

KOREA FUND INC
Form DEF 14A
March 02, 2007

(RULE 14A-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(A) of the Securities
Exchange Act of 1934 (Amendment No.____)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement

- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

- Definitive Proxy Statement

- Definitive additional materials

- Soliciting material pursuant to Rule 14a-11(c) or Rule 14a-12

THE KOREA FUND, INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement,
if other than the Registrant)

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(1) Title of each class of securities to which transaction applies:

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(1) Amount previously paid:

(2) Form, Schedule or Registration Statement no.:

(3) Filing Party:

(4) Date Filed:

Dear Stockholders:

We are pleased to enclose the notice of and proxy statement for a Special Meeting of Stockholders of The Korea Fund, Inc. (NYSE: KF; the Fund) to be held at 4:00 p.m., Eastern time, on April 11, 2007, at the offices of Ropes & Gray LLP, 1211 Avenue of the Americas, New York, New York (the Meeting).

We are asking for your vote on the following matters:

To approve a new investment management agreement for the Fund with RCM Capital Management LLC (RCM SF);

To approve a new sub-advisory agreement between RCM SF and RCM Asia Pacific Limited (RCM AP); and

To approve the issuance of Fund shares at a price below net asset value in connection with a capital gains distribution payable in Fund shares (valued at the lower of market price or net asset value) or, at the election of the stockholder, in cash.

We would like to provide you with some background information on the issues we are proposing to stockholders and ask for your vote on these important proposals affecting the Fund.

Proposed Manager Change

On my assuming the position of chairman of your Fund's board of directors (the Board), following the Annual Stockholders Meeting in 2005, the Board clarified that the Fund's investment policy is to seek long term capital growth through seeking to outperform the Fund's benchmark by active management across the large-, medium- and small-cap sectors of the Korean equity markets. Simultaneously, the Board instigated certain changes in order to better monitor the Fund's investment process and performance.

These changes included:

the formation of an Investment Committee of the Board specifically tasked with monitoring investment-related matters;

the development of a broader peer group against which to monitor the Fund's performance; and

the appointment of an independent specialist investment consulting firm with a strong presence in Asia to provide the Board with comprehensive quarterly analysis of both the style and performance of your Fund's portfolio.

By the third quarter of 2006, the Board, working closely with its consultant, Mercer Investment Consulting's Asia office, determined that it should consider alternative investment managers for the Fund. With the assistance of its independent investment consulting firm, the Board developed an initial list of some 12 investment managers, all with proven expertise in the Korean equity market. The Board then reduced this initial list to a short list of five firms through a process that involved on-site due diligence by the consultant and in-person presentations by the consultant to the Board. In October 2006, the Board held in-person

beauty parades with the five finalists. After these in-person presentations, the Board requested and reviewed considerable further due diligence materials from three of the finalists with the help of significant research and assistance from its consultant. At a subsequent in-person board meeting held over two days in early December 2006, after having given careful consideration to each of the finalists, as well as the Fund's current investment manager, the Board unanimously determined to pursue RCM SF as the Fund's investment manager and RCM AP as a sub-adviser to the Fund, subject to further diligence and finalization of material terms. On January 25, 2007, the Board unanimously approved the new contracts described herein, subject to approval by the Fund's stockholders.

RCM SF and its affiliates (RCM) make up a global investment organization consisting of separate affiliated entities with offices in key financial centers around the world, including San Francisco, London, Frankfurt, Hong Kong, Tokyo and Sydney. As of December 31, 2006, these affiliated entities collectively advised or managed approximately \$155 billion, including approximately \$21 billion managed by RCM SF in San Francisco and approximately \$10 billion managed by RCM AP in Hong Kong. RCM is part of the Allianz Global Investors Group. Research is at the cornerstone of RCM's global investment process and this fundamental research is organized globally by industry sector. RCM includes a market research capability known as Grassrootsm that complements the fundamental research of its career analysts. RCM manages mutual funds and unit trusts, insurance funds, corporate funds, pension funds, endowment and charity funds and government institutional monies in North America, Europe and Asia Pacific.

The investment management business of RCM in the Asia Pacific region was established in Hong Kong in 1983 (formerly Thornton Management) providing international investors with specialist Asian equity management through a range of mutual funds and discretionary management services. Hong Kong remains RCM's regional center with 37 investment professionals managing a range of Asian regional and single country portfolios. RCM in Asia Pacific also has offices in Tokyo and Sydney. The investment approach in Asia seeks to identify companies that can deliver superior risk adjusted returns as a result of a re-rating or through the identification of earnings drivers that are not thought to be discounted fully in the current price. Using its proprietary research, RCM builds portfolios stock by stock while taking account of the implied sector allocation for risk control purposes. The majority of active return is expected to be a result of stock levels considerations. From Hong Kong, RCM manages approximately \$1 billion in Korean equities including dedicated funds organized for non-US investors.

In short, the Board identified RCM as possessing:

- impressive and focused research, at both the macro and micro levels;

- a concentrated portfolio construction methodology, driven by its research;

- a risk management process which is independent of the individual portfolio manager;

- a strong Asian presence;

- a boutique asset management culture with strong and supportive ownership by Allianz SE (parent company to RCM);

- performance that has been historically successful in the Korean stock market as well as other equity markets;

- strong and well-integrated U.S. and local compliance oversight; and

- infrastructure and marketing support from its affiliate, Allianz Global Investors Fund Management LLC, especially in the closed-end investment company field, a key growth area for the group.

Additional information regarding RCM and its affiliates is set out in the accompanying proxy statement.

Following negotiation of mutual satisfactory contract terms, the Board of Directors approved, on January 25, 2007, new investment management and sub-advisory agreements with RCM SF and RCM AP. These contracts are being submitted for your approval as described in the proxy statement. Beginning April 1, 2007, RCM SF and RCM AP will serve as the investment manager and sub-adviser, respectively, to the Fund pursuant to interim agreements, as permitted by the Investment Company Act of 1940, as amended (the "1940 Act"), pending stockholder approval of the new contracts.

Proposal to Declare Capital Gains Dividend in Stock

It has been the Fund's investment manager's style to buy and hold investments for a long period of time, and this approach has resulted in some very rewarding capital gains in the portfolio since its inception some 24 years ago. However, unrealized capital gains have become such a large percentage of the total value of the Fund's portfolio that the Board believes they have begun to inhibit the proactive investment decision-making necessary to sustain good performance in the future. As of December 31, 2006, unrealized capital gains represented approximately 81% of the Fund's net assets. The Board expects that the Fund's new manager will make substantial changes to the Fund's current holdings in connection with the transition of the portfolio which will likely result in the realization of a significant amount of capital gains. Under the U.S. Internal Revenue Code, any such realized gains must be distributed to stockholders by the end of the year in order to avoid income and excise taxes. Paying such dividends in cash would likely require the sale of additional portfolio holdings during the current year, the capital gains realized from which would also need to be distributed. In short, this builds a so-called "cascading effect" somewhat similar to a snowball running downhill, gaining size as it descends which will cause the Fund to shrink, likely causing its expense ratio to increase. A potential way of mitigating this cascade is to pay out capital gains in Fund shares, with a cash alternative, which will more easily permit those stockholders wishing to maintain exposure to Korea to retain their positions. The expected capital gains distribution paid in Fund shares will be issued at the lower of the market value of Fund shares or net asset value of Fund shares. As the Fund's shares are currently trading at a discount to net asset value, it is likely that those stockholders electing a pay out in Fund shares will receive such shares at a price below net asset value. By reinvesting the capital gains distribution in the Fund, stockholders will reduce the amount by which the Fund will shrink, thereby reducing the likelihood of an increase in the Fund's expense ratio. Alternatively, stockholders wishing to raise cash may either sell stock or elect to accept the dividend in cash. Additional information on this issue is set out in the proxy statement.

I appreciate that some stockholders might be reluctant to pay capital gains taxes at this time on an investment that has performed so well over time. I sympathize with such thinking but the alternative requires considering. Your Board believes that a significant contributor to the Fund's underperformance over the more recent period as compared to both its benchmark and peer group has been the reluctance to realize significant amounts of gains through a repositioning of the portfolio to take better advantage of current market conditions. Your Board would view any long-term underperformance of the Fund as a very serious concern: such long-term underperformance would lead to a surplus of sellers of Fund shares in the market, which, in turn will lead to an increase in the discount. An increase in the discount will, in turn, lead to increasing stockholder dissatisfaction, which could push the Fund toward more aggressive discount management techniques that might decrease the total size of the Fund and increase the Fund's total expense ratio. Over time, this could all lead to the ultimate demise of the Fund. Given the positive stance of your Board to seek to continue the success of this Fund and indeed to grow it in the years to come, supported by, we believe, a strong majority of shareholders, your Board believes the portfolio restructuring that it expects to occur with the transition to the new manager will help the Fund achieve better performance going forward relative to its benchmark and to its peer group. An unavoidable consequence of the portfolio restructuring will be the realization of significant amounts of gains, which may require stockholders to pay taxes thereon. However, an enhanced performance of

your Fund would lead to additional buyers, potentially narrowing the discount, and decreasing the Fund's expense ratio.

The Board of Directors of the Fund unanimously believes the proposals are in the best interests of the Fund and its stockholders and recommends that you vote for the approval of the proposals described in the proxy statement.

Stockholders who are unable to attend the Meeting are strongly encouraged to vote by proxy, which is customary in corporate meetings of this kind. A proxy statement regarding the Meeting, a proxy card for your vote at the Meeting, and an envelope postage prepaid in which to return your proxy card are enclosed. You may also vote by touch-tone telephone or through the Internet by following the instructions on the enclosed proxy card.

Following this letter, we have included some questions and answers regarding the issues set out in this proxy statement. This information is intended to help you answer questions you may have and help you cast your votes, and is being provided as a supplement to, not a substitute for, the proxy statement, which we urge you to review carefully.

Your vote is very important to us and if you have concerns please feel free to contact me at (+44 7768 068 200). In addition, please be aware that our proxy solicitor may contact you in connection with these matters.

Thank you for your attention, for your response and for your continued investment in the Fund.

Yours very sincerely,

Julian Reid
Chairman of the Board,
on behalf of the full Board

STOCKHOLDERS ARE URGED TO SIGN AND DATE THE ENCLOSED PROXY CARD AND MAIL IT IN THE ENCLOSED POSTAGE-PREPAID ENVELOPE SO AS TO ENSURE A QUORUM AT THE MEETING. THIS IS IMPORTANT WHETHER YOU OWN FEW OR MANY SHARES.

**QUESTIONS AND ANSWERS
REGARDING THE PROXY STATEMENT AND
SPECIAL MEETING OF STOCKHOLDERS**

While we encourage you to read the full text of the enclosed proxy statement, for your convenience, we have provided a brief overview of the matters to be voted on.

Q. What am I being asked to vote on in this proxy statement?

A. You are being asked to vote on proposals to:

1. Approve a new investment management agreement between the Fund and RCM Capital Management LLC (RCM SF), pursuant to which RCM SF will become the Fund's new investment manager.
2. Approve a new sub-advisory agreement between RCM SF and RCM Asia Pacific Limited (RCM AP), pursuant to which RCM AP will become the Fund's new sub-adviser.
3. Approve the issuance of Fund shares at a price below net asset value in connection with a capital gains distribution to be made in Fund shares (valued at the lower of market price or net asset value) or, at the election of the stockholder, in cash.

Proposed Manager Change

Q. Why am I being asked to vote on new management agreements?

- A. On January 25, 2007, after careful consideration of possible alternatives to the Fund's investment management arrangements, the Board of Directors, which consists entirely of independent directors, unanimously determined that it would be in the best interests of the Fund and its stockholders to select RCM SF and RCM AP as the new investment advisers for the Fund and approved, subject to stockholder approval, new investment management and sub-advisory agreements. In addition, the Board of Directors, as permitted by the Investment Company Act of 1940 (the 1940 Act), approved an interim investment management agreement between the Fund and RCM SF, an interim sub-advisory agreement between RCM SF and RCM AP and a sub-administration agreement between RCM SF and Allianz Global Investors Fund Management LLC (AGIFM), all of which will become effective on April 1, 2007. Pursuant to the interim agreements, RCM SF will serve as interim investment manager to the Fund, and RCM AP will serve as interim sub-adviser to the Fund until the earlier of the date that shareholder approval of the new agreements is obtained or August 29, 2007.

RCM SF was founded as Rosenberg Capital Management and began managing assets in 1970. RCM SF is a wholly owned indirect subsidiary of Allianz SE, a publicly traded German insurance and financial services company. RCM SF is a Delaware limited liability company, located at Four Embarcadero Center, San Francisco, California 94111.

Although the Asia Pacific presence of RCM SF and its affiliates (RCM) has been established in Hong Kong since 1983, RCM AP was formed in 2006 and licensed by the Hong Kong SFC and U.S. Securities and Exchange Commission in January of 2007. RCM AP is in the process of succeeding to all of Allianz Global Investors Hong Kong Limited's equity management business in Hong Kong as part of a legal restructuring by Allianz Global Investors of its group companies in the Asia Pacific. RCM AP is a wholly owned indirect subsidiary of Allianz SE. RCM AP is located at 21/F, Cheung Kong Center, 2 Queen's Road Central, Central, Hong Kong. The assets under management to which it will succeed were approximately \$9.5 billion as of December 31, 2006. RCM AP has not

previously managed a U.S. registered investment company.

Organized in 2000, AGIFM provides investment management, advisory and fund administration services to a number of closed-end and open-end investment company clients. AGIFM is a wholly owned indirect subsidiary of Allianz SE. As of December 31, 2006, AGIFM and its investment management affiliates had approximately \$691.9 billion in assets under management. AGIFM has its principal offices at 1345 Avenue of the Americas, New York, New York 10105.

Q. Could you tell me more about RCM?

A. RCM is a global investment organization consisting of separate affiliated entities with offices in key financial centers around the world, including San Francisco, London, Frankfurt, Hong Kong, Tokyo and Sydney. As of December 31, 2006, these affiliated entities collectively advised or managed approximately \$155 billion, including approximately \$21 billion managed by RCM SF in San Francisco and approximately \$10 billion managed by RCM AP in Hong Kong. RCM is part of the Allianz Global Investors Group. Research is at the cornerstone of RCM's global investment process and this fundamental research is organized globally by industry sector. RCM includes a market research capability known as Grassrootssm that complements the fundamental research of its career analysts. RCM manages mutual funds and unit trusts, insurance funds, corporate funds, pension funds, endowment and charity funds and government institutional monies in North America, Europe and Asia Pacific.

The investment management business of RCM in the Asia Pacific region was established in Hong Kong in 1983 (formerly Thornton Management) providing international investors with specialist Asian equity management through a range of mutual funds and discretionary management services. Hong Kong remains RCM's regional center with 37 investment professionals managing a range of Asian regional and single country portfolios. RCM in Asia Pacific also has offices in Tokyo and Sydney. The investment approach in Asia seeks to identify companies that can deliver superior risk adjusted returns as a result of a re-rating or through the identification of earnings drivers that are not thought to be discounted fully in the current price. Using its proprietary research, RCM builds portfolios stock by stock while taking account of the implied sector allocation for risk control purposes. The majority of active return is expected to be a result of stock levels considerations. From Hong Kong, RCM manages a total of approximately \$1 billion in Korean equities, including dedicated funds organized for non-U.S. investors.

RCM's single country research coverage, as in the case for a dedicated Korea fund, is shared between the country specialists and the regional sector analysts, representing a subtle difference from RCM's global approach. Country specialists tend to cover those companies that relate to local factors more than any regional (or global) factor and therefore tend to follow the mid- and small-cap sectors more closely. Sector specialists cover the larger capitalized names and typically stocks that could be recommended for regional or global portfolios. Coverage lists are set and agreed upon by both the head of regional research and the regional Chief Investment Officer.

In short, the Board has identified RCM as having impressive and focused research at both the macro- and micro-levels, a concentrated portfolio construction methodology driven by its research ideas, a strong management process that is independent of the individual portfolio manager, U.S. management that provides clear support for, and compliance control of, its Asian operations and performance that has been historically successful.

Q. Could you tell me about RCM's investment style?

A. RCM's investment philosophy in Asia Pacific is to seek out-performance over the investment cycle (typically 3 to 5 years) based upon researching and identifying growth prospects of quality companies that are incorporated in the portfolios using a disciplined investment methodology that includes both risk and liquidity controls.

Under this approach, RCM identifies stocks that fall into two main categories: (i) companies that are expected to re-rate as a result of the market's not fully recognizing the growth potential of the business, and (ii) companies that will benefit from share price appreciation resulting from an earnings surprise.

RCM's investment approach in Asia Pacific is predicated on a bottom-up, fundamentally driven investment process by which RCM builds portfolios based on the aggregate of individual stock recommendations after taking account of the risk characteristics at the total portfolio level.

For further information regarding RCM's investment style, please see Proxy Statement Proposal 1 Description of Investment Manager's Investment Style.

Q. Will there be any significant changes to the Fund's portfolio management?

A. The Board expects that RCM SF and RCM AP will manage the Fund's portfolio in line with their focused approach which will result in the Fund having a more concentrated portfolio than has previously been the case. As a result, the Board expects that RCM SF and RCM AP will make substantial changes to the Fund's current holdings in connection with the transition of the portfolio.

Q. How do the proposed new agreements differ from the Fund's previous agreements?

A. Other than its parties, term dates and fees (described below), the rights and obligations under the new investment management agreement (the New Investment Management Agreement) between the Fund and RCM SF are substantially identical to those under the Fund's current investment management agreement (the Current Investment Management Agreement) with Deutsche Investment Management Americas Inc. (DeIM). With regard to the new sub-advisory agreement between RCM SF and RCM AP (the New Sub-Advisory Agreement), in addition to its parties, term dates and fees, the provisions of the New Sub-Advisory Agreement differ from those of the Fund's current sub-advisory agreement (the Current Sub-Advisory Agreement) with Deutsche Investment Trust Management Company Limited (DeITMC) by significantly expanding the services to be provided by the sub-adviser. (See Proxy Statement Proposal 2 for a detailed discussion of how the New Sub-Advisory Agreement differs from the Current Sub-Advisory Agreement with regard to sub-advisory fees and sub-advisory services.)

Q. Will the Fund's total advisory services fees increase?

A. Yes, fees will be higher relative to the recent very favorable rates more recently provided to the Fund. In consideration of the services to be rendered under the New Investment Management Agreement, the Fund will pay RCM SF a monthly fee which, on an annual basis, is equal to 0.750% per annum of the value of the Fund's average daily net assets up to and including \$250 million of assets; 0.725% per annum of the value of the Fund's average daily net assets on the next \$250 million of assets; 0.700% per annum of the value of the Fund's average daily net assets on the next \$250 million of assets; 0.675% per annum of the value of the Fund's average daily net assets on the next \$250 million of assets; and 0.650% per annum of the value of the Fund's average daily net assets in excess of \$1 billion. Under the Current Investment Management Agreement, the Fund paid DeIM a monthly fee which, on an annual basis, is equal to 0.60% per annum of the value of the Fund's net assets up to and including \$250 million of assets; 0.575% per annum of the value of the Fund's net assets on the next \$250 million of assets; 0.55% per annum of the value of the Fund's net assets on the next \$250 million of assets; 0.525% per annum of the value of the Fund's net assets on the next \$250 million of assets; and 0.50% per annum of the value of the Fund's net assets in excess of \$1 billion.

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As of the end of the Fund's last fiscal year, the Fund had net assets of \$1,048,086,586 and paid an aggregate fee to the investment manager under its Current Investment Management Agreement during such period equal to \$6,195,529. Had the New Investment Management Agreement been in effect during this

period, the Fund would have paid the investment manager an aggregate fee equal to \$7,989,875 during such period. Thus, the aggregate fee under the New Investment Management Agreement would have been 29% greater than the aggregate fee under the Current Investment Management Agreement had the New Investment Management Agreement been in effect during the Fund's last fiscal year. As of December 31, 2006, the Fund had net assets of \$883,520,572.

Fees payable under the New Sub-Advisory Agreement are paid by RCM SF, not the Fund.

Until December 2004, the Fund paid DeIM 1.000% per annum of the Fund's net assets. At that time, DeIM voluntarily agreed to reduce fees to 0.6000% per annum in response to various pressures from the Board and certain major stockholders. Although the new management fees will be higher, particularly relative to the recent very favorable rates provided to the Fund, the Board noted that the new management fee rates paid by the Fund were lower than the applicable Lipper peer group (based on data provided by Mercer Investment Consulting).

- Q. How does the Fund's Board of Directors recommend I vote on Proposals #1 and #2 approval of the new investment management and sub-advisory agreements?
- A. After careful consideration over an extended period of time of possible alternatives to the previous management arrangements, the Fund's Board of Directors has unanimously determined that it would be in the best interests of the Fund and its stockholders to select RCM SF as the new investment manager and RCM AP as the new sub-adviser for the Fund and recommends that you vote FOR the approval of the New Investment Management Agreement and FOR the approval of the New Sub-Advisory Agreement.

Proposed Issuance of Fund Shares in Connection with a Capital Gains Dividend

- Q. Why am I being asked to vote on the issuance of Fund shares in connection with a capital gains dividend?
- A. Over a long period, the Fund has built up a high level of unrealized capital gains which has made it increasingly difficult to pursue ongoing active management a fact that the Board believes may be one factor contributing to the Fund's recent underperformance relative to its benchmark. Although the Board understands the reluctance of many stockholders to pay taxes on capital gains distributions, it must also recognize that many Fund stockholders are not subject to taxes, and thus balance the interests of some stockholders in avoiding capital gains against the interests of all stockholders in superior performance. In addition, the proposed change in investment manager will likely create additional realization of gains, especially while the portfolio is transitioned to the new investment manager. Thereafter, the Board and the investment manager intend to monitor the gains more closely to provide a more even stream of returns to stockholders without negatively affecting the Fund's total rate of return.

A means of optimizing the return to stockholders of such capital gains, and simultaneously reducing the cascade effect (see below) on the Fund, is making a capital gains distribution to stockholders that is payable in Fund shares (valued at the lower of market price or net asset value) which may be issued at a discount to net asset value (see below). For those stockholders wishing to receive such capital gains distribution in cash, there is a cash alternative available on request.

The Fund is seeking shareholder approval of the issuance of these shares in order to ensure compliance with the New York Stock Exchange rules requiring shareholder approval for issuances in excess of 20% of the Fund's outstanding shares and for issuances to substantial security holders of the Fund, and also as a protective matter to come within certain 1940 Act provisions regarding issuances of Fund shares at a price below net asset value.

Q. What is cascading and what does it mean for the Fund?

A. Under the U.S. Internal Revenue Code (the Code), the Fund is required each calendar year to distribute at least 98% of its capital gain net income for the 12-month period ending on October 31st in order to avoid an excise tax; in addition, the Fund would bear tax at the Fund level on any net capital gain income that is not distributed. If the Fund makes a capital gains distribution in cash and the Fund remains fully invested, it will need to sell additional portfolio securities to raise the cash to make the distribution. These additional sales will cause the Fund to realize additional capital gains that in turn must be distributed. As a result of this cascade, the Fund would shrink, likely causing an increase in the Fund's expense ratio.

Q. New Fund shares in connection with this proposed capital gains dividend could be offered at a discount to net asset value why, and is it to stockholders benefit?

A. It has been the Fund's investment manager's style to buy and hold investments for a long period of time, and this approach has resulted in some very rewarding capital gains in the portfolio since its inception some 24 years ago. However, unrealized capital gains have become such a large percentage of the total value of the Fund's portfolio that the Board believes they have begun to inhibit the proactive investment decision-making necessary to sustain good performance in the future. As of December 31, 2006, unrealized capital gains represented approximately 81% of the Fund's net assets. The Board expects that the Fund's new manager will make substantial changes to the Fund's current holdings in connection with the transition of the portfolio which will likely result in the realization of a significant amount of capital gains. Under the Code, any such realized gains must be distributed to stockholders by the end of the year in order to avoid income and excise taxes on the Fund. Paying such dividends in cash would likely require the sale of additional portfolio holdings during the current year, the capital gains realized from which would also need to be distributed. In short, this builds a so-called cascading effect somewhat similar to a snowball running downhill, gaining size as it descends which will cause the Fund to shrink and its expense ratio to increase. A potential way to mitigate this cascade is to pay out capital gains in Fund shares, with a cash alternative, which will more easily permit those stockholders wishing to maintain exposure to Korea to retain their positions. The expected capital gains distribution paid in Fund shares will be issued at the lower of the market value of Fund shares or net asset value of Fund shares. As the Fund's shares are currently trading at a discount to net asset value, it is likely that those stockholders electing a pay out in Fund shares will receive such shares at a price below net asset value. By reinvesting the capital gains distribution in the Fund, stockholders will reduce the amount by which the Fund will shrink, thereby reducing the likelihood of an increase in the Fund's expense ratio. Alternatively, stockholders wishing to raise cash may either sell stock or elect to accept the dividend in cash.

The full amount of such capital gains distribution, whether received in additional Fund shares or cash, will be reportable by stockholders who are U.S. taxpayers as long-term capital gain on their U.S. federal income tax returns. In addition, whether paid in cash or additional Fund shares, the amounts distributed will be net of any applicable withholding taxes.

Q. How will the change in the Fund's investment manager impact the Fund's management of the share price discount?

A. The Board is very aware of the concerns of share price discounts relative to the net asset value and has already commenced planning moves with the strong intent to managing any such discount for the benefit of all shareholders.

- Q. How does the Fund's Board of Directors recommend I vote on Proposal #3 the issuance of Fund's shares at a price below net asset value?
- A. The Board unanimously recommends that stockholders of the Fund vote FOR the approval of the Fund's ability to issue its stock at a price below net asset value in connection with its cash election dividend.
- Q. Will my vote make a difference?
- A. Your vote is needed to ensure that the proposals can be acted upon. The Fund's Board of Directors encourages all stockholders to participate in the governance of their Fund.
- Q. Whom should I call if I have questions?
- A. If you need any assistance, or have any questions regarding the proposals or how to vote your shares, please call Morrow & Co., Inc. at 1-800-607-0088.
- Q. How do I go about voting my shares?
- A. Stockholders who are unable to attend the Meeting are strongly encouraged to vote by proxy, which is customary in corporate meetings of this kind. A proxy statement regarding the Meeting, a proxy card for your vote at the Meeting, and an envelope postage prepaid in which to return your proxy card are enclosed. You may also vote by touch-tone telephone or through the Internet by following the instructions on the enclosed proxy card.
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THE KOREA FUND, INC.

Notice of Special Meeting of Stockholders

To the Stockholders of

The Korea Fund, Inc.:

Please take notice that a Special Meeting of Stockholders (the Meeting) of The Korea Fund, Inc. (the Fund) has been called to be held at the offices of Ropes & Gray LLP, 1211 Avenue of the Americas, New York, NY, on April 11, 2007 at 4:00 p.m., Eastern time, for the following purposes and to transact such other business, if any, as may properly come before the Meeting:

PROPOSAL 1: To approve a new investment management agreement for the Fund with RCM Capital Management LLC (RCM SF);

PROPOSAL 2: To approve a new sub-advisory agreement between RCM SF and RCM Asia Pacific Limited; and

PROPOSAL 3: To approve the issuance of Fund shares at a price below net asset value in connection with a capital gains distribution payable in Fund shares (valued at the lower of market price or net asset value) or, at the election of the stockholder, in cash.

The appointed proxies will vote in their discretion on any other business as may properly come before the Meeting or any adjournments or postponements thereof.

Holders of record of the shares of common stock of the Fund at the close of business on February 21, 2007 are entitled to vote at the Meeting or any adjournments or postponements thereof.

By order of the Board of Directors,

John Millette, *Secretary*

March 2, 2007

IMPORTANT: We urge you to sign and date the enclosed proxy card and mail it in the enclosed postage-prepaid envelope or vote by touch-tone telephone or through the Internet, so as to ensure a quorum at the Meeting. This is important whether you own few or many shares. Your prompt voting may save the Fund the necessity and expense of further solicitations to ensure a quorum at the Meeting. If you can attend the Meeting and wish to vote your shares in person at that time, you will be able to do so.

If you have any questions concerning the procedures to be followed to vote your shares, please contact Morrow & Co., Inc. at 1-800-607-0088.

PROXY STATEMENT

GENERAL

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of The Korea Fund, Inc., a Maryland corporation (the Fund), for use at a Special Meeting of Stockholders to be held at the offices of Ropes & Gray LLP, 1211 Avenue of the Americas, New York, NY, on April 11, 2007 at 4:00 p.m., Eastern time, and at any adjournments or postponements thereof (collectively, the Meeting).

This Proxy Statement, the Notice of Special Meeting and the proxy card are first being mailed to stockholders on or about March 2, 2007 or as soon as practicable thereafter. If the enclosed proxy is executed and returned, or an Internet or telephonic vote is delivered, that vote may nevertheless be revoked at any time prior to its use by written notification received by the Fund (addressed to the Fund's Secretary at the Fund's principal executive offices, 345 Park Avenue, New York, NY 10154), by the execution of a later-dated proxy, by the Fund's receipt of a subsequent valid Internet or telephonic vote, or by attending the Meeting and voting in person. Proxies voted by telephone or through the Internet may be revoked at any time before they are voted in the same manner that proxies voted by mail may be revoked. All properly executed proxies received in time for the Meeting will be voted as specified in the proxy or, if no specification is made, for the approval of the proposals named in the Proxy Statement and in the discretion of the proxy holders on any other matter that may properly come before the Meeting.

The presence at the Meeting, in person or by proxy, of stockholders entitled to cast a majority of the votes entitled to be cast shall be necessary and sufficient to constitute a quorum for the transaction of business. For purposes of determining the presence of a quorum for transacting business at the Meeting, abstentions and broker non-votes will be treated as shares that are present, but which have not been voted. Broker non-votes are proxies received by the Fund from brokers or nominees when the broker or nominee has neither received instructions from the beneficial owner or other persons entitled to vote nor has discretionary power to vote on a particular matter. Accordingly, stockholders are urged to forward their voting instructions promptly.

Approval of the new investment management and sub-advisory agreements requires the affirmative vote of the holders of a majority of the outstanding voting securities of the Fund. The term majority of the outstanding voting securities, as defined in the 1940 Act and as used in this Proxy Statement, means: the affirmative vote of the lesser of (i) 67% of the voting securities of the Fund present at the Meeting if more than 50% of the outstanding voting securities of the Fund are present in person or by proxy or (ii) more than 50% of the outstanding voting securities of the Fund.

Approval of an issuance of shares representing 20% or more of the Fund's pre-issuance outstanding voting power, or an issuance to a substantial security holder of the Fund, requires the affirmative vote of a majority of the votes cast on the proposal, provided that the total vote cast on the proposal represents over 50% in interest of all securities entitled to vote on the proposal. In addition, approval of the Fund's ability to sell its stock at a price below net asset value pursuant to Section 23(b)(2) of the 1940 Act requires the affirmative vote of a majority of the Fund's common stockholders.

Abstentions will have the effect of an against vote on each of the proposals. Broker non-votes will have the effect of an against vote for each of the proposals if such vote is determined on the basis of obtaining the affirmative vote of more than 50% of the outstanding shares of a Fund. Broker non-votes will not constitute for or against votes for either of the proposals, and will be disregarded in determining the voting securities present if such vote is determined on the basis of the affirmative vote of 67% of the voting securities of the Fund present at the Meeting.

Holders of record of the common stock of the Fund at the close of business on February 21, 2007 (the Record Date) will be entitled to one vote per share on all business of the Meeting and any adjournments or postponements. There were 24,270,616.516 shares of common stock outstanding on the Record Date.

The Fund provides periodic reports to all stockholders, which highlight relevant information, including investment results and a review of portfolio changes. You may receive an additional copy of the Fund's annual report for its fiscal year ended June 30, 2006 and a copy of any more recent semi-annual report, without charge, by calling (800) 349-4281 or writing the Fund at 345 Park Avenue, New York, New York 10154.

PROPOSAL 1. APPROVAL OF NEW INVESTMENT MANAGEMENT AGREEMENT BETWEEN THE FUND AND RCM:

At the Meeting, you will be asked to approve a new investment management agreement (the New Investment Management Agreement) between the Fund and RCM Capital Management LLC (RCM SF). Beginning April 1, 2007, RCM SF will serve as the Fund's interim investment manager pursuant to the interim investment management agreement that the Board of Directors approved on January 25, 2007. A general description of the proposed New Investment Management Agreement is included below. The form of the New Investment Management Agreement is attached hereto as Exhibit A.

On January 25, 2007, after careful consideration of possible alternatives to the Fund's current management and sub-advisory arrangements, the Board of Directors determined that it would be in the best interests of the Fund and its stockholders to select RCM SF as the new investment manager for the Fund, succeeding Deutsche Investment Management Americas Inc. (DeIM). At this meeting, the Directors approved, subject to stockholder approval, the New Investment Management Agreement, pursuant to which RCM SF would become the Fund's new investment manager. At the meeting, the Board of Directors also approved an interim investment management agreement, as permitted under the 1940 Act, pursuant to which RCM SF will serve as interim investment manager to the Fund beginning April 1, 2007. The terms of this interim investment management agreement are substantially identical to those of the New Investment Management Agreement, except that the compensation paid by the Fund to the investment manager under the interim agreement is identical to that paid under the Fund's previous investment management agreement with DeIM (the Current Investment Management Agreement) and the termination provisions under the interim investment management agreement require a 10-day written notice instead of the 60-day written notice that the New Investment Management Agreement requires. The Board of Directors also approved new sub-advisory and interim sub-advisory agreements with RCM Asia Pacific Limited (RCM AP) (discussed below in Proposal 2) and a new sub-administration agreement with Allianz Global Investors Fund Management LLC (AGIFM), pursuant to which AGIFM will serve as the Fund's sub-administrator beginning April 1, 2007.

One goal of the Board of Directors in changing the Fund's investment manager was to engage an investment manager that would manage the Fund's portfolio more actively than has previously been the case. Should the New Investment Management Agreement be approved by the stockholders, it is expected that RCM SF and RCM AP will make substantial changes to the Fund's current holdings in connection with the transition of the portfolio which will likely result in the realization of a significant amount of capital gains. As of December 31, 2006, the Fund had approximately \$697,643,794 in net unrealized long-term capital gains, representing approximately 81% of its net assets. As of December 31, 2006, the Fund had net assets of \$883,520,572. See Proposal 3 below for the Fund's proposed plan to address certain of the consequences to the Fund that realizing these capital gains may have on the Fund's future operation.

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DESCRIPTION OF THE CURRENT INVESTMENT MANAGEMENT AGREEMENT

Investment Manager's Responsibilities. Under the Current Investment Management Agreement, DeIM, as investment manager, provides the Fund with continuing investment management services. The investment manager makes investment decisions, prepares and makes available research and statistical data and supervises the acquisition and disposition of securities by the Fund, all in accordance with the Fund's investment objectives and policies and in accordance with guidelines and directions from the Fund's Board of Directors. The investment manager assists the Fund as it may reasonably request in the conduct of the Fund's business, subject to the direction and control of the Fund's Board of Directors. The investment manager is required to maintain or cause to be maintained for the Fund all books, records and reports and any other information required to be maintained under the 1940 Act to the extent such books, records and reports and any other information are not maintained by the Fund's custodian or other agents of the Fund. The investment manager also supplies the Fund with office space in New York and furnishes clerical services in the United States related to research, statistical and investment work. The investment manager renders to the Fund administrative services such as preparing reports to, and meeting materials for, the Fund's Board of Directors and reports and notices to Fund stockholders, preparing and making filings with the U.S. Securities and Exchange Commission (the "SEC") and other regulatory and self-regulatory organizations, including preliminary and definitive proxy materials and post-effective amendments to the Fund's registration statement, providing assistance in certain accounting and tax matters and investor public relations, monitoring the valuation of portfolio securities, calculation of net asset value and calculation and payment of distributions to stockholders, and overseeing arrangements with the Fund's custodian. The investment manager agrees to pay reasonable salaries, fees and expenses of the Fund's officers and employees and any fees and expenses of the Fund's Directors who are directors, officers or employees of the investment manager, except that the Fund bears travel expenses (or an appropriate portion of those expenses) of Directors and officers of the Fund who are directors, officers or employees of the investment manager to the extent that such expenses relate to attendance at meetings of the Board of Directors or any committees of or advisors to the Board. During the Fund's most recent fiscal year, no compensation, direct or otherwise (other than through fees paid to the investment manager), was paid or became payable by the Fund to any of its officers or Directors who were affiliated with the investment manager.

Under the Current Investment Management Agreement, to the extent permissible by law, the investment manager is authorized to appoint certain of its affiliates as sub-advisers to perform certain of the investment manager's duties. In such cases, the investment manager is also authorized to adjust the duties, the amount of assets to be managed and the fees paid to any such affiliated sub-advisers. These affiliated sub-advisers must be entities that the investment manager controls, is controlled by, or is under common control with, and any such appointments are subject to the further approval of the Independent Directors and the full Board. Stockholders of the Fund that are affected by any adjustment would receive prompt notice following approval by the Directors. The management fee rates paid by the Funds do not increase as a result of any such action; all fees incurred by a sub-adviser continue to be the responsibility of the investment manager. The investment manager retains full responsibility for the actions of any such sub-adviser or delegates.

Fund Expenses. Under the Current Investment Management Agreement, the Fund pays or causes to be paid all of its other expenses, including, among others, the following: organization and certain offering expenses (including out-of-pocket expenses, but not including overhead or employee costs of the investment manager or of any one or more organizations retained by the Fund or by the investment manager as Korean adviser to the Fund); legal expenses; auditing and accounting expenses; telephone, facsimile, postage and other communications expenses; taxes and governmental fees; stock exchange listing fees; fees, dues and expenses incurred in

connection with membership in investment company trade organizations; fees and expenses of the Fund's custodians, subcustodians, transfer agents and registrars, and accounting agents; payment for portfolio pricing or valuation services to pricing agents, accountants, bankers and other specialists, if any; expenses of preparing share certificates and other expenses in connection with the issuance, offering, distribution, sale or underwriting of securities issued by the Fund; expenses of registering or qualifying securities of the Fund for sale; expenses related to investor and public relations; freight, insurance and other charges in connection with the shipment of the Fund's portfolio securities; brokerage commissions or other costs of acquiring or disposing of any portfolio securities of the Fund; expenses of preparing and distributing reports, notices and dividends to stockholders; expenses of the dividend reinvestment and cash purchase plan (except for brokerage expenses paid by participants in such plan); costs of stationery; any litigation expenses; and costs of stockholders' and other meetings.

Compensation Paid to the Investment Manager. In return for the services provided by the investment manager as investment manager, and the expenses it assumes under the Current Investment Management Agreement, the Fund pays DeIM a monthly fee which, on an annual basis, is equal to 0.60% per annum of the value of the Fund's net assets up to and including \$250 million of assets; 0.575% per annum of the value of the Fund's net assets on the next \$250 million of assets; 0.55% per annum of the value of the Fund's net assets on the next \$250 million of assets; 0.525% per annum of the value of the Fund's net assets on the next \$250 million of assets; and 0.50% per annum of the value of the Fund's net assets in excess of \$1 billion. As of the end of the Fund's last fiscal year, the Fund had net assets of \$1,048,086,586 and paid an aggregate fee to the investment manager under its Current Investment Management Agreement during such period equal to \$6,195,529.

Non-Exclusivity. Under the Current Investment Management Agreement, the investment manager is permitted to provide investment advisory services to other clients, including clients which may invest in securities of Korean issuers and, in providing such services, may use information furnished by advisors and consultants to the Fund and others. Conversely, information furnished by others to the investment manager in providing services to other clients may be useful to the investment manager in providing services to the Fund.

Termination of the Agreement. The Current Investment Management Agreement may be terminated at any time without payment of penalty by the Fund's Board of Directors, by vote of holders of a majority of the outstanding voting securities of the Fund, or by the investment manager on 60 days' written notice. The Current Investment Management Agreement automatically terminates in the event of its assignment (as defined under the 1940 Act), provided that an assignment to a corporate successor to all or substantially all of the investment manager's business or to a wholly owned subsidiary of such corporate successor which does not result in a change of actual control or management of the investment manager's business shall not be deemed to be an assignment for the purposes of the Current Investment Management Agreement.

Liability of the Investment Manager. The Current Investment Management Agreement provides that the investment manager is not liable for any act or omission, error of judgment or mistake of laws or for any loss suffered by a Fund in connection with matters to which the Current Investment Management Agreement relates, except a loss resulting from willful misfeasance, bad faith or gross negligence on the part of the investment manager in the performance of its duties or from reckless disregard by the investment manager of its obligations and duties under the Current Investment Management Agreement. The Current Investment Management Agreement also contains provisions that provide that DeIM shall use its best efforts to seek the best overall terms available in executing transactions for the Fund and selecting brokers and dealers and shall consider on a continuing basis all factors it deems relevant, including the consideration of the brokerage and

research services (as those terms are defined in Section 28(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)) provided to the Fund and/or other accounts over which DeIM or an affiliate exercises investment discretion. In addition, with respect to the allocation of investment and sale opportunities among the Fund and other accounts or funds managed by DeIM, the Current Investment Management Agreement provides that DeIM shall allocate such opportunities in accordance with procedures believed by DeIM to be equitable to each entity.

ADDITIONAL INFORMATION ABOUT THE INVESTMENT MANAGEMENT AGREEMENTS

The date of the Current Investment Management Agreement is April 5, 2002. The date when the Current Investment Management Agreement was last approved by the stockholders of the Fund is March 28, 2002. The date when the New Investment Management Agreement was approved by the Directors of the Fund is January 25, 2007. The termination date (unless continued) of the New Investment Management Agreement is September 30, 2008.

DESCRIPTION OF NEW INVESTMENT MANAGEMENT AGREEMENT AND DIFFERENCES BETWEEN THE CURRENT AND NEW INVESTMENT MANAGEMENT AGREEMENT

The New Investment Management Agreement for the Fund will be dated as of the date of its approval by the Fund's stockholders. The New Investment Management Agreement will be in effect for an initial term ending on September 30, 2008, and may be continued thereafter from year to year only if specifically approved at least annually by the vote of a majority of the outstanding voting securities (as defined below under Required Vote) of the Fund, or by the Board and, in either event, the vote of a majority of the Independent Directors, cast in person at a meeting called for such purpose.

Other than its parties, term dates and fees (described below), the rights and obligations under the New Investment Management Agreement of the Fund are substantially identical to those under the Current Investment Management Agreement. Unlike the Current Investment Management Agreement, however, the New Investment Management Agreement does not expressly provide that the investment manager will furnish office space, facilities and clerical services as the Fund may require for its reasonable needs because the parties agree that such provision refers to services that RCM SF, as investment manager, typically provides for its clients and that the other provisions of the New Investment Management Agreement obligate RCM SF to provide such services to the Fund.

COMPARISON OF FEES

In consideration of the services to be rendered under the New Investment Management Agreement, the Fund will pay RCM SF a monthly fee which, on an annual basis, is equal to 0.750% per annum of the value of the Fund's average daily net assets up to and including \$250 million of assets; 0.725% per annum of the value of the Fund's average daily net assets on the next \$250 million of assets; 0.700% per annum of the value of the Fund's average daily net assets on the next \$250 million of assets; 0.675% per annum of the value of the Fund's average daily net assets on the next \$250 million of assets; and 0.650% per annum of the value of the Fund's average daily net assets in excess of \$1 billion.

As described above, under the Current Investment Management Agreement, the Fund paid DeIM a monthly fee which, on an annual basis, is equal to 0.60% per annum of the value of the Fund's net assets up to and including \$250 million of assets; 0.575% per annum of the value of the Fund's net assets on the next \$250 million of assets; 0.55% per annum of the value of the Fund's net assets on the next \$250 million of assets; 0.525% per annum of the value of the Fund's net assets on the next \$250 million of assets; and

0.50% per annum of the value of the Fund's net assets in excess of \$1 billion. As of the end of the Fund's last fiscal year, the Fund had net assets of \$1,048,086,586 and paid an aggregate fee to the investment manager under its Current Investment Management Agreement during such period equal to \$6,195,529. Had the New Investment Management Agreement been in effect during this period, the Fund would have paid the investment manager an aggregate fee equal to \$7,989,875 during such period. Thus, the aggregate fee under the New Investment Management Agreement would have been 29% greater than the aggregate fee under the Current Investment Management Agreement had the New Investment Management Agreement been in effect during the Fund's last fiscal year.

Until December 2004, the Fund paid DeIM 1.000% per annum of the Fund's net assets. At that time, DeIM voluntarily agreed to reduce fees to 0.6000% per annum in response to various pressures from the Board and certain major stockholders. Although the new management fees will be higher, particularly relative to the recent very favorable rates provided to the Fund, the Board noted that the new management fee rates paid by the Fund were lower than the applicable Lipper peer group (based on data provided by Mercer Investment Consulting).

The following table provides a comparison of the fees paid to the investment manager during the Fund's last fiscal year under the Current Investment Management Agreement with the fees that the Fund would have paid the investment manager during that same period had the New Investment Management Agreement been in effect.

| Agreement | Management Fee | Approximate Net Assets as of the End of the Last Fiscal Year | Aggregate Fee Paid by Fund to Investment Manager |
|--|---|---|---|
| Current Investment Management Agreement | As a percentage of the Fund's net assets: 0.60% up to \$250 million; 0.575% on the next \$250 million; 0.55% on the next \$250 million; 0.525% on the next \$250 million; 0.50% over \$1 billion. | \$ 1,048,086,586 | \$ 6,195,529 |
| New Investment Management Agreement | As a percentage of the Fund's average daily net assets: 0.750% up to \$250 million; 0.725% on the next \$250 million; 0.700% on the next \$250 million; 0.675% on the next \$250 million; 0.650% over \$1 billion. | \$ 1,048,086,586 | \$ 7,989,875 |

The following example is intended to help you compare the expenses you would pay on a \$1000 investment under the Current Investment Management Agreement with those under the New Investment Management Agreement, assuming a 5% annual return: