

# The Korea Fund, Inc. (KF)

Data as of 6/30/17

## Manager's Commentary

### Market Review

The Korean equity market moved higher during June in Korean won terms. The best performing sector during June was health care, especially Samsung Biologics on hopes that the company will receive approval for the sale of its bio-similar drug in Europe. The technology sector also outperformed during the month on the back of the continued strength of semiconductor prices. Meanwhile, the worst performing sector was energy, as a correction in crude oil prices raised concerns on near term earnings outlooks.

### Fund Review

The Korea Fund, Inc. (the "Fund") underperformed the MSCI Korea Index (the "benchmark") during June. The Fund's performance was hurt by overweight positions in housing related names, as uncertainties related to the government's cooling measures dampened sentiment for the industry. In addition, the correction in share price of E-Mart Inc., the oldest and largest discount store chain in Korea, contributed negatively to the Fund's performance due to short term profit taking after the shares reached new highs in early June.

On the other hand, the Fund's position in SK Hynix, a semiconductor supplier, contributed positively to performance during June. In addition, the Fund's underweight position in the consumer staples sector helped performance as the sector gave back some of its gains from the previous month after there was no change to China's retaliation measures, even after the election of Korea's new president.

### Key Transactions

During June, the Fund continued to reduce exposure to housing related names after its outperformance and the new government's intention to curb rising property prices and household debt. At the same time the Fund added exposure to chemicals.

### Outlook

The market has seen heightened volatility from a strengthening US dollar, a sudden spike in US treasury yields, and a decline in crude oil prices. In Korea, geopolitical tensions may rise as North Korea claims it has successfully tested its inter-continental ballistic missile. Meanwhile, the Korean national assembly remains in gridlock, preventing President Moon from carrying out key policy changes, which include his economic stimulus package. We are closely monitoring the potential impact of such developments to our 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)	\$260.1
Median Market Cap (in billions)	\$7.3
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 6/30/17)	\$44.65 / \$40.04

### High / Low Ranges (52-Week)

High / Low NAV	\$45.43 / \$35.57
High / Low Market Price	\$41.10 / \$31.52
Premium/Discount to NAV (as of 6/30/17)	-10.32%

### Fund Data (Common Shares)

Shares Outstanding	5,825,667
Average Daily Volume	14,154
Expense Ratio	1.20%

## Fund Managers



Chris Leung, CFA  
Lead Portfolio  
Manager



Raymond Chan, CFA  
Portfolio Manager

# The Korea Fund, Inc.

## Average Annual Returns

	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Inception
NAV	-0.29%	7.51%	23.82%	22.83%	2.14%	4.48%	0.87%	11.97%
Market Price	-0.22%	8.63%	25.60%	25.09%	2.72%	4.84%	1.37%	11.28%
MSCI Korea Total Return Index	0.97%	10.21%	28.78%	34.88%	3.74%	6.81%	3.12%	—
MSCI Korea Price Return Index	0.82%	10.02%	28.35%	32.74%	2.29%	5.56%	1.96%	—
The Korea Stock Price Index	-0.29%	8.22%	24.59%	22.21%	1.85%	5.25%	1.03%	—

## Calendar Year Returns

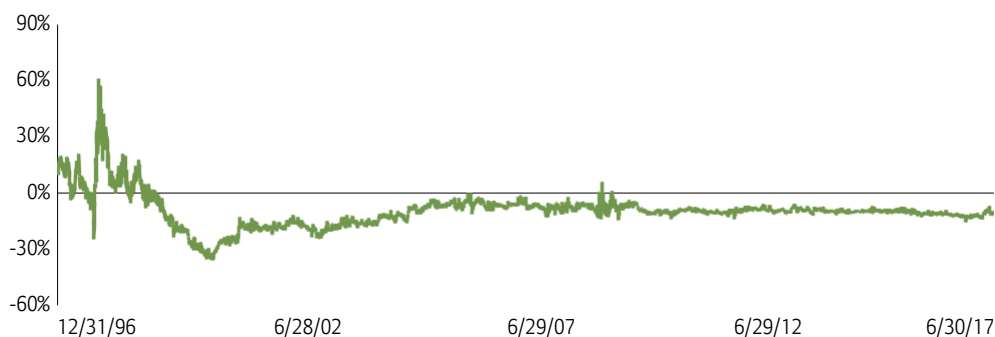
	2009	2010	2011	2012	2013	2014	2015	2016
NAV	47.22%	23.71%	-8.71%	17.09%	1.00%	-9.85%	-4.04%	2.64%
Market Price	3.32%	24.88%	-7.79%	15.41%	-0.01%	-9.07%	-2.81%	1.08%
MSCI Korea Total Return Index	71.35%	26.74%	-12.00%	21.18%	3.94%	-11.12%	-6.66%	8.75%
MSCI Korea Price Return Index	69.42%	25.29%	-12.84%	20.16%	3.10%	-12.61%	-7.94%	6.98%
The Korea Stock Price Index	61.87%	25.06%	-12.30%	17.70%	2.17%	-8.56%	-4.02%	0.31%

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 <sup>1</sup>
Information Technology	38.01%	45.23%
Financials	14.76%	13.01%
Consumer Discretionary	13.07%	11.81%
Consumer Staples	10.94%	6.65%
Industrials	9.18%	8.93%
Materials	6.98%	7.20%
Health Care	4.86%	2.61%
Telecom Services	0.51%	0.97%
Energy	0.42%	2.16%
Utilities	0.00%	1.44%

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

## Top 10 Holdings

SAMSUNG ELECTRONICS CO LTD (S.Korea)	24.73%
SK HYNIX INC (S.Korea)	8.31%
E-MART INC (S.Korea)	4.74%
COWAY CO LTD (S.Korea)	4.10%
NAVER CORP (S.Korea)	3.88%
SHINHAN FINANCIAL GROUP CO LTD (S.Korea)	3.54%
MEDY-TOX INC (S.Korea)	3.54%
KB FINANCIAL GROUP INC (S.Korea)	3.42%
POSCO (S.Korea)	3.08%
HYUNDAI MOTOR CO (S.Korea)	2.96%

## Portfolio Characteristics

P/E Ratio	10.42
P/B Ratio	1.45
Issues in Portfolio	41
Foreign Holdings (%)	98.74
Cash (%)	1.26

## Risk Statistics (3 Year)

Beta	0.94
R <sup>2</sup>	0.87
Standard Deviation of NAV	15.90
Standard Deviation of Market Price	16.80

1. MSCI Korea Total Return Index.

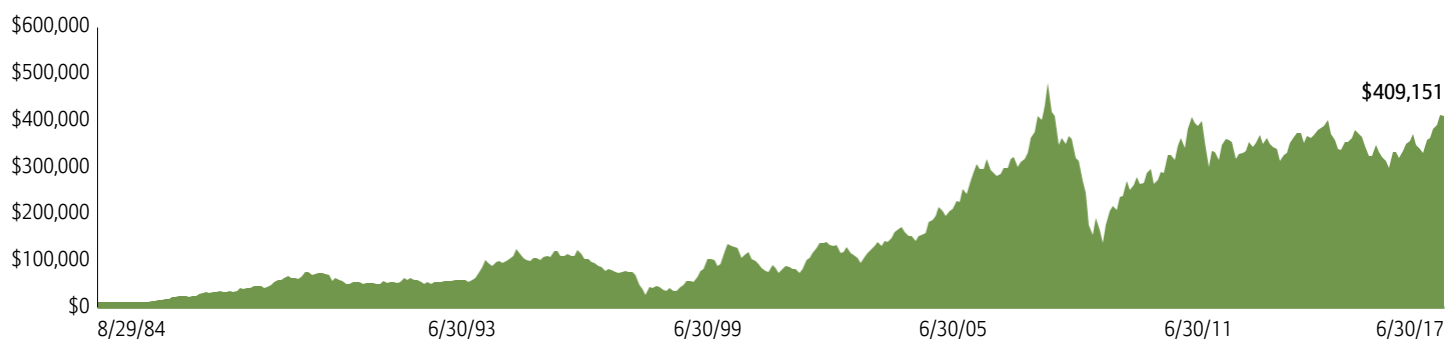
# The Korea Fund, Inc.

## Distribution History (10 Year)

Declaration Date	Ex-dividend Date	Record Date	Payable Date	Distribution/Share	Income	Long-term Capital Gain	Short-term Capital Gain
10/16/07	11/29/07	10/26/07	11/28/07	\$15.94000	—	\$15.82000	\$0.12000
12/20/07	12/27/07	12/31/07	1/18/08	\$1.47000	\$0.17150	\$0.92520	\$0.37330
12/22/08	12/29/08	12/31/08	1/29/09	\$90.30000	—	\$85.60000	\$4.70000
3/9/09	3/17/09	3/19/09	3/26/09	\$0.00835	—	\$0.00835	—
12/21/10	12/29/10	12/31/10	1/14/11	\$0.30000	\$0.30000	—	—
12/20/11	12/28/11	12/30/11	1/20/12	\$5.45000	—	\$4.50000	\$0.95000
12/18/15	12/23/15	12/28/15	1/15/16	\$4.35000	—	\$4.35000	—
12/16/16	12/22/16	12/27/16	1/6/17	\$0.32752	\$0.27655	\$0.05097	—

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 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.

# The Korea Fund, Inc.

## Portfolio in Full

Sector	Company (exchange ticker)	Price KRW	Holding	Value US\$	% of Market Value	
<b>Information Technology</b>					<b>38.04</b>	
	SAMSUNG ELECTRONICS CO LTD	005930	2,383,058.97	30,980	64,525,776	24.73
	SK HYNIX INC	000660	67,367.18	368,501	21,697,218	8.31
	NAVER CORP	035420	838,697.22	13,809	10,122,423	3.88
	NETMARBLE GAMES CORP	251270	155,000.00	21,610	2,927,544	1.12
<b>Financials</b>					<b>14.76</b>	
	SHINHAN FINANCIAL GROUP CO LTD	055550	49,364.53	214,102	9,237,465	3.54
	KB FINANCIAL GROUP INC	105560	57,768.37	177,010	8,937,272	3.42
	DONGBU INSURANCE CO LTD	005830	67,994.49	99,990	5,942,201	2.28
	HANA FINANCIAL GROUP INC	086790	45,185.34	120,740	4,768,324	1.83
	SAMSUNG FIRE & MARINE INSURANCE CO LTD	000810	281,631.74	11,487	2,827,517	1.08
	SAMSUNG LIFE INSURANCE CO LTD	032830	116,969.00	25,520	2,608,966	1.00
	ING LIFE INSURANCE KOREA LTD	079440	34,000.00	70,572	2,097,145	0.80
	HYUNDAI MARINE & FIRE INSURANCE CO LTD	001450	39,353.07	30,920	1,063,494	0.41
	WOORI BANK	000030	18,430.98	64,230	1,034,674	0.40
<b>Consumer Discretionary</b>					<b>13.06</b>	
	COWAY CO LTD	021240	103,982.53	117,682	10,695,164	4.10
	HYUNDAI MOTOR CO	005380	159,523.29	55,434	7,728,894	2.96
	HANKOOK TIRE CO LTD	161390	63,599.43	110,633	6,149,714	2.36
	HANSSEM CO LTD	009240	184,000.00	24,557	3,949,209	1.51
	KANGWON LAND INC	035250	34,865.09	84,007	2,559,902	0.98
	LG ELECTRONICS INC	066570	80,268.33	36,100	2,532,611	0.97
	INNOCEAN WORLDWIDE INC	214320	63,858.38	8,610	480,549	0.18
<b>Consumer Staples</b>					<b>10.92</b>	
	E-MART INC	139480	234,417.93	60,380	12,370,890	4.74
	GS RETAIL CO LTD	007070	51,590.09	105,020	4,735,386	1.81
	HITE JINRO CO LTD	000080	23,298.86	185,880	3,785,161	1.45
	BGF RETAIL CO LTD	027410	101,083.43	34,005	3,004,276	1.15
	KT&G CORP	033780	117,036.97	26,380	2,698,453	1.03
	KOREA KOLMAR CO LTD	161890	72,177.98	30,610	1,931,012	0.74
<b>Industrials</b>					<b>9.17</b>	
	HYUNDAI DEVELOPMENT CO-ENGINEERING & CONSTRUCTION	012630	46,992.26	127,817	5,249,669	2.01
	DOOSAN BOBCAT INC	241560	35,644.78	160,590	5,003,012	1.92
	KOREA AEROSPACE INDUSTRIES LTD	047810	57,000.00	93,963	4,681,109	1.79
	SAMSUNG C&T CORP	028260	148,039.52	31,100	4,023,973	1.54
	HANWHA TECHWIN CO LTD	012450	44,485.49	81,330	3,162,177	1.21
	HYUNDAI ELEVATOR CO LTD	017800	61,330.96	34,110	1,828,431	0.70
<b>Materials</b>					<b>6.97</b>	
	POSCO	005490	286,600.50	32,125	8,047,058	3.08
	LG CHEM LTD	051910	291,155.69	18,310	4,659,407	1.79
	KOREA ZINC CO LTD	010130	455,927.04	6,770	2,697,746	1.03
	HYUNDAI STEEL CO	004020	62,146.38	26,580	1,443,736	0.55
	LOTTE CHEMICAL CORP	011170	344,362.23	4,470	1,345,365	0.52
<b>Health Care</b>					<b>4.86</b>	
	MEDY-TOX INC	086900	560,289.52	18,843	9,227,405	3.54
	HUGEL INC	145020	559,427.82	7,070	3,456,850	1.32
<b>Telecom Services</b>					<b>0.51</b>	
	SK TELECOM CO LTD	017670	266,000.00	5,770	1,341,450	0.51
<b>Energy</b>					<b>0.42</b>	
	SK INNOVATION CO LTD	096770	158,460.53	7,900	1,094,121	0.42

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 Korea Composite Stock Price 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 KOSPI IX. The KOSPI is a capitalization-weighted index of all common and preferred shares on the Korean Stock Exchange. 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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