

2020 National Pension Fund

Responsible Investment & Governance Report



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1. An Introduction to Responsible Investment

1-1 What is Responsible Investment?

Nation Pension Service conducts responsible investment (RI) as well as establishes and expands RI strategies in order to achieve long-term and stable returns. RI is implemented in two ways: ESG incorporation and active ownership. That is, in investment decision processes, environmental, social, and governance (ESG) factors are considered while active ownership is carried out through the exercise of voting rights and constructive engagement with companies so as to better manage ESG-related risk and enhance corporate value.

ESG investments are conducted in three approaches: ESG integration, screening and thematic. ESG integration considers financial factors and non-financial factors all together. Screening uses filters to determine which companies, sectors, or activities are eligible or ineligible to be included in a portfolio. Thematic approach seeks to combine attractive risk return profiles with an intention to contribute to a specific environmental or social outcome. In addition, active ownership is undertaken through proxy voting and ownership engagement, including dialogue and shareholder proposals.

Responsible Investment Approaches

PRI	Definition	Application Status	Activities
ESG Investing			
① ESG Integration	Consider financial factors and non-financial factors, including ESG issues	Yes	Incorporate ESG considerations in investment decision for internally managed domestic equities
② Screening	Exclude (Negative Screening) or include (Positive Screening) certain sectors or companies based on ESG performance	To be adopted	As the FMC has introduced restriction screening strategies and declared carbon neutrality, NPS will develop a plan to gradually restrict investments in certain sectors or companies, including investments in coal mining and energy
③ Thematic	Seek to combine attractive risk return profiles with an intention to contribute to a specific environmental or social outcome	No	-
Active Ownership			
④ Proxy Voting	Exercise voting rights at shareholder meetings	Yes	Exercise voting rights on domestic and global equities, etc.
⑤ Engagement	Engagement in non-management: dialogue (confidential dialogue, non-public focus list, public focus list) Engagement in management: shareholder proposal, etc. (after being selected as public focus company) Litigation: Shareholder Derivative Suit, damage suit, etc.	Yes	Engage in dialogues on focus areas and unexpected concerns of domestic equities

1-2 Legal Basis for Responsible Investment

A clear legal basis for responsible investment (RI) to incorporate ESG factors into investment decision has been in place since the amendment to the National Pension Act in January 2015. Reflecting this, a new provision to implement RI was added to the Fund Management Guideline in April 2016. Responsible Investment & Governance Principles (Stewardship Code) and other guidelines were enacted and amended in July 2018 to lay the groundwork for active ownership. In December 2019, the Guideline on Active Ownership was enacted to describe specific measures on active ownership in a broader scope. In November 2019, the Plan to Facilitate Responsible Investment was established to add a new principle of Sustainability to the existing five investment principles – Profitability, Stability, Public Benefit, Liquidity and Independence, in order to continue and expand RI.

Legal Basis

National Pension Act

Article 102 (Fund Management and Investment)

- ④ Where the Minister of Health and Welfare manages and operates the Fund pursuant to paragraph (2)3, he/she may take into account environmental, social and governance factors related to investment targets, to achieve a long-term and stable and revenue.
-

National Pension Fund Management Guideline

Article 4 (Fund Management Principles)

5. Sustainability: Where the Minister of Health and Welfare manages and operates the Fund pursuant to paragraph (2)3, he/she may take into account environmental, social and governance factors related to investment targets, to achieve a long-term and stable and revenue.
-

1-3 Policies on Responsible Investment

NPS conducts responsible investment in the best interest of pension participants and beneficiaries to achieve stable growth of assets. NPS adopts Responsible Investment Principles (RI Principles) and Principles on Responsible Investment & Governance (Stewardship Code), manages the Fund by integrating non-financial factors, such as ESG factors, into investment decisions in accordance with standards, procedures, and process of the Guideline on Responsible Investment & Governance, and ensures independence and transparency in the process of the exercise of shareholder rights.

Policies on Responsible Investment

Fund Management Guideline

Article 17 (Responsible Investment)

- ① In the case of administering and managing the Fund through securities trading and/or securities lending, environmental, social and governance (ESG) factors may be taken into consideration in investment decision-making processes in order to achieve stable and higher long-term returns. The principles of Responsible Investment are seen in Table 4.

Article 17-2 (Responsible Investment and Governance Principles)

NPS shall adopt the Korea Stewardship Code, or Principles on the Stewardship Responsibility of Institutional Investors, and implement the Responsible Investment and Governance Principles approved by the Fund Management Committee, in order to promote transparency and independence of stewardship activities carried out by NPS.

Article 17-3 (Responsible Investment and Exercise of Shareholder Rights)

- ① NPS engages in responsible investment practice and exercises shareholder rights to achieve the stable growth of the assets.
- ② NPS engages in responsible investment practice and exercises shareholder rights in good faith with a view to the best interest of contributors to pension participants and beneficiaries of the National Pension Plan.
- ③ NPS engages in responsible investment practice and exercises shareholder rights in a way of amplifying shareholder value.
- ④ Standards, methodologies and procedures relating to responsible investment and exercise of shareholder right are in line with the "Responsible Investment & Governance Guidelines" as approved by the Fund Management Committee

Principles on Responsible Investment (RI)

- (1) Achieve long-term and stable returns
- (2) Implement RI according to the Guideline on Responsible Investment & Governance
- (3) Implement RI in equities and fixed income investment
- (4) Incorporate non-financial factors, including environmental, social, and governance, into investment decision
- (5) Conduct shareholder engagement on investee companies
- (6) Consider RI when selecting and assessing external managers
- (7) Encourage companies to publicly disclose ESG-related information
- (8) Improve capabilities and expertise in RI
- (9) Regularly monitor RI activities

Stewardship Code, or Principles on Responsible Investment & Governance

- (1) Formulate and publicly disclose a policy for implementing stewardship responsibilities
- (2) Formulate and publicly disclose a policy for avoiding conflicts of interest
- (3) Regularly monitor investee companies
- (4) Formulate internal guidelines and conduct shareholder engagement
- (5) Formulate and publicly disclose a voting policy, and publicly disclose voting records and reasons for each vote
- (6) Regularly report stewardship activities
- (7) Enhance the capabilities and expertise required to fulfill stewardship responsibilities

Guideline on Responsible Investment & Governance

PART 1 (General Provisions) Objective, scope of application, basic principles, details of stewardship activities, and key decision makers

PART 2 (Responsible Investment) Coverage, incorporation of non-financial factors (ESG), incorporation type

PART 3 (Exercise of Shareholder Right)

- Proxy voting (coverage, basic principles, sub-standards, etc.)
- Stewardship activities on Focus Area (Confidential Dialogue, Non-Public/Public Focus List Selection, Open Letter, Shareholder Proposals, etc.)
- Stewardship activities on Unexpected Concerns (coverage, compliance standards)

PART 4 (Disclosure and Reporting, etc.) Notification and announcement, disclosure and reporting, publication of a report on stewardship activities, internal control, document storage, capability improvement, etc.

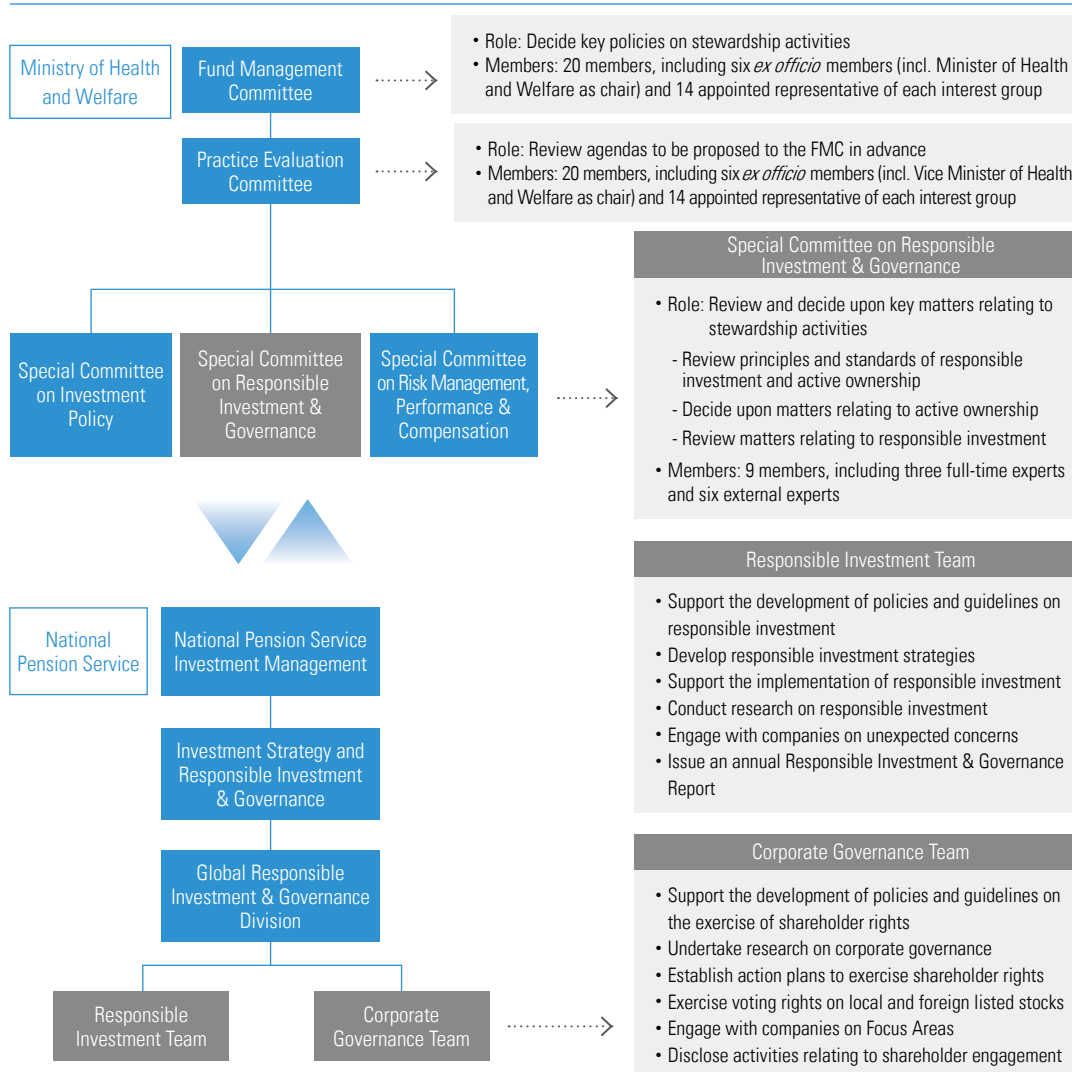
Attached tables: detailed voting criteria for domestic and global equities, form of voting results to be disclosed and selection criteria for Focus Area

1-4 Governance Structure and Organization

NPS undertakes stewardship activities in line with the policies approved by the Fund Management Committee (FMC), the highest decision-making body in NPS. The Special Committee on Responsible Investment & Governance under the FMC, consisting of full-time experts and external experts, makes decisions on responsible investment, as well as reviews and approves key matters relating to ESG investing and the exercise of shareholder rights.

Responsible investment is conducted by the Global Responsible Investment & Governance (GRI&G) Division under the Managing Director of Investment Strategy and Responsible Investment & Governance at NPSIM. The GRI&G consists of the Responsible Investment Team and the Corporate Governance Team with 13 members as of the end of 2020. The Responsible Investment Team supports the development of policies and guidelines relating to responsible investment, and establishes responsible investment strategies and action plans to support in-house portfolio managers in incorporating ESG factors into investment decisions. To this end, ESG Evaluation is carried out internally; researches are undertaken, including monitoring ESG-related controversial issues; ESG-related active ownership is conducted. In addition, the Corporate Governance Team supports the development of policies and guidelines on the exercise of shareholder rights, and formulates action plans. Moreover, the team undertakes research on corporate governance, exercises shareholder rights, and engages with companies on focus areas.

Governance Structure and Organization for Stewardship Activities



Fund Management Committee Meeting Agendas on Responsible Investment for 2020

No	Date	Agenda
1	Feb. 5	Proposal of the amendments to the Fund Management Guideline
4	Apr. 17	Report on roles and responsibilities of full-time experts and ways to provide information
7	Jul. 3	Report on the Guideline on Stewardship Activities for Domestic Equities
8	Jul. 31	Report on the Standards of the Structure and Operation of the Board of Investee Companies
		Publication of Annual Report on Responsible Investment & Governance

Special Committee on Responsible Investment & Governance Meeting Agendas for 2020

No	Date	Agenda
1	Jan. 6	Report on the Guideline on Stewardship Activities for Domestic Equities
		Proposal of ways to review voting right delegation to external managers
2	Jan. 20	Decision on whether to make improvements on companies in focus list and to proceed with active ownership
3	Feb. 25	Public disclosure according to the amendments to Enforcement Decree of the Financial Investment Services and Capital Markets Act
		Report on companies subject to voting right delegation
		Report on the standards of the application of remuneration cap for directors
		Report on follow-up measures for revised focus areas
4	Mar. 2	Proposal of the selection of non-public focus list and Assessment of companies subject to confidential dialogue in relation to dividend policy
5	Mar. 6	Decision on withdrawal of delegated voting rights
6	Mar. 13	Proposal of the selection of non-public focus list and Assessment of companies subject to confidential dialogue in relation to repetitive vote-against
		Proposal of the selection of non-public focus list and Assessment of companies subject to confidential dialogue in relation to remuneration cap for directors
		Proposal of the selection of non-public focus list and Assessment of companies subject to confidential dialogue in relation to repetitive vote-against
		Proposal of the selection of non-public focus list and Assessment of companies subject to confidential dialogue in relation to violation of law
7	Mar. 19	Proposal of the selection of non-public focus list and Assessment of companies subject to confidential dialogue in relation to remuneration cap for directors
		Proposal of considerations in exercising voting rights for agenda of general meeting of shareholders of KB Financial Group
		Proposal of considerations in exercising voting rights for agenda of general meeting of shareholders of Shinhan Financial Group
		Proposal of considerations in exercising voting rights for agenda of general meeting of shareholders of Woori Financial Group
		Proposal of considerations in exercising voting rights for agenda of general meeting of shareholders of Hana Financial Group
		Proposal of considerations in exercising voting rights for agenda of general meeting of shareholders of Mando
		Proposal of considerations in exercising voting rights for agenda of general meeting of shareholders of Halla Holdings
Proposal of considerations in exercising voting rights for agenda of general meeting of shareholders of Hyosung Holdings		
8	Mar. 26	Proposal of considerations in exercising voting rights for agenda of general meeting of shareholders of Hanjin KAL
		Proposal of considerations in exercising voting rights for agenda of general meeting of shareholders of Korean Air
		Proposal of considerations in exercising voting rights for agenda of general meeting of shareholders of KT&G
9	Apr. 29	Proposal of a Guideline on desirable structure and operation of the Board
		Proposal of ways to assign additional points when selecting and assessing external managers
10	May. 22	Report on the result of NPSIM's proxy voting
		Proposal of an Annual Report on Responsible Investment & Governance
11	Jun. 22	Report on the status of responsible investment of NPSIM and amendments to the Guideline on Stewardship Activities
		Proposal of the standards of public disclosure for change in the purpose of holding stocks
		Review on change in the purpose of holding stocks of Hanjin KAL

No	Date	Agenda
12	Jul. 16	Proposal of the selection of non-public focus list and Assessment of companies subject to confidential dialogue in relation to dividend policy
		Proposal of the selection of companies subject to confidential dialogue in relation to dividend policy
		Proposal of the selection of companies subject to confidential dialogue in relation to remuneration cap for directors
		Proposal of the selection of companies subject to confidential dialogue in relation to violation of law
		Proposal of the selection of companies subject to confidential dialogue in relation to repetitive vote-against
		Proposal of the selection of companies subject to stewardship activities and report on the result of monitoring on unexpected concerns in the first half of 2020
13	Sept. 11	Materiality assessment procedures and standards in relation to unexpected concerns
		Selection of companies subject to materiality assessment in relation to unexpected concerns
		Report on the result of ESG Evaluation for the first half of 2020
		Proposal of the selection of companies subject to confidential dialogue in relation to drop in regular ESG Evaluation
		Proposal of additional selection of companies subject to confidential dialogue in relation to violation of law
		Proxy voting exercised by NPSIM
14	Sept. 24	Report on NPSIM's stewardship activities and the result of periodic review of voting right delegation
		Proposal of considerations in exercising voting rights for agenda of an extraordinary meeting of shareholders of SGC Solutions
15	Sept. 25	Proxy voting exercised by NPSIM
		Report on NPSIM's stewardship activities and the result of periodic review of voting right delegation
16	Oct. 27	Proposal of considerations in exercising voting rights for agenda of an extraordinary meeting of shareholders of LG Chem
		Proposal of the selection of non-public focus list and Assessment of companies subject to confidential dialogue in relation to degraded results of ESG Evaluation
		Decision on the standards of withdrawal of delegated voting
		Proposal of the selection of companies subject to confidential dialogue in relation to unexpected concerns
		Responsible investment report for externally managed domestic equities
17	Nov. 9	Proposal of the selection of companies subject to confidential dialogue in relation to violation of law
		Proposal of the selection of companies subject to materiality re-assessment in relation to unexpected concerns
		Proposal of the selection of companies subject to materiality assessment in relation to unexpected concerns
		Proposal of the standards of public disclosure for change in the purpose of holding stocks
		Discussion on ways to apply history, including damage to corporate value, to proxy voting
18	Nov. 17	Guideline on ESG Integration Strategies
		Proposal of considerations in exercising voting rights for agenda of an extraordinary meeting of shareholders of KB Financial Group
19	Dec. 8	Proposal of the selection of companies subject to confidential dialogue in relation to unexpected concerns
		Proposal of the selection of companies subject to materiality re-assessment in relation to unexpected concerns
		Proposal of the selection of companies subject to materiality assessment in relation to unexpected concerns
		Interim report on the recommendation of outsider directors and auditors
		Guide to the Structure and Operation of the Board of Investee Companies
		Report on NPSIM's stewardship activities and the result of periodic review of voting right delegation
		Discussion on ways to apply history, including damage to corporate value, to proxy voting
Report on the standards of change in the purpose of holding domestic equities		

1-5 Milestones of Stewardship Activities

After the launch of externally managed domestic responsible investment (RI) funds in September 2006, NPS joined the Principles for Responsible Investment (PRI), a global initiative for responsible investment, in June 2009. In March 2013, Responsible Investment team was created under the Investment Strategy Division to facilitate responsible investment activities by integrating proxy voting functions which used to be performed in various equity management departments. In 2015, NPS set a plan to promote engagement with domestic listed companies with an aim of developing a reasonable dividend policy. In November in the same year, NPS established an ESG Evaluation System for domestic equities, and built an internal IT system that provides ESG related information to its portfolio managers. In July 2018, NPS adopted the Responsible Investment & Governance Principles, or Stewardship Code. Accordingly, the Responsible Investment team was expanded and reformed into the Global Responsible Investment & Governance Division (Responsible Investment Team, Corporate governance Team) in January 2019. In November in the same year, NPS mapped out a Plan to Facilitate Responsible Investment to promote responsible investment throughout the entire portfolio, while formulating the Guideline on Active Ownership for Domestic Equities in December to expand the scope of shareholder engagement. In July 2020, an Annual Report on Responsible Investment & Governance was published to publicly disclose Responsible Investment & Governance carried out by NPS, and in November, the Guideline on ESG Integration Strategies for Domestic Equities was developed to incorporate new ESG strategies into internally managed domestic equities.

Milestones of Stewardship Activities

Sept. 2006	Launched externally-managed domestic RI funds
Jun. 2009	Joined the Principles for Responsible Investment (PRI)
Dec. 2009	Added a provision relating to responsible investment in Voting Guidelines
Mar. 2013	Established the Responsible Investment Team under the Investment Strategy Division
Jun. 2015	Developed a plan to promote engagement with domestic listed companies on dividends from domestic equities
Nov. 2015	Introduced new benchmarks for externally-managed domestic RI funds Established an ESG Evaluation System for domestic equities
Apr. 2016	Added a provision relating to responsible investment in the Fund Management Guideline (Investment Policy Statement)
Dec. 2016	Built an ESG System for domestic equities
Jul. 2017	Established an Evaluation System to assess ESG Controversial Issues for domestic equities
Sept. 2017	Incorporated ESG factors into investment decision in internally-managed domestic equities
Jul. 2018	Introduced the Responsible Investment & Governance Principles (Stewardship Code) Established the Guideline on Responsible Investment & Governance by amending Voting Guidelines
Jan. 2019	Expanded and reformed the Responsible Investment Team into the Global Responsible Investment & Governance (Responsible Investment Team, Corporate Governance Team) Developed the Guideline on Stewardship Activities for Domestic Equities
Feb. 2019	Decided on the scope of disclosing voting directions prior to shareholder meetings
Sept. 2019	Joined the International Corporate Governance Network (ICGN) Joined the Asian Corporate Governance Association (ACGA)
Nov. 2019	Developed the Plan to Facilitate Responsible Investment and adopted RI Principles Added a principle of Sustainability in the Investment Principles Developed the Guideline on Voting Right Delegation to External Managers Developed plans to add additional points to external managers in relation to stewardship activities in the selection and evaluation process
Dec. 2019	Developed the Guideline on Active Ownership for Domestic Equities
Jul. 2020	Issued an Annual Report on Responsible Investment & Governance Amended the Guideline on Stewardship Activities for Domestic Equities
Sept. 2020	Developed the upgraded standards of the materiality assessment process and its assessment standards in relation to unexpected concerns
Nov. 2020	Developed the Guideline on ESG Integration Strategies for Domestic Equities Joined the Asian Investor Group on Climate Change

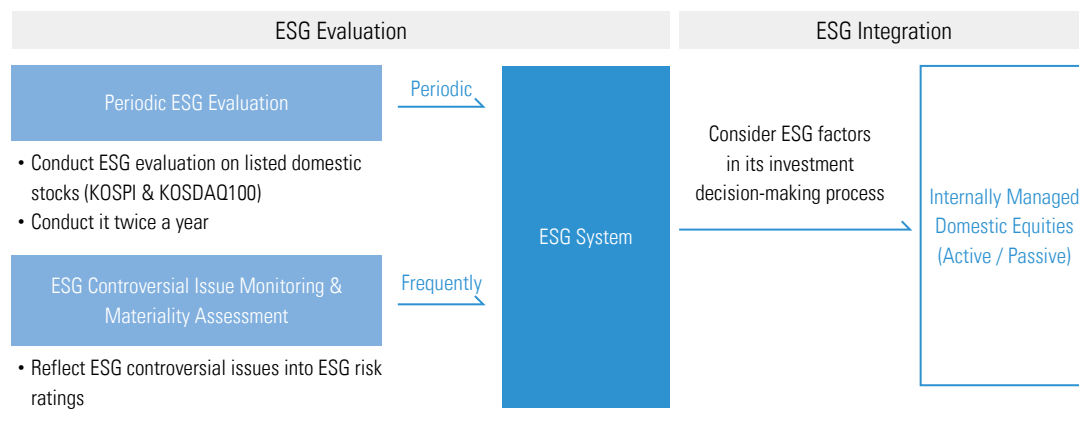
2. Implementation of Responsible Investment

2-1 ESG Integration

NPS has paved the way towards implementing responsible investment (RI) strategies for a long period of time. Since the commencement of external investments in RI funds in September 2006, NPS has laid the foundation for adopting ESG integration strategies by developing an internal ESG research scheme and ESG-related strategies, and has applied the strategies to internally managed domestic equities and externally managed domestic RI funds. In line with the Plan to Facilitate Responsible Investment approved by the FMC in November 2019, NPS remains committed to expanding the application of ESG integration strategies throughout the entire portfolio, and gradually increase RI through the integration of ESG strategies into external management.

ESG Integration Strategies are designed to realize through ESG Evaluation. NPS conducts the ESG Integration Strategies by incorporating ESG factors, coupled with financial factors, into investment decision-making processes for internally managed domestic equities by developing an ESG Evaluation system and internal systems.

ESG Evaluation & ESG Integration Process



(1) Periodic ESG Evaluation

In order to analyze non-financial factors, or ESG factors, in a systematic manner, NPS has formed its own ESG Evaluation System and conducted evaluations on domestic listed companies (KOSPI+KOSDAQ100) twice a year. The ESG Evaluation System is comprised of 52 evaluation indicators in 13 issues affecting corporate values in the areas of environmental, social, and governance (ESG). Each issue is scored and graded for ESG rating after being weighted differently for each industry.

ESG Evaluation System on Domestic Equities

	Issue	ESG Indicator
Environmental	Climate Change	Greenhouse Gas Emission Management System, Carbon Emission, Energy Consumption
	Clean Production	Clean Production Management System, Water Consumption, Chemical Consumption, Air Pollution, Waste Emission
	Green Products Development	Eco-friendly Production, Eco-friendly Patents, Eco-friendly Certification, Product Improvements
Social	Human Resources Management	Wage, Fringe Benefit, Employment, Organizational Culture, Employment Tenure, Human Rights, Labor Customs
	Industrial Safety	Health & Safety System, Certification on Health & Safety Management System, Industrial Accident Frequency
	Subcontracting	Contract Process, Compliance Program on Fair Trade, Contractor Support Activities, Subcontract Act Compliance
	Product Safety	Product Safety System, Product Safety Management System Certification, Product Safety Accident
	Fair Competition and Social Development	Internal Transaction Committee, Fair Trade Limit Activities, Information Protection System, Endowment
Governance	Shareholder Rights	Poison pill, Shareholder Opinion Convergence, Notice of Shareholder Meeting
	Board Structure and Activities	CEO & BOD Chair Separation, BOD Independence, Outside Director Composition, BOD Activities, Compensation Committee, Director Remuneration Policy
	Audit System	Outside Director Ratio of Audit Committee, Extended Tenure Auditor Ratio, Audit to Non-Audit Service Ratio
	Affiliation Risk	Affiliation Contingent Liability to Net Assets, Affiliation Sales Ratio, Affiliation Purchase Ratio
	Dividend	Shareholder Return Ratio, Total Shareholder Return, Recent 3 Years Dividend, Insufficient Dividend Payout

As of the end of 2020, NPS conducted an ESG Evaluation on 908 listed companies in Korea and graded them in the following six ESG ranking.

2020 ESG Evaluation Result

AA	A	BB	B	C	D	Total
74 (8.1%)	145 (16.0%)	192 (21.1%)	243 (26.8%)	187 (20.6%)	67 (7.4%)	908 (100.0%)

ESG information, including ESG Evaluation results, is provided via to portfolio managers through the ESG System to integrate non-financial factors, along with financial factors, into investment decision of domestic equity assets. If a company falls below a certain ranking in a regular ESG Evaluation process, qualitative assessment is taken to conduct stewardship activities when appropriate. In the second half of 2020, NPS undertook a commissioned research on Improvement of ESG Evaluation System for Domestic Equities and Establishment of ESG Evaluation System for Fixed Income Investments to seek ways to enhance the ESG Evaluations system for domestic equities and develop an ESG Evaluation system for fixed income investments. Based on these researches, NPS plans to upgrade the ESG Evaluation system for domestic equities and introduce the ESG Evaluation system for fixed income investments in 2021. In addition, NPS remains committed to building up and advancing ESG evaluation systems, including evaluation indicators, given a wide range of external and internal factors.

(2) ESG Controversial Issue Monitoring and Materiality Assessment

NPS monitors ESG-related matters which can affect corporate value in accordance with the Stewardship Code and the Guideline on Responsible Investment & Governance, and conducts materiality assessments, mainly for materiality¹⁾ and recurrence²⁾, to measure possible impact on corporate value and shareholder value. Taking into consideration the result of materiality assessments as well as ownership ratio and holding weight, NPS adjusts ESG evaluation results or takes shareholder engagement.

In case that an investee company is subject to 'shareholder engagement for unexpected concerns,' the company is likely to be invited to a confidential dialogue according to the process and standards of the Guideline on Stewardship Activities for Domestic Equities. Details of shareholder engagement for unexpected concerns are described in the 2-3. *Shareholder Engagement*.

In 2020, NPS conducted materiality assessments on 34 ESG-related issues. Among them, one company's ESG evaluation result was adjusted, and the result was provided to portfolio managers of internally managed domestic equities.

(3) ESG Integration

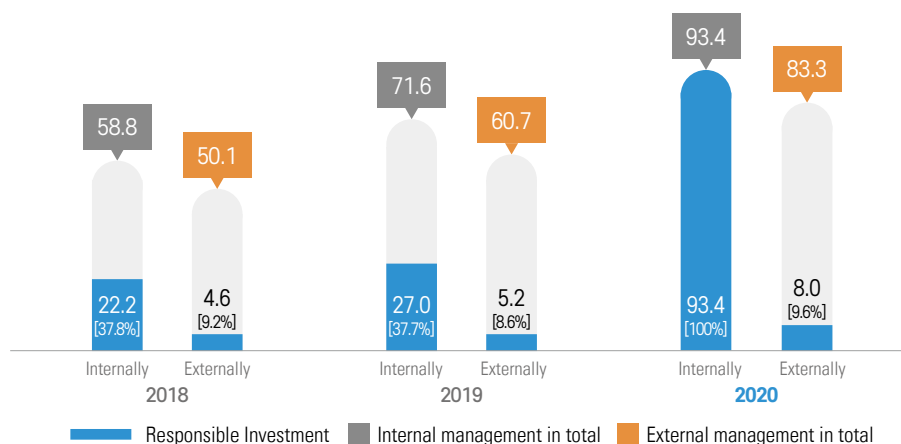
Since 2017, NPS has adopted ESG integration strategies for some internally managed domestic equities (active-type). In November 2020, NPS expanded its strategies into passive investments and formulated the Guideline on ESG Integration Strategies for Domestic Equities which describes enhanced measures to implement. As such, NPS applies ESG integration strategies into all of the internally managed domestic equities. Accordingly, in-house portfolio managers check ESG-related details when considering new securities. If ESG rating falls into low categories, portfolio managers are required to add their opinion and ESG reports as attachments of a security review report. In addition, as for securities falling into Level C, portfolio managers are required to check if the investments meet their weights relative to their benchmark. If investments are made beyond their benchmark, portfolio managers are required to add the reason and investment opinion in writing in a security review report.

(4) Externally Managed Domestic RI funds

NPS manages externally managed domestic RI funds as one of the externally managed domestic equities. As of the end of 2020, RI funds were managed by nine external managers, and the amount under management amounted to approximately KRW 8 trillion. NPS introduced an internally developed benchmark index for such RI funds, which is called NPS-FnGuide Responsible Investment Index. In selecting external managers, a range of aspects are considered, including their expertise, ethics, investment strategies, investment process, and compliance with investment guidelines. Once selected, external managers are allowed to implement a range of RI investment strategies. Since November 2020, external RI managers have been required to submit RI fund management reports, which are used to monitor such investments by NPS.

ESG Investing: Domestic Equities

(Unit: KRW in trillion)



1) The size of the damage, probability of punishment of its level, and the duration of damage are considered.

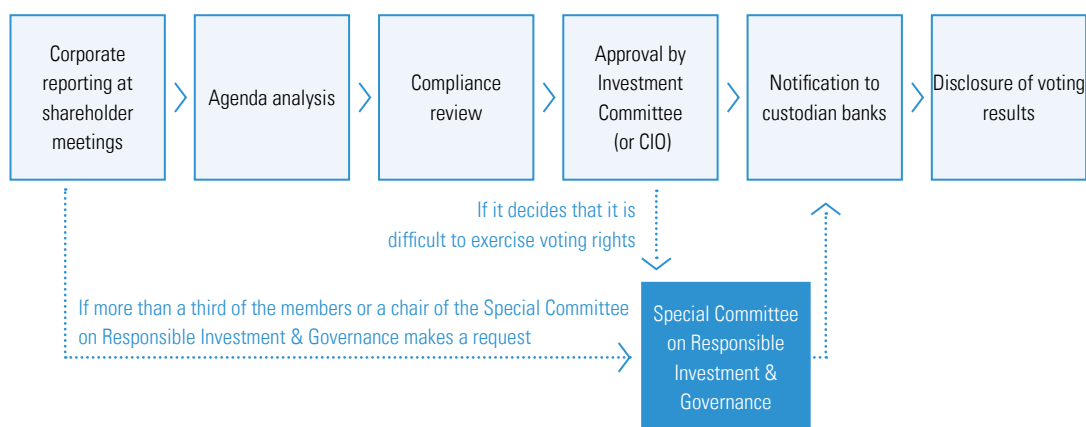
2) Engagement in communication, improvement level, and frequency are considered.

2-2 Proxy Voting

(1) Standards and Procedures

NPS exercises voting rights for retained listed stocks in good faith and in the best interests of pension participants and beneficiaries according to the National Finance Act and the Fund Management Guideline. Also, NPS complies with the Guideline on Responsible Investment & Governance which defines standards, procedures, and practices on voting while referring to advice from external experts to exercise voting rights in a more professional and faithful manner.

Proxy Voting Procedures



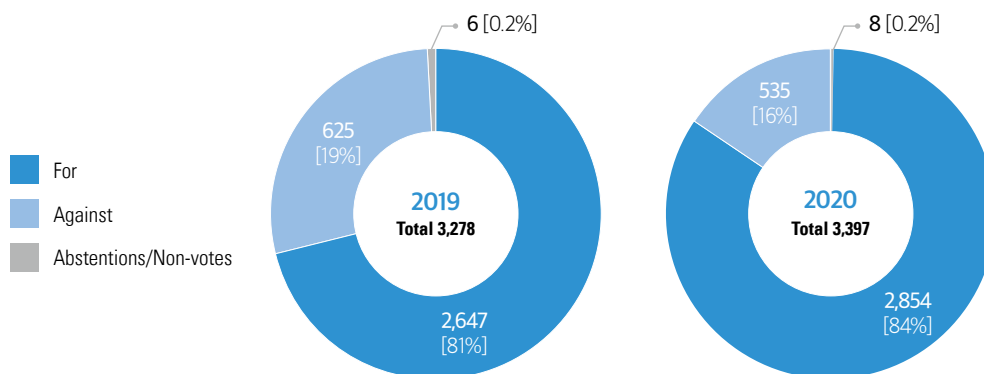
Based upon ownership ratio and holding weight, the Investment Committee reviews and approves the exercise of voting rights. However, the Special Committee on Responsible Investment & Governance may decide the direction of voting in certain cases: i) where NPS deems it difficult to make a decision, or ii) where over a third of the committee's registered members deem it to have a long-term impact on shareholder values. Moreover, at an annual shareholder meeting in March 2020, the Fund Management Committee (FMC) decided to delegate voting rights of some holdings to external managers by formulating the Guideline on Voting Right Delegation to External Managers.

(2) Disclosure and Voting Status

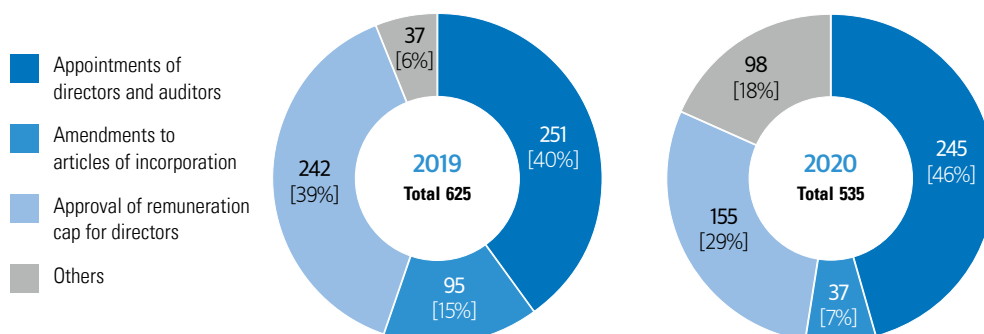
NPS discloses reasons for voting against proposals in detail, containing voting results and supporting clauses under applicable guidelines within 14 days after a shareholder meeting. Nevertheless, voting direction can be disclosed before a shareholder meeting when i) NPS holds stocks in excess of 10%, ii) associated stocks account for more than 1% of investment portfolio, or iii) the Special Committee on Responsible Investment & Governance deems it necessary. Accordingly, NPS made prior disclosures for 123 proposals in 2020.

NPS voted on 3,397 agenda in 854 shareholder meetings for domestic equities in 2020.

Voting Status



Vote-Against Status



Voting Cases in 2020

① Approval of Financial Statement

NPS voted FOR a financial statement of Company A considering the characteristics of the company and industry which have low dividend payout ratios but require intensive capital investment instead of paying dividends. On contrary, NPS voted AGAINST a financial statement of Company B considering its low dividend payout ratio and the absence of dividend policies even in good fiscal conditions in March 2020. Meanwhile, NPS agreed with a shareholder proposal for the approval of a financial statement (incl. statement of appropriation of retained earnings) of Company C considering its financial stability, cash holding, free cash flow, and comparison with other companies in the same industry.

② Appointment of Directors and Auditors (Supervisors)

In March 2020, NPS voted AGAINST appointment of an outside director at Company D where NPS holds more than 5% of its assets; appointment of a full-time employee at Company E as the employee worked for a key business partner company over the last five years; appointment of a full-time employee at Company F as the employee was under a long-term contract as advisor of the company over the last five years. In addition, NPS voted AGAINST appointment of an inside director at Company G as the director was held guilty by the supreme court, harming shareholder interests and damaging corporate value; appointment of an inside director at Company H due to the employee's negligence of duties to oversee corporate value or shareholder rights when the largest shareholder was engaged in embezzlement.

③ Amendment to Articles of Incorporation

In March 2020, NPS voted AGAINST amendments to articles of incorporation for the following cases: concerns over damage to corporate value due to the introduction of a supermajority voting provision (Company I), change in an approval authority for a financial statement by a resolution of the board of directors at a shareholder meeting without justifiable grounds (Company J), and change in an approval authority for provision of money for merit by a resolution of the board of directors at a shareholder meeting without justifiable grounds (Company K).

④ Approval of Remuneration Cap for Directors

In March 2020, NPS voted AGAINST remuneration cap for a director of Company L due to its excessive remuneration relative to the company's performance, and voted FOR remuneration cap for a director of Company M as the company submitted supporting documents including one-off costs.

2-3 Shareholder Engagement

NPS has adopted the Responsible Investment & Governance Principles (Stewardship Code) to fulfill its fiduciary duty to improve long-term profitability and stability while enhancing independence and transparency in the exercise of shareholder rights. Through this Code, the scope of shareholder engagement has been expanded to an extent to address director remuneration cap and legal violation. NPS undertakes shareholder engagement in accordance with standards and procedures of the Guideline on Stewardship Activities for Domestic Equities.

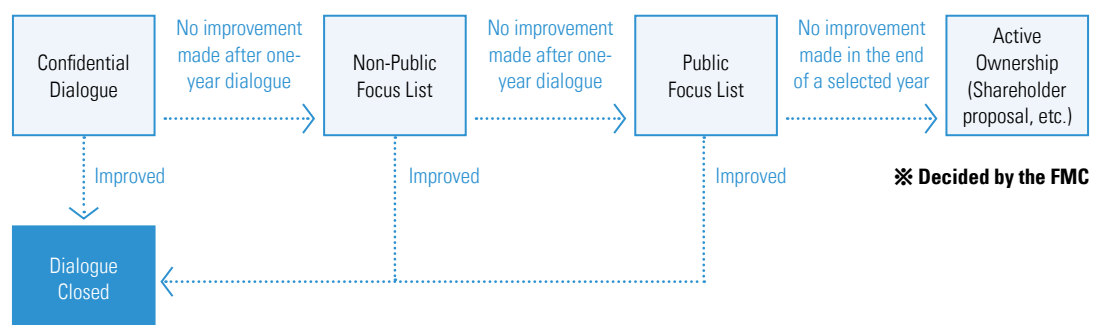
Meanwhile, when introducing the Stewardship Code, NPS first conducted shareholder activities which are not directly involved in business management³⁾ given concerns over potential intervention and a return of short-term gains on trading. In principle, engagement in business management is not permitted unless various conditions met; however, NPS is allowed to engage in business management for issues approved by the FMC. A case in point is a shareholder proposal for limiting the rights of some directors of Hanjin KAL⁴⁾ in February 2019 based on concerns over degraded corporate value due to deviant behaviors of some members of the owner family of Korean Air and Hanjin KAL. Moreover, in line with increasing call for transparency and alleviate concerns over intervention in business management and infringement of autonomy, NPS established the Guideline on Active Ownership in December 2019 that defines principles, standards and procedures for active shareholder engagement. NPS remains committed to conducting shareholder engagement according to guidelines and guidance and by doing so, NPS aims to encourage companies to voluntarily establish their own measures to improve shareholder value.

(a) Shareholder Engagement for Focus Area

With an aim of achieving long-term and stable returns, NPS identifies key focus areas and conducts shareholder engagement. Key focus areas include a dividend policy, the remuneration caps for directors, and concerns over violation of law, repetitive vote-against, and downgraded results of ESG evaluations.

Shareholder engagement for focus area is undertaken in stages, including selections of focus list, confidential dialogue, non-public/public focus lists, and shareholder proposals according to the Guideline on Stewardship Activities for Domestic Equities. If a company fails to show improvement even after a series of shareholder engagement, NPS can vote against any relevant agenda or appointment of directors in the company's shareholder meeting, or send an open letter.

Shareholder Engagement for Focus Areas



※ Company selection and improvement decision made by the Special Committee on Responsible Investment & Governance

3) It refers to a shareholder right that virtually influences the company on matters including election of directors and other related shareholder proposals.

4) As per the decision by the FMC, NPS presented a shareholder proposal in compliance with the procedures, but it was rejected in the annual shareholder meeting of Hanjin KAL in March 2019, with 48.66% voting for and 51.34% voting against.

Focus Area Selection Standard

Establishment of dividend policy	In case a company fails to establish a reasonable dividend policy or pay out dividends accordingly
Reasonableness of remuneration caps for directors	In case a shareholder right is likely to be infringed as a remuneration cap for directors is not aligned with business performance and compensation.
Issues hindering corporate value or shareholders' interest due to concerns over violation of law	In case a company falls into the following categories based on objective facts, such as investigations by authorities, <ol style="list-style-type: none"> ① Embezzlement or breach of duty in relation to the company ② Provision of unfair support to a special-interest party or other companies (unfair support) ③ Activities causing unfair gains to a special-interest party (shareholders' proportionate interests)
Repetitive votes-against agenda	In case a company fails to show improvement despite NPS's repetitive vote-against decisions in the company's shareholder meeting.
Issues downgrading the results of ESG evaluations	In case ESG ranking declines to below grade C after dropping two grades or more

① Establishment of Dividend Policy

NPS selected a list of companies required for confidential dialogue among companies that have not established and publicly disclosed reasonable dividend policy, or payed out dividend accordingly. In 2020, NPS communicated with 31 companies through letters or dialogues. By establishing an amicable communication channel, NPS encouraged companies to set out dividend policies voluntarily and communicate with the market, rather than just presenting a dividend ratio or level. As a result, the companies disclosed a reasonable dividend policy through a local electronic disclosure system, Data Analysis, Retrieval & Transfer (DART) of Financial Supervisory Service (FSS), and its website. This has led to an increase in the predictability of dividend payouts for investors.

NPS held confidential dialogue with representatives of companies (Company M and Company N), including the board of directors and management, to share the procedures and intention of NPS's shareholder engagement, particularly for the establishment of the dividend policy. The companies understood the necessity for developing a dividend policy. As a consequence, Company M decided to allocate a certain percentage of its operating profits to shareholders and retain the remaining internally to improve its competitiveness through reinvestment. The company has executed its dividend policy to maximize values of stakeholders. Company N publicly disclosed its standards of calculating the dividend amount in detail, along with its effort to pay out dividends at a fixed rate under certain circumstances, such as no dramatic volatility in the business environment and to escalate the dividend payout ratio in stages. As such, the disclosure of dividend policies helps investors better understand the companies' decision-making process for dividends and paves the way for enhancing the predictability of dividend payouts.

② Reasonableness of Remuneration Caps for Directors

NPS selected companies subject to confidential dialogue in consideration of actual remuneration relative to remuneration cap. The selection was made among companies NPS voted against proposals of 'Approval of Remuneration Cap for Directors' at recent shareholder meeting with the reasons of the remuneration cap not in line with business performance or excessive relative to actual remuneration. In 2020, NPS held confidential dialogue with and sent official letters to 12 companies, established an amicable communication channel, and encouraged them to establish measures to improve shareholder value. As a consequence, the companies voluntarily made improvements in making remuneration cap reasonable by establishing a Compensation Committee and adjusting remuneration cap.

NPS held confidential dialogue with representatives of companies, including the board and management, as to agendas relating to concerns over a larger gap between remuneration cap and actual remuneration, as well as NPS's shareholder engagement process and intention in relation to remuneration caps for directors. The companies acknowledged and understood the intention of confidential dialogue and investors' concerns. As a result, the board of Company O approved the establishment of a Compensation Committee within the board and the enactment of an Operation Regulation to improve shareholder value and increase transparency in business management. The Compensation Committee of Company R voluntarily made improvements by adjusting excessive remuneration relative to actual remuneration through discussions. Company R voluntarily made improvements by adjusting excessive remuneration relative to actual remuneration through discussions.

③ Issues Possible to Damage Corporate Value or Shareholders' Interests

NPS selected companies subject to confidential dialogue with concerns over potential damage to shareholder value or violation of shareholder rights caused by embezzlement, breach of duty, unfair support practices, or shareholders' proportionate interests on the basis of investigations by authorities or law enforcement. In 2020, NPS held confidential dialogue with and sent official letters to 25 companies, established an amicable communication channel, and encouraged them to establish measures to improve shareholder value.

NPS held confidential dialogue with the management and the board of Company P to examine factual grounds, countermeasures, and improvement measures on concerns over violation of laws, and share NPS's shareholder engagement intention and procedures in relation to shareholders' proportionate interests. As a result, Company P made improvements by seeking measures at shareholder meetings and enhancing a related sub-committee under the board. In early 2020, the company was lifted from a non-public dialogue list.

④ Repetitive Vote-Against Agenda

NPS selected companies subject to confidential dialogue given the number of voting against, room for improvement, ownership ratio, etc., among companies where NPS exercised voting against proposals of appointment of directors and auditors (supervisors) more than two times with the same reason over the last five years. In 2020, NPS held confidential dialogue with and sent official letters to 11 companies to build consensus on rule-violating practices against the Guideline of Stewardship Activities and encouraged them to establish measures to improve shareholder value. As a result, those companies showed improvement in implementing the corrective measures.

NPS held confidential dialogue with the management and the board of companies receiving repetitive vote-against proposals and shared the procedures and intention of NPS's shareholder engagement: Company Q for appointing a former director of a key shareholder company as an outside director and Company R for an inside director holding excessive posts outside the company. The companies acknowledged and understood the intention of confidential dialogue through sufficient communication. As a result, Company Q and Company R made improvements by removing the director in question from a candidate list for the post of a board director (Company Q) and reduce the number of posts permitted to hold outside the company (Company R).

⑤ Issues Downgrading the Results of ESG Evaluations

NPS selected companies subject to confidential dialogue based on quantitative analysis in NPS's asset exposure and the reason of drop in ranking, among internally managed domestic equities companies whose ranking dropped more than two levels to below Grade C in an ESG Evaluation. In 2020, NPS held confidential dialogue with and sent official letters to one company, established an amicable communication channel, and encouraged the company to establish measures to improve shareholder value. As a consequence, the company made improvements in enhancing its disclosure, establishing countermeasures, and implementing the measures.

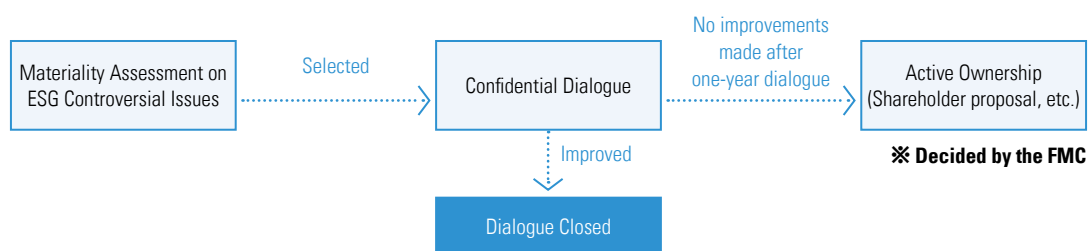
NPS selected Company S as a company subject to confidential dialogue in relation to degraded ESG ranking, and held confidential dialogue for around one year with representatives of the company, such as the board and management, of the company. During the dialogue, NPS shared the procedures and intention of NPS's shareholder engagement and described the reason of being selected, while Company S acknowledged and understood the intention of confidential dialogue, and established and implemented countermeasures.

Specifically, the company added an environmental management section in its website, strengthening the disclosure of environmental and social information, such as energy consumption data and safety-related information, and established procedures to secure product safety. In addition, the Board approved a proposal of newly launching and operating of an Outside Director Nomination Committee and made related regulations.

(b) Shareholder Engagement for Unexpected Concerns

To improve shareholder value and long-term returns, NPS seeks shareholder engagement in unexpected concerns in relation to environmental, social and governance (ESG) that may harm corporate value or shareholder interests. According to the Guideline on Stewardship Activities, NPS takes action in stage: conducting materiality assessments on companies with ESG controversial issues⁵⁾, selecting companies subject to confidential dialogue, and making a shareholder proposal. If no improvement is made even after a series of shareholder engagement, NPS exercises voting rights at shareholder meetings. If no willingness is shown for making improvements, including refusing confidential dialogue, NPS may send an open letter.

Shareholder Engagement for Unexpected Concerns



※ Company selection and improvement decision made by the Special Committee on Responsible Investment & Governance

Confidential Dialogue for Unexpected Concerns

(Concerns over Product Safety)

To address concerns over product safety accidents causing massive human casualty, NPS held confidential dialogue with and sent letters to investee companies which manufacture or distribute products, including Company T, in order to minimize any risks which have adverse impact on shareholder value. Through these efforts, NPS examined fact relevance and countermeasures in place, established policies to avoid the recurrence of the same accidents, developed human resources and physical systems, and encouraged the companies to publicly disclose related information. As a result, manufacturing companies established policies to strengthen the control of hazardous chemical substances, developed infrastructure necessary to prevent the same incident from occurring, including building related systems and expanding the organization, newly created a committee within the board, and enhanced reporting process. In the case of distributing companies, they reinforced the validation of product safety, conducted assessments on private-label products by a third-party agency, and disclosed all components of products with risk concern on their websites. In addition, NPS held confidential dialogue with and sent letters to companies which underwent investigations by authorities on the incident in 2019, and continues to monitor such companies.

(Concerns over Industrial Safety)

Since 2016, NPS has held confidential dialogue with and sent letters to Company U where casualties constantly occurred due to occupational diseases. Through these efforts, NPS examined fact relevance and countermeasures in place, established measures to protect the safety and health of the employees, and encouraged the company to publicly disclose related information. In 2018, the company made a formal apology, formulated measures to compensate associated employees, followed recommendations of a third-party agency consisting of experts in a range of fields, including industrial safety and health and preventive medicine, and continued to make improvements.

In 2020, NPS sent 35 letters to companies on various ESG controversial issues and conducted materiality assessments. The issues included ESG-related investigations by authorities, violation of environmental laws, casualty occurring in workplace, etc. Based on the result of the materiality assessments and letters, no company was selected as a company subject to confidential dialogue. NPS continues to monitor ESG-related controversial issues in investee companies.

5) Controversial Issues refer to a set of issues or scandals that have an impact on corporate value.

(c) Active Ownership

In December 2019, NPS established the Guideline on Active Ownership to enhance corporate value and provide transparent and fair shareholder engagement. In this guideline, active ownership focuses on increasing values of investee companies and shareholders by involving in sufficient interaction and communication on key focus areas and unexpected concerns as well as seeking improvement plans, rather than engaging in business management of investee companies. When an issue requiring shareholder engagement occurs, NPS pursues fact-checking and communication with investee companies to address issues according to the Guideline on Stewardship Activities for Domestic Equities. In case that it seems hard to make improvement, an 'Active Ownership Engagement' is conducted.

Active Ownership Activities

	Activities
Target Company	<ul style="list-style-type: none"> Companies which fail to make improvements, among companies either on a public focus list or in confidential dialogue for unexpected concerns
Engagement Standard	<ul style="list-style-type: none"> Engagement standard is established on a case-by-case basis by considering a range of factors including industrial characteristics, internal conditions, feasibility of a shareholder proposal, cost-effectiveness, and implications for the market
Selection Process	<ul style="list-style-type: none"> The Special Committee on Responsible Investment & Governance decides companies with no improvements made, and reviews the need for a shareholder proposal and its contents, and reports it to the FMC. - The FMC makes an actual decision on a shareholder proposal based on the review from the committee.
Shareholder Proposal	<ul style="list-style-type: none"> The FMC makes a final decision on the contents of a shareholder proposal within an acceptable range of the Commercial Code and the Financial Investment Service and Capital Market Act.

(d) Litigation

NPS may file a claim, such as shareholder derivative suit or compensatory damage suit, with a view to creating more long-term shareholder value of investee companies, according to the Guideline on Stewardship Activities for Domestic Equities. NPS does not file a claim for the purpose of exercising influence over investee companies or directors nor living up to the request of other shareholders. Even if conditions are met for litigation, NPS takes legal action only when it deems that the legal action can contribute to enhancing shareholder value over a long-term horizon considering the possibility to win and costs relative to benefits.

3. Global Investor Network

In June 2009, NPS joined the Principles for Responsible Investment (PRI)⁶⁾, a global network of investors that have publicly demonstrated their commitment to responsible investment. Since 2016, NPS has submitted PRI Transparency Reports.

In order to enhance the capabilities and implement stewardship activities in line with the launch of the Stewardship Code, NPS joined two investor-led organizations dedicated to corporate governance and investor stewardship: International Corporate Governance Network (ICGN)⁷⁾ and Asian Corporate Governance Association (ACGA)⁸⁾ in September 2019. Moreover, NPS joined the Asia Investor Group on Climate Change (AIGCC)⁹⁾, an initiative to create awareness and encourage action among Asia’s asset owners and financial institutions about the risks and opportunities associated with climate change and low carbon investing in November 2011. Capitalizing on researches, best practices, and guidelines from ICGN, ACGA, and AIGCC, NPS remain committed to boosting its capability and expertise in environmental, social, and governance (ESG) and expanding its network with asset managers and global pension funds.

Global Network for Responsible Investment



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- 6) The Principles for Responsible Investment (PRI) is a global initiative launched by UNEP Financial Initiative and the UN Global Compact in collaboration with financial institutions as an international network of investors working together to put its six Principles for Responsible Investment into practice. As of March 2020, the PRI has 3,038 signatories with total assets under management of around KRW 126,417 trillion.
 - 7) International Corporate Governance Network (ICGN) is the world’s largest investor-led organization to promote effective standards of corporate governance and provides a range of research and networks. The ICGN has more than 800 members from 43 countries as of July 2020.
 - 8) Asian Corporate Governance Association (ACGA) is an independent membership organization dedicated to working with investors, companies and regulation in the implementation of effective corporate governance practice throughout Asia and producing independent analyses of laws and regulations in relation to corporate governance. The ACGA has 110 members from 17 markets as of the end of 2020.
 - 9) Asia Investor Group on Climate Change (AIGCC) is launched to encourage action among Asia’s asset owners and financial institutions about the risk and opportunities associated with climate change and low carbon investing and provide capacity for investors to share best practice and to collaborate on investment activity, credit analysis, risk management, engagement and policy. As of the end of 2020, the AIGCC has 54 members, including pension funds, asset managers, and relevant organizations.

4. Way Forwards

4-1. ESG Investing

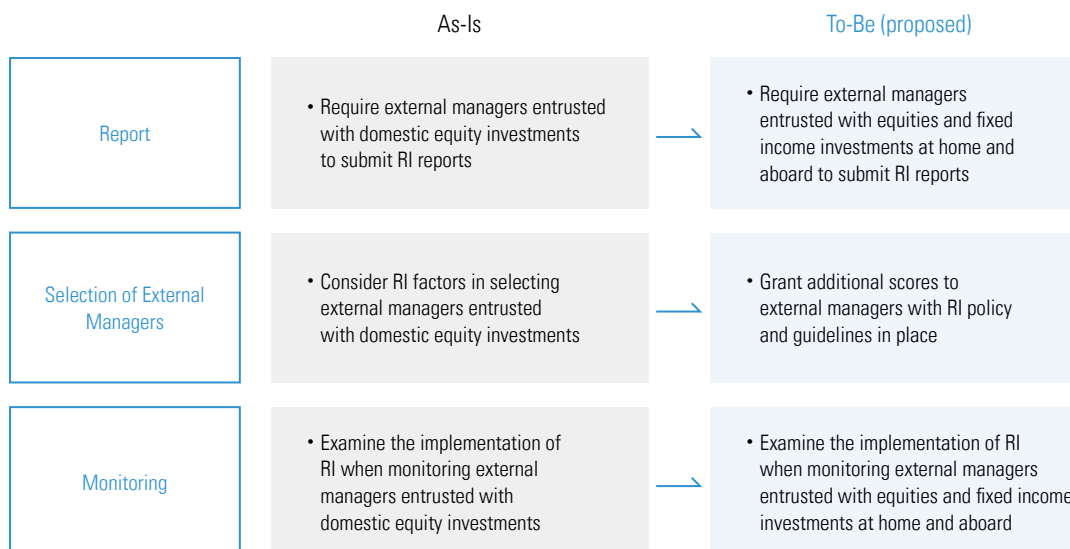
NPS established the Plan to Facilitate Responsible Investment in November 2019 as part of efforts to enhance market trust and confidence as public pension fund and achieve long-term returns by minimizing risks. In line with this plan, NPS has developed a road map to expand RI coverage in portfolio, formulate relevant strategies, introduce restriction screening strategies, and create a base to boost RI. Based on this roadmap, NPS seeks to develop more specific implementation measures and carry out activities.

(a) Expand RI Coverage in Portfolio and Develop Strategies

NPS plans to reinforce ESG Integration strategies for internally managed domestic equities. For securities in Grade D of ESG ranking, NPS will uphold the principle of refraining from investing beyond their benchmark. Furthermore, based on a commissioned study conducted in 2020, NPS will develop an ESG evaluation system and measures to apply ESG integration strategies for domestic fixed income investments. In 2021, NPS will commission a study of application of ESG integration strategies to global equities and fixed income investments considering their characteristics, investing methodologies, and associated laws and regulations to seek recommendations on specific implementation measures and apply the ESG integration strategies to global equities and fixed income investments.

(b) Enhance the Implementation of RI in External Managers

NPS will continue to enhance the implementation of RI of external managers. Firstly, NPS will expand the requirement of submission of RI reports throughout the entire portfolio, including domestic and global equities and fixed income investments. Secondly, NPS will grant additional scores to managers with RI policies and guidelines in place when selecting external managers for domestic and global equities and fixed income investments. To this end, scoring systems will be developed given the attributes of assets and the conditions of small- and mid-sized external managers, and accordingly associated regulations will be amended to come into force in 2022. Lastly, in order to check if external managers implement RI with faithfulness, NPS will monitor them periodically to reflect the result into the management of external managers.



(c) Introduce Negative Screening¹⁰⁾ (Declaration of Exit from Coal Finance)

Recognizing the importance of the ESG investment principles and the severity of climate change caused by the spread of COVID-19, as well as the need for risk management relating to carbon emissions in line with more stringent global regulations such as carbon boarder adjustment mechanism, the Fund Management Committee has declared exit from coal finance to reduce carbon emissions¹¹⁾. Starting with the declaration, NPS will stop investing in the construction of new coal power plants at home and abroad, and plans to establish phased implementation measures as a preparation stage to apply negative screening. To this end, NPS will commission a study for such an issue to refer to a wide range of opinions from various stakeholders in the study in the second half of 2021, and regulate implementation measures.

(d) Set Foundation for Promoting RI

NPS continues to review its ESG Evaluation System, while developing ways to enhance the use of the results. In addition, NPS broadens its network with global pension funds and investors to enhance its capabilities and expertise in responsible investment, and expand the workforce dedicated to responsible investment in the overseas offices in stages.

Furthermore, NPS will improve its systems to encourage investee companies to improve ESG disclosure practices to ultimately bolster responsible investment, and create an environment where capital market participants such as asset managers and brokerage firm include ESG information in their company analysis report.

10) Negative Screening is one of the responsible investments approach of reducing or excluding certain sectors, industries, or companies that do not comply with environmental, social, and governance (ESG) criteria.

11) The declaration was made in the 6th Fund Management Committee meeting in 2021 (May 28, 2021).

4-2. Exercise of Shareholder Rights

National Pension Fund Management Committee (FMC) has decided to develop the Guideline on the Composition and Operation of the Board of investee companies. NPS has already announced that through the Plan to Facilitate Responsible Investment, NPS will expand its current focus from governance to include environmental and social factors, and to further apply its ESG strategies to overseas assets. NPS plans to materialize the decisions made by FMC in stages, and file shareholder derivative actions according to the Guideline on Stewardship Activities for Domestic Equities which provides the legal basis for the litigation.

(a) New Guideline on the Structure and Operation of the Board

The FMC has decided to establish general principles for the composition and operation of the board as well as appointment of directors and auditors when NPS deems it necessary. The general principles, for instance, may include standard practices such as 'the board shall perform decision making and management oversight in an efficient manner,' 'directors shall be appointed through transparent procedures which comprehensively reflect a wide range of shareholders' views,' and 'the board shall establish a specific committee for particular functions and roles to ensure efficient operation.' NPS will prepare general principles of the structure and operation of the board in accordance with applicable laws, standard norms on corporate governance, and the Guideline on Stewardship Activities.

(b) Expansion of the Scope of Stewardship Activities

The FMC has decided to expand engagement strategies when establishing plans to facilitate responsible investment. In this context, NPS plans to broaden applicable areas of stewardship activities for domestic equities while conducting the activities for global equities. To materialize the practices, NPS has included environmental and social factors in existing key focus areas while selecting ESG-related key focus areas and developing a guideline on shareholder activities for overseas equities.



(c) Increase in an Ability to File Shareholder Derivate Litigation

NPS has developed the Guideline on Stewardship Activities for Domestic Equities in January 2019 that lays out specific standards to file a shareholder derivate litigation and suit for damage with an aim of contributing to increasing shareholder value over a long-term horizon.

In the first half of 2021, NPS plans to formulate specific standards and procedures for a shareholder derivate litigation by reviewing cases possible to file the litigation, including specific damages and filing period given the period of extinctive prescription of damages. In the second half, NPS will start to file a shareholder derivate litigation to curb any practices harming corporate value and continue to increase shareholder value in a long term.

5. Statistics of Stewardship Activities

5-1. Voting of Domestic Equity

NPS voted on a total of 3,397 proposals in 854 shareholder meetings for domestic equities in 2020, with 2,854 in favor (84.0%), 535 against (15.8%) and 8 abstentions/non-votes (0.2%). The reasons behind 535 votes against included appointment of directors and auditors (245, 45.8%), amendments to articles of incorporation (37, 6.9%), approval of remuneration cap (155, 29.0%), and others (98, 18.3%).

(a) Voting Results

Year	No. Invested Company	No. of Shareholder Meeting	No. of Proposal	Result		
				For (%)	Against (%)	Abstentions/Non-votes (%)
2020	1,033	854	3,397	2,854 (84.01%)	535 (15.75%)	8 (0.24%)
2019	1,059	767	3,278	2,647 (80.75%)	625 (19.07%)	6 (0.18%)
2018	764	768	2,864	2,309 (80.62%)	539 (18.82%)	216 (0.56%)

(b) Vote-Against Proposals

Reasons for Vote-Against	2018		2019		2020	
	No. of Proposal	Weight (%)	No. of Proposal	Weight (%)	No. of Proposal	Weight (%)
Appointment of Directors and auditors	226	41.9	251	40.2	245	45.8
Amendment to Articles of Incorporation	47	8.7	95	15.2	37	6.9
Compensation of Directors and Auditors	230	42.7	242	38.7	155	29.0
Other	36	6.7	37	5.9	98	18.3
Total	539	100.0	625	100.0	535	100.0

(c) Reasons for Votes Against Proposal for Appointment of Directors and Auditors

Reasons for Vote-Against Proposals for Appointment of Directors and Auditors	2018		2019		2020	
	No. of Proposal	Weight (%)	No. of Proposal	Weight (%)	No. of Proposal	Weight (%)
Long service (over 10 years)	35	15.5	52	20.7	33	13.5
Fully employed by the company, affiliates or a company that the invested company has important relations with over the last five years	61	27.0	58	23.1	77	31.4
Lack of attendance on the board meetings (75% or less)	27	11.9	15	6.0	24	9.8
Excessive dual office holding	47	20.8	34	13.5	43	17.5
Negligent oversight	12	5.3	16	6.4	10	4.1
Others	44	19.5	76	30.3	58	23.7
Total	226	100.0	251	100.0	245	100.0

5-2. Engagement

NPS conducts shareholder activities on Focus Areas and Unexpected Concerns of investee companies while engaging in shareholder activities, including sending official or confidential letters or hosting confidential dialogue. In case investigation by authorities is initiated or ESG-related issues occur, NPS carries out shareholder activities, including sending a confidential letter or having dialogue. Aside from these efforts, NPS also conduct other engagement activities, including provision of explanations on ESG strategies, business performance, and shareholder meeting agendas as per request of companies.

In 2020, NPS engaged in 225 activities, including sending letters and having dialogue, with 109 companies.

Engagement for 2020

Type	Issue	No. of engaged companies		No. of letters sent		No. of dialogue		Sub-total	
		2019	2020	2019	2020	2019	2020	2019	2020
Focus Area	Establishment of dividend policy	35	31	44	40	33	27	77	67
	Remuneration cap for directors	6	12	6	12	9	20	15	32
	Concerns over violation of law	4	25	5	37	5	19	10	56
	Repetitive vote-against	5	11	5	11	14	14	19	25
	Downgraded results of ESG Evaluation	1	2	1	2	1	3	2	5
Unexpected Concerns		9	28	21	35	5	5	26	40
	Total	60	109	82	137	67	88	149	225

MEMO

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