

Korea Equity Fund (KEF)

Want exposure to the Korean equity market? Nomura operates a closed end Korean fund. The fund paid out an extraordinary dividend of 11% in Dec. 2012. The fund closely tracked the KOSPI, until the end of 2011, which was when Europe boiled over, and has decoupled ever since. The fund has underperformed the index, and is selling at a discount to the NAV.



In Q4 2012, the fund's NAV appreciated 7%, while the KOSPI rose 1.6% and USDKRW appreciated 3.6%. The fund outperformed the market and currency appreciation by 1.8%. Weak construction and manufacturing activity attributed to lower GDP at 2.4%. Inflation at 2.1% and unemployment at 3%.

The co. generates dividend income through their stock holdings, which goes toward paying management fee and operating costs. There is an incessant pressure on management to generate realized gains on their holdings, since the inflow of income can't offset the management expenses. Dividend income is about 0.8% of NAV, while operating expenses is 1.8%. The fund is \$100MM in size. Essentially, the fund is running in the red. It is okay when the market performs well, but if the market turns bearish, then the operating loss is aggravated by the unrealized loss, which means the fund will have to sell off on the holdings for lower disposition prices.

The fund realized a flat gain on investment in 2012, whereas the fund returned double digit annual returns between 2009-2011. So, they paid out the 11% dividend in 2012 to compensate for the weak performance, which left the fund with a lower Book value. Over the past few years, the fund has sold in the market at a 10% discount to the NAV. In 2010, the fund repurchased shares, which explains why the net asset amount decreased from 136MM to 121MM, although they realized a 10% gain on investment.

For the Year Ended
October 31,

	2012	2011	2010	2009	2008
Net asset value, beginning of year	\$ 13.69	\$ 12.30	\$ 9.76	\$ 6.51	\$ 16.42
Net investment income (loss)*	(0.10)	(0.16)	(0.07)	(0.02)	0.04
Net realized and unrealized gain (loss) on investments and foreign currency	0.10	1.49	2.61	3.28	(9.93)
Total from investment operations	0.00	1.33	2.54	3.26	(9.89)
Distributions:					
Distributions from investment income, net	—	—	—	(0.01)	(0.02)
Distributions from capital gains	(3.07)	—	—	—	—
Total from distributions	(3.07)	—	—	(0.01)	(0.02)
Fund Share Transactions					
Effect of Tender Offer**	0.02	0.06	—	—	—
Total Fund share transactions	0.02	0.06	—	—	—
Net asset value, end of year	\$ 10.64	\$ 13.69	\$ 12.30	\$ 9.76	\$ 6.51
Market value, end of year	\$ 9.65	\$ 12.41	\$ 11.25	\$ 8.40	\$ 5.54
Total investment return†	(1.8%)	10.3%	33.9%	51.9%	(63.9%)
Ratio to average net assets/supplemental data:					
Net assets, end of period (000)	\$ 103,615	\$ 121,195	\$ 136,026	\$ 109,460	\$ 72,940
Operating expenses	1.81%*	1.90%	1.81%	1.64%	1.36%
Net investment income (loss)	(0.90%)*	(1.13%)	(0.68%)	(0.33%)	0.32%
Portfolio turnover	77%	75%	52%	57%	45%