

NATIONAL PENSION FUND RESPONSIBLE INVESTMENT & GOVERNANCE REPORT



NATIONAL PENSION FUND RESPONSIBLE INVESTMENT & GOVERNANCE REPORT 2021

2021 National Pension Fund

Responsible Investment & Governance Report





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1. Responsible Investment

1-1 What is Responsible Investment?

National Pension Service (NPS) conducts responsible investment (RI) in line with its RI strategies in order to achieve long-term and stable returns. At NPS, responsible investment is categorized in two ways: ESG Incorporation and Active Ownership. ESG incorporation is a way to consider environmental, social and governance (ESG) factors in investment decision-making, and Active Ownership is involved in voting and constructive dialogues to improve ESG-related risk management and enhance enterprise value.

ESG Incorporation is conducted in three approaches: ESG Integration, Screening and Thematic. ESG Integration considers both financial factors and non-financial factors, including ESG; Screening uses filters to determine which companies, sectors or industries are eligible or ineligible to be included in a portfolio; Thematic approach seeks to achieve risk-adjusted return and ESG outcomes all together. Active Ownership includes the exercise of voting rights at shareholder meetings and shareholder engagement including dialogues and shareholder proposals.

NPS Responsible Investment Scheme			
PRI	Definition	Adoption on Status	Remarks
1. ESG Incorporation			
① ESG Integration	<ul style="list-style-type: none"> Consider financial factors and non-financial factors, including ESG, in decision-making 	Adopted	<ul style="list-style-type: none"> ESG rating is considered for internally managed equity and fixed income (corporate bond)
② Screening	<ul style="list-style-type: none"> Include (positive screening) or exclude (negative screening) certain industries which are considered positive or negative from an ESG perspective 	To be adopted	<ul style="list-style-type: none"> An action plan on negative screening is under development in line with the FMC's announcement of a coal phase-out
③ Thematic	<ul style="list-style-type: none"> Pursue risk-adjusted returns and ESG outcomes all together 	Not yet	-
2. Active Ownership			
④ Voting	<ul style="list-style-type: none"> Exercise a voting rights at shareholder meetings 	Adopted	<ul style="list-style-type: none"> NPS votes on domestic and overseas equity
⑤ Engagement	<ul style="list-style-type: none"> Shareholder engagement (non-participatory management): Dialogue with companies (confidential dialogue, confidential/public focus list) Shareholder engagement (participatory management): shareholder proposal, etc. (after publicly disclosing focus list) Litigation: Shareholder derivative suit, damage claim suit, etc. 	Adopted	<ul style="list-style-type: none"> Dialogues are conducted with companies in relation to focus areas and unexpected concerns in domestic equity portfolio

1-2 Legal Basis

The legal grounds for responsible investment (RI) to incorporate environmental, social and governance (ESG) factors into investment decision-making have been put in place since January 2015 through amendments to the National Pension Act. In line with this, a new provision on the implementation of RI was added to the Guideline for National Pension Fund Management in April 2016. NPS's stewardship code, Responsible Investment & Governance Principles and related guidelines were amended and enacted in July 2018 to form a legal basis for the exercise of shareholder rights. In December 2019, a Guideline for Active Ownership was enacted as detailed implementation measures to exercise shareholder rights in a broader manner. In November 2019, a Plan to Facilitate Responsible Investment was formulated to add a new principle of Sustainability to the existing five investment principles – Profitability, Stability, Public Benefit, Liquidity and Independence.

Legal Basis for Responsible Investment

National Pension Act

Article 102 (Management and Operation of Fund)

(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 revenue.

Guideline for National Pension Fund Management

Article 4 (Investment Principles)

5. Sustainability: To fulfill its fiduciary duty, particularly in consideration of environmental, social and governance (ESG) factors, to enhance the sustainability of assets under managements

1-3 Responsible Investment Policies

National Pension Service (NPS) conducts responsible investment in the best interests of contributors and beneficiaries of the National Pension Plan with the objective of achieving stable growth of the National Pension Fund. To this end, NPS has adopted Responsible Investment Principles (RI Principles) and Responsible Investment & Governance Principles, or Stewardship Code; has considered non-financial factors, such as environmental, social and governance (ESG) factors, in accordance with standards, methods and procedures set out in the Guideline for Responsible Investment & Governance when managing and investing the Fund; has exercised shareholder rights to pursue independence and transparency.

Responsible Investment Policies

Guideline for National Pension Fund Management

Article 17 (Responsible Investment)

(1) Where the Fund is administered and managed by means of the trading and lending of securities, environmental, social and governance (ESG) aspects may be taken into consideration in investment decisions, in order to deliver long-term stable returns. The principles of responsible investment shall be prescribed in Attached Table 4.

Article 17-2 (Principles on Responsible Investment & Governance)

In a bid to enhance transparency and independence of stewardship activities and improve long-term returns, NPS shall refer to the Korea Stewardship Code, 'Principles on the Stewardship Responsibilities of Institutional Investors,' and implement stewardship activities according to the Responsible Investment & Governance Principles approved by the National Pension Fund Management Committee.

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

Responsible investment and exercise of shareholder rights shall be undertaken,

- (1) With the objective of increasing assets under management;
- (2) In good faith in the best interests of the contributors and beneficiaries of the National Pension Plan;
- (3) In a direction that contributes to increasing shareholder value over the long run;
- (4) In compliance with standards, process and methods as stipulated in the Guideline for Responsible Investment & Governance approved by the FMC.

Responsible Investment Principles

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

Responsible Investment & Governance Principles or Stewardship Code

- (1) Formulate and publicly disclose Stewardship Activities Policy
- (2) Formulate and publicly disclose Conflict of Interest Prevention Policy
- (3) Regularly monitor investee companies
- (4) Formulate a guideline for stewardship activities and conduct shareholder engagement
- (5) Formulate and publicly disclose Voting Right Policy, and publicly disclose voting results and reasons for each vote
- (6) Regularly report stewardship activities
- (7) Enhance capabilities and expertise in effective implementation of stewardship activities

Guideline for Responsible Investment & Governance

PART 1 (General Provisions): Objective, Scope, Basic Principles, Details of Stewardship Activities, Key Decision Makers

PART 2 (Responsible Investment): Targets, Non-financial Factors (ESG), Incorporation Methods

PART 3 (Exercise of Shareholder Rights)

- Voting (Targets, Basic Principles, Detailed Standards, etc.)
- Stewardship Activities on Focus Areas (Confidential Dialogue, Confidential/Public Focus List, Open Letter, Shareholder Proposal, etc.)
- Stewardship Activities on Unexpected Concerns (Targets, Compliance Standards)

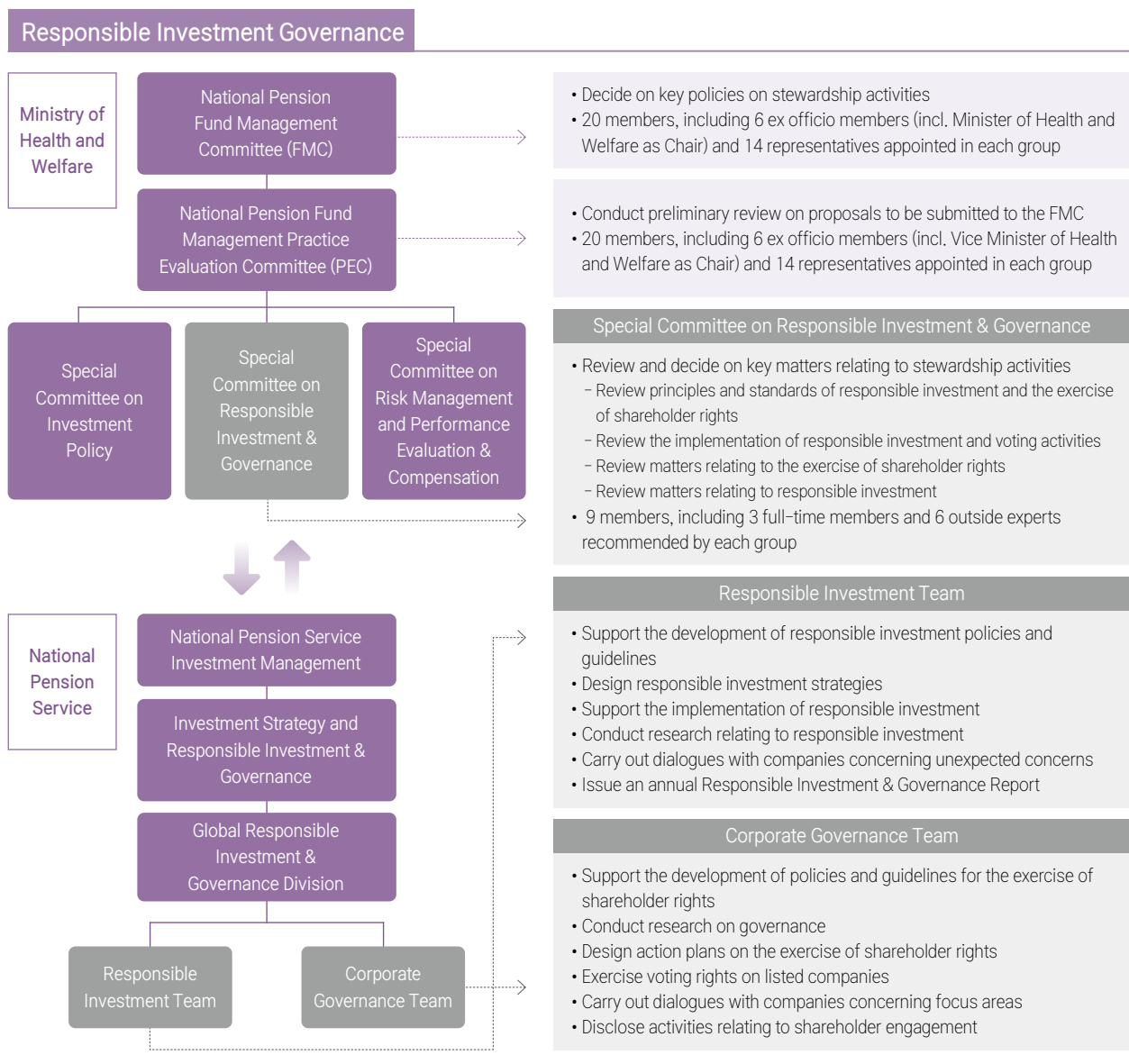
PART 4 (Disclosure and Reporting, etc): Notification and Announcement, Disclosure and Reporting, Stewardship Activities Report, Internal Control, Capacity Building, etc.

Attached Tables: Detailed Voting Criteria for Domestic and Overseas Equity Portfolio, Disclosure Forms for Voting Results, Selection Criteria for Focus Areas

1-4 Responsible Investment Governance

National Pension Service (NPS) conducts responsible investment in accordance with policies approved by the National Pension Fund Management Committee (FMC), the highest decision-making body. The Special Committee on Responsible Investment & Governance, consisting of full-time expert advisors and external experts, supports the FMC in decision-making on responsible investment activities, as well as reviews and decides on key matters concerning ESG incorporation and exercise of shareholder rights.

At NPS, the Global Responsible Investment & Governance Division is in charge of the implementation of responsible investment. The division, comprised of 17 members as of the end of 2021, has two teams: Responsible Investment Team and Corporate Governance Team. The Responsible Investment Team supports the development of responsible investment policies and guidelines; maps out responsible investment strategies and action plans that help fund managers consider ESG integration in investment decision-making; conducts research, including ESG evaluation and ESG controversial issues monitoring; and carries out ESG-related shareholder engagement. Meanwhile, the Corporate Governance Team supports the development of policies and guidelines for the exercise of shareholder rights; formulates action plans; conducts research on governance; exercises voting rights on listed companies; carries out dialogues with companies concerning focus areas.



FMC Meetings on Responsible Investment in 2021

No	Date	Agenda
2	Feb. 24	Actions Taken and Ways Forward for the Plan to Facilitate Responsible Investment (Proposal)
3	Mar. 26	Report of Operation Status of Special Committee on Responsible Investment & Governance (Proposal)
5	Apr. 30	(Rediscussed) Ways to Adopt Negative Screening in Response to Climate Change (Confidential)
6	May 28	Ways to Adopt Negative Screening (Proposal)
8	Aug. 25	Guide to the Composition and Operation of Boards of Directors
9	Dec. 3	Status of Commissioned Research in Preparation for Range and Standards of Coal Mining and Coal-fired Power Industries Guideline for Responsible Investment on Composition and Operation of Boards of Directors
10	Dec. 24	(Rediscussed) Amendments to Guideline for Responsible Investment & Governance (Proposal)

Meetings of Special Committee on Responsible Investment & Governance in 2021

No	Date	Agenda
1	Jan. 5	Voting Direction on Agendas at Extraordinary Meeting of Shareholders of Korean Air
2	Jan. 21	Selection of Companies Subject to Confidential Dialogues on Unexpected Concerns (Proposal)
		Selection of Companies Subject to Materiality Assessment on Unexpected Concerns (Proposal)
		Report on the Result of a Periodic ESG Evaluation in the Second Half of 2020
		Report on Voting Standards for Excess Dividends
		Report on Voting Cases for Overseas Equity
3	Feb. 5	Actions Taken and Ways Forward for the Plan to Facilitate Responsible Investment
		Review of Proposals by Members of FMC on Shareholder Proposal for Appointment of Outside Directors of a Company NPS Invests in (Proposal)
4	Feb. 9	Report on Voting Cases for Overseas Equity Selection of Multiple Advisory Agencies on Exercise of Voting Rights (Proposal)
5	Feb. 16	Review of Proposals by Members of FMC on Shareholder Proposal for Appointment of Outside Directors of a Company NPS Invests in (Proposal)
		Review of Proposals by Members of FMC on Shareholder Proposal for Appointment of Outside Directors of a Company NPS Invests in (Proposal)
6	Feb. 19	Selection of Companies Subject to Confidential Dialogues List on Unexpected Concerns (Proposal)
		Selection of Companies Subject to Materiality Assessment on Unexpected Concerns (Proposal)
		Selection of Companies Subject to Materiality Re-Assessment on Unexpected Concerns (Proposal)
		Review on Voting of Full-time Auditors
7	Mar. 9	Report on Emergency Plan for General Meeting in March (Proposal)
		Report on Revised Emergency Plan for General Meeting in March (Proposal)
		Plans for Confidential Dialogues on Unexpected Concerns (Proposal)
		Voting Direction on Agendas at General Meeting of Shareholders of POSCO (Proposal)
		Selection of Companies Subject to Confidential Dialogues on Concerns over Violation of Rules and Regulations (Proposal)
		Inspection of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Dividend Policies (Proposal)
		Inspection of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Repetitive Vote Against (Proposal)
		Inspection of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Remuneration Cap for Directors (Proposal)
Inspection of Improvement Status of Companies in Confidential Focus List and Selection of Public Focus List on Remuneration Cap for Directors (Proposal)		
8	Mar. 16	Inspection of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Repetitive Vote Against (Proposal)
		Inspection of Improvement Status of Companies in Confidential Focus List and Selection of Public Focus List on Repetitive Vote Against (Proposal)
		Voting Direction on Agendas at General Meeting of Shareholders of Samsung C&T (Proposal)
		Voting Direction on Agendas at General Meeting of Shareholders of Hite Jinro (Proposal)
		Voting Direction on Agendas at General Meeting of Shareholders of Mando (Proposal)
		Agendas Requested by Three Members of the Special Committee to be referred to the Special Committee Report on Details in Stewardship Activities and the Results of Regular Review on Proxy Voting

No	Date	Agenda
9	Mar. 18	Voting Direction on Agendas at General Meeting of Shareholders of Hyosung Holdings (Proposal)
		Voting Direction on Agendas at General Meeting of Shareholders of OCI (Proposal)
		Voting Direction on Agendas at General Meeting of Shareholders of KT&G (Proposal)
10	Mar. 23	Inspection of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Remuneration Cap for Directors (Proposal)
		Voting Direction on Agendas at General Meeting of Shareholders of Woori Financial Group (Proposal)
		Voting Direction on Agendas at General Meeting of Shareholders of Shinhan Financial Group (Proposal)
		Voting Direction on Agendas at General Meeting of Shareholders of KB Financial Group (Proposal)
		Voting Direction on Agendas at General Meeting of Shareholders of NH Investment & Securities (Proposal)
		Voting Direction on Agendas at General Meeting of Shareholders of Hanjin KAL (Proposal)
		Voting Direction on Agendas at General Meeting of Shareholders of Korean Air (Proposal)
		Voting Direction on Agendas at General Meeting of Shareholders of CJ Logistics (Proposal)
		Voting Direction on Agendas at General Meeting of Shareholders of Hanjin (Proposal)
		Voting Direction on Agendas at General Meeting of Shareholders of Kumho Petrochemical (Proposal)
11	Mar. 26	Voting Direction on Agendas at General Meeting of Shareholders of SK Hynix (Proposal)
		Voting Direction on Agendas at General Meeting of Shareholders of Hankook & Company (Proposal)
		Voting Direction on Agendas at General Meeting of Shareholders of Hankook Tire & Technology (Proposal)
		Plans for Confidential Dialogues on Unexpected Concerns (Proposal)
12	Apr. 21	Inspection of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Dividend Policies (Proposal)
		Ways to Adopt Negative Screening in Response to Climate Change
13	May 18	Process to Request for Discussion on Voting Agendas for Domestic Equity (Proposal)
		Selection of Companies Subject to Confidential Dialogues on Concerns over Violation of Rules and Regulations (Proposal)
		Selection of Companies Subject to Confidential Dialogues on Unexpected Concerns (Proposal)
		Selection of Companies Subject to Materiality Assessment on Unexpected Concerns (Proposal)
		Ways to Adopt Negative Screening in Response to Climate Change (Confidential)
		Report on Progress of Selection of Multiple Advisory Agencies on Exercise of Voting Rights
		Upgrade of ESG Evaluation System for Domestic Equity (Proposal)
14	Jun. 17	Inspection of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Dividend Policies (Proposal)
		Standard on Derivative Suit for Domestic Equity (Proposal)
		Enhancement of Standard on Materiality Assessment on Unexpected Concerns (Proposal)
		Report on Voting Cases for Domestic Equity
		Report on National Pension Fund Responsible Investment & Governance Report (Proposal)
		Amendments to Guideline for ESG Integration Strategies (Proposal)
		Report on Details in Stewardship Activities and the Results of Regular Review on Proxy Voting
15	Jul. 23	Decision on Cases Subject to Derivative Suit for Domestic Equity (Proposal)
		Inspection of Improvement Status of Companies Subject to Confidential Dialogues on Concerns over Violation of Rules and Regulations (Proposal)
		Inspection of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List concerning Dividend Policies (Proposal)
		Selection of Companies Subject to Confidential Dialogues on Dividend Policies (Proposal)
		Selection of Companies Subject to Confidential Dialogues on Remuneration Cap for Directors (Proposal)
		Selection of Companies Subject to Confidential Dialogues on Repetitive Vote Against (Proposal)
		Re-report on Enhancement of Standard on Materiality Assessment on Unexpected Concerns (Proposal)
Ways to Select Focus Areas Relating to Environmental and Social Aspects		
16	Sept. 14	Selection of Companies Subject to Confidential Dialogues on Concerns over Violation of Rules and Regulations (Proposal)
		Voting Direction on Agendas at Extraordinary Meeting of Shareholders of SK Innovation (Proposal)
		Interim Report on Confidential Dialogue on Unexpected Concerns
		Report on Details in Stewardship Activities and the Results of Regular Review on Proxy Voting

No	Date	Agenda
17	Oct. 8	Selection of Focus Areas Relating to Environmental and Social Aspects (Proposal)
		Emergency Measures Relating to Exercise of Voting Rights (Proposal)
		Amendments to Guideline for Responsible Investment & Governance (Proposal)
		Report on Voting Cases for Overseas Equity
18	Oct. 26	Report on the Result of Periodic ESG Evaluation for Domestic Equity and Fixed Income for the First Half of 2021
		Voting Direction on Agendas at Extraordinary Meeting of Shareholders of SK Materials (Proposal)
		Amendments to Guideline for Responsible Investment & Governance (Proposal) [Re-deliberation]
19	Nov. 5	Selection of Companies Subject to Materiality Assessment on Unexpected Concerns (Proposal)
		Selection of Companies Subject to Confidential Dialogue on Unexpected Concerns (Proposal)
		Inspection of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on ESG Rating Downgrade (Proposal)
		Inspection of Improvement Status of Companies Subject to Confidential Dialogues on Concerns over Violation of Rules and Regulations (Proposal)
20	Nov. 25	Inspection of Improvement Status of Companies in Confidential Focus List and Selection of Public Focus List on Dividend Policies (Proposal)
		Selection of Companies Subject to Confidential Dialogues on ESG Rating Downgrade (Proposal)
		Inspection of Improvement Status of Companies Subject to Confidential Dialogues on Concerns over Violation of Rules and Regulations
		Selection of Case Candidates Subject to Derivative Suit (Proposal)
		Report on Details in Stewardship Activities and the Results of Regular Review on Proxy Voting
		Status of Commissioned Research in Preparation for Range and Standard on Coal Mining and Coal-fired Power Industries (Appendix)
		Guideline for Responsible Investment on Composition and Operation of Boards of Directors (Reference)
21	Dec. 7	Amendments to Guideline for Stewardship Activities for Domestic Equity (Proposal)
		Amendments to Guideline for ESG Integration Strategies (Proposal)
		Report on the Development of Ways to Implement ESG Integration Strategies and Stewardship Activities for Overseas Securities
22	Dec. 17	Inspection of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Dividend Policies (Proposal)
		Inspection of Improvement Status of Companies Subject to Confidential Dialogues on Concerns over Violation of Rules and Regulations
		Re-Selection of Case Candidates Subject to Derivative Suit (Proposal)
		Improvement of Score Reduction Methods for ESG Controversial Issues (Proposal)

1-5 Stewardship Activities Milestones

National Pension Service (NPS) began responsible investment (RI) with externally managed domestic RI funds in September 2006. Since then, NPS has been committed to taking part in a range of RI activities. In June 2009, NPS joined the Principles for Responsible Investment (PRI). In March 2013, Responsible Investment Team was created under the Investment Strategy Division to bring together all the voting rights that had been exercised separately by domestic and overseas equity investment teams, thereby paving the road towards adopting stewardship activities. In 2015, ways to promote dialogues with domestic listed companies on dividend policies were developed. In November of the same year, an ESG Evaluation System for Domestic Equity was established. In 2016, an ESG Information Sharing Platform was built to provide ESG-related information to portfolio managers so that ESG aspects can be integrated into an investment decision-making process.

In July 2018, Responsible Investment & Governance Principles, or Stewardship Code, was adopted. In January 2019, Responsible Investment Team was expanded and reformed into the Global Responsible Investment & Governance Division, consisting of Responsible Investment Team and Corporate Governance Team. In November 2019, a Plan to Facilitate Responsible Investment was formulated to lay the foundation for applying RI activities to more assets in the portfolio. In December 2019, a Guideline for Active Ownership for Domestic Equity was developed to expand the scope of shareholder engagement. In July 2020, an annual Responsible Investment & Governance Report was issued to disclose stewardship activities in a transparent manner. In November 2020, a Guideline for ESG Integration Strategies for Domestic Equity was devised to apply enhanced and expanded ESG Integration Strategies to the internally managed domestic equity portfolio. In May 2021, negative screening was adopted in line with the announcement of the National Pension Fund Management Committee on phasing out of coal (Exclusion of coal mining and coal-fired power industries).

In June 2021, a Guideline for ESG Integration Strategies for Internally Managed Domestic Fixed Income was developed to apply ESG integration strategies to domestic fixed income (corporate bond). In December 2021, a Guideline for Responsible Investment on Composition and Operation of Boards of Directors was issued to enhance the predictability on NPS's direction of responsible investment activities by sharing such information with investee companies, and to help investee companies voluntarily run their corporate governance.

Milestones of Stewardship Activities

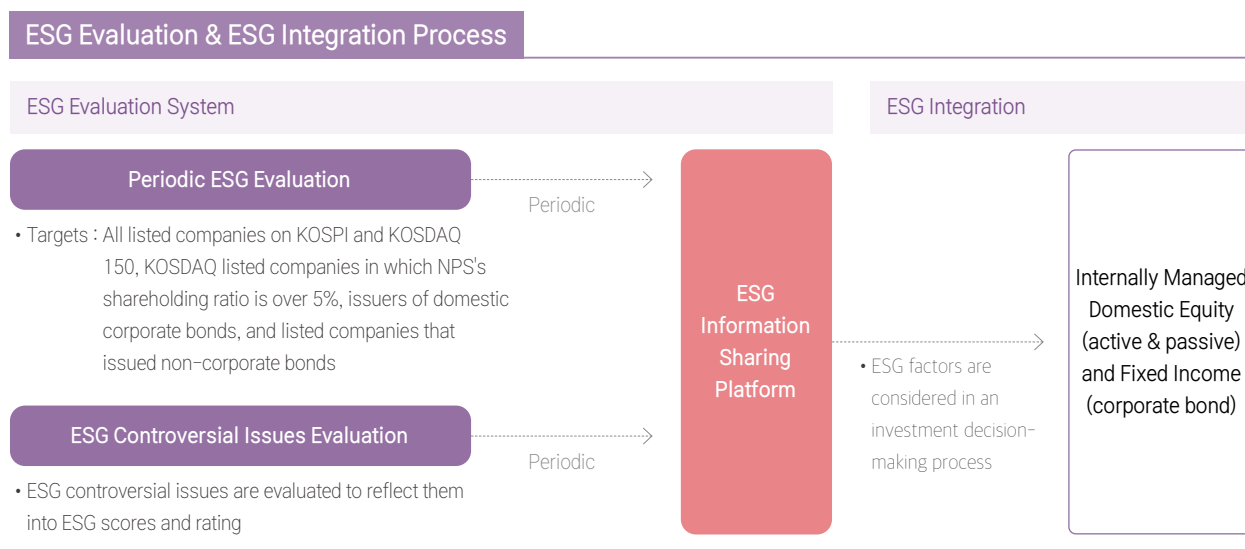
Sept. 2006	Launched externally managed domestic RI funds
Jun. 2009	Joined the Principles for Responsible Investment (PRI)
Dec. 2009	Added a provision on Responsible Investment to Voting Guideline
Mar. 2013	Created Responsible Investment Team under the Investment Strategy Division
Jun. 2015	Formulated ways to promote dialogues with companies on dividend policy for domestic equity
Nov. 2015	Adopted new benchmark for externally managed domestic RI funds Established an ESG Evaluation System for domestic equity
Apr. 2016	Added a provision on Responsible Investment to Guideline for National Pension Fund Management (Investment Policy Statement)
Dec. 2016	Established an ESG Information Sharing Platform for domestic equity
Jul. 2017	Developed an ESG Controversial Issues Evaluation System for domestic equity
Sept. 2017	Applied ESG Integration to internally managed domestic equity
Jul. 2018	Adopted Responsible Investment & Governance Principles (Stewardship Code) Amended Voting Guideline to enact a Guideline for Responsible Investment & Governance
Jan. 2019	Expanded and reformed Responsible Investment Team into Global Responsible Investment & Governance Division (consisting of Responsible Investment Team and Corporate Governance Team) Developed a Guideline for Stewardship Activities for Domestic Equity
Feb. 2019	Decided on the disclosure scope of voting direction prior to shareholder meetings
Sept. 2019	Joined the International Corporate Governance Network (ICGN) Joined the Asian Corporate Governance Association (ACGA)
Nov. 2019	Established a Plan to Facilitate Responsible Investment and adopted RI Principles Added a new principle of Sustainability to investment principles set out in the Guideline for National Pension Fund Management Developed a Guideline for Proxy Voting Practices of External Managers Formulated ways to grant additive scores to companies with Stewardship Code in place when selecting and assessing external managers
Dec. 2019	Formulated a Guideline for Active Ownership for Domestic Equity
Jul. 2020	Issued an annual Responsible Investment & Governance Report Amended the Guideline for Stewardship Activities for Domestic Equity
Sept. 2020	Developed ways to improve materiality assessment procedures and standards on unexpected concerns
Nov. 2020	Developed a Guideline for ESG Integration Strategies for Domestic Equity Joined the Asia Investor Group on Climate Change (AIGCC)
May 2021	Adopted Negative Screening
Jun. 2021	Formulated a Guideline for ESG Integration Strategies for Internally Managed Internally Managed Domestic Fixed Income
Dec. 2021	Issued a Guideline for Responsible Investment on Composition and Operation of Boards of Directors Formulated ways to consider RI factors when selecting and monitoring external managers in domestic and overseas equity and fixed income

2. Responsible Investing

2-1 ESG Integration

National Pension Service (NPS) has been committed to laying the groundwork for the implementation of ESG Integration Strategies for a long period of time. Beginning with the development of an ESG Evaluation System for domestic equity in November 2015, NPS has developed an internal research system on ESG-related information and designed research strategies. Such systems and strategies are harnessed for internally managed domestic equity and fixed income (corporate bond). In line with a Plan to Facilitate Responsible Investment approved by the National Pension Fund Management Committee (FMC) in November 2019, the application scope has been gradually expanded.

At NPS, ESG integration is materialized through ESG evaluation. NPS implements ESG Integration strategies by incorporating ESG factors, coupled with financial factors, into an investment decision-making process for internally managed domestic equity and fixed income (corporate bond) using its internal ESG evaluation system.



(1) Periodic ESG Evaluation

NPS has developed its proprietary ESG Evaluation System to analyze a investment targets' exposure to non-financial factors, including environmental, social and governance (ESG) aspects, in a systematic manner. Using the system, ESG evaluation is conducted twice a year for all listed companies on KOSPI and KOSDAQ 150, KOSDAQ listed companies in which NPS's shareholding ratio is over 5%, issuers of domestic corporate bonds, and listed companies that issued non-corporate bonds. The ESG Evaluation System is composed of 61 ESG indicators in 14 categories that affect enterprise value in terms of ESG. Considering the characteristics of each industry, different weighting per industry is applied to each category to calculate ESG score and rating.

Based on commissioned research conducted in the second half of 2020 on the improvement of ESG evaluation system for domestic equity and the establishment of ESG evaluation system for domestic fixed income, NPS reinforced the ESG evaluation system for domestic equity and adopted an ESG evaluation system for domestic fixed income in 2021. NPS will continue to improve and upgrade ESG Evaluation Systems, including ESG indicators, in consideration of internal and external circumstances.

ESG Evaluation System for Domestic Equity

	Item (14)	ESG Evaluation Indicator (61)
Environmental	Climate Change	Greenhouse Gas Emissions Management System, Carbon Emissions, Energy Consumption, Voluntarily Determined Contributions
	Environmental Impact Management	Environment Management System Certification, Environment Management Objective, Clean Production Management, Water Consumption, Chemical Consumption, Air Pollution, Waste Emissions
	Green Products Development	Green Product Development Activities, Green Patents, Green Product Certification, Product Environmental Improvement
Social	Human Resources Management and Human Rights	Wage, Investment in Human Resources, Employment, Family-friendly Corporate Culture, Years of Service, Human Rights, Labor Practices
	Industrial Safety	Health and Safety System, HSE Team, HSE Management System Certification, Designation of Workplace with Frequent Incidents
	Fair Trade	Counterparty Selection Process, Compliance with Fair Trade, Partner Company Support Activities, Violation of Subcontracting Law, Behaviors Undermining Fair Trade
	Product Safety and Consumer Protection	Product Safety System, Product Safety System Certification, Product Safety Accident, Consumer Complaint Center, Consumer Centered Management Certification
	Information Protection	Information Protection System, Information Protection System Certification, Information Leakage
Governance	Shareholder Right Enhancement	Management Protection System, Shareholder Opinion Collection System, Disclosing Date of Shareholder Meeting, Recent 3-year Dividend
	Composition and Operation of Board of Directors	Separation of CEO and BOD Chair, Independence of BOD, Composition of Outside Directors, Diversity of BOD Composition, BOD Activities, Director Remuneration Policy
	Committee under BOD	Compensation Committee, Outside Director Candidate Recommendation Committee, ESG Committee
	Audit System	Outside Director Ratio in Audit Committee, Ratio of Auditor (Member) with Long Tenure, Audit to Non-Audit Service Fee Ratio
	Affiliation Risk	Affiliation Contingent Liability to Net Assets, Affiliation Sales Ratio, Affiliation Purchase Ratio
	Internal Control and Compliance	Internal Control and Compliance Systems, Anti-Bribery Management System Certification, Violation of Internal Control and Compliance

As of the end of 2021, 950 domestic listed companies were evaluated and rated as follows:

2021 ESG Evaluation Result (Equity)

AA	A	BB	B	C	D	Total
78 (8.2%)	158 (16.6%)	234 (24.6%)	318 (33.5%)	157 (16.5%)	5 (0.5%)	950 (100.0%)

As for fixed income securities, 1,031 domestic listed companies, issuers of domestic corporate bonds, and listed companies that issued non-corporate bonds were evaluated and rated as follows:

2021 ESG Evaluation Result (Fixed income)						
AA	A	BB	B	C	D	Total
92 (8.9%)	174 (16.9%)	251 (24.3%)	339 (32.9%)	167 (16.2%)	8 (0.8%)	1,031 (100.0%)

Following the evaluations, ESG information, including ESG evaluation results, is provided to portfolio managers in internally managed domestic equity and fixed income through the ESG Information Sharing Platform to be utilized during an investment decision-making process along with financial factors. In case the result of ESG evaluation falls below a certain level, shareholder engagement is conducted after undertaking qualitative analysis, etc. Details in shareholder engagement in relation to ESG rating downgrade are available in 2-5. Shareholder Engagement below.

(2) ESG Monitoring & Materiality Assessment

NPS monitors ESG-related issues and incidents which may affect enterprise value according to Responsible Investment & Governance Principles and the Guideline for Responsible Investment & Governance, and conducts materiality assessments with a focus on the severity¹⁾ to identify the potential impact of such issues on shareholder and enterprise value. The result of materiality assessments, NPS's shareholding ratio and a company's weight in NPS portfolio are comprehensively considered to adjust ESG evaluation results or align with shareholder engagement.

In 2021, NPS conducted materiality tests on 31 ESG-related issues. As a result, ESG evaluation results for two companies were adjusted, and such information was provided to portfolio managers in internally managed domestic equity and fixed income.

At the same time, in case that a company is linked to shareholder engagement for unexpected concerns based on the result of a materiality assessment, the company may be selected for confidential dialogues according to the process and standards as stipulated in the Guideline for Stewardship Activities for Domestic Equity. Details in shareholder engagement in relation to unexpected concerns are available in 2-5. Shareholder Engagement below.

(3) ESG Integration

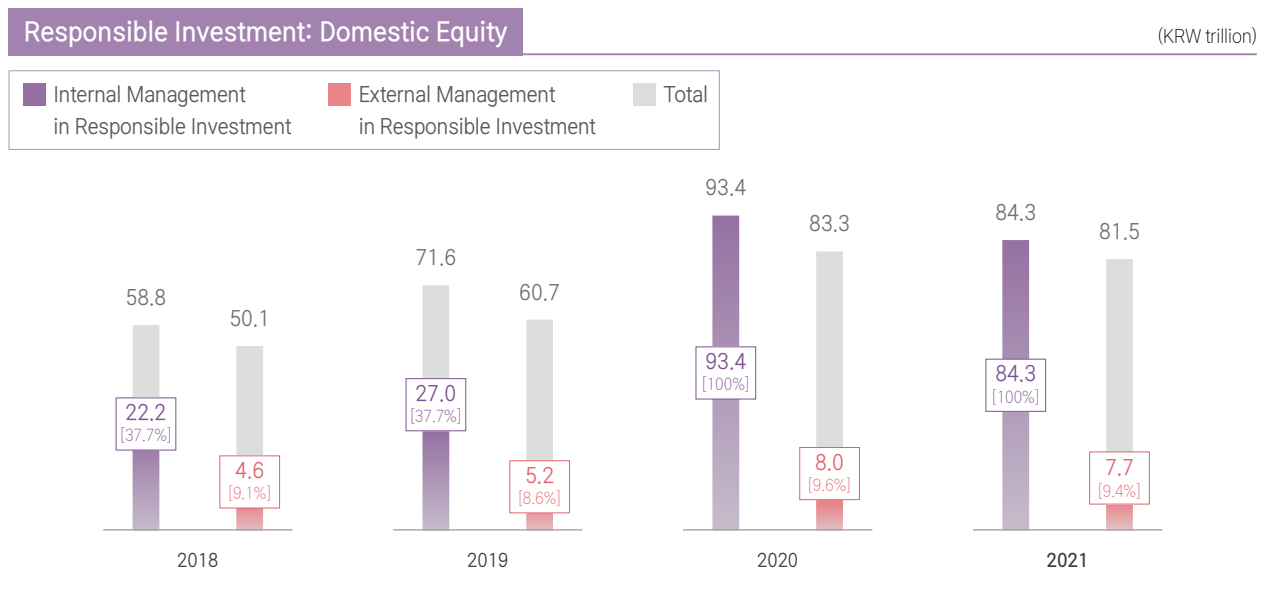
Since 2017, NPS has adopted ESG integration strategies to internally managed active domestic equity. In November 2020, the strategies were expanded to include internally managed passive domestic equity, and a Guideline for ESG Integration Strategies for Domestic Equity, which presents enhanced implementation measures, was established to apply ESG Integration Strategies to the entire internally managed domestic equity. In addition, the Guideline for ESG Integration Strategies was amended to include internally managed domestic fixed income (corporate bond). Accordingly, in-house portfolio managers in domestic equity examine ESG-related information when new securities are to be added to investment universe. If such securities are placed under the second lowest ESG rating, portfolio managers provide written opinions and attach an ESG report in an examination report. Moreover, when examining investment universe, securities placed under the lowest ESG rating are checked to identify whether they are included above their benchmarks²⁾. If it is observed that securities with the lowest ESG rating are added above their benchmarks, the reason and investment opinions are reviewed and such securities are constantly monitored. As for internally managed domestic fixed income (corporate bond), in-house portfolio managers examine ESG-related information and conduct thorough reviews on an issuer with a low ESG rating, when considering adding new securities to investment universe or investing in new securities.

1) Severity is assessed in consideration of damage size, loss size, loss period and frequency.

2) Securities under Rating D or below are not permitted to outweigh their benchmarks (This rule has applied to internally managed active domestic equity in 2021 and will apply to internally managed passive domestic equity in 2022).

(4) Externally Managed RI Funds

NPS manages externally managed RI funds as one of the externally managed domestic equities. As of the end of 2021, the RI funds were managed by nine external managers, and the total assets under management were valued at approximately KRW 7.7 trillion. The funds follow an internally developed benchmark, the NPS-FnGuide Responsible Investment Index, considering the unique characteristics of externally managed RI funds. In selecting external managers for RI funds, NPS takes into account a range of aspects such as expertise, ethics, investment strategies, investment process and compliance with the investment guideline for RI funds. Once selected, external managers may conduct diverse responsible investment strategies.



2-2 Negative Screening

In November 2019, the National Pension Fund Management Committee (FMC) decided on an additional review of the necessity, application scope and process of negative screening while formulating a Plan to Facilitate Responsible Investment. In February 2021, the FMC decided to review the adoption of negative screening in relation to climate change first. In May 2021, the FMC announced the adoption of negative screening on industries related to coal mining and coal-fired power in response to climate change, and decided to prepare an action plan through commissioned research.

In line with the decision, NPS commissioned research to analyze the application scope, standards and selection method of the target industry in December 2021 as a preparation stage for the adoption of negative screening. Going forward, the FMC will decide on an action plan of negative screening based on the result of research and opinions from diverse stakeholders.

2-3 Responsible Investment in External Management

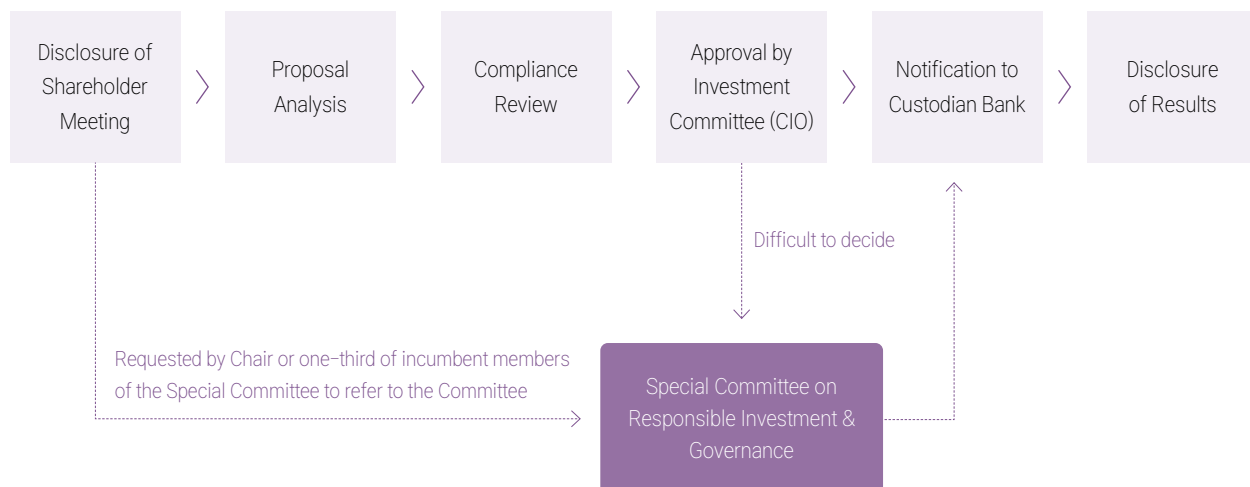
Since November 2020, NPS has required external managers of RI funds to submit a responsible investment report, and used such reports as a way of monitoring external managers. In addition, in December 2021, an additive grading system was developed to consider responsible investment factors, including the existence of RI policies and guidelines in place, when selecting external managers of domestic and overseas equity and fixed income portfolio. Moreover, NPS monitors external managers by obtaining responsible investment reports to identify their ESG practices.

2-4 Voting

(1) Standard and Process

National Pension Service (NPS) exercises its voting rights in listed companies in good faith and in the best interests of contributors and beneficiaries of the National Pension Plan according to the National Finance Act and the Guideline for National Pension Fund Management. Voting is conducted in accordance with the Guideline for Responsible Investment & Governance which stipulates voting standards, procedures and methods, as well as by referring to an outside agency specializing in proposal analysis, to vote in a professional and faithful manner.

Voting Process



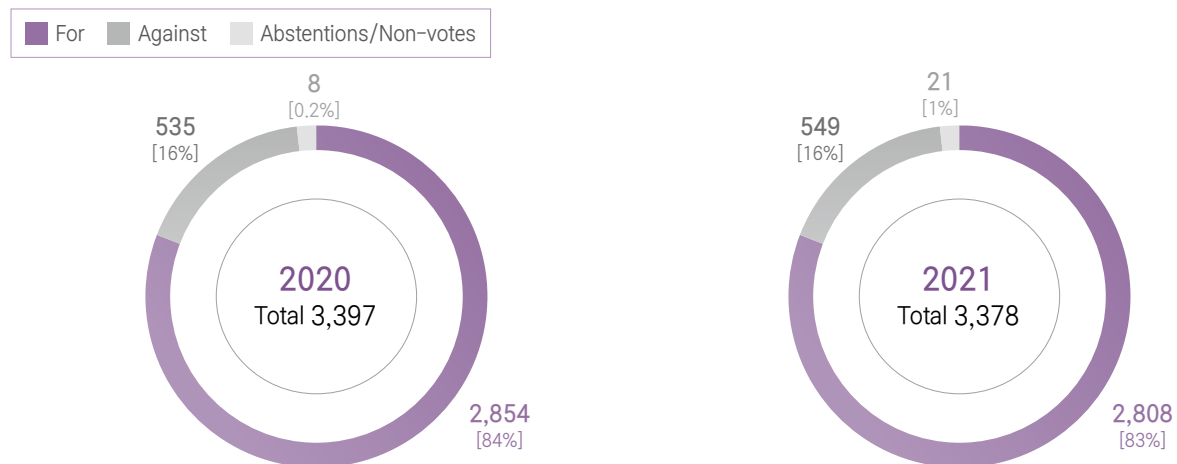
NPS's Committees, including the Investment Committee, deliberate and decide on matters concerning voting activities based upon NPS's shareholding ratio and a company's weight in NPS portfolio. However, voting directions of certain agendas are determined by the Special Committee on Responsible Investment & Governance, (i) when NPS requests the Special Committee to determine voting direction as it deems difficult for NPS to make a decision, or (ii) when over one-third of the Special Committee's incumbent members requests NPS to refer an issue to the Committee as it deems to have a significant impact on shareholder value over the long term. In addition, in a shareholder meeting in March 2020, the National Pension Fund Management Committee (FMC) decided to delegate voting rights of some holdings to external managers according to the Guideline for Proxy Voting Practices of External Managers.

(2) Disclosure and Status

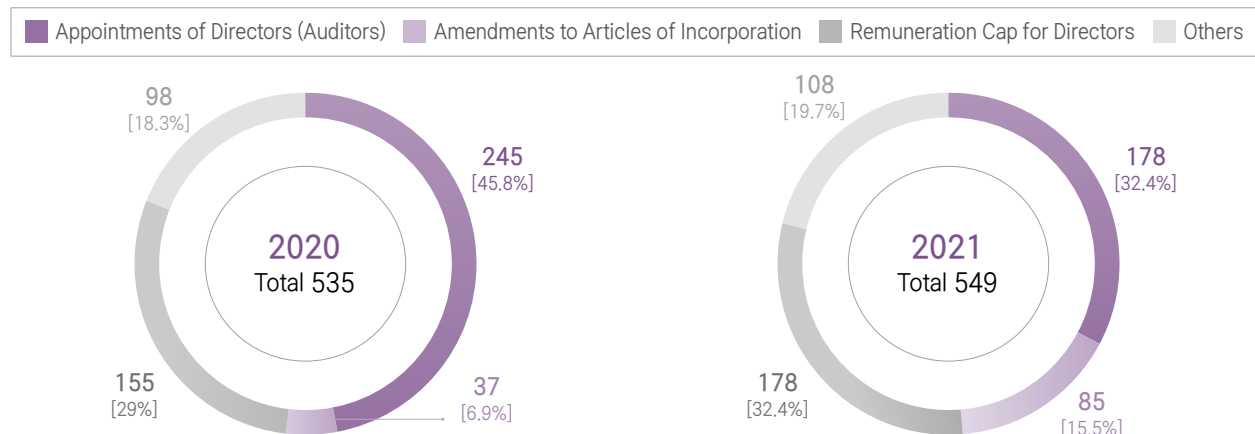
NPS discloses the results of shareholder votes and specific reasons for voting against, including applicable provisions in guidelines, within 14 days after a shareholder meeting is held. However, voting direction of certain agendas can be disclosed before a shareholder meeting, including (i) agendas of a company where NPS's shareholding ratio is more than 10% or its weight is more than 1% in NPS portfolio, and (ii) agendas whose voting direction is determined by the Special Committee. In 2021, 119 shareholder meetings disclosed voting directions prior to the meetings.

Throughout the year, NPS participated in 773 shareholder meetings for domestic equities and voted on 3,378 agendas.

Voting Results



Reasons for Voting Against



2021 Voting Activities

① Approval of Financial Statement

Regarding Company A which failed to pay out dividends, National Pension Service (NPS) voted For approval of its financial statement in consideration of continuous net debt status and decline in cash and cash equivalents for the recent five years.

As for Company B which paid out dividends despite a net loss in the period, NPS voted For approval of its financial statement in consideration of its cashflow, cash equivalents, and operating profits generated at a constant level every year (March 2021).

With regard to an agenda on the approval for a financial report of Company C (including Statement of Appropriation of Retained Earnings) in which the BOD proposal and shareholder proposal were competing, NPS voted For the shareholder proposal in consideration of the company's financial soundness, cash holdings, free cash flow, comparison with peer firms in the same industry, etc.

In regard to approval for a statement of appropriation of retained earnings of Company D in which the BOD proposal and shareholder proposal were competing, NPS voted For BOD proposal in consideration of the dividend policy disclosed by the Company, its financial status, comparison with peer firms in the same industry, etc.

② Appointment of Directors and Auditor (Audit Committee Members)

NPS voted Against appointments of an outside director in Company E, who was employed in the company as a full-time employee within the recent five years; a full-time employee in Company F, who was employed in a major customer company within the recent five years; an outside director in Company G, who directly served as an advisor to the Company (March 2021).

In addition, NPS voted Against an appointment of an inside director in Company H which was given legal sanction from the Fair Trade Commission due to illegal assistance and undue benefits, as the person was considered to have impaired enterprise value and infringed on shareholder interest; and an outside director in Company I which was given legal sanction on mis-selling of financial products, as the person was considered to have neglected duty of oversight when enterprise value and shareholder interest were impaired (March 2021).

③ Amendments to Articles of Incorporation

NPS voted Against amendments to Articles of Incorporation of Company J, which deleted a provision concerning written ballot; Company K, which newly created delegation regulations on bond-issuing and failed to indicate regulations on after-action reporting (March 2021).

④ Approval for Remuneration Cap for Directors

NPS voted Against the proposal for remuneration cap for directors in Company L as the amount of remuneration and business performance were not aligned based on the review of remuneration information, while NPS voted For the proposal for remuneration cap for directors in Company M as the amount of remuneration and business performance seemed to be aligned based on submitted information including severance pays the company provided (March 2021).

5. Shareholder Engagement

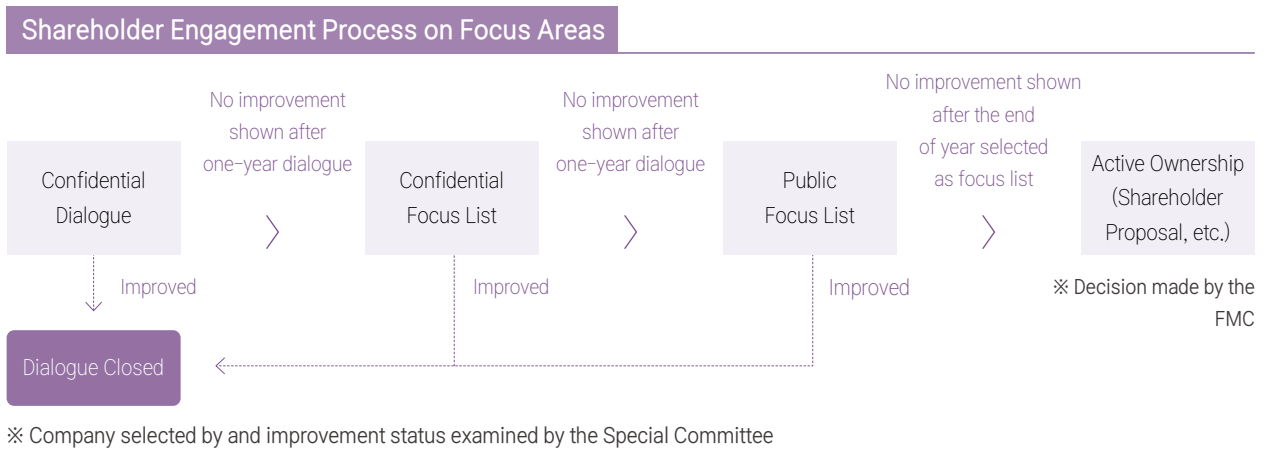
National Pension Service (NPS) has adopted the Responsible Investment & Governance Principles, or Stewardship Code, to fulfill its fiduciary duty to improve long-term profitability and stability, as well as to enhance independence and transparency in the exercise of shareholder rights. Through such endeavors, the scope of the exercise of shareholder rights has been expanded to address remuneration cap for directors and legal violation, and shareholder rights have been conducted in accordance with standards and procedures of the Guideline for Responsible Investment & Governance and the Guideline for Stewardship Activities for Domestic Equity.

Meanwhile, at the outset, NPS adopted shareholder rights which do not engage in management affairs³⁾ first in consideration of concerns over potential intervention and short swing profit. Afterwards, the exercise of shareholder rights in management affairs was allowed only upon approval from the National Pension Fund Management Committee (FMC). A case in point was the shareholder proposal on limiting the powers of directors of Hanjin KAL to help enhance its shareholder value, based on concerns over damage to shareholder value due to the deviant behaviors of management of Korean Air Lines and Hanjin KAL⁴⁾ (February 2019). In line with the increasing call for enhancing predictability and transparency as well as alleviating concerns over intervention in management and autonomy, NPS developed the Guideline for Active Ownership in December 2019, which describes principles, standards and procedures of active ownership activities in a transparent manner. NPS remains committed to conducting shareholder engagement according to relevant guidelines and by doing so, NPS aims to encourage companies to voluntarily establish their own measures to improve shareholder value.

(1) Shareholder Engagement in Focus Areas

With an aim of achieving long-term and stable returns, NPS selects key focus areas and conducts shareholder engagement. Key focus areas include a dividend policy, remuneration cap for directors, violation of rules and regulations, repetitive vote against and ESG rating downgrade.

Shareholder engagement on focus areas is undertaken in stages according to the Guideline for Stewardship Activities for Domestic Equity, including selection of focus list, confidential dialogue, selection of confidential focus list, selection of public focus list and shareholder proposal. If a company in focus list fails to show improvement even after a series of shareholder engagement, NPS may exercise its voting rights for associated agendas or appointment of directors at a shareholder meeting, or send open letters.



3) It refers to a shareholder right that virtually has an impact on a company, including shareholder proposal in relation to appointment of directors.

4) In line with the decision by the FMC, shareholder proposal was conducted. At a general shareholder meeting of Hanjin KAL in March 2019, NPS's shareholder proposal was rejected (For: 48.66%, Against, etc.: 51.34%).

Standards in Selection of Companies Subject to Focus Area

Dividend Policy	In case a company lacks a reasonable dividend policy or fails to pay out dividend in accordance with a reasonable dividend policy
Remuneration Cap for Directors	In case a shareholder interest is infringed as a remuneration cap, which is not aligned with the company's remuneration and business performance, is proposed
Violation of Rules and Regulations	In case a company falls into the followings based on objective facts, such as investigations by authorities: ① Embezzlement or breach of trust ② Provision of illegal assistance to related parties or another company (Illegal assistance) ③ Provision of undue benefits to related parties (Undue benefits)
Repetitive Vote Against	In case a company fails to make improvements despite NPS's repetitive votes against at shareholder meetings
ESG Rating Downgrade	In case a company's ESG rating falls by more than two ratings to below Grade C

① Dividend Policy

NPS selects a list of companies subject to confidential dialogues among companies failing to pay out dividend or lacking a reasonable dividend policy. In 2021, NPS sent letters to and conducted dialogues with 30 companies on dividend policies. By forming an amicable communication channel, NPS encouraged such companies to voluntarily set out dividend policy and communicate with the market, rather than proposing specific dividend figures or levels. As a result, the companies disclosed a reasonable dividend policy on the Data Analysis, Retrieval & Transfer (DART) of Financial Supervisory Service (FSS) and their websites, giving rise to an increase in the predictability of investors on dividend payouts.

NPS conducted confidential dialogues with representatives of Company N and Company O, including the board of directors and management, to discuss about dividend policies as well as the process and intention of NPS's shareholder engagement. Prior to the dialogues, the companies lacked dividend policies, but through the confidential dialogues, they agreed with the necessity and intention of the establishment of a dividend policy. As a result, the companies publicly disclosed specific dividend calculation standards. Company N disclosed, "Basic dividend is KRW 1,000; shareholder return shall be maintained to a minimum while using 5-10% of free cash flow as additional resources for dividend," and Company O disclosed the amount of the next three-year expected dividend and calculation criteria - Dividend is subject to change considering management environment including changes in the business environment and investment plan. Such disclosure of dividend policies helped investors clearly understand the companies' decision-making standards on dividends, and laid the groundwork for enhancing the predictability of the companies' dividends.

② Remuneration Cap for Directors

NPS selects companies subject to confidential dialogues in consideration of actual remuneration relative to remuneration cap, among companies against which NPS voted at the recent shareholder meeting with a reason of excessive actual remuneration at odds with business performance. In 2021, NPS sent letters to and conducted dialogues with 12 companies. By forming an amicable communication channel, NPS encouraged such companies to develop action plans that help enhance shareholder value. As a result, the companies made voluntary improvements to the remuneration cap for directors by establishing the Remuneration Committee and adjusting the remuneration cap.

NPS conducted confidential dialogues with representatives of companies, including the board of directors and management, as to agendas relating to concerns over a large gap between remuneration cap and actual remuneration, and the process and intention of NPS's shareholder engagement. The companies agreed with the intention of confidential dialogues on remuneration cap as well as such concerns. As a result, Company P composed the entire members of the Remuneration Committee with outside directors to enhance transparency and appropriateness of remuneration of the management, as well as newly created a short-term compensation policy. Company Q adjusted the remuneration cap, which was excessive relative to actual remuneration.

③ Violation of Rules and Regulations

NPS selects companies subject to confidential dialogues among companies which may damage enterprise value or impair shareholder interest due to embezzlement, breach of trust, illegal assistance or undue benefits based on the fact such as investigations by authorities or law enforcement. In 2021, NPS sent letters to and conducted dialogues with 26 companies. By forming an amicable communication channel, NPS encouraged such companies to develop action plans that help enhance shareholder value.

NPS selected companies subject to confidential dialogues on concerns over violation of rules and regulations on a quarterly basis, and conducted confidential dialogues even on unresolved issues in the past such as issues whose ruling is not finalized by the Supreme Court. NPS undertook confidential dialogues with representatives of Company R, including the board of directors and management, to inform them of intention and procedures of NPS's shareholder engagement in relation to management embezzlement, and to check facts, measures taken and improvement measures concerning alleged violation of rules and regulations. As a result, Company R enhanced its compliance program with the Code of Ethics and improved the operation of the Audit Committee and Remuneration Committee. In addition, NPS conducted confidential dialogues with Company S which was given sanction from the Fair Trade Commission due to illegal assistance. Company S established company-wide measures that prevent recurrence in relation to fair trade by adopting Compliance Officer and Compliance System through the resolution of the Board of Directors.

④ Repetitive Vote Against

NPS selects companies subject to confidential dialogues in consideration of the number of voting against, room for improvement and holding weight of companies in which NPS voted against more than twice with the same reason among agendas relating to the appointment of directors and auditor within the recent five years. In 2021, NPS sent letters to and conducted dialogues with 11 companies to build consensus on the reason for voting against in line with the Guideline for Responsible Investment & Governance and encourage them to formulate action plans that help enhance shareholder value. As a result, the companies made improvements by implementing action plans.

NPS conducted confidential dialogues with representatives of companies, including the board of directors and management, on the intention and procedure of NPS's shareholder engagement and reasons for repeatedly voting against (Company T: a full-time employee of a company with major interest within the recent five years, Company U: negligence on the duty of oversight). Companies agreed with the intention of confidential dialogues on repetitive votes against. As a result, Company T enhanced the independence of outside directors, while Company U established measures preventing recurrence through sufficient understanding and dialogues.

⑤ ESG Rating Downgrade

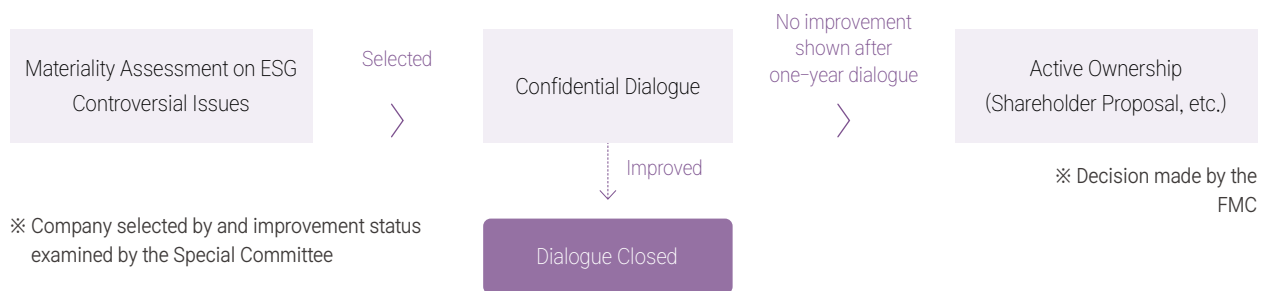
NPS selects companies subject to confidential dialogues based on a qualitative assessment of the reason for downgrading and NPS's asset exposures, among domestic listed companies whose ranking drop by more than two ratings to Rating C or D. In 2021, NPS sent letters to and conducted dialogues with one company, formed an amicable communication channel, and encouraged the company to develop action plans that help enhance shareholder value. As a result, the company made improvements such as enhanced disclosure, development of improvement measures and implementation of action plans.

NPS selected Company V to conduct confidential dialogues in relation to the ESG rating downgrade, and conducted dialogues with representatives of the company, including the board of directors and management for nearly one year. During the period, NPS explained the intention and procedure of NPS's shareholder engagement and the reason for selection, and Company V agreed with the intention of the confidential dialogue, developed countermeasures and took action. Specifically, Company V formulated policies and teams in relation to industrial safety, and improved internal control systems. In addition, the company set up a mechanism to obtain shareholder opinions and enhanced the disclosure of ESG-related information, such as green house gas emissions.

(2) Shareholder Engagement on Unexpected Concerns

With an aim of delivering long-term profitability and enhancing shareholder value, NPS fosters shareholder engagement in unexpected concerns in relation to environmental, social and governance (ESG) when concerns over damage to enterprise value or shareholder interest arise. According to the Guideline for Stewardship Activities for Domestic Equity, NPS conducts shareholder engagement in companies with ESG controversial issues⁵⁾ in stages – conducting materiality assessments, selecting companies subject to confidential dialogues, and making shareholder proposal. If no improvement is made despite a series of shareholder engagement, it is linked with voting on appointment of directors and auditors at a shareholder meeting. If it deems that no willingness is shown to make improvements, including refusing confidential dialogues, an open letter may be sent to such companies.

Shareholder Engagement Process on Unexpected Concerns



In 2021, NPS sent letters to and conducted materiality assessments on 31 companies as to a variety of ESG controversial issues including investigations by authorities, violation of environmental laws and causalities occurring at workplace. Based on the result of materiality assessments and letters, NPS selected two companies subject to confidential dialogues. NPS has continued to monitor ESG controversial issues on investee companies.

5) Including issues and incidents that have impact on enterprise value

(3) Active Ownership

NPS formulated the Guideline for Active Ownership in December 2019 to enhance enterprise value and undertake shareholder engagement in a transparent and fair manner. The focus of the Guideline is not on participation in management affairs, but on enhancing shareholder and enterprise value by developing improvement measures through sufficient dialogues with companies in relation to focus areas and unexpected concerns. When an issue requiring shareholder engagement occurs, NPS seeks to check the facts and has sufficient dialogues to address issues according to the Guideline for Responsible Investment & Governance. Only when it is difficult to see improvements in a company, is active ownership engagement conducted.

Active Ownership Activities	
	Activities
Target Company	<ul style="list-style-type: none"> Companies that do not make improvements, among companies in public focus list and companies subject to confidential dialogue in relation to unexpected concerns
Engagement Standards	<ul style="list-style-type: none"> It is on a case-by-case basis in consideration of a range of factors including industrial characteristics, internal conditions, the feasibility of shareholder proposals, cost-effectiveness and implications for the market
Selection Process	<ul style="list-style-type: none"> The Special Committee on Responsible Investment & Governance decides on companies that show no improvements, reviews the need for and contents of a shareholder proposal, and reports it to the National Pension Fund Management Committee (FMC). <ul style="list-style-type: none"> The FMC decides the need for and contents of a shareholder proposal based on the review of the Special Committee.
Shareholder Proposal	<ul style="list-style-type: none"> The FMC makes a final decision on the contents of a shareholder proposal within an applicable range of the Commercial Act and the Financial Investment Service and Capital Market Act.

(4) Litigation

NPS may make a shareholder derivative suit or damage claim suit in accordance with the standards and procedures of the Guideline for Stewardship Activities for Domestic Equity, with a view to contributing to maximizing shareholder value over the long term. NPS does not exercise any influence on investee companies or directors, nor file a claim to meet the request of other shareholders. NPS takes legal action considering the possibility of winning and cost effectiveness, and only when conditions are met for litigation and such action would contribute to maximizing shareholder value over the long term.

3. Global Investor Network for Responsible Investment

National Pension Service (NPS) became a signatory to the Principles for Responsible Investment (PRI)⁶⁾ in June 2009, a global network of investors that have publicly demonstrated their commitments to responsible investment, and has submitted PRI Transparency Reports since 2016.

In order to implement the Responsible Investment & Governance Principles (Stewardship Code) and enhance related capabilities, NPS joined two investor-led organizations dedicated to corporate governance and investor shareholder engagement in September 2019 – the International Corporate Governance Network (ICGN)⁷⁾ and Asian Corporate Governance Association (ACGA)⁸⁾ Moreover, NPS joined the Asia Investor Group on Climate Change (AIGCC)⁹⁾ an initiative to enhance awareness on climate change, expand a network and encourage action among institutional investors in Asia about the risk and opportunities associated with climate change and low carbon investing. Going forward, NPS will remain committed to ramping up its capacity and expertise in environmental, social and governance (ESG), as well as expanding its network with global pension funds and assets managers.

Global Network for Responsible Investment



6) The Principles for Responsible Investment (PRI) is a global initiative launched by UNEP financial Initiatives 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 2021, the PRI has 3,826 signatories with total assets under management of around KRW 154,638 trillion.

7) The International Corporate Governance Network (ICGN) is the world's largest investor-led organization to promote effective standards of corporate governance and provide a range of research and networks. The ICGN has more than 800 members from 45 countries as of December 2021.

8) The Asian Corporate Governance Association (ACGA) is an independent membership organization dedicated to enhancing financial environment ecosystem including corporate governance practice throughout Asia, and conducts analysis in rules and regulations on corporate governance. The ACGA has 114 members from 19 countries as of the end of 2021.

9) The 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 practices and to collaborate on investment activities, credit analysis, and policy engagement. As of the end of 2021, the AIGCC has 57 members, including pension funds, asset managers and relevant organization.

4. Looking Ahead

1. ESG Investing

National Pension Service (NPS) formulated a Plan to Facilitate Responsible Investment in November 2019 as part of efforts to enhance long-term returns by increasing market trust as public pension fund and minimizing investment risks. In line with this plan, NPS has developed a roadmap to expand RI coverage in its portfolio, prepare associated strategies, induce external managers to internally foster RI activities and lay the foundation for facilitating responsible investment. Based on this roadmap, NPS seeks to develop more specific action plans and accordingly take action.

(1) Expand RI Coverage in Portfolio

NPS has enhanced its ESG Integration strategies for internally managed active domestic equity by limiting the investment weight of securities with the lowest ESG rating up to their benchmark. The strategy will apply to internally managed passive domestic equity going forward. Moreover, based on the result of commissioned research conducted in 2021, NPS will develop ways to apply ESG integration strategies to overseas equity and fixed income, taking into account the investment styles of such asset classes.

(2) Develop Phased Action Plans on Negative Screening¹⁰⁾ (Coal Phase-out)

The National Pension Fund Management Committee (FMC) announced phasing out of coal to reduce carbon emissions under the recognition of the necessity of risk management in line with the increasing severity of climate change and the importance of ESG investment principles, triggered by the spread of COVID-19 and more stringent regulations on carbon emission worldwide, including carbon tax. Following this, the FMC further announced that it will stop investing in new coal-fired power plants at home and abroad, and conducted commissioned research to develop a detailed action plan on negative screening. Going forward, the Committee will decide on the action plan of negative screening based on the result of research and opinions from diverse stakeholders, and NPS will implement such measures according to the decision made by the FMC.

(3) Create Foundation to Promote Responsible Investment

NPS will continue to improve its ESG Evaluation System and review ways to integrate ESG-related information for the purpose of maximizing returns in a long-term and stable manner. In addition, as part of efforts to enhance capacity and expertise in responsible investment, NPS will strengthen its global network with global pension funds and gradually bolster manpower engaging in stewardship activities in overseas offices.

Moreover, by requesting capital market participants such as partner securities firms to include ESG information in their company analysis reports, NPS will create an environment where the quality and level of disclosure of ESG-related information are improved.

¹⁰⁾ Negative screening is one of the investment strategies referring to the process of screening certain sectors, industries or companies out of an investment portfolio when they are considered unsuitable or harmful from environmental, social and governance (ESG) perspective.

2. Exercise of Shareholder Rights

The National Pension Fund Management Committee (FMC) has announced its plan to diversify its shareholder engagement from its current focus on governance to include environmental and social factors, and to expand the scope of dialogue strategies to overseas equity by implementing the Plan to Facilitate Responsible Investment. Accordingly, NPS will implement the decision made by the FMC on a step-by-step basis, and furthermore make a derivative suit according to the Guideline for Stewardship Activities for Domestic Equity and the standards for derivative suit.

(1) Expand the Scope of Shareholder Engagement

The FMC decided to expand engagement strategies when developing a Plan to Facilitate Responsible Investment. In line with this, NPS announced that it will expand shareholder engagement in the domestic equity portfolio and conduct shareholder engagement for overseas equity portfolio as well. To this end, ways to add climate change and industrial safety to focus areas on the domestic equity portfolio are under review by conducting commissioned research. Once such measures are approved by the FMC, NPS will undertake associated stewardship activities after amending relevant guidelines, etc. As for the overseas equity portfolio, NPS carried out commissioned research to benchmark best practices of leading peers, and will develop ways to implement shareholder engagement in consideration of the research result and investment characteristics of overseas equity.



(2) Initiate Shareholder Derivative Suit

NPS has developed the Guideline for Stewardship Activities for Domestic Equity which stipulates specific standards on shareholder derivative suits and damage claim suits with an aim of contributing to increasing shareholder value over the long-term horizon. Since the first half of 2021, standards on shareholder derivative suits in relation to domestic equity have been under development.

Going forward, NPS will select companies subject to a derivative suit by reviewing applicable case types, damage costs and the statue of limitation of damage claim, and file a suit to effectively prevent the management of a company from impairing enterprise value and help maximize shareholder value over the long run.

(3) Promote Capacity Building in the Exercise of Shareholder Rights

Since July 2018 when the National Pension Fund Management Committee (FMC) reviewed and decided on a Plan to Adopt Responsible Investment & Governance Principles, NPS has exercised shareholder rights on focus areas and unexpected concerns in accordance with the Guideline for Responsible Investment & Governance and relevant guidelines, and exercised voting rights using an enhanced internal system and electronic ballot system. Going forward, NPS will faithfully exercise voting and shareholder rights in accordance with the Guideline for Responsible Investment & Governance and relevant guidelines, and constantly review the necessity of amendments to and improvements in such guidelines.

5. Stewardship Activities Statistics

1. Voting Activities in Domestic Equity

National Pension Service (NPS) voted on a total of 3,378 agendas in 773 shareholder meetings for domestic equity holdings in 2021, including 2,808 for (83.1%), 549 against (16.3%) and 21 abstentions/non-vote (0.6%). The reasons behind 549 votes against included the appointment of directors and auditors (178, 32.4%), amendments to articles of incorporation (85, 15.5%), remuneration cap for directors (178, 32.4%) and others (108, 19.7%).

1 Votes Cast

Year	No. of Companies	No. of Shareholder Meetings	No. of Votes Cast	Voting Result		
				For (Weight)	Against (Weight)	Abstention /non-vote (Weight)
2021	1,208	773	3,378	2,808 (83.13%)	549 (16.25%)	21 (0.62%)
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%)

2 Reasons for Voting Against

Reason	2019		2020		2021	
	Number	Weight (%)	Number	Weight (%)	Number	Weight (%)
Appointment of Directors and Auditors	251	40.2	245	45.8	178	32.4
Amendments to Articles of Incorporation	95	15.2	37	6.9	85	15.5
Remuneration Cap for Directors	242	38.7	155	29.0	178	32.4
Others	37	5.9	98	18.3	108	19.7
Total	625	100.0	535	100.0	549	100.0

3 Reasons for Voting Against Appointment of Directors and Auditors

Reason	2019		2020		2021	
	Number	Weight (%)	Number	Weight (%)	Number	Weight (%)
Long Service (10+ years)	52	20.7	33	13.5	22	12.4
Full-time Employee in the company, affiliate or a company in important relationship within the recent five years	58	23.1	77	31.4	45	25.3
Poor Attendance in the Board (75% or below)	15	6.0	24	9.8	15	8.4
Excessive Dual Office Holding	34	13.5	43	17.5	31	17.4
Negligence on Duty of Oversight	16	6.4	10	4.1	19	10.7
Others	76	30.3	58	23.7	46	25.8
Total	251	100.0	245	100.0	178	100.0

2. Shareholder Engagement Activities

NPS conducts shareholder engagement on focus areas and unexpected concerns in relation to investee companies by sending letters and conducting dialogues in accordance with applicable guidelines. In addition, companies having ESG-related issues or under investigation by authorities are subject to NPS's shareholder engagement as well. Moreover, upon request of companies, NPS engages in shareholder activities including explanations on performance and agendas of shareholder meetings.

In 2021, NPS undertook 293 shareholder engagement activities, including sending letters and conducting dialogues, with 145 companies.

Shareholder Engagement Activities									
	Item	Engaged Companies		Letters Sent		Dialogues Conducted		Total (Letters and Dialogues)	
		2020	2021	2020	2021	2020	2021	2020	2021
Focus Areas	Dividend Policy	31	30	40	41	27	20	67	61
	Remuneration Cap for Director	12	12	12	12	20	29	32	41
	Violation of Rules and Regulations	25	26	37	36	19	39	56	75
	Repetitive Vote Against	11	11	11	11	14	16	25	27
	ESG Rating Downgrade	2	1	2	1	3	5	5	6
Unexpected Concerns		28	65	35	76*	5	7	40	83
Total		109	145	137	177	88	116	225	293

* Including unexpected concerns and the number of letters sent

