



# The Korea Fund, Inc.'s Annual Public Conference Call

Chris Leung, Portfolio Manager

October 20, 2017



The Korea Fund, Inc.

# About the Manager



**Chris Leung, CFA**  
Senior Portfolio Manager  
Director

22 Years of Industry Experience

Mr. Leung is a Hong Kong-based senior portfolio manager with Allianz Global Investors. He rejoined the group in 2014 and is responsible for the Korean equity portfolios. Mr. Leung was previously with the firm from 2001 to 2006 during which he managed the Korean equity mandates, pan-regional strategies and provided support to the regional portfolio management team.

Before joining AllianzGI, Mr. Leung specialized in long-short equity investments in Korea and Hong Kong/China at LAPP Capital. Previously, he spent six years with AXA Investment Managers (HK) working as an investment analyst and portfolio manager, where he managed Korean country funds and was involved in Asian regional portfolios.

Mr. Leung has both a B.A.Sc. in civil engineering and an M.B.A. from the University of British Columbia, Canada. He is also a CFA charterholder.

# Agenda

1

Review of Market  
Developments

2

Fund Performance &  
Attribution

3

Market Outlook & Strategy

**1**

# **Review of Market Developments**

## Review of Market Developments

- During the fiscal year from July 1, 2016 to June 30, 2017, the MSCI Korea (Total Return) Index appreciated by 33.98% in Korean Won terms and 34.88% in US Dollar terms.
- At the beginning of the period, continuing low interest rates in the wake of BREXIT fueled the market's advance
- However, President Park's influence peddling scandal led to a correction of the market towards the end of 2016
- During early 2017, markets recovered on reflation expectations following the election of Mr. Trump as US President and his promises of increased government spending
- The clearing of domestic political uncertainty with the impeachment of President Park and election of President Moon has also been a tailwind for the Korean market
- Offsetting these positives were elevated geopolitical tensions from North Korea and China's economic retaliation against Korea's decision to adopt THAAD (Terminal High Altitude Area Defense) anti-missile system
- Technology, the biggest sector of the Korean market, helped drive MSCI Korea to its record high

# 2

## Fund Performance & Attribution

## Fund performance & attribution

### Return for Financial Year-end June 2017

	Korea Fund NAV	MSCI Korea (Total Return) Index
1 Year	22.83%	34.88%
3 Year (p.a.)	2.14%	3.74%
5 Year (p.a.)	4.48%	6.81%

Top Contributors	Avg Active Weight	Top Detractors	Avg Active Weight
SK Hynix	3.9%	Coway	4.7%
Medy-Tox	0.6%	Kangwon Land	2.9%
Hugel	0.2%	KT&G	1.4%

Top overweight contributors/detractors held within the portfolio during the year ending June 30, 2017.

Past performance is not a guarantee of future results. Returns for the fund reflect changes in net asset value per share during each period and assume that dividends and capital gains, if any, were reinvested. Net asset value ("NAV") is total assets less total liabilities divided by the number of shares outstanding. NAV performance includes the deduction of management fees and other expenses. NAV returns do not reflect broker sales charges or commissions, which would reduce returns. The MSCI Korea Total Return 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 US based investors. The returns assume reinvestment of dividends (net of foreign withholding taxes) but do not reflect any fees or expenses. It is not possible to invest directly in an index.



**3**

# **Market Outlook & Strategy**



## Domestic policy concerns

- President Moon's policies have proven more populist than expected, with an objective to benefit ordinary people at the expense of big corporates and the wealthy.
- Such examples include:
  - Trying to raise taxes on large corporates and high income groups
  - Ordering telecom operators to increase discounts provided to customers
  - Reducing lending rates on delinquent loans for banks
  - Pressuring insurers to cut health insurance premiums
  - Raising minimum wages at a much faster rate than previously
  - Asking retailers to share promotion costs with suppliers, and propose more mandatory shutdown days to help the traditional market
  - Property market cooling measures, including lower Loan-to-Value (LTV)/Debit-to-income (DTI) and punitive disposal gains tax for multiple-home owners

## Geopolitical risks

### North Korea

- North Korea has increased the frequency of its missile tests, and recently conducted its sixth nuclear test
- Hostile response from US and China's concerns over the N.K. regime's stability complicate the geopolitical landscape
- While the risk of war seems low, if it happens the consequence could be disastrous

### THAAD (Terminal High Altitude Area Defense)

- Tourism related sectors has been hurt the most, mainly Duty Free and Cosmetics sectors
- Business within China has been negatively affected as well. Sales of Korean autos declined dramatically, while some retailers have begun to shut down their stores in China
- Although we are likely to be passing the worst, it is difficult to see a recovery given President Moon's decision for full THAAD installation after North Korea's nuclear test

## Opportunities and Themes

### Technology

- Memory: Supply discipline should continue, while demand is expected to remain robust driven by servers
- OLED (organic light-emitting diode): Samsung Electronics currently the sole supplier for Apple's iPhone, while LG Display may become a second major producer.

### Materials

- China seems committed on its supply side reform measures, and has strengthened enforcement of environmental regulations
- If sustained, this could reduce supply growth of certain commodities and improve producers' pricing power

### Electric Vehicle (EV)

- Governments' plans to ban internal combustion engines are accelerating
- Auto OEMs (original equipment manufacturer) have also announced more concrete plans for EV model launches
- Outside China, Panasonic, LG Chem, and Samsung SDI are leading battery suppliers

# Q&A



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## Disclosure

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