

The Korea Fund, Inc.

Manager's Commentary

Market Review

The Korean equity market trended lower during June 2018 in US dollar terms. Telecommunications was the best performing sector during the month, on hopes of easing regulatory concerns and a rotation into defensive names. The consumer staples sector also outperformed led by convenience store stocks on positive same-store sales growth trends. Meanwhile the worst performing sector was industrials; the sector was dragged down by construction names as optimism on North Korea opportunities became more subdued. The consumer discretionary sector also underperformed during June, as auto stocks corrected on weak sales trends and noises on global trade conflicts.

Fund Review

The Korea Fund, Inc. (the "Fund") outperformed the MSCI Korea 25/50 Index (the "benchmark") in June 2018. Our overweight position in FILA Korea, a sporting goods company, helped the Fund's performance thanks to ongoing brand turnaround in the domestic market and accelerating growth in China. In addition, the Fund's performance was helped by its overweight position in Samsung Electro-Mechanics, a manufacturer of electronic components, on the tailwind of rising multilayer ceramic capacitors ("MLCC") prices amidst tight supply.

On the other hand, the Fund's overweight position in outbound travel stocks detracted from performance, on concerns for weak second quarter results amidst weaker Korean Won against the US Dollar. Also, the Fund's underweight position in KT&G, a tobacco company, hurt its performance, as the stock appreciated on rotation into defensive stocks during the month.

Key Transactions

During June 2018 we added exposure to the consumer discretionary sector on expectations of accelerating earnings growth. At the same time, we reduced exposure to the materials sector on potential slowdown of demand from China.

Outlook

The macroeconomic outlook remains uncertain as trade conflicts escalate between the US and China. We also note headwinds from rising interest rates and risks of subsequent emerging market fund outflows as the US Federal Reserve ("Fed") continues to raise interest rates. On the geopolitical front, tensions remain low but actual progress on denuclearization or economic cooperation is likely to take longer than expected. In Korea, the ruling party recorded a landslide victory in the local government elections held in June, and seems more confident to push through populist policies at the expense of corporates. 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)	\$227.3
Median Market Cap (in billions)	\$10.0
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 6/30/2018)	\$42.39 / \$38.26

High / Low Ranges (52-Week)

High / Low NAV	\$51.02 / \$41.93
High / Low Market Price	\$44.64 / \$37.60
Premium/Discount to NAV (as of 6/30/2018)	-9.74%

Fund Data (Common Shares)

Shares Outstanding	5,363,003
Average Daily Volume	8,871
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	-5.78%	-10.04%	-9.13%	3.39%	5.19%	6.24%	2.83%	11.70%
Market Price	-5.53%	-6.27%	-7.29%	4.41%	6.02%	7.00%	2.84%	11.07%
MSCI Korea 25/50 Index	-6.33%	-8.97%	-9.10%	3.38%	9.65%	7.26%	4.71%	—
MSCI Korea Total Return Index	-6.69%	-9.15%	-9.61%	3.39%	10.41%	7.50%	4.88%	—
MSCI Korea Price Return Index	-6.93%	-9.39%	-10.25%	1.74%	8.71%	6.07%	3.67%	—
The Korea Stock Price Index	-7.15%	-9.04%	-9.45%	-0.16%	3.92%	5.05%	2.69%	—

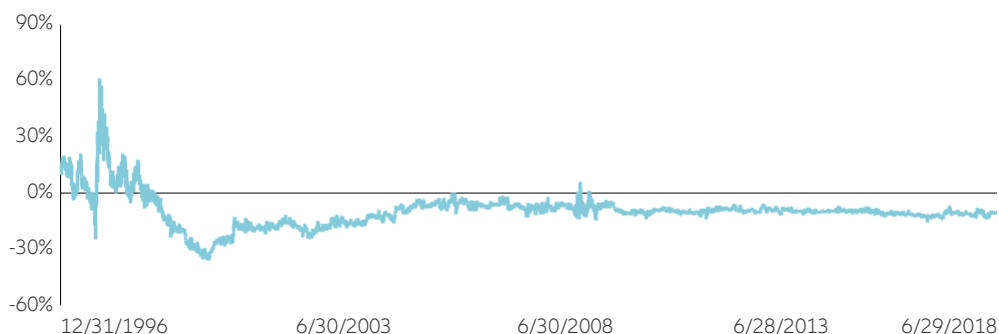
Calendar Year Returns

	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	34.97%	37.54%
Financials	13.86%	13.40%
Consumer Staples	12.25%	7.82%
Consumer Discretionary	12.03%	11.29%
Industrials	10.47%	9.98%
Materials	7.40%	8.34%
Health Care	3.57%	6.86%
Energy	2.12%	2.66%
Utilities	1.04%	1.32%
Telecom Services	0.00%	0.80%

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

Top 10 Holdings

SAMSUNG ELECTRONICS CO LTD (S.Korea)	20.96%
SK HYNIX INC (S.Korea)	5.60%
LG HOUSEHOLD & HEALTH CARE LTD (S.Korea)	4.60%
SAMSUNG ELECTRO-MECHANICS CO LTD (S.Korea)	3.96%
KB FINANCIAL GROUP INC (S.Korea)	3.66%
LG CHEM LTD (S.Korea)	3.52%
SHINHAN FINANCIAL GROUP CO LTD (S.Korea)	3.37%
NAVER CORP (S.Korea)	3.31%
E-MART INC (S.Korea)	3.04%
POSCO (S.Korea)	3.00%

Portfolio Characteristics

P/E Ratio	8.97
P/B Ratio	1.26
Issues in Portfolio	47
Foreign Holdings (%)	97.70
Cash (%)	2.30

Risk Statistics (3 Year)

Beta	0.85
R ²	0.90
Standard Deviation of NAV	16.10
Standard Deviation of Market Price	16.95

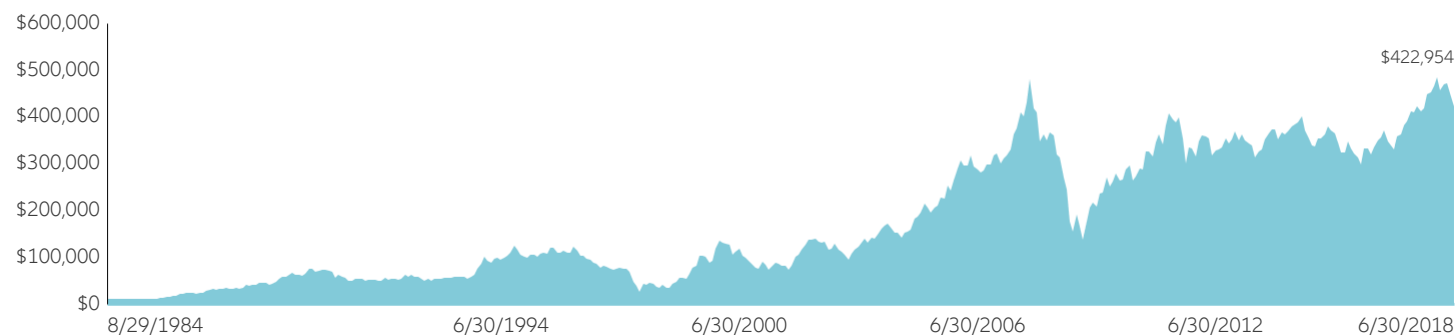
1. MSCI Korea 25/50 Index.

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					35.00	
	SAMSUNG ELECTRONICS CO LTD	005930	46,685.92	1,145,230	47,973,187	20.96
	SK HYNIX INC	000660	85,548.14	167,014	12,819,863	5.60
	SAMSUNG ELECTRO-MECHANICS CO LTD	009150	148,383.43	68,037	9,058,379	3.96
	NAVER CORP	035420	762,657.41	11,071	7,575,936	3.31
	NCSOFT CORP	036570	370,888.70	3,271	1,088,539	0.48
	SAMSUNG SDS CO LTD	018260	200,114.44	4,627	830,803	0.36
	NETMARBLE CORP	251270	152,476.67	5,527	756,158	0.33
Financials					13.82	
	KB FINANCIAL GROUP INC	105560	52,461.45	178,192	8,387,806	3.66
	SHINHAN FINANCIAL GROUP CO LTD	055550	43,151.35	199,407	7,720,665	3.37
	HANA FINANCIAL GROUP INC	086790	42,797.64	160,770	6,173,689	2.70
	KOREAN REINSURANCE CO	003690	11,836.18	342,719	3,639,735	1.59
	WOORI BANK	000030	16,255.70	107,130	1,562,560	0.68
	ING LIFE INSURANCE KOREA LTD	079440	41,840.83	40,804	1,531,874	0.67
	KIWOOM SECURITIES CO LTD	039490	108,412.66	10,670	1,037,921	0.45
	SAMSUNG LIFE INSURANCE CO LTD	032830	98,384.65	9,538	841,985	0.37
	MIRAE ASSET DAEWOO CO LTD	006800	8,516.48	98,190	750,321	0.33
Consumer Staples					12.27	
	LG HOUSEHOLD & HEALTH CARE LTD	051900	1,396,548.63	8,402	10,528,310	4.60
	E-MART INC	139480	254,332.28	30,451	6,949,011	3.04
	GS RETAIL CO LTD	007070	43,980.11	124,212	4,901,621	2.14
	AMOREPACIFIC CORP	090430	322,619.00	15,730	4,553,429	1.99
	HITE JINRO CO LTD	000080	19,652.89	64,719	1,141,243	0.50
Consumer Discretionary					12.03	
	FILA KOREA LTD	081660	33,533.17	192,740	5,799,177	2.53
	HYUNDAI MOTOR CO	005380	125,262.93	49,354	5,547,085	2.42
	LG ELECTRONICS INC	066570	82,980.33	56,225	4,186,244	1.83
	HANA TOUR SERVICE INC	039130	87,310.42	43,460	3,404,675	1.49
	KAKAO M CORP	016170	89,952.93	37,875	3,056,947	1.34
	SHINSEGAE INC	004170	400,828.29	6,851	2,463,952	1.08
	MODETOUR NETWORK INC	080160	27,181.64	80,760	1,969,663	0.86
	HYUNDAI MOBIS CO LTD	012330	211,978.80	5,748	1,093,274	0.48
Industrials					10.45	
	PAN OCEAN CO LTD	028670	4,876.05	1,165,557	5,099,425	2.23
	LG CORP	003550	72,051.91	75,918	4,908,064	2.14
	HYUNDAI HEAVY INDUSTRIES CO LTD	009540	101,920.95	48,774	4,460,379	1.95
	DAEWOO SHIPBUILDING & MARINE ENGINEERING CO LTD	042660	26,946.30	161,041	3,893,637	1.70
	JEJU AIR CO LTD	089590	41,919.86	53,111	1,997,672	0.87
	HYUNDAI ENGINEERING & CONSTRUCTION CO LTD	000720	57,581.94	23,506	1,214,465	0.53
	KOREA AEROSPACE INDUSTRIES LTD	047810	41,098.11	32,559	1,200,640	0.52
	JIN AIR CO LTD	272450	25,287.07	51,444	1,167,221	0.51
Materials					7.42	
	LG CHEM LTD	051910	333,579.04	26,890	8,048,399	3.52
	POSCO	005490	328,844.05	23,284	6,870,170	3.00
	LOTTE CHEMICAL CORP	011170	347,424.41	3,714	1,157,770	0.51
	KOREA ZINC CO LTD	010130	386,026.25	2,550	883,236	0.39
Health Care					3.56	
	CELLTRION INC	068270	302,792.85	17,465	4,744,977	2.07
	SAMSUNG BIOLOGICS CO LTD	207940	417,150.12	6,873	2,572,519	1.12
	HANMI PHARM CO LTD	128940	420,634.99	2,229	841,270	0.37
Energy					2.12	
	SK INNOVATION CO LTD	096770	201,867.49	20,460	3,705,885	1.62
	S-OIL CORP	010950	109,446.02	11,620	1,141,106	0.50

Sector	Company (exchange ticker)	Price KRW	Holding	Value US\$	% of Market Value
Utilities					1.04
KOREA ELECTRIC POWER CORP	015760	31,966.43	82,639	2,370,277	1.04

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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