

The Korea Fund, Inc.

Manager's Commentary

Market Review

The Korean equity market trended lower during December 2018 in US dollar terms. Utilities was the best performing sector during the month, on expectations of easing of input cost pressures following a sharp decline in crude oil prices. Consumer discretionary also outperformed, led by auto stocks as reshuffling of Hyundai Motor Group's senior management fueled expectations for group restructuring activities. Meanwhile, the worst performing sector was information technology, due to uncertainties of demand outlook. Communication services also underperformed on concerns of weak online game revenues and regulatory pressures.

Fund Review

The Korea Fund, Inc. (the "Fund") underperformed the MSCI Korea 25/50 Index (the "benchmark") during December 2018. The Fund's performance was hurt by its overweight position in Samsung Electro-Mechanics Co. Ltd., an electrical component manufacturer, which corrected on concerns for weak MLCC (Multilayer ceramic capacitors) demand against the backdrop of decelerating smartphone sales. The Fund's underweight position in Amorepacific Corp., a beauty and cosmetics conglomerate, also detracted from performance, as the shares rebounded on hopes for a full-fledged return of Chinese group tourists to Korea.

On the other hand, the Fund's underweight position in SK Hynix Inc., a semiconductor manufacturer, helped performance, as the shares corrected on declining DRAM (Dynamic Random-Access Memory) prices and uncertain demand outlook. The Fund's overweight position in Fila Korea Ltd., a sports apparel company, continued to contribute positively, as the company is expected to continue delivering strong earnings growth.

Key Transactions

During December 2018, the Fund reduced exposure to the financial sector to manage its risk exposure amidst uncertain macroeconomic conditions. On the other hand, the Fund added exposure to the utilities sector on the view that earnings have bottomed.

Outlook

The macroeconomic outlook remains uncertain, including low visibility regarding the direction of U.S. interest rates and slowing of economic momentum outside the U.S. Despite the ongoing discussions between U.S. and China, there have been little developments regarding trade dispute issues. In Korea, the second round of accelerated minimum wage hikes will be in effect starting January 2019, which may have further negative effects on job growth and consumption. There is also a risk of slowing exports amidst weak near term fundamentals for the semiconductor industry. We are closely monitoring the impact of these developments to the Fund.

In Brief

Fund Data

Description	Seeks long-term capital appreciation through investment in Korean securities.
Inception Date	August 29, 1984
Total Fund Assets (millions)	\$169.9
Median Market Cap (in billions)	\$9.1
Distribution Frequency	Annual
Management Firm	Allianz Global Investors U.S. LLC
Portfolio Management	Chris Leung, CFA Lead Portfolio Manager Raymond Chan, CFA Portfolio Manager

Net Asset Value / Market Price

Net Asset Value (NAV) / Market Price at Inception	\$11.16 / \$12.00
NAV / Market Price (as of 12/31/2018)	\$32.38 / \$27.99

High / Low Ranges (52-Week)

High / Low NAV	\$49.26 / \$31.35
High / Low Market Price	\$43.89 / \$27.51
Premium/Discount to NAV (as of 12/31/2018)	-13.56%

Fund Data (Common Shares)

Shares Outstanding	5,245,937
Average Daily Volume	7,684
Expense Ratio	1.13%

Fund Managers



Chris Leung, CFA
Lead Portfolio Manager



Raymond Chan, CFA
Portfolio Manager

Average Annual Returns

	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Inception
NAV	-1.67%	-10.23%	-19.14%	-19.14%	5.35%	0.22%	7.12%	11.14%
Market Price	-0.61%	-9.78%	-19.90%	-19.90%	4.63%	0.25%	3.35%	10.43%
MSCI Korea 25/50 Index	-1.29%	-12.58%	-20.01%	-20.01%	7.75%	0.85%	9.62%	—
MSCI Korea Total Return Index	-1.88%	-13.13%	-20.94%	-20.94%	8.19%	0.99%	9.72%	—
MSCI Korea Price Return Index	-3.06%	-14.18%	-22.60%	-22.60%	6.41%	-0.62%	8.31%	—
The Korea Stock Price Index	-2.21%	-13.40%	-20.64%	-20.64%	3.03%	-0.82%	7.44%	—

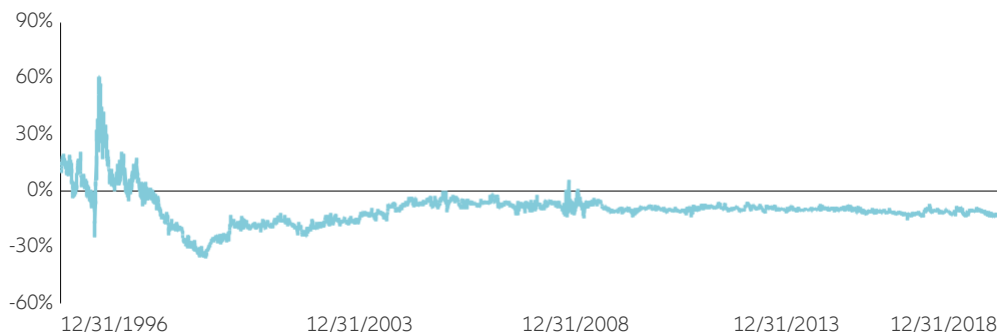
Calendar Year Returns

	2010	2011	2012	2013	2014	2015	2016	2017
NAV	23.71%	-8.71%	17.09%	1.00%	-9.85%	-4.06%	2.64%	40.88%
Market Price	24.88%	-7.79%	15.41%	-0.01%	-9.07%	-2.81%	1.08%	41.47%
MSCI Korea 25/50 Index	26.74%	-12.00%	20.72%	4.07%	-10.83%	-6.49%	7.71%	45.17%
MSCI Korea Total Return Index	26.74%	-12.00%	21.18%	3.94%	-11.12%	-6.66%	8.75%	47.30%
MSCI Korea Price Return Index	25.29%	-12.84%	20.16%	3.10%	-12.61%	-7.94%	6.98%	45.51%
The Korea Stock Price Index	25.06%	-12.30%	17.70%	2.17%	-8.56%	-4.02%	0.31%	37.37%

Past performance is not a guide to future returns. Returns are annualized, except for periods of less than one year.

Source: IDS GmbH-Analysis and Reporting Services, a subsidiary of Allianz SE. Inception date is August 29, 1984. Returns for the fund are historical returns that reflect changes in net asset value and market price per share during each period and assume that dividends and capital gains, if any, were reinvested. Net asset value is total assets less total liabilities divided by the number of shares outstanding. NAV performance includes the deduction of management fees and other expenses. Market price performance does not include the deduction of expenses and would be lower had expenses been deducted. NAV and market price returns do not reflect broker sales charges or commissions, which would reduce returns. It is not possible to invest directly in an index.

Premium/Discount



Sector Breakdown

	Fund	Benchmark ¹
Information Technology	24.50%	30.24%
Financials	12.30%	13.85%
Consumer Discretionary	12.14%	11.78%
Industrials	11.67%	11.21%
Materials	7.01%	8.17%
Consumer Staples	4.74%	7.06%
Communication Services	4.22%	6.66%
Health Care	3.19%	6.80%
Utilities	2.85%	1.48%
Energy	1.87%	2.75%

Source: IDS GmbH - Analysis and Reporting Services, a subsidiary of Allianz SE.

Top 10 Holdings

SAMSUNG ELECTRONICS CO LTD (S.Korea)	18.44%
LG CHEM LTD (S.Korea)	3.61%
KANGWON LAND INC (S.Korea)	3.04%
FILA KOREA LTD (S.Korea)	3.04%
KOREA ELECTRIC POWER CORP (S.Korea)	2.84%
SAMSUNG ELECTRO-MECHANICS CO LTD (S.Korea)	2.82%
POSCO (S.Korea)	2.59%
KB FINANCIAL GROUP INC (S.Korea)	2.56%
HYUNDAI MOTOR CO (S.Korea)	2.42%
HYUNDAI HEAVY INDUS (S.Korea)	2.40%

Portfolio Characteristics

P/E Ratio	8.30
P/B Ratio	1.02
Issues in Portfolio	47
Foreign Holdings (%)	84.48
Cash (%)	15.52

Risk Statistics (3 Year)

Beta	0.87
R ²	0.91
Standard Deviation of NAV	16.27
Standard Deviation of Market Price	16.64

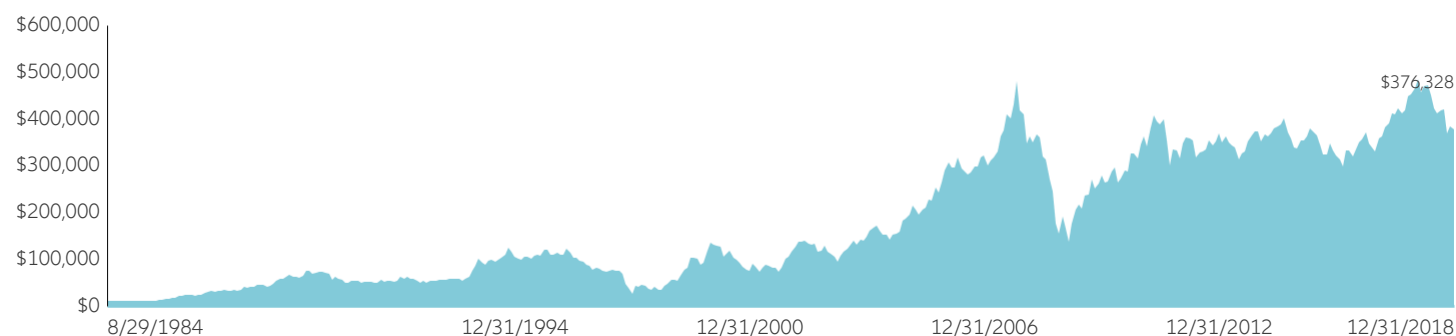
1. MSCI Korea 25/50 Index.

Distribution History (10 Year)

Declaration Date	Ex-dividend Date	Record Date	Payable Date	Distribution/Share	Income	Long-term Capital Gain	Short-term Capital Gain
12/22/2008	12/29/2008	12/31/2008	1/29/2009	\$90.30000	—	\$85.60000	\$4.70000
3/9/2009	3/17/2009	3/19/2009	3/26/2009	\$0.00835	—	\$0.00835	—
12/21/2010	12/29/2010	12/31/2010	1/14/2011	\$0.30000	\$0.30000	—	—
12/20/2011	12/28/2011	12/30/2011	1/20/2012	\$5.45000	—	\$4.50000	\$0.95000
12/18/2015	12/23/2015	12/28/2015	1/15/2016	\$4.35000	—	\$4.35000	—
12/16/2016	12/22/2016	12/27/2016	1/6/2017	\$0.32752	\$0.27655	\$0.05097	—
12/15/2017	12/22/2017	12/26/2017	1/5/2018	\$4.02471	\$0.22579	\$3.79892	—
12/14/2018	12/21/2018	12/24/2018	1/4/2019	\$5.22608	\$0.60784	\$4.61824	—

Distribution/Share includes Income, Long-term Capital gains and Short-term Capital gains.

The Korea Fund NAV Performance of \$10,000 since inception (with dividends reinvested at NAV price)



Past performance is not a guide to future returns.

Index Description

MSCI Korea 25/50 Index

The MSCI Korea 25/50 Index is designed to measure the performance of the large and mid cap segments of the Korean market. It applies certain investment limits that are imposed on regulated investment companies, or RICs, under the current US Internal Revenue Code. One requirement of a RIC is that at the end of each quarter of its tax year no more than 25% of the value of the RIC's assets may be invested in a single issuer and the sum of the weights of all issuers representing more than 5% of the fund should not exceed 50% of the fund's total assets. The index covers approximately 85% of the free float-adjusted market capitalization in Korea. 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.

MSCI Korea Total Return Index

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.

MSCI Korea Price Return Index

The MSCI Korea Price 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 do not and, unlike Fund returns, do not reflect any fees or expenses.

The Korea Stock Price Index

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.

Portfolio in Full

Sector	Company (exchange ticker)	Price KRW	Holding	Value US\$	% of Market Value	
Information Technology					24.56	
	SAMSUNG ELECTRONICS CO LTD	005930	38,842.88	1,032,283	35,935,513	18.44
	SAMSUNG ELECTRO-MECHANICS CO LTD	009150	104,016.67	58,860	5,487,024	2.82
	SK HYNIX INC	000660	60,829.48	78,561	4,282,869	2.20
	SAMSUNG SDI CO LTD	006400	219,319.30	6,610	1,299,248	0.67
	SAMSUNG SDS CO LTD	018260	204,201.76	4,627	846,784	0.43
Financials					12.27	
	KB FINANCIAL GROUP INC	105560	46,547.62	119,646	4,991,249	2.56
	SHINHAN FINANCIAL GROUP CO LTD	055550	39,561.90	130,241	4,617,837	2.37
	DB INSURANCE CO LTD	005830	70,272.44	67,718	4,264,840	2.19
	HYUNDAI MARINE & FIRE INSURANCE CO LTD	001450	40,976.03	105,863	3,887,655	1.99
	HANA FINANCIAL GROUP INC	086790	36,288.97	95,667	3,111,361	1.60
	WOORI BANK	000030	15,603.23	107,130	1,498,095	0.77
	KOREAN REINSURANCE CO	003690	8,656.35	130,365	1,011,368	0.52
	SAMSUNG LIFE INSURANCE CO LTD	032830	81,647.65	7,282	532,854	0.27
Consumer Discretionary					12.14	
	KANGWON LAND INC	035250	31,943.36	207,145	5,930,191	3.04
	FILA KOREA LTD	081660	53,895.37	122,557	5,919,747	3.04
	HYUNDAI MOTOR CO	005380	118,453.67	44,474	4,721,373	2.42
	LG ELECTRONICS INC	066570	62,566.52	41,324	2,317,171	1.19
	HANA TOUR SERVICE INC	039130	69,049.33	23,940	1,481,485	0.76
	MODETOUR NETWORK INC	080160	24,083.52	64,863	1,400,008	0.72
	HYUNDAI MOBIS CO LTD	012330	190,371.45	5,748	980,691	0.50
	LOTTE HIMART CO LTD	071840	46,753.61	21,692	908,926	0.47
Industrials					11.68	
	HYUNDAI HEAVY INDUSTRIES CO LTD	009540	128,696.86	40,485	4,669,558	2.40
	LG CORP	003550	69,880.22	63,169	3,956,142	2.03
	PAN OCEAN CO LTD	028670	4,455.05	730,797	2,917,847	1.50
	HANWHA AEROSPACE CO LTD	012450	32,567.02	98,980	2,888,943	1.48
	DAEWOO SHIPBUILDING & MARINE ENGINEERING CO LTD	042660	34,276.15	92,483	2,840,976	1.46
	JEJU AIR CO LTD	089590	33,549.40	86,888	2,612,511	1.34
	HYUNDAI ENGINEERING & CONSTRUCTION CO LTD	000720	54,646.96	23,506	1,151,220	0.59
	SAMSUNG C&T CORP	028260	105,616.05	10,456	989,713	0.51
	JIN AIR CO LTD	272450	19,264.88	41,472	716,036	0.37
Materials					7.01	
	LG CHEM LTD	051910	347,815.80	22,566	7,034,246	3.61
	POSCO	005490	244,060.70	23,106	5,054,012	2.59
	LOTTE CHEMICAL CORP	011170	277,423.53	3,714	923,419	0.47
	KOREA ZINC CO LTD	010130	432,045.44	1,697	657,090	0.34
Consumer Staples					4.74	
	E-MART INC	139480	182,221.69	18,803	3,070,724	1.58
	LG HOUSEHOLD & HEALTH CARE LTD	051900	1,102,762.70	2,937	2,902,683	1.49
	GS RETAIL CO LTD	007070	40,436.58	60,132	2,179,183	1.12
	BGF RETAIL CO LTD	282330	203,667.48	5,870	1,071,454	0.55
Communication Services					4.22	
	NAVER CORP	035420	122,287.07	35,834	3,927,258	2.02
	AFREECATV CO LTD	067160	39,377.38	82,950	2,927,365	1.50
	NCSOFT CORP	036570	467,710.10	3,271	1,371,106	0.70
Health Care					3.21	
	CELLTRION INC	068270	224,151.62	17,814	3,578,631	1.84
	SAMSUNG BIOLOGICS CO LTD	207940	388,114.02	4,911	1,708,217	0.88
	HANMI PHARM CO LTD	128940	465,777.58	2,273	948,837	0.49
Utilities					2.84	
	KOREA ELECTRIC POWER CORP	015760	33,051.81	186,744	5,531,660	2.84
Energy					1.86	

Sector	Company (exchange ticker)	Price KRW	Holding	Value US\$	% of Market Value
SK INNOVATION CO LTD	096770	179,101.87	16,296	2,615,741	1.34
S-OIL CORP	010950	97,326.59	11,669	1,017,838	0.52

Source: State Street Bank and Trust Company, IDS GmbH - Analysis and Reporting Services, a subsidiary of Allianz SE.

Note: Cash (including for these purposes cash equivalents) is not included.

Important Information:

Holdings are subject to change daily. The Fund seeks long-term capital appreciation through investment in Korean securities. An investment in the Fund involves risk, including loss of principal. Investing in non-U.S. securities entails increased 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 information contained herein has been obtained from sources believed to be reliable but Allianz Global Investors U.S. LLC and its affiliates do not warrant the information to be accurate, complete or reliable. The opinions expressed herein 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 the Fund's holdings, performance and strategies. 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 by a closed-end fund, its shares can be purchased and sold on the open market through a stock exchange, where shares may trade at a premium or a discount. The market price of holdings is subject to change daily.

P/E is a ratio of security price to earnings per share. Typically, an undervalued security is characterized by a low P/E ratio, while an overvalued security is characterized by a high P/E ratio. P/B is a ratio of the current stock price to the book value. This is used to identify undervalued stocks. Beta measures the market related volatility of a portfolio, where the overall market is represented by the MSCI Korea 25/50 Index. The beta of the market is 1 by definition. A beta greater than 1 indicates that a portfolio's market risk is greater than the overall market's, while a beta less than 1 indicates a lower market risk. It is important to note that having a low market risk does not necessarily imply low volatility. A portfolio may have a low beta while experiencing volatility due to factors independent of the market. R-Squared measures the percentage of a portfolio's movements that are explained by movements in the overall market, represented by the MSCI Korea 25/50 Index. The measures of alpha and beta are most relevant when there is a close correlation between the two, as indicated by a high R-Squared value. Standard deviation is an absolute measure of volatility measuring dispersion about an average which, for an index, depicts how widely the returns varied over a certain period of time. The greater the degree of dispersion, the greater the risk.

©2019 Allianz Global Investors Distributors LLC, 1633 Broadway, New York, NY

FS-KF-1218 | 701924

Investment Products: NOT FDIC INSURED | MAY LOSE VALUE | NOT BANK GUARANTEED