changes to the procedures by which shareholders may recommend nominees to the Fund's Board of Directors since the Fund last provided disclosure in response to this item.

ITEM 11. CONTROLS AND PROCEDURES

(a) The registrant's President and Chief Executive Officer and Treasurer, Principal Financial & Accounting Officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Act (17 CFR 270.30a-3(c))), are effective based on their evaluation of these controls and procedures as of a date within 90 days of the filing date of this document.

(b) There were no significant change in the registrant's internal control over financial reporting as defined in Rule 30a-3(d) under the Act (17 CFR 270.30a-3(d)) that occurred during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

Table of Contents

ITEM 12. EXHIBITS

(a) (1) Not required in this filing

(a) (2) Exhibit 99.302 Cert. Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

(a) (3) Not applicable

(b) Exhibit 99.906 Cert. Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Table of Contents

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) The Korea Fund, Inc.

By: /s/ Joseph Quirk
Joseph Quirk
President & Chief Executive Officer

Date: February 25, 2016

By: /s/ Lawrence G. Altadonna
Lawrence G. Altadonna
Treasurer, Principal Financial & Accounting Officer

Date: February 25, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Joseph Quirk
Joseph Quirk
President & Chief Executive Officer

Date: February 25, 2016

By: /s/ Lawrence G. Altadonna
Lawrence G. Altadonna
Treasurer, Principal Financial & Accounting Officer

Date: February 25, 2016