

KOREA FUND INC  
Form N-CSR  
August 31, 2017  
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 10019**  
**(Address of principal executive offices) (Zip code)**

**Lawrence G. Altadonna**

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**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**

**Date of reporting period: June 30, 2017**

**Table of Contents**

**Item 1. Report to Shareholders**

Annual Report

June 30, 2017

**Table of Contents**

1-4	<u>Portfolio Manager's Report</u>
5-6	<u>Performance &amp; Statistics</u>
7-9	<u>Schedule of Investments</u>
10	<u>Statement of Assets and Liabilities</u>
11	<u>Statement of Operations</u>
12	<u>Statement of Changes in Net Assets</u>
13	<u>Financial Highlights</u>
14-19	<u>Notes to Financial Statements</u>
20	<u>Report of Independent Registered Public Accounting Firm</u>
21	<u>Tax Information/Stockholder Meeting Results/Proxy Voting Policies &amp; Procedures</u>
22-23	<u>Privacy Policy</u>
24-25	<u>Dividend Reinvestment and Cash Purchase Plan</u>
26	<u>Board of Directors</u>
27	<u>Fund Officers</u>

## **Table of Contents**

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

June 30, 2017 (unaudited)

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 fiscal period, expectations for sustained low interest rates for much of the world, in the wake of referendum of the United Kingdom to leave the European Union ( BREXIT ) helped fuel South Korea's market advance. However, following the influence peddling scandal surrounding President Park, the South Korean market experienced a correction towards the end of 2016. In 2017, the market continued to rise, but the macroeconomic and geopolitical backdrop has been mixed. Firstly, the election of Donald Trump as US President and his policy initiatives for increased government spending fueled optimism for economic growth, although such expectations have recently diminished. Secondly, the impeachment of President Park and election of President Moon have been a tailwind for the Korean market, on hopes of improved corporate governance through increased transparency and fair trade practices among Korean corporates. On the other hand, geopolitical tensions remain elevated, as North Korea stepped up its military provocations through continuous missile tests, while China also continues its retaliation measures against Korea's decision to adopt the Terminal High Altitude Area Defense ( THAAD ) anti-ballistic missile defense system.

In October 2016, it was discovered certain of President Park's various policy decisions were influenced by her confidante, Ms. Choi Soon-sil, who did not hold any political office. In addition there were allegations that several conglomerates donated funds to Ms. Choi's foundations in exchange for favors from the government. During the investigation, an arrest warrant was issued for Mr. Jae Yong Lee, the vice chairman of Samsung Electronics, for alleged bribery. Massive demonstrations prior to President Park's impeachment led to a slowdown in consumer spending as well as business activities in South Korea. Although political uncertainties have subsided after the special elections, the trials for President Park, Ms. Choi and Mr. Lee are still pending. Ms. Choi has been sentenced to three years in prison in the first of several criminal cases, and could face even longer sentences if convicted of extortion and abuse of power.

On May 9, 2017, Moon Jae In was elected South Korea's new President. Some of key priorities as set forth by President Moon will be to improve public welfare through the creation of public jobs and increase in the minimum wage, promotion of fairness and equality in the economy, and providing a peaceful resolution for North Korea, as well as a cleaner environment. Considering many of these policies will need the approval of the national assembly to effect legislative change, it remains to be seen how much of President Moon's plans will become a reality. For example, he has not yet been able to complete the appointment of key ministers nor pass his economic stimulus plan due to objections from the opposition parties.

Korea also faces a geopolitical quagmire with regard to North Korea. Despite President Moon's suggestions of economic aid and direct dialogue, North Korea has responded by continued

## **Table of Contents**

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

June 30, 2017 (unaudited) (continued)

missile tests, and claimed recently that it has successfully developed inter-continental ballistic missile technology. Meanwhile, China remains adamant that South Korea should reverse its decision to adopt THAAD to protect against the missile threat from North Korea. As a result, China has implemented various retaliation measures against South Korea, such as limiting tourist travel to South Korea, forcing the shutdown of South Korean retail stores in China and prohibiting South Korean media content within China.

### **Fund's Performance**

From July 1, 2016 to June 30, 2017, the total return of The Korea Fund, Inc.'s (the Fund) Net Asset Value (NAV) was 22.83% (net of fees) in US Dollar terms, underperforming the Fund's benchmark MSCI Korea (Total Return) Index by 12.05%.

### **Performance Attribution Review**

Over the reporting period, stock selection in the consumer discretionary and industrials sectors contributed to the Fund's underperformance versus its benchmark. In the consumer sector the Fund was hurt by holdings in Coway, a leading water purifier rental service provider. The stock fell sharply following news reports that water from some of its water purifier products was found to contain traces of nickel. The Fund's holdings in Kangwon Land, a domestic casino operator, also detracted from performance, as there was speculation that the government might issue a new domestic casino license to a competitor, as well as concerns that the company might be coerced to make a donation to support Korea's 2018 winter Olympics. In the industrial sector, holdings in Korea Aerospace Industries, a defense company, detracted from performance. The company's share price declined as it failed to meet its export order targets, and there were worries that the scandal surrounding President Park would delay domestic orders from the government. Given their more uncertain outlook, the Fund had reduced its exposure to these three significant detractors.

Positive contributors over the period include SK Hynix, a semiconductor manufacturer, riding on the tailwind of improving supply-demand balance in the memory chip industry. The Fund's performance was also helped by the underweight positions in cosmetics and auto stocks, which were affected by Korea's deteriorating relationship with China. The restriction of Chinese tourists to Korea led to a sharp decline in sales at cosmetic companies' duty free channels, resulting in earnings downgrades. At the same time, negative sentiment among some Chinese consumers towards Korea led to poor performance of Korean product sales in China.

### **Outlook**

While the rhetoric between the US and North Korea has turned increasingly aggressive, in our view the risk of military action seems manageable in the near term. The US wants to increase pressure on North Korea through diplomacy and sanctions. We believe that military action

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**Table of Contents**

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

June 30, 2017 (unaudited) (continued)

would be a last resort, given that North Korean retaliation would cause heavy casualties in South Korea and possibly Japan or further. The US has also enlisted the help of China, who has stepped up its own pressure on North Korea with trade sanctions. However, it is difficult to tell whether these measures can eventually force North Korea to stop its nuclear and missiles program. In the medium term, should diplomatic efforts and sanctions fail, the US may face the dilemma of whether to accept North Korea as a nuclear state, or risk military actions on the Korean Peninsula. Meanwhile, given the escalated threat from North Korea, we believe the Moon administration will likely proceed with the full deployment of the THAAD anti-missile system. As such, South Korea's relation with China is expected to remain difficult, which would continue to hurt Korea's tourism and certain Korean brands' popularity in China.

While the election of President Moon has raised expectations of chaebol (chaebols are large family-controlled business conglomerate structures in South Korea) reform in Korea, we remain cautious and wait for more evidence, as history has shown chaebol reform to be a very challenging task. On the other hand, the new administration has shown an inclination to adopt populist policies that may hurt corporate profitability. There are currently policy discussions on the reduction of mobile telecom tariffs, capping insurance premiums, as well as faster increases of the minimum wage. We therefore need to be mindful of increased regulatory risks on a wide range of companies. On the external front, we believe the global economy has been steady but a stronger recovery remains elusive. For Korean exports, the technology sector has been a bright spot, although a number of other export sectors such as auto, cosmetics and heavy industries remain under pressure. Given the sluggish economic outlook, in our view, the Bank of Korea is unlikely to raise interest rates soon. The current record low interest rate environment is likely to continue to give the equity market some support in this low growth environment.

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

*This information is unaudited and is intended for informational purposes only. It is presented only to provide information on investment strategies and opportunities. The Fund seeks long-term capital appreciation through investment in securities, primarily equity securities, of Korean*

**Table of Contents**

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

June 30, 2017 (unaudited) (continued)

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

4 The Korea Fund, Inc. Annual Report 06.30.17

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

June 30, 2017 (unaudited)

<b>Total Return<sup>(1)</sup></b>	<b>1 Year</b>	<b>5 Year</b>	<b>10 Year</b>
Market Price	25.09%	4.84%	1.37%
Net Asset Value ( NAV )	22.83%	4.48%	0.87% <sup>(2)</sup>
MSCI Korea (Total Return) <sup>(3)</sup>	34.88%	6.81%	3.12%
MSCI Korea (Price Return) <sup>(3)</sup>	32.74%	5.56%	1.96%
KOSPI <sup>(4)</sup>	22.21%	5.25%	1.03%

**Premium (Discount) to NAV:**

June 30, 2007 to June 30, 2017

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

Market Price	\$40.04
NAV <sup>(5)</sup>	\$44.65
Discount to NAV	-10.32%

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

Samsung Electronics Co., Ltd. Manufacturer of electronic parts	24.8%
SK Hynix, Inc. Manufacturer of memory and non-memory semiconductors	8.4%
E-MART, Inc. Discount store chain operator	4.8%
Coway Co., Ltd. Engaged in the provision of water purifiers	4.1%
NAVER Corp. Internet content service operator	3.9%
Shinhan Financial Group Co., Ltd. Provider on financial products and services	3.6%
Medy-Tox, Inc. Developer, manufacturer and marketer of biopharmaceutical products	3.5%
KB Financial Group, Inc. Financial holding company	3.4%
POSCO Manufacturer of steel products	3.1%
Hyundai Motor Co. Manufacturer and distributor of automobiles and automobile parts	3.0%



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**Table of Contents**

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

June 30, 2017 (unaudited) (continued)

**Notes to Performance & Statistics:**

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

6 The Korea Fund, Inc. Annual Report 06.30.17

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

June 30, 2017

Shares		Value
<b>COMMON STOCK 99.1%</b>		
<b>Aerospace &amp; Defense 3.0%</b>		
81,330	Hanwha Techwin Co., Ltd. (e)	\$ 3,162,177
93,963	Korea Aerospace Industries Ltd.	4,681,109
		7,843,286
<b>Auto Components 2.4%</b>		
110,633	Hankook Tire Co., Ltd.	6,149,714
<b>Automobiles 3.0%</b>		
55,434	Hyundai Motor Co.	7,728,894
<b>Banks 9.2%</b>		
120,740	Hana Financial Group, Inc.	4,768,324
177,010	KB Financial Group, Inc.	8,937,272
214,102	Shinhan Financial Group Co., Ltd.	9,237,465
64,230	Woori Bank	1,034,673
		23,977,734
<b>Beverages 1.5%</b>		
185,880	Hite Jinro Co., Ltd.	3,785,161
<b>Biotechnology 4.9%</b>		
7,070	Hugel, Inc. (e)	3,456,850
18,843	Medy-Tox, Inc. (d)	9,227,405
		12,684,255
<b>Chemicals 2.3%</b>		
18,310	LG Chem Ltd.	4,659,407
4,470	Lotte Chemical Corp.	1,345,365
		6,004,772
<b>Construction &amp; Engineering 2.0%</b>		
127,817	Hyundai Development Co.	5,249,669
<b>Food &amp; Staples Retailing 7.7%</b>		
34,005	BGF retail Co., Ltd.	3,004,276
60,380	E-MART, Inc.	12,370,890
105,020	GS Retail Co., Ltd.	4,735,386
		20,110,552
<b>Hotels, Restaurants &amp; Leisure 1.0%</b>		
84,007	Kangwon Land, Inc.	2,559,902
<b>Household Durables 6.6%</b>		
117,682	Coway Co., Ltd.	10,695,164

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24,557	Hanssem Co., Ltd.	3,949,209
36,100	LG Electronics, Inc.	2,532,611
		17,176,984
<b>Industrial Conglomerates 1.6%</b>		
31,100	Samsung C&T Corp.	4,023,973
<b>Insurance 5.6%</b>		
99,990	Dongbu Insurance Co., Ltd.	5,942,201
30,920	Hyundai Marine & Fire Insurance Co., Ltd.	1,063,494
70,572	ING Life Insurance Korea Ltd. (a)(e)	2,097,145
11,487	Samsung Fire & Marine Insurance Co., Ltd.	2,827,517
25,520	Samsung Life Insurance Co., Ltd.	2,608,966
		14,539,323

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

June 30, 2017 (continued)

Shares		Value
	<b>Internet Software &amp; Services 3.9%</b>	
13,809	NAVER Corp.	\$ 10,122,423
	<b>Machinery 2.6%</b>	
160,590	Doosan Bobcat, Inc.	5,003,012
34,110	Hyundai Elevator Co., Ltd. (d)	1,828,431
		6,831,443
	<b>Media 0.2%</b>	
8,610	Innocean Worldwide, Inc.	480,549
	<b>Metals &amp; Mining 4.7%</b>	
26,580	Hyundai Steel Co.	1,443,736
6,770	Korea Zinc Co., Ltd.	2,697,746
32,125	POSCO	8,047,058
		12,188,540
	<b>Oil, Gas &amp; Consumable Fuels 0.4%</b>	
7,900	SK Innovation Co., Ltd.	1,094,121
	<b>Personal Products 0.7%</b>	
30,610	Korea Kolmar Co., Ltd.	1,931,013
	<b>Semiconductors &amp; Semiconductor Equipment 8.4%</b>	
368,501	SK Hynix, Inc.	21,697,218
	<b>Software 1.1%</b>	
21,610	Netmarble Games Corp. (a)(d)(e)	2,927,544
	<b>Technology Hardware, Storage &amp; Peripherals 24.8%</b>	
30,980	Samsung Electronics Co., Ltd.	64,525,776
	<b>Tobacco 1.0%</b>	
26,380	KT&G Corp.	2,698,453
	<b>Wireless Telecommunication Services 0.5%</b>	
5,770	SK Telecom Co., Ltd.	1,341,450
	Total Common Stock (cost \$164,336,754)	257,672,749
	<b>SHORT-TERM INVESTMENTS 3.2%</b>	
	<b>Collateral Invested for Securities on Loan (c) 3.2%</b>	
8,406,612	BlackRock T-Fund, Institutional Class (cost \$8,406,612)	8,406,612
	<b>Total Investments (cost \$172,743,366) (b) 102.3%</b>	266,079,361
	Liabilities in excess of other assets (2.3)%	(6,102,994)
	<b>Net Assets 100.0%</b>	<b>\$259,976,367</b>

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### Notes to Schedule of Investments:

- (a) 144A Exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, typically only to qualified institutional buyers. Securities with an aggregate value of \$5,024,689, representing 1.9% of net assets.
- (b) Securities with an aggregate value of \$242,676,292, representing 93.3% 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.
- (c) Purchased with cash collateral received from securities on loan.
- (d) A portion of securities on loan with an aggregate value of \$8,005,817; cash collateral (included in liabilities) of \$8,406,612 was received with which the Fund invested in the BlackRock T-Fund Institutional Class.
- (e) Non-income producing.

**8** The Korea Fund, Inc. Annual Report 06.30.17 **See accompanying Notes to Financial Statements**

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

June 30, 2017 (continued)

(f) Fair Value Measurements See Note 1(b) in the Notes to Financial Statements.

	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs	Value at 6/30/17
<b>Investments in Securities Assets</b>				
Common Stock:				
Aerospace & Defense	\$ 4,681,109	\$ 3,162,177	\$	\$ 7,843,286
Household Durables	3,949,209	13,227,775		17,176,984
Insurance	2,097,145	12,442,178		14,539,323
Software	2,927,544			2,927,544
Wireless Telecommunication Services	1,341,450			1,341,450
All Other		213,844,162		213,844,162
Collateral Invested for Securities on Loan	8,406,612			8,406,612
<b>Totals</b>	\$ 23,403,069	\$ 242,676,292	\$	\$ 266,079,361

At June 30, 2017, securities valued at \$9,971,768 were transferred from Level 2 to Level 1. These transfers were the result of securities trading outside the U.S. whose values were adjusted by the application of a modeling tool at June 30, 2016, which was not applied on June 30, 2017.

Securities Lending Transactions Accounted for as Secured Borrowings:

	Remaining Contractual Maturity of the Agreements				Total
	Overnight and Continuous	As of June 30, 2017		Greater than 90 days	
		Up to 30 days	30 - 90 days		
<b>Securities Lending Transactions</b>					
Common Stock	\$ 8,406,612	\$	\$	\$	\$ 8,406,612
<b>Gross amount of recognized liabilities for securities lending transactions</b>					\$ 8,406,612

See accompanying Notes to Financial Statements 06.30.17 The Korea Fund, Inc. Annual Report 9

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

June 30, 2017

**Assets:**

Investments, at value, including securities on loan of \$8,005,817 (cost \$172,743,366)	\$266,079,361
Cash	642,304
Foreign currency, at value (cost \$3,291,266)	3,287,109
Receivable for investments sold	3,322,546
Dividends receivable (net of foreign withholding taxes)	122,576
Securities lending income receivable, including income from invested cash collateral (net of rebates)	19,770
Prepaid expenses	130,812
<b>Total Assets</b>	<b>273,604,478</b>

**Liabilities:**

Payable for collateral for securities on loan	8,406,612
Payable for investments purchased	4,259,465
Payable for shares repurchased	405,623
Investment management fees payable	161,669
Accrued expenses and other liabilities	394,742
<b>Total Liabilities</b>	<b>13,628,111</b>
<b>Net Assets</b>	<b>\$259,976,367</b>

**Net Assets:****Common Stock:**

Par value (\$0.01 per share, applicable to 5,822,293 shares issued and outstanding)	\$58,223
Paid-in-capital in excess of par	156,905,451
Dividends in excess of net investment income	(378,490)
Accumulated net realized gain	10,056,546
Net unrealized appreciation	93,334,637

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<b>Net Assets</b>	\$259,976,367
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<b>Net Asset Value Per Share</b>	\$44.65
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**10** The Korea Fund, Inc. Annual Report 06.30.17 **See accompanying Notes to Financial Statements**



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

Year ended June 30, 2017

**Investment Income:**

Dividends (net of foreign withholding taxes of \$806,125)	\$4,070,998
Securities lending income, including income from invested cash collateral (net of rebates)	149,193
Interest (net of foreign withholding taxes of \$596)	3,856
<b>Total Investment Income</b>	<b>4,224,047</b>

**Expenses:**

Investment management	1,997,157
Directors	394,613
Legal	180,874
Insurance	152,939
Custodian and accounting agent	137,054
Audit and tax services	101,633
Stockholder communications	64,785
Transfer agent	60,836
New York Stock Exchange listing	19,209
Miscellaneous	48,312
<b>Total Expenses</b>	<b>3,157,412</b>
<b>Net Investment Income</b>	<b>1,066,635</b>

**Realized and Change in Unrealized Gain (Loss):**

Net realized gain on:

Investments	35,881,606
Foreign currency transactions	654,267

Net change in unrealized appreciation/depreciation of:

Investments	14,572,890
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Foreign currency transactions	(86,969)
Net realized and change in unrealized gain	51,021,794
<b>Net Increase in Net Assets Resulting from Investment Operations</b>	<b>\$52,088,429</b>

See accompanying Notes to Financial Statements 06.30.17 The Korea Fund, Inc. Annual Report 11

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

	Year ended June 30, 2017	Year ended June 30, 2016
<b>Investment Operations:</b>		
Net investment income	\$1,066,635	\$774,529
Net realized gain (loss)	36,535,873	(2,768,145)
Net change in unrealized appreciation/depreciation	14,485,921	(27,458,982)
Net increase (decrease) in net assets resulting from investment operations	52,088,429	(29,452,598)
<b>Dividends and Distributions to Stockholders from:</b>		
Net investment income	(1,882,855)	
Net realized gains	(347,023)	(31,317,886)
Total dividends and distributions to stockholders	(2,229,878)	(31,317,886)
<b>Common Stock Transactions:</b>		
Cost of shares tendered	(28,257,538)	
Cost of shares repurchased	(17,913,838)	(12,398,811)
Net decrease in net assets from common stock transactions	(46,171,376)	