

The Korea Fund, Inc.

Manager's Commentary

Market Review

The Korean equity market trended higher during September 2018 in US dollar terms. Energy was the best performing sector during the month as a result of rising oil prices and optimism related to upcoming International Maritime Organization ("IMO") regulations requiring lower sulfur emissions in marine fuels. The health care sector continued to outperform on easing regulatory pressure on the industry's research and development ("R&D") expense accounting practices. On the other hand, information technology was the worst performing sector on concerns over a decline in semiconductor prices. The materials sector also underperformed on concerns that China's winter steel production cuts may be more benign than previous years.

Fund Review

The Korea Fund, Inc. (the "Fund") underperformed the MSCI Korea 25/50 Index (the "benchmark") over the month. The Fund's overweight position in Samsung Electro-Mechanics, a manufacturer of electronics components, detracted from performance as the share price corrected along with a decline in low-end Multilayer Ceramic Capacitor ("MLCC") pricing in the spot market. In addition, the Fund's underweight position to the health care sector hurt its performance as the sector rebounded thanks to easing regulatory concerns on R&D expensing practices.

Meanwhile, the Fund's underweight position in SK Hynix Inc., one of the world's largest memory chip and semiconductor suppliers, contributed positively to its performance, as the shares corrected on weak semiconductor pricing outlook. The Fund's overweight position in the shipbuilding industry also helped its performance, thanks to strong new order flows and tailwind of rising oil prices.

Key Transactions

During September 2018, the Fund reduced exposure to the consumer discretionary sector in view of uncertainties in demand from Chinese tourists. At the same time, the Fund increased its exposure to the insurance sector on expectations of a turnaround in the underwriting cycle.

Outlook

The macroeconomic outlook remains uncertain on lingering risk from the trade tensions between the United States and China, a rise in Korean interest rates and elevated volatility in emerging market currencies. On the geopolitical front, US Secretary of State Pompeo's meeting with Kim Jong Un is raising hopes of a step towards denuclearization of North Korea, but so far there are not many details available and it is difficult to be certain of North Korea's true intentions. In Korea, the rhetoric from the Bank of Korea is turning more hawkish amidst a pickup in inflation figures and implicit pressure from the government for rate hikes to support its policy against rising home prices. We are closely monitoring the impact of these developments to the Fund's portfolio.

In Brief

Fund Data	
Description	Seeks long-term capital appreciation through investment in Korean securities.
Inception Date	August 29, 1984
Total Fund Assets (millions)	\$223.9
Median Market Cap (in billions)	\$8.8
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 9/30/2018)	\$42.02 / \$36.64
High / Low Ranges (52-Week)	
High / Low NAV	\$51.02 / \$39.34
High / Low Market Price	\$44.64 / \$34.87
Premium/Discount to NAV (as of 9/30/2018)	-12.80%

Fund Data (Common Shares)	
Shares Outstanding	5,328,482
Average Daily Volume	7,858
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	0.60%	-0.87%	-9.93%	0.33%	9.04%	3.60%	5.54%	11.58%
Market Price	-0.65%	-4.23%	-11.22%	-1.05%	9.24%	3.57%	5.79%	10.84%
MSCI Korea 25/50 Index	0.88%	0.66%	-8.49%	2.47%	14.49%	4.36%	7.73%	—
MSCI Korea Total Return Index	0.38%	0.69%	-8.99%	1.37%	15.40%	4.70%	7.91%	—
MSCI Korea Price Return Index	0.18%	0.49%	-9.81%	-0.36%	13.57%	3.28%	6.64%	—
The Korea Stock Price Index	1.22%	1.20%	-8.36%	1.04%	8.45%	2.60%	5.82%	—

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	27.98%	31.95%
Financials	17.65%	13.75%
Consumer Discretionary	13.61%	11.32%
Industrials	10.60%	10.80%
Materials	8.11%	7.68%
Consumer Staples	7.56%	6.93%
Communication Services	4.61%	6.21%
Health Care	4.03%	7.22%
Energy	2.42%	2.93%
Utilities	0.98%	1.22%

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

Top 10 Holdings

SAMSUNG ELECTRONICS CO LTD (S.Korea)	21.41%
LG CHEM LTD (S.Korea)	3.97%
KB FINANCIAL GROUP INC (S.Korea)	3.89%
SAMSUNG ELECTRO-MECHANICS CO LTD (S.Korea)	3.82%
SHINHAN FINANCIAL GROUP CO LTD (S.Korea)	3.61%
FILA KOREA LTD (S.Korea)	3.49%
LG HOUSEHOLD & HEALTH CARE LTD (S.Korea)	3.47%
POSCO (S.Korea)	3.27%
NAVER CORP (S.Korea)	3.20%
HANA FINANCIAL GROUP INC (S.Korea)	2.89%

Portfolio Characteristics

P/E Ratio	9.02
P/B Ratio	1.19
Issues in Portfolio	47
Foreign Holdings (%)	97.54
Cash (%)	2.46

Risk Statistics (3 Year)

Beta	0.87
R ²	0.89
Standard Deviation of NAV	15.32
Standard Deviation of Market Price	15.99

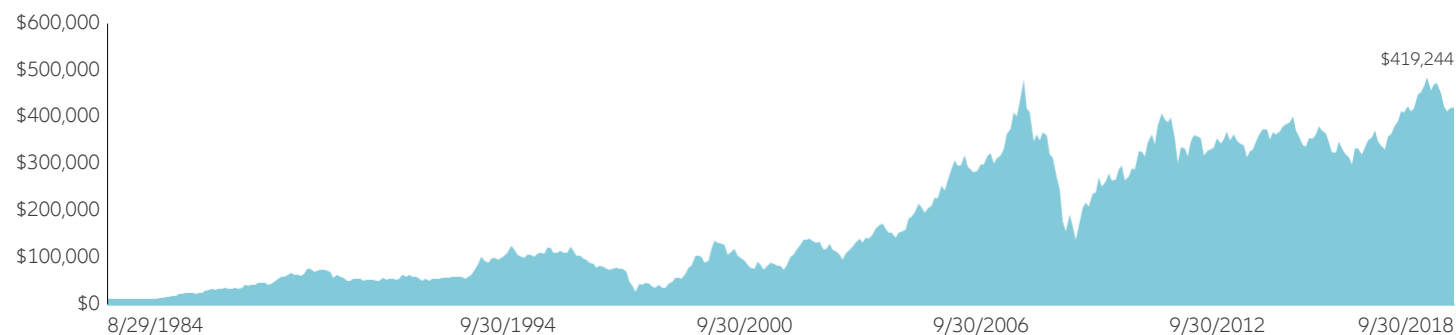
1. MSCI Korea 25/50 Index.

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	—

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					27.99	
	SAMSUNG ELECTRONICS CO LTD	005930	46,423.06	1,141,871	47,788,276	21.41
	SAMSUNG ELECTRO-MECHANICS CO LTD	009150	138,932.17	68,037	8,521,549	3.82
	SK HYNIX INC	000660	73,385.60	78,561	5,197,427	2.33
	SAMSUNG SDS CO LTD	018260	230,961.19	4,627	963,405	0.43
Financials					17.62	
	KB FINANCIAL GROUP INC	105560	54,024.88	178,192	8,678,658	3.89
	SHINHAN FINANCIAL GROUP CO LTD	055550	44,823.11	199,407	8,057,734	3.61
	HANA FINANCIAL GROUP INC	086790	44,539.49	160,770	6,455,365	2.89
	DB INSURANCE CO LTD	005830	72,800.00	67,718	4,444,328	1.99
	HYUNDAI MARINE & FIRE INSURANCE CO LTD	001450	41,931.04	105,863	4,001,754	1.79
	KOREAN REINSURANCE CO	003690	10,451.17	342,719	3,229,042	1.45
	WOORI BANK	000030	16,890.82	107,130	1,631,295	0.73
	ORANGE LIFE INSURANCE LTD	079440	34,103.38	40,804	1,254,500	0.56
	SAMSUNG LIFE INSURANCE CO LTD	032830	97,297.66	9,538	836,624	0.37
	MIRAE ASSET DAEWOO CO LTD	006800	8,468.78	98,190	749,650	0.34
Consumer Discretionary					13.60	
	FILA KOREA LTD	081660	44,874.36	192,740	7,797,236	3.49
	HYUNDAI MOTOR CO	005380	129,481.22	49,354	5,761,024	2.58
	KANGWON LAND INC	035250	28,699.11	190,306	4,923,699	2.21
	LG ELECTRONICS INC	066570	70,981.61	56,225	3,597,873	1.61
	HANA TOUR SERVICE INC	039130	73,883.89	39,280	2,616,326	1.17
	MODETOUR NETWORK INC	080160	25,149.60	80,760	1,831,040	0.82
	LOTTE HIMART CO LTD	071840	66,708.54	25,670	1,543,753	0.69
	HYUNDAI MOBIS CO LTD	012330	228,000.00	5,748	1,181,469	0.53
	SHINSEGAE INC	004170	362,644.64	3,418	1,117,439	0.50
Industrials					10.61	
	HYUNDAI HEAVY INDUSTRIES CO LTD	009540	134,449.43	48,774	5,911,775	2.65
	PAN OCEAN CO LTD	028670	5,239.47	1,165,557	5,505,433	2.47
	LG CORP	003550	72,606.03	75,918	4,969,217	2.23
	DAEWOO SHIPBUILDING & MARINE ENGINEERING CO LTD	042660	34,646.22	97,576	3,047,681	1.37
	JEJU AIR CO LTD	089590	37,503.38	53,111	1,795,665	0.80
	HYUNDAI ENGINEERING & CONSTRUCTION CO LTD	000720	67,465.04	23,506	1,429,644	0.64
	JIN AIR CO LTD	272450	21,644.61	51,444	1,003,818	0.45
Materials					8.11	
	LG CHEM LTD	051910	365,436.04	26,890	8,858,756	3.97
	POSCO	005490	294,446.70	27,524	7,306,154	3.27
	KOREA ZINC CO LTD	010130	435,924.57	2,550	1,002,125	0.45
	LOTTE CHEMICAL CORP	011170	277,986.66	3,714	930,757	0.42
Consumer Staples					7.56	
	LG HOUSEHOLD & HEALTH CARE LTD	051900	1,275,767.77	6,727	7,736,840	3.47
	E-MART INC	139480	207,534.24	27,066	5,063,892	2.27
	GS RETAIL CO LTD	007070	38,509.89	74,152	2,574,339	1.15
	AMOREPACIFIC CORP	090430	260,905.00	6,375	1,499,454	0.67
Communication Services					4.61	
	NAVER CORP	035420	715,975.66	11,071	7,145,879	3.20
	AFREECATV CO LTD	067160	35,779.70	57,400	1,851,481	0.83
	NCSOFT CORP	036570	442,561.51	3,271	1,305,043	0.58
Health Care					4.03	
	CELLTRION INC	068270	297,274.43	17,465	4,680,548	2.10
	SAMSUNG BIOLOGICS CO LTD	207940	533,796.01	6,873	3,307,442	1.48
	HANMI PHARM CO LTD	128940	499,953.50	2,229	1,004,639	0.45
Energy					2.42	
	SK INNOVATION CO LTD	096770	215,016.99	20,460	3,965,966	1.78
	S-OIL CORP	010950	137,016.44	11,620	1,435,322	0.64

Sector	Company (exchange ticker)	Price KRW	Holding	Value US\$	% of Market Value
Utilities					0.98
KOREA ELECTRIC POWER CORP	015760	29,360.04	82,639	2,187,320	0.98

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.

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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.

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