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National


Responsible Investment & Governance Report 2023



Pension



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Fund



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SEO Won-joo

Executive Fund Director and Chief Investment Officer, National Pension Service

NPS Investment Management (NPSIM), a dedicated fund management arm of National Pension Service, was founded in 1999 to effectively cope with the rapidly evolving financial and economic environment, as well as to manage the National Pension Fund in a more systematic and professional manner. Initiated with six teams with KRW 47 trillion in total assets, NPSIM has continuously strengthened its capabilities and organizational strength to flexibly adapt to the growing fund size and dynamic market conditions. As a result, NPSIM has now evolved into a global fund management organization, consisting of three Managing Directors, 14 divisions, and three overseas offices, with KRW 1,035.8 trillion in assets under management as of Dec. 31, 2023.

Despite heightened global economic uncertainty in 2023, driven by concerns over a potential recession affected by global monetary tightening, weakened corporate earnings, and credit and liquidity shocks, NPS achieved a 14.14% return for the fiscal year, marking its highest since inception. This achievement was largely made possible thanks to its strategy to diversify investment portfolio and strengthen risk management systems to enhance returns.

We have constantly advanced responsible investment (RI) to ensure portfolio stability and profitability over a long-term horizon. Our RI journey commenced with externally managed RI funds for domestic equities in September 2006, and was accelerated by the adoption of Responsible Investment & Governance Principles, or Stewardship Code, in July 2018. Further demonstrating our commitment to RI, we developed a Plan to Facilitate Responsible Investment and established Responsible Investment Principles in November 2019.

In 2023, we added climate change and industrial safety to focus areas through amendments to the Guideline for Stewardship Activities, and formulated a Guideline for ESG Integration for Internally Managed Global Equity and Fixed Income to expand the application of RI to the asset classes. Moreover, we exercised voting rights and conducted shareholder engagement in accordance with applicable standards and procedures. As such, we approach RI and exercise shareholder rights in a bid to increase assets under management and foster long-term shareholder value in the best interest of the contributors and beneficiaries of the National Pension Plan.

Going forward, NPSIM will continue to step up its RI efforts through ESG integration to generate higher returns and effectively manage risks, with the ultimate goal of maintaining its global competitive edge and securing the long-term financial stability of the National Pension Fund.

Thank you.



National Pension Service Investment

1. Definitions

National Pension Service (NPS) conducts responsible investment (RI) and formulates RI strategies with a view to achieving long-term and stable returns. At NPS, responsible investment is implemented through ESG incorporation and stewardship. ESG incorporation is a way to consider environmental, social, and governance (ESG) factors in investment decision-making, and stewardship is involved in voting and dialogues that are aimed at enhancing ESG-related risk management capabilities and enterprise value.

Generally, responsible investment approaches are classified into Screening, ESG Integration, Thematic Investing, Impact Investing, and Stewardship, jointly defined by the Principles for Responsible Investment (PRI), the CFA Institute, and the Global Sustainable Investment Alliance (GSIA). Screening applies rules based on defined criteria that determine whether an investment is permissible. ESG Integration considers ESG factors within an investment analysis and decision-making process with the aim to improve risk-adjusted returns. Thematic Investing selects assets to access specified trends. Impact Investing seeks to generate a positive, measurable social and/or environmental impact alongside financial returns. Stewardship refers to the use of investor rights and influence to protect and enhance overall long-term value for clients and beneficiaries, such as the exercise of voting rights at shareholder meetings, dialogues, and shareholder proposals.

At NPS, responsible investment is implemented as follows:

◆ NPS Responsible Investment Scheme

| Classification ¹⁾ | Definition | Adoption Status | Remarks |
|------------------------------|---|-----------------|---|
| ESG Incorporation | Screening Applying rules based on defined criteria that determine whether an investment is permissible, including positive, best-in-class, negative, and norms-based screening | To be adopted | The development of an action plan on coal phase-out is currently underway in line with the announcement of the National Pension Fund Management Committee |
| | ESG Integration Considering ESG factors within an investment analysis and decision-making process with the aim to improve risk-adjusted returns | Adopted | ESG rating is considered for internally managed equity and fixed income (corporate bond) |
| | Thematic Investing Selecting assets to access specified trends | Not yet | - |
| | Impact Investing Seeking to generate a positive, measurable social and/or environmental impact alongside financial returns | Not yet | - |
| Stewardship | Using investor rights and influence to protect and enhance overall long-term value of assets entrusted <ul style="list-style-type: none"> • Exercise of voting rights at shareholder meetings • Shareholder engagement not involved in management affairs: Dialogue with companies (confidential dialogue, confidential/public focus list) • Shareholder engagement involved in management affairs: shareholder proposal, etc. (after selecting as public focus list) • Litigation: Shareholder derivative suit, damage claim suit, etc. | Adopted | Voting rights are exercised on domestic and global equities, and dialogues are conducted on focus areas and unexpected concerns with companies in the domestic equity portfolio |

1) Based on classification and definitions in 'Definitions for Responsible Investment Approaches', jointly published by the PRI, GSIA and CFA Institute in November 2023

2. Legal Basis

The legal basis for responsible investment (RI) to incorporate ESG factors into investment decision-making was established in 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 grounds 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 investment principle, 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 long-term and stable revenues. |

| Guideline for National Pension Fund Management |
|---|
| Article 4 (Investment Principles) |
| 5. Sustainability: To fulfill its fiduciary duty to enhance the sustainability of investment assets, particularly by integrating environmental, social and governance (ESG) factors into investment decision-making |

3. Policies

NPS conducts responsible investment (RI) in the best interests of the 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 managed the Fund by considering non-financial factors, such as ESG, in accordance with standards, methods and procedures set out in the Guideline for Stewardship Activities; has secured independence and transparency in the process of exercising shareholder rights.

◆ Responsible Investment Policies

Guideline for National Pension Fund Management

Article 17 (Responsible Investment) (1) Where the Fund is administered and managed by means of trading and lending of securities, ESG aspects may be taken into consideration in investment decisions, in order to deliver long-term stable returns. The Principles for Responsible Investment shall be presented in Appendix 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, stewardship activities shall be conducted in accordance with the Responsible Investment & Governance Principles approved by the FMC and referred to by the Korea Stewardship Code, the "Principles on the Stewardship Responsibilities of Institutional Investors."

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 achieving stable growth of 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 towards increasing shareholder value over the long run; (4) In compliance with standards, processes, and procedures as stipulated in the Guideline for Stewardship Activities approved by the FMC.

Responsible Investment Principles

- (1) Achieve long-term and stable returns
- (2) Implement RI according to the Guideline for Stewardship Activities
- (3) Implement RI on equity and fixed income assets
- (4) Incorporate non-financial factors, including environmental, social and governance ("ESG") into investment decisions
- (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 (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 Stewardship Activities

PART 1 (General Provisions): Purpose, Scope of Application, Basic Principles, Stewardship Activities, Decision Making Body
 PART 2 (Responsible Investment): Subjects, Non-financial Factors (ESG), Incorporation Method
 PART 3 (Exercise of Shareholder Rights)
 - Voting (Subjects, Basic Principles, Specific Voting Guidelines, etc.)
 - Stewardship Activities on Focus Areas (Confidential Dialogues, Selection of Confidential/Public Focus List, Open Letters, Shareholder Proposals, etc.)
 - Stewardship Activities on Unexpected Concerns (Subjects, Provisions Applicable Mutatis Mutandis)
 - Initiation of Litigation (Determination on Initiation of Litigation, Request for Litigation, Initiation of Damage Claim Suit, Provisions Applicable Mutatis Mutandis, etc.)
 PART 4 (Public Disclosure, Submission, etc.): Notification and Disclosure, Public Disclosure and Submission, Responsible Investment & Governance Report, Internal Control, Record Keeping, Capacity Building, etc.
 Exhibits: Voting Guidelines for Domestic Equity, Voting Guidelines for Global Equity, Voting Results, Focus Areas Selection Criteria

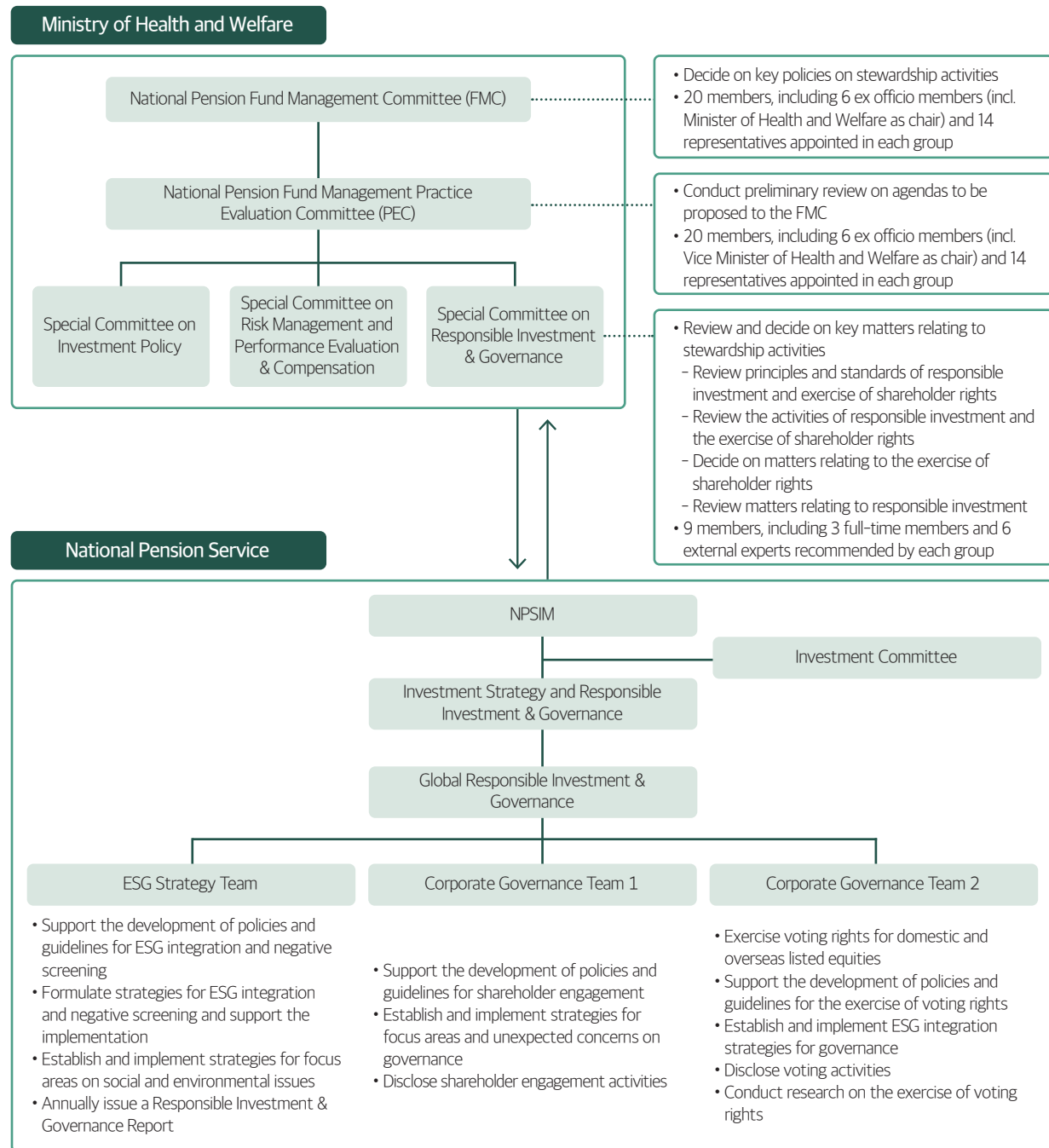
4. Governance

NPS conducts responsible investment (RI) 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 members and external experts, supports the FMC in decision-making on RI activities; reviews and decides on key matters concerning ESG incorporation and stewardship. The Investment Committee, which deliberates on and resolves key matters relating to fund management within NPSIM, determines directions of the exercise of voting rights for domestic and overseas listed equities.

At NPSIM, Global Responsible Investment & Governance division and investment teams implement responsible investment. As of Dec. 31, 2023, the division was comprised of 17 members. At the start of 2024, Responsible Investment team under the division was renamed to ESG Strategy team, and Corporate Governance team was divided into Corporate Governance team 1 and Corporate Governance team 2.

The ESG Strategy team supports the development of policies and guidelines for ESG integration and negative screening; formulates associated strategies and action plans that help portfolio managers consider ESG factors in investment decision-making; conducts ESG evaluation, relevant research, and shareholder engagement on social and/or environmental issues. The Corporate Governance team 1 supports the development of policies and guidelines for shareholder engagement; formulates strategies on focus areas and unexpected concerns relating to governance; conducts dialogues with companies on focus areas and unexpected concerns relating to governance; discloses associated shareholder engagement activities. The Corporate Governance team 2 supports the development of policies and guidelines for the exercise of voting rights; exercises voting rights for domestic and overseas listed equities; conducts research on the exercise of voting rights; discloses voting activities.

◆ Responsible Investment Governance (as of Jan. 2024)



◆ FMC Meetings on Responsible Investment in 2023

| Session | Date | Agenda |
|-----------------|--------|---|
| 1 st | Mar. 7 | Report on the Result of Discussion at the FMC's Sub-Committee on Amendments to the Guideline for Stewardship Activities (Proposal) and approval of the amendments Amendments to the Regulation on the Operation of the Special Committee on Responsible Investment & Governance (Proposal) |
| 2 nd | May 31 | Report on the Current Status and Future Operation Directions of the Special Committee on Responsible Investment & Governance |

◆ Meetings of Special Committee on Responsible Investment & Governance in 2023

| Session | Date | Agenda |
|--|---------|---|
| 1 st | Jan. 17 | Selection of Companies Subject to Materiality Assessment on Unexpected Concerns (Proposal) |
| | | Selection of Companies Subject to Confidential Dialogues on Unexpected Concerns (Proposal) |
| | | Identification of Improvement Status of Companies Subject to Confidential Dialogues on Unexpected Concerns and Review of Implementation of Active Ownership |
| | | Selection of Companies Subject to Confidential Dialogues on Concerns over Violation of Laws and Regulations (Proposal) |
| | | Ways to Apply Responsible Investment to Overseas Securities (Re-reporting) |
| 2 nd | Mar. 13 | Report on the Status of the Exercise of Voting Rights in Annual General Meetings in March 2023 |
| | | Follow-up Discussion on Cases on the Exercise of Voting Rights on Domestic Equity |
| | | Interim Report on Confidential Dialogues on Unexpected Concerns |
| | | Identification of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Dividend Policy (Proposal) |
| | | Identification of Improvement Status of Companies in Confidential Focus List and Selection of Public Focus List on Dividend Policy (Proposal) |
| | | Identification of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Remuneration Cap for Directors (Proposal) |
| | | Identification of Improvement Status of Companies in Confidential Focus List and Selection of Public Focus List on Remuneration Cap for Directors (Proposal) |
| | | Identification of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Repetitive Vote Against (Proposal) |
| | | Identification of Improvement Status of Companies in Confidential Focus List and Selection of Public Focus List on Repetitive Vote Against (Proposal) |
| | | Voting Position on Agendas at Annual General Meeting of Samsung SDI (Proposal) |
| | | Voting Position on Agendas at Annual General Meeting of Samsung Electro-Mechanics (Proposal) |
| | | Voting Position on Agendas at Annual General Meeting of Samsung Electronics (Proposal) |
| | | Identification of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Repetitive Vote Against (Proposal) |
| | | Identification of Improvement Status of Companies in Confidential Focus List and Selection of Public Focus List on Repetitive Vote Against (Proposal) |
| | | Identification of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Remuneration Cap for Directors (Proposal) |
| Identification of Improvement Status of Companies in Confidential Focus List and Selection of Public Focus List on Remuneration Cap for Directors (Proposal) | | |
| Identification of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Repetitive Vote Against (Proposal) | | |
| Identification of Improvement Status of Companies in Confidential Focus List and Selection of Public Focus List on Repetitive Vote Against (Proposal) | | |
| 3 rd | Mar. 16 | Voting Position on Agendas at Annual General Meeting of POSCO Holdings (Proposal) |
| | | Voting Position on Agendas at Annual General Meeting of Meritz Securities (Proposal) |
| | | Voting Position on Agendas at Annual General Meeting of Samsung Biologics (Proposal) |
| | | Voting Position on Agendas at Annual General Meeting of Samsung Heavy Industries (Proposal) |
| | | Voting Position on Agendas at Annual General Meeting of Naver (Proposal) |
| | | Voting Position on Agendas at Annual General Meeting of Shinhan Financial Group (Proposal) |
| | | Voting Position on Agendas at Annual General Meeting of BNK Financial Group (Proposal) |
| | | Voting Position on Agendas at Annual General Meeting of Lotte Chilsung Beverage (Proposal) |
| | | Voting Position on Agendas at Annual General Meeting of Hyundai MOBIS (Proposal) |
| | | Voting Position on Agendas at Annual General Meeting of Hyundai Home Shopping (Proposal) |
| 4 th | Mar. 23 | Identification of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Remuneration Cap for Directors (Proposal) |
| | | Identification of Improvement Status of Companies in Confidential Focus List and Selection of Public Focus List on Remuneration Cap for Directors (Proposal) |
| | | Voting Position on Agendas at Annual General Meeting of KB Financial Group (Proposal) |
| | | Voting Position on Agendas at Annual General Meeting of KCC Glass Corporation (Proposal) |
| | | |

| Session | Date | Agenda |
|------------------|----------|---|
| | | Voting Position on Agendas at Annual General Meeting of KT&G (Proposal) |
| | | Voting Position on Agendas at Annual General Meeting of Lotte Chemical (Proposal) |
| | | Voting Position on Agendas at Annual General Meeting of Woori Financial Group (Proposal) |
| | | Voting Position on Agendas at Annual General Meeting of Pan Ocean (Proposal) |
| | | Voting Position on Agendas at Annual General Meeting of Hana Financial Group (Proposal) |
| | | Voting Position on Agendas at Annual General Meeting of HL Holdings (Proposal) |
| | | Voting Position on Agendas at Annual General Meeting of HL Mando (Proposal) |
| | | Voting Position on Agendas at Annual General Meeting of Hite Jinro (Proposal) |
| | | Voting Position on Agendas at Annual General Meeting of SK Telecom (Proposal) |
| | | Identification of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Remuneration Cap for Directors (Proposal) (Re-deliberation) |
| 5 th | Mar. 28 | Voting Position on Agendas at Annual General Meeting of DGB Financial Group (Proposal) |
| | | Voting Position on Agendas at Annual General Meeting of Namsun Aluminum (Proposal) |
| | | Voting Position on Agendas at Annual General Meeting of Netmarble (Proposal) |
| | | Voting Position on Agendas at Annual General Meeting of Wonik QnC (Proposal) |
| 6 th | Mar. 30 | Report on the Result of 2022 2nd ESG Evaluation on Domestic Equity and Fixed Income |
| | | Plan for Confidential Dialogues on Unexpected Concerns (Proposal) |
| | | Report on the Result of Periodic Monitoring on Stewardship Activities and Proxy Voting |
| | | Voting Position on Agendas at Annual General Meeting of KT (Proposal) |
| | | Plan to Improve Stewardship Activities on Unexpected Concerns (Proposal) |
| | | Identification of Improvement Status of Companies in Confidential Focus List and Selection of Public Focus List on Dividend Policy (Proposal) |
| 7 th | May 3 | Identification of Improvement Status of Companies in Confidential Focus List and Selection of Public Focus List on Concerns over Violation of Laws 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) |
| | | Report on the Current Status and Future Operation Directions of the Special Committee on Responsible Investment & Governance |
| 8 th | May 19 | Selection of Companies Subject to Confidential Dialogues on Concerns over Violation of Laws and Regulations (Proposal) |
| | | Identification of Improvement Status of Companies Subject to Confidential Dialogues and Review of Implementation of Active Ownership on Unexpected Concerns (Proposal) |
| | | Amendments to the Guideline for ESG Integration (Proposal) |
| 9 th | July 11 | Report on the Result of Periodic Monitoring on Stewardship Activities and Proxy Voting |
| | | Identification of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Concerns over Violation of Laws and Regulations (Proposal) |
| | | Selection of Companies Subject to Confidential Dialogues on Unexpected Concerns (Proposal) |
| 10 th | Aug. 16 | Amendments to the Guideline for Stewardship Activities for Domestic Equity (Proposal) |
| | | Report on the Responsible Investment & Governance Report |
| 11 th | Aug. 25 | Voting Position on Agendas at Extraordinary General Meeting of KT (Proposal) |
| | | Selection of Companies Subject to Confidential Dialogues on Dividend Policy (Proposal) |
| | | Selection of Companies Subject to Confidential Dialogues on Remuneration Cap for Directors (Proposal) |
| 12 th | Sept. 22 | Selection of Companies Subject to Confidential Dialogues on Repetitive Vote Against (Proposal) |
| | | Selection of Companies Subject to Confidential Dialogues on Unexpected Concerns (Proposal) |
| | | Report on Follow-up Measures after the Amendments to the Guideline for Stewardship Activities |
| | | Selection of Companies Subject to Confidential Dialogues on Concerns over Violation of Laws and Regulations (Proposal) (2023 Q2) |
| | | Selection of Companies Subject to Confidential Dialogues on Concerns over Violation of Laws and Regulations (Proposal) (2023 Q3) |
| | | Selection of Companies Subject to Materiality Assessment on Unexpected Concerns (Proposal) |
| 13 th | Oct. 26 | Report on Follow-up Measures after the Amendments to the Guideline for Stewardship Activities (Re-reporting) |
| | | Report on Cases of the Exercise of Voting Rights on Domestic Equity |
| | | Plan for Confidential Dialogues on Unexpected Concerns (Proposal) |
| | | Report on the Result of Periodic Monitoring on Stewardship Activities and Proxy Voting (2023 Q2) |
| | | Report on the Result of Periodic Monitoring on Stewardship Activities and Proxy Voting (2023 Q3) |

| Session | Date | Agenda |
|------------------|---------|--|
| 14 th | Nov. 15 | Voting Position on Agendas at Extraordinary General Meeting of KB Financial Group (Proposal) |
| | | Report on Plan to Operate the Governance Advisory Committee |
| | | Amendments to the Guideline for Stewardship Activities for Domestic Equity (Proposal) |
| 15 th | Dec. 19 | Report on Cases on the Exercise of Voting Rights on Global Equity |
| | | Presentation of Detailed Criteria of the Exercise of Voting Rights on Board Gender Diversity |

5. Key Milestones

NPS initiated responsible investment (RI) with externally managed RI funds for domestic equities in September 2006. Since then, NPS has been committed to taking part in a range of RI activities to establish a foundation for responsible investing. In June 2009, NPS became a signatory to the Principles for Responsible Investment (PRI). In March 2013, Responsible Investment team was created under Investment Strategy division to integrate all voting rights that had been exercised separately by domestic and global equity investment teams, thereby paving the way toward adopting stewardship activities. In 2015, a plan to promote dialogues with domestic listed companies on dividend policy was developed. In December of the same year, an ESG Evaluation System for Domestic Equity was established. In 2016, an ESG Information Sharing Platform that provides relevant information to portfolio managers was developed to enable the integration of ESG considerations into the investment decision-making process.

In July 2018, Responsible Investment & Governance Principles, or Stewardship Code, was adopted. In January 2019, the Responsible Investment team was expanded and reformed to 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 groundwork for applying RI activities to a broader range of asset classes. In December 2019, a Guideline for Active Ownership of Domestic Equity was developed to expand the scope of shareholder engagement. In July 2020, NPS issued its first annual Responsible Investment & Governance Report to disclose its stewardship activities in a transparent manner. In November 2020, a Guideline for ESG Integration for Domestic Equity was formulated to apply ESG Integration to internally managed domestic equities. In May 2021, negative screening was adopted in line with the FMC's announcement on coal phase-out (exclusion of coal mining and coal-fired power industry).

In June 2021, a Guideline for ESG Integration for Internally Managed Domestic Fixed Income was developed to apply the strategy 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 of NPS's direction for RI activities by sharing such information with investee companies and to help voluntarily operate their corporate governance.

In February 2022, the Guideline for Stewardship Activities was amended to expand the scope of the exercise of voting rights associated with global equities (portfolio weight: 0.5% and above → 0.3% and above). In March, e-voting was first utilized for domestic equities. In June, NPS joined the IFRS Sustainability Alliance (previously SASB Alliance), and added a requirement for the securities firm selection process to check whether a responsible investment report has been issued. As such, NPS has constantly made endeavors to bolster responsible investment.

In March 2023, the Guideline for Stewardship Activities was amended again to add climate change and industrial safety to focus areas to enable shareholder engagement (e.g. confidential dialogue and hareholder proposal) on the issues when a company, whose enterprise value may be significantly affected by related matters, shows no improvement. In addition, to encourage companies to strengthen their RI practices, the securities firm selection criteria for domestic equities was amended to assign additional points to RI-related evaluation factors and to add a new evaluation factor that can assess ESG management activities of securities firms. In April, a Guideline for ESG Integration for Internally Managed Global Equity and Fixed Income was developed to specify an implementation process that applies to global securities. In December, a Governance Advisory Committee was formed within NPSIM. The Committee is tasked with enhancing the value of investee companies by giving guidance to the CIO of NPS on governance structure, voting criteria, and matters related to the Stewardship Code.

II Responsible Investing Approach

- 1. ESG Integration
- 2. Negative Screening
- 3. Voting
- 4. Engagement

Stewardship Activities Milestones

2006 ~ 2015

| | | | |
|---|---|--|--|
| 2006 Sept. Launched externally managed RI funds for domestic equities | 2009 Jun. Became a signatory to the Principles for Responsible Investment (PRI) Dec. Added a provision for responsible investment in the Guideline for Exercise of Voting Rights | 2013 Mar. Created Responsible Investment team under Investment Strategy division | 2015 Jun. Formulated ways to promote dialogues with domestic listed companies on dividend policy Nov. Adopted new benchmark for externally managed domestic RI funds Dec. Established an ESG Evaluation System for domestic equities |
|---|---|--|--|

2016 ~ 2019

| | | | |
|---|---|---|---|
| 2016 Apr. Added a provision on Responsible Investment to the Guideline for National Pension Fund Management (Investment Policy Statement) Dec. Established an ESG Information Sharing Platform for domestic equities | 2018 Jul. Adopted Responsible Investment & Governance Principles (Stewardship Code) Enacted a Guideline for Stewardship Activities | 2019 Jan. Reorganized Responsible Investment team to Global Responsible Investment & Governance division (Responsible Investment team and Corporate Governance team) Developed a Guideline for Stewardship Activities for Domestic Equity Feb. Decided on the disclosure scope of voting direction prior to shareholder meetings Sept. Joined the ICGN (International Corporate Governance Network) Joined the ACGA (Asian Corporate Governance Association) Dec. Formulated a Guideline for Active Ownership of Domestic Equity | 2017 Jul. Established an Evaluation System on ESG Controversial Issues for domestic equities Sept. Applied ESG Integration to internally managed domestic equities |
|---|---|---|---|

2020 ~ 2023

| | | | |
|--|---|---|--|
| 2020 Jul. Issued the first annual Responsible Investment & Governance Report Amended the Guideline for Stewardship Activities for Domestic Equity Sept. Developed ways to improve materiality assessment procedures and standards on unexpected concerns Nov. Developed a Guideline for ESG Integration for Domestic Equity Joined the AIGCC (Asia Investor Group on Climate Change) | 2021 May Adopted Negative Screening Jun. Formulated a Guideline for ESG Integration for Internally Managed Domestic Fixed Income Dec. 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 for domestic and global equities and fixed income | 2022 Feb. Amended the Guideline for Stewardship Activities Expanded the scope of voting on global equities Mar. Commenced e-voting for domestic equities Jun. Joined the IFRS Sustainability Alliance (previously, SASB Alliance) Included the issuance of a responsible investment report as an evaluation factor in the securities firm selection process | 2023 Mar. Amended the Guideline for Stewardship Activities to add climate change and industrial safety to focus areas Assigned additional points to responsible investment-related evaluation factors in the securities firm selection process for domestic equities Apr. Developed a Guideline for ESG Integration for Internally Managed Global Equity and Fixed Income Dec. Formed a Governance Advisory Committee |
|--|---|---|--|

1. ESG Integration

NPS has been committed to laying the groundwork for the implementation of ESG Integration for a long period of time. Beginning with the development of the ESG Evaluation System for domestic equities in December 2015, NPS has formulated an internal ESG research framework and established related strategies. Currently, NPS applies ESG Integration to internally managed domestic equities and fixed income (corporate bond). In line with the Plan to Facilitate Responsible Investment approved by the FMC in November 2019, the application scope of ESG Integration has been gradually expanded.

As for internal management, ESG Integration is materialized based on ESG evaluation. NPS implements ESG Integration by incorporating ESG factors, coupled with financial factors, into investment decision-making for internally managed domestic equities and fixed income (corporate bond) using its internal ESG evaluation system. As for external management, NPS considers ESG factors during the external manager selection process.

1) Internal Management

(1) ESG Integration for Domestic Equity and Fixed Income

NPS has developed its proprietary ESG Evaluation System to analyze non-financial factors, including ESG, 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 have issued non-corporate bonds. The ESG Evaluation System is composed of 61 ESG indicators in 14 items that affect enterprise value in terms of ESG. Considering the characteristics of each industry, different weightings per industry are applied to each category to calculate ESG score and rating.

◆ ESG Evaluation Indicators

| | Items (14) | Indicators (61) |
|---------------|--|--|
| Environmental | Climate Change | Greenhouse Gas and Energy Management System, Voluntary Climate Change Adaptation, Carbon Emissions, Energy Consumption |
| | Environmental Impact Management | Environment Management System Certification, Environment Management Objective, Clean Production Management, Water Consumption, Water Pollutant Emissions, Air Pollutant Emissions, Waste Emissions, Chemical 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 (Childbirth·Childcare), Years of Service, Employment of Persons with Disabilities and Women, Labor Management Culture |
| | Industrial Safety | Health and Safety System, HSE Team, HSE Management System Certification, Designation of Workplace with Frequent Incidents |
| | Fair Trade | Counterparty Selection Process, Fair Trade Compliance Program, Partner Company Support Activities, Violation of Subcontracting Law, Behaviors Undermining Fair Trade |
| | Product Safety and Consumer Protection | Product Safety and Consumer Protection System, Product Safety Management System Certification, Consumer Centered Management Certification, Consumer Dispute Settlement Channel, Product Safety and Consumer Protection Accidents |
| | Information Protection | Information Protection System, Information Protection System Certification, Information Leakage Incidents |

| | Items (14) | Indicators (61) |
|------------|----------------------------------|---|
| Governance | Shareholder Right Enhancement | Management Protection System, Shareholder Opinion Collection System, Disclosing Date of Shareholder Meeting, Recent 3-year Dividend Payout Status |
| | Composition and Operation of BOD | Separation of CEO and BOD Chair, Independence of BOD, Composition of Outside Directors, BOD Diversity, BOD Activities, Director Remuneration Policy |
| | Committee under BOD | Outside Director Candidate Recommendation Committee, Compensation Committee, ESG Committee |
| | Audit System | Outside Director Ratio in Audit Committee, 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, Non-Compliance with Internal Control and Compliance |

Based on the commissioned research conducted in the second half of 2020, NPS enhanced an ESG evaluation system for domestic equities and adopted an ESG evaluation system for domestic fixed income in 2021. ESG controversial issues, such as environmental pollution, industrial safety, and unfair transaction of affiliates, were added to the ESG Evaluation System in 2022 to consider the issues when ESG scores and rating of companies subject to ESG evaluation are determined. In 2023, some changes were made in ESG evaluation indicators: Water Pollutant Emissions was added; Ratio of Auditor or Members with Long Tenure was deleted; Human Rights was changed to Employment of Persons with Disabilities and Women; Labor Practices was changed to Labor Management Culture. In addition, the scoring method was revised in a way to ensure consistency. Going forward, NPS will continue to improve and upgrade the ESG Evaluation System by using sustainability-related financial information disclosed according to the Korea Sustainability Disclosure Standard.

As of Dec. 31, 2023, 960 domestic listed companies were evaluated and rated as follows:

◆ 2023 ESG Evaluation Result (Equity)

| AA | A | BB | B | C | D | Total |
|----------------|----------------|----------------|----------------|----------------|-------------|-----------------|
| 105 (10.9%) | 186 (19.4%) | 178 (18.5%) | 348 (36.3%) | 137 (14.3%) | 6 (0.6%) | 960 (100.0%) |

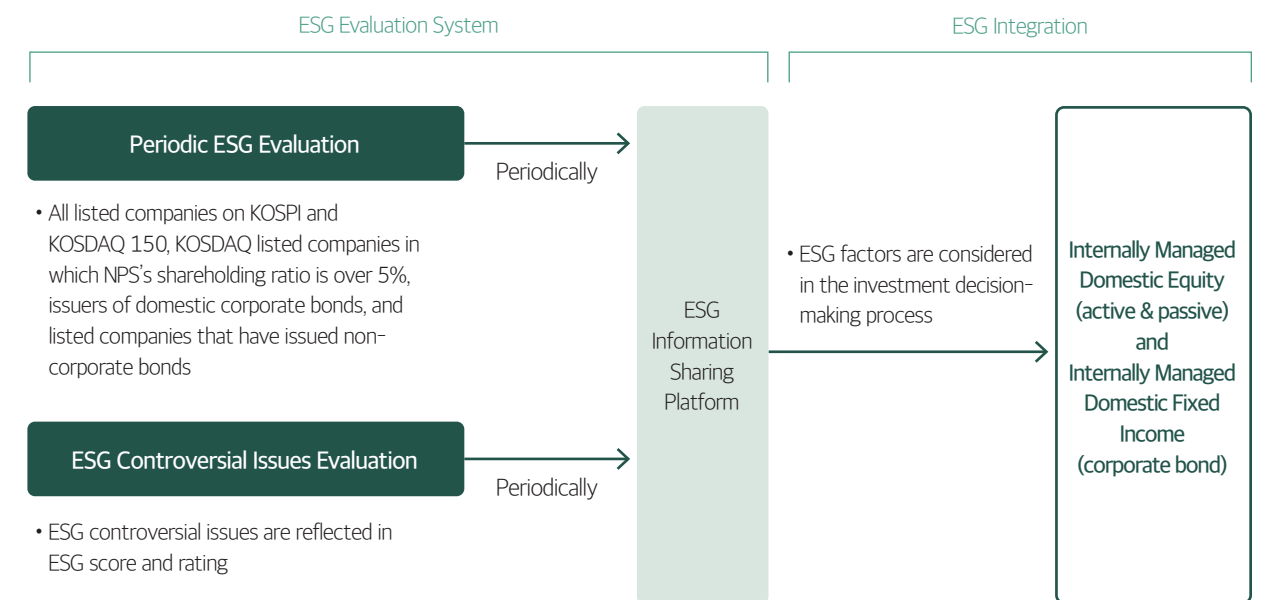
As for fixed income securities, 1,047 domestic listed companies, issuers of domestic corporate bonds, and listed companies that have issued non-corporate bonds were evaluated and rated as follows:

◆ 2023 ESG Evaluation Result (Fixed Income)

| AA | A | BB | B | C | D | Total |
|----------------|----------------|----------------|----------------|----------------|--------------|-------------------|
| 128 (12.2%) | 201 (19.2%) | 202 (19.3%) | 365 (34.9%) | 141 (13.5%) | 10 (1.0%) | 1,047 (100.0%) |

Following the evaluation, ESG information, including ESG evaluation results, is provided to portfolio managers in the internally managed domestic equity and fixed income teams through the ESG Information Sharing Platform so that such information can be considered, alongside financial factors, during the investment decision-making process.

◆ ESG Evaluation & Internal Management ESG Integration Process



Since 2017, NPS has adopted ESG Integration to internally managed active domestic equities. In November 2020, the strategy was expanded to include internally managed passive domestic equities, and a Guideline for ESG Integration for Domestic Equity, which entails enhanced implementation measures, was established to expand the strategy to all of the internally managed domestic equities. In addition, in 2021, the Guideline for ESG Integration was amended to extend its application to internally managed domestic fixed income (corporate bond). Accordingly, portfolio managers in an internal management team for domestic equities examine ESG-related information when new securities are to be added to the investment universe. If such securities are placed under the lowest ESG rating, portfolio managers provide written opinions and attach an ESG report to an examination report. Moreover, when examining the investment universe, securities placed under the lowest ESG rating are checked to identify whether they are included above their benchmarks.¹⁾ 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), if it is observed, when considering adding new securities to the investment universe or investing in new securities, that an issuer has a low ESG rating, in-house portfolio managers examine associated ESG-related information and conduct thorough reviews on the issuer.

1) Companies rated D cannot be included above their benchmarks, in principle (Internally managed active domestic equities from 2021 and internally managed passive domestic equities from 2022)

(2) ESG Integration for Global Equity and Fixed Income

In December 2023, NPS selected a third-party ESG data provider to be utilized for the implementation of responsible investment in global equities and fixed income. Since then, NPS has obtained ESG information, including ESG scores and ratings of global companies, as well as ESG-related controversial issues. Going forward, NPS will constantly pursue responsible investment through the integration of non-financial factors, such as ESG, to manage risks and enhance long-term returns.

In April 2023, NPS amended the Guideline for ESG Integration to apply the strategy to global equities and fixed income: for internally managed active global equities, ESG information is considered during basic analysis on investment target companies; for internally managed passive global equities, ESG information is considered when examining and trading securities in the investment universe; for internally managed global corporate bonds, ESG information of an issuer is considered when executing trading, and ESG details of an issuer under the lowest rating are monitored every six months.

Looking ahead, NPS will strive to develop ESG integration that aligns with each asset class’s attributes and investment types in consideration of investment conditions.

2) External Management

NPS manages externally managed RI funds as one of the externally managed domestic equities. The funds track an internally developed benchmark, the NPS-FnGuide Responsible Investment Index, designed to reflect the unique characteristics of externally managed RI funds. When selecting external managers for RI funds, NPS considers various factors, including expertise, ethics, investment strategies, investment process, and adherence to the Guideline for Investment in RI Funds. Once selected, external managers may conduct a range of RI strategies. Since November 2020, NPS has required external managers managing RI funds to submit a RI report, which serves as a tool for monitoring their ongoing commitment to RI practices.

In December 2021, NPS implemented measures to incorporate RI factors into the selection and monitoring of external managers overseeing domestic and global equities and fixed income. Moreover, NPS mandated all external managers for equities and fixed income, including those managing RI funds, submit a RI report. To further encourage external managers to strengthen their RI practices, in December 2023, NPS began assigning additional points to RI-related evaluation factors in the selection process of external managers for domestic fixed income, global equities, and global fixed income.

◆ Responsible Investment by Asset Class

(in KRW trillion)

| Asset Class | | 2021 | 2022 | 2023 |
|--|--------------------------------------|---------------|---------------|---------------|
| Domestic Equity | Internal Management | 84.3 | 62.0 | 72.6 |
| | External Management | 7.7* | 63.4 | 75.4 |
| Domestic Fixed Income | Internal Management (corporate bond) | 38.2 | 37.7 | 34.7 |
| | External Management | - | 45.6 | 48.3 |
| Global Equity | Internal Management | - | - | 138.5 |
| | External Management | - | 142.6 | 181.6 |
| Global Fixed Income | External Management | - | 32.8 | 36.1 |
| Total Amount of Responsible Investment | | 130.2 (13.7%) | 384.1 (43.2%) | 587.2 (56.7%) |
| Total AUM | | 948.1 | 899.8 | 1,035.2 |

* The amount of externally managed domestic equity in 2021 refers to the amount of externally managed domestic RI funds only.

※ The amounts of Responsible Investment above are derived from the asset classes to which RI strategies and standards apply.

2. Negative Screening

In November 2019 when the FMC formulated the Plan to Facilitate Responsible Investment, it decided to additionally review the necessity, application scope, and process of negative screening. Accordingly, in February 2021, the FMC resolved to review the adoption of negative screening in the field relating to climate change first. In May 2021, the FMC announced the adoption of negative screening on the coal mining and coal-fired power industries as part of efforts to combat climate change, and decided to develop a detailed action plan through commissioned research.

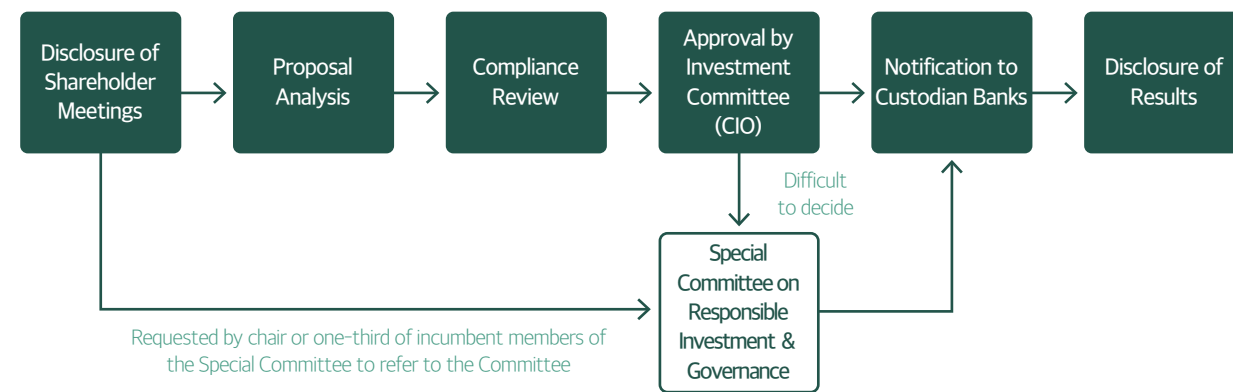
In December 2021, in line with the decisions made by the FMC, NPS began commissioned research to analyze the application scope, standards, and selection method of the target industry as a preparation process for the adoption of negative screening. In April 2022, the results of the commissioned research were reported to the FMC. In 2023, NPS actively supported the Ministry of Health and Welfare in developing a step-by-step action plan, including the scope and standards of the target industry, selection methods of target companies, and implementation timing by asset class and geography, by gathering opinions from various stakeholders and discussed ways to implement investment strategies on the coal mining and coal-fired power industry with related organizations.

3. Voting

1) Criteria and Process

NPS exercises its voting rights on listed companies in good faith and in the best interests of the 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 Stewardship Activities that stipulates voting criteria, procedures, and methods, as well as by referring to advice from a third-party agency specializing in agenda analysis, to vote in a professional and faithful manner.

◆ Voting Process



NPS's committees, including the Investment Committee, deliberate on and resolve 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 it 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 FMC decided to delegate voting rights of some holdings to external managers according to the Guideline for Proxy Voting.

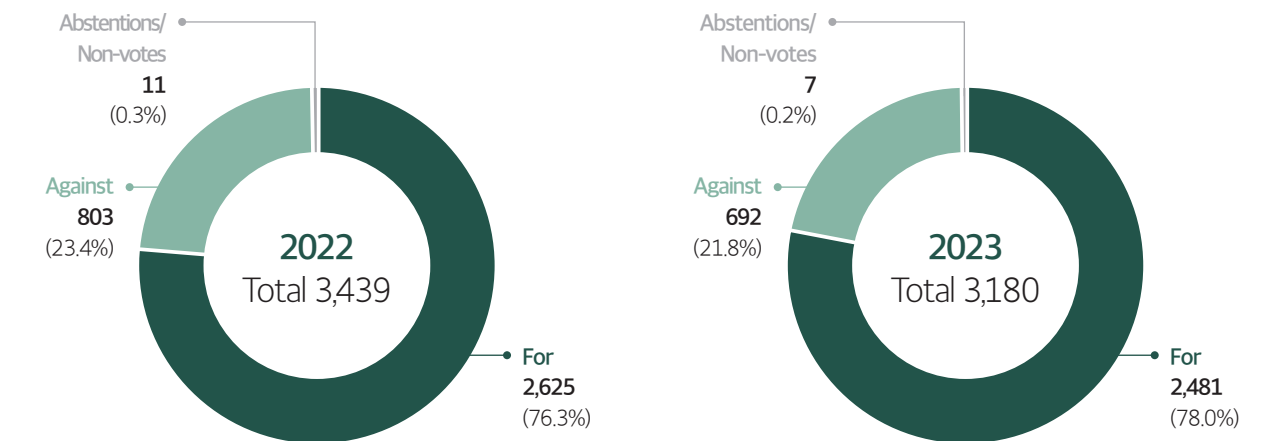
Moreover, NPS strives to determine voting positions by listening to and considering companies' stances on agenda items at shareholder meetings. As such, NPS has been in constant communication with the market in light of the exercise of voting rights. In 2023, with a view to further enhancing transparency of the exercise of voting rights on domestic listed companies, NPS facilitated communication with listed companies and external managers by holding meetings prior to the annual general meeting season.

2) Disclosure and Status

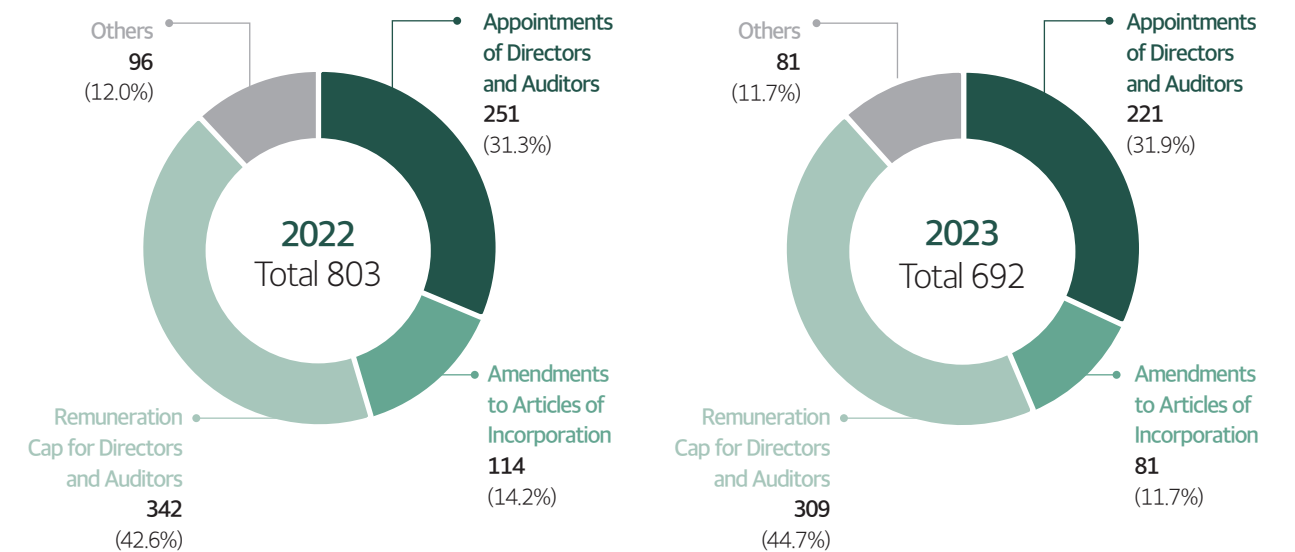
NPS discloses the results of voting activities and reasons for voting against, including applicable provisions in guidelines, within 14 days after a shareholder meeting is held. However, voting directions of certain agendas can be disclosed before a shareholder meeting. The agendas include (i) agendas of a company where NPS's shareholding ratio is more than 10% or its weight is more than 1% in the Fund portfolio, and (ii) agendas whose voting direction is determined by the Special Committee. In 2023, NPS disclosed 79 shareholder meetings for domestic companies and four shareholder meetings for overseas companies prior to the meetings.

In 2023, NPS exercised voting rights on 3,180 agendas in 799 shareholder meetings for domestic equities.

◆ Voting Results



◆ Reasons for Voting Against



◆ Voting Activities in 2023

① Approval of Financial Statement
Regarding an agenda to approve the financial statement of Company A whose dividend payout level is insufficient, NPS voted **FOR** based on the company's disclosed information on shareholder return policy and investment plan.
Regarding an agenda to approve the financial statement of Company B that paid out dividends in excess of net profits for the recent three years, NPS voted **FOR** based on the company's disclosed information on dividend policy and one-off loss.
Regarding an agenda to approve the financial statement of Company C where a BOD proposal was conflicting with a shareholder proposal, NPS voted **FOR** the shareholder proposal in consideration of the company's financial soundness and cash on hand.

② Appointment of Directors and Auditor (Audit Committee Members)

NPS voted **AGAINST** the appointments of an inside director in Company D, who held additional positions in 14 companies including the company; an outside director in Company E, who was employed as a director of a company in which Company E invests more than 5% of its capital; an outside director in Company F, who was a former public official whose employment screening by the Public Service Ethics Committee can be verified after an annual general meeting; a full-time employee in Company G, who has been employed for a company in which Company G has a major stake; an outside director in Company H, who is a university professor in charge of a project and consulting requested by Company H.

In addition, NPS voted **AGAINST** the appointments of an inside director in Company I that was given legal sanction from the Fair Trade Commission due to illegal assistance and undue benefits; an inside director in Company J that was given legal sanction from the Securities and Futures Commission due to violation of accounting standards; an inside director in Company K that was given legal sanction from the Fair Trade Commission due to cartel; an inside and outside director in Company L that was given legal sanction on mis-selling of financial products, as they were considered to have neglected duty of oversight, and have impaired enterprise value and infringed on shareholder rights and interests.

③ Amendments to Articles of Incorporation

NPS voted **AGAINST** amendments to the Articles of Incorporation of Company M that intended to reduce the responsibility of a member of Audit Committee to an ordinary resolution at a shareholder meeting, and Company N that intended to abolish a written voting system.

④ Approval for Remuneration Cap for Directors

NPS voted **AGAINST** remuneration cap for directors in Company O as it was observed, after reviewing information on its remuneration, that its remuneration cap was excessive relative to actual remuneration paid, and the company did not provide its opinion on the matter. Meanwhile, NPS voted **FOR** remuneration cap for directors in Company P as it was observed that its remuneration cap was not excessive relative to actual remuneration paid based on submitted information including the necessity of the appointment of an inside director, relevant plan, and expected costs. In addition, NPS voted **AGAINST** remuneration cap for directors in Company Q as it was observed, after reviewing information on its remuneration, that its remuneration was not aligned with management performance, and the company did not provide its opinion on the matter. Meanwhile, NPS voted **FOR** remuneration cap for directors in Company R as it was observed that its remuneration was aligned with management performance, based on submitted information including the loss from a project the company suspended.

For global equities, NPS exercised voting rights on 577 agendas in 62 shareholder meetings, including 418 FOR (72.44%), 159 AGAINST (27.56%) and 0 ABSTENTION/NON-VOTE (0.00%).

4. Engagement

NPS has adopted Responsible Investment & Governance Principles, or Stewardship Code, to fulfill its fiduciary duty to improve long-term profitability and stability of the National Pension Fund, 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 include remuneration cap for directors and violation of laws and regulations, in addition to the exercise of voting rights and dialogues with companies on dividend policy. NPS exercises shareholder rights in accordance with standards and procedures stipulated in the Guideline for Stewardship Activities and the Guideline for Stewardship Activities for Domestic Equity.

At the outset of the adoption of the Responsible Investment & Governance Principles, NPS began exercising shareholder rights with agendas that are not involved in management affairs²⁾ in consideration of concerns over potential intervention and short-swing profit. Following this, the exercise of shareholder rights on agendas involved in management affairs was allowed when all conditions are met and only upon approval from the 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 KAL in February 2019³⁾. In line with the increasing call for enhancing predictability and transparency as well as alleviating concerns over interference in management and autonomy, NPS developed a 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 investee companies to voluntarily establish their own measures to improve shareholder value.

2) It refers to shareholder rights that virtually have an impact on a company, including shareholder proposal in relation to appointment of directors.

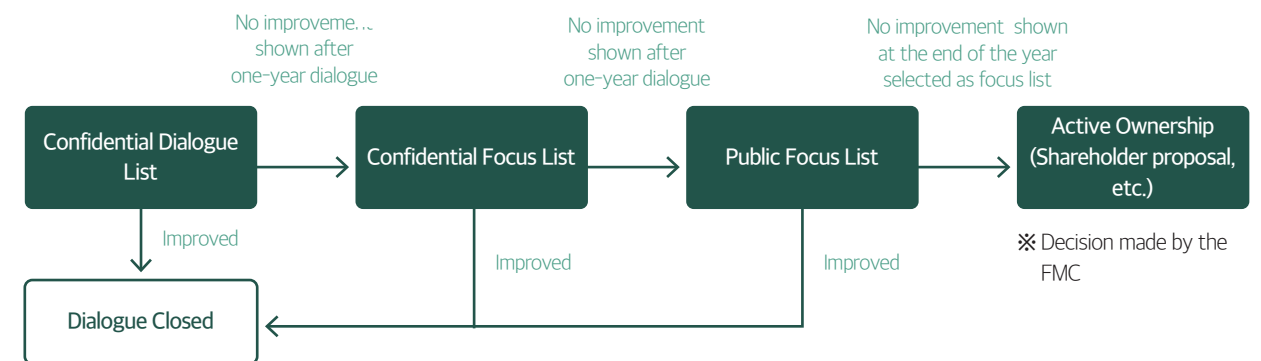
3) At an annual general meeting of Hanjin KAL in March 2019, NPS's shareholder proposal was rejected (For: 48.66%, Against, etc.: 51.34%).

1) Shareholder Engagement in Focus Areas

With the aim of achieving long-term and stable returns, NPS selects focus areas and conducts shareholder engagement. Focus areas include a dividend policy, remuneration cap for directors, violation of laws and regulations, repetitive vote against, climate change and industrial safety.⁴⁾

Shareholder engagement in focus areas is undertaken in stages according to the Guideline for Stewardship Activities for Domestic Equity, including a selection of focus list, confidential dialogue, selection of confidential focus list, selection of public focus list, and shareholder proposal. If a company in the focus list shows no improvement despite a series of shareholder engagements, NPS may exercise its voting rights for appointment of directors at a shareholder meeting or send open letters.

◆ Shareholder Engagement Process on Focus Areas



※ Companies selected by and improvement status examined by the Special Committee

◆ Selection Criteria of Companies Subject to Focus Area

| | |
|--|---|
| Dividend Policy | In case a company lacks a reasonable dividend policy or has not paid out dividends in accordance with a reasonable dividend policy |
| Remuneration Cap for Directors | In case shareholder rights and interests are infringed as a proposed remuneration cap is not aligned with the company's remuneration and business performance |
| Violation of Laws and Regulations | In case a company falls into any of the following situations 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 shows no improvement despite NPS's repetitive votes against at shareholder meetings |
| Climate Change | In case it is observed* that a company, whose enterprise value is significantly affected by climate change issues, shows no improvement on risk management * Based on ESG evaluation indicators in relation to greenhouse gas emissions |
| Industrial Safety | In case it is observed* that a company, whose enterprise value is significantly affected by industrial safety issues, shows no improvement on risk management * Based on ESG evaluation indicators in relation to industrial safety |

4) According to the approval by the FMC on Mar. 7, 2023, the Guideline for Stewardship Activities was amended to remove 'ESG rating downgrade' and add 'climate change' and 'industrial safety' in focus areas.

① Dividend Policy

NPS has conducted confidential dialogues on dividend policy with companies that have not established-disclosed a reasonable dividend policy, or have not paid out dividends. In 2023, NPS sent letters to and conducted dialogues with 33 companies on dividend policy. By forming an amicable communication channel, NPS encouraged the companies to voluntarily set out their dividend policy and communicate with the market, rather than presenting specific dividend figures or levels. As a result, the companies have disclosed reasonable dividend policies 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 on dividend policy with representatives of Company S, including its BOD and management. Prior to the dialogues, the company's dividend policy was vague and established as a mere formality, but through the confidential dialogues, they deeply understood the necessity and purpose of establishing a reasonable dividend policy. As a result, the company publicly disclosed its plan to use EBITDA-CAPEX as a source of dividend payout and increase the weight of cash dividend relative to EBITDA-CAPEX to 30% by 2030 in consideration of the attributes of its business involved in massive investment. As such, the disclosure of a dividend policy has helped investors understand the company's decision-making criteria on dividends and enhance the predictability of the company's dividends.

* EBITDA: Earnings Before Interest, Taxes, Depreciation and Amortization CAPEX: Capital Expenditures

② Remuneration Cap for Directors

NPS has conducted confidential dialogues with companies that suggested remuneration cap for directors that is not aligned with actual remuneration paid and management performance. In 2023, NPS sent letters to and conducted dialogues with 15 companies. Through the confidential dialogues, NPS explained the reasons for and purpose of voting against the agenda, and listened to the company's stance on compensation policy and grounds for calculation of the remuneration cap. As a result, the companies made progress in their remuneration cap policies, including disclosing remuneration policies in a transparent manner or determining remuneration of directors at an independent compensation committee composed of outside directors.

NPS conducted confidential dialogues on remuneration cap for directors with representatives of companies, including their BOD and management, to discuss (i) the process and purpose of NPS's shareholder engagement in relation to remuneration cap for directors, (ii) concerns over addressing such agendas at shareholder meetings as a mere formality when the gap between remuneration cap for directors and actual remuneration paid is wide, and (iii) the appropriate linkage between business performance and actual remuneration paid to inside directors. After the confidential dialogues, the companies deeply understood the purpose of having the confidential dialogues and investors' concerns. As a result, Company T disclosed its compensation policy, including incentive plans linked with EBIT, achievements, and relative price strength, on its website. Furthermore, the company announced that the final approval for remuneration for CEO would be made at a compensation committee comprised of outside directors according to its Compensation Policy. Also, Company U implemented the Restricted Stock Unit system for its long-term incentive plan and enhanced the transparency of its compensation framework by disclosing a plan for remuneration for inside directors, which includes the wage type for each inside director and calculation criteria and method on a public notification of shareholder meeting.

③ Violation of Laws and Regulations

NPS selects companies subject to confidential dialogues on concerns over violation of laws and regulations from among companies that may damage enterprise value or impair shareholder rights and interests due to embezzlement, breach of trust, illegal assistance, or undue benefits, based on objective facts such as charge by prosecutor and sanction by the Fair Trade Commission. In 2023, NPS sent letters to and conducted dialogues with 9 companies, and requested the companies to develop measures to recover loss and prevent recurrence.

NPS conducted confidential dialogues on concerns over violation of laws and regulations with representatives of companies, including their BOD and management, to explain the process and purpose of NPS's shareholder engagement in relation to embezzlement of management, and to check facts, measures taken and improvement measures concerning behaviors that may have concerns over violation of laws and regulations. After the confidential dialogues, they deeply understood the purpose of having the confidential dialogues and investors' concerns. As a result, Company V, which was given sanction from the Fair Trade Commission due to unfair provision, established a process to recover loss at a company level for exceptional cases where it is difficult to specify a person involved in the unfair provision, and strengthened its internal control system by reporting it to its BOD. In addition, Company V disclosed its acquisition of ISO 37301, an international standard for compliance management systems, and established countermeasures to prevent recurrence by formulating a plan to improve its compliance system.

④ Repetitive Vote Against

NPS selects companies subject to confidential dialogues on repetitive vote against in consideration of the number of voting against, room for improvement, and portfolio weight, from among companies that NPS voted against more than twice with the same reason concerning agendas relating to the appointment of directors and auditor within the recent five years. In 2023, NPS sent letters to and conducted dialogues with 13 companies to build consensus on the reason for voting against in line with the Guideline for Stewardship Activities and encouraged them to formulate action plans that help enhance shareholder value. As a result, the companies made progress, including implementing action plans.

NPS conducted confidential dialogues on repetitive vote against with representatives of companies, including their BOD and management, to explain the process and purpose of NPS's shareholder engagement, as well as the reasons for repeatedly voting against. After the confidential dialogues, they deeply understood the purpose of having the confidential dialogues. As a result, Company W, which received repeated votes against due to excessive dual office holding, reduced the number of companies that a registered director can concurrently hold. Company X, which received repeated votes against due to negligence on the duty of oversight, made improvement, including establishing measures to prevent recurrence, enhancing internal control, reforming its compensation framework, and strengthening its clawback provision that is legally required to return incentive compensation of the management under special circumstances or event.

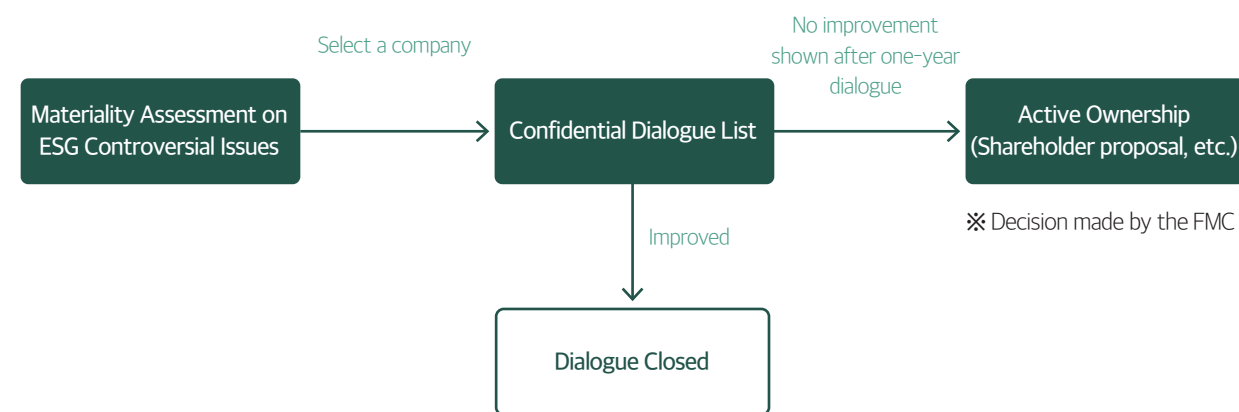
⑤ Climate Change and Industrial Safety

In March 2023, NPS amended the Guideline for Stewardship Activities to add climate change and industrial safety to focus areas. As such, NPS strives to expand its shareholder engagement strategies, which had been centered on governance, by reflecting environmental and social issues. NPS will conduct dialogues on climate change and industrial safety issues with companies in 2024 after formulating a guideline that specifies standards and procedures, including criteria for company selection and improvement identification. Furthermore, NPS will examine ways to utilize information disclosed according to the Korea Sustainability Disclosure Standard.

2) Shareholder Engagement on Unexpected Concerns

With the aim of delivering long-term profitability and enhancing shareholder value, NPS fosters shareholder engagement in unexpected concerns in relation to ESG when concerns over damage to enterprise value or shareholder rights and interests 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, conducting confidential dialogues and making shareholder proposals. If no improvement is shown despite a series of shareholder engagements, it is linked with voting on the appointment of directors and auditors at shareholder meetings. If it deems that no willingness is shown to make improvement, including refusing confidential dialogues, an open letter may be sent to such companies.

◆ Shareholder Engagement Process on Unexpected Concerns



※ Companies selected by and improvement status examined by the Special Committee

In 2023, regarding ESG controversial issues, including investigations by authorities, violation of environmental laws, and casualties occurring at workplace, NPS performed materiality assessments on 59 issues, sent 61 letters to 54 companies, and conducted confidential dialogues on 12 issues. NPS formed an amicable communication channel and encouraged the companies to develop action plans that help enhance shareholder value. As a result, the companies voluntarily made improvement, including establishing measures to prevent recurrence.

NPS conducted confidential dialogues with representatives of Company Y, including its BOD and management, in relation to industrial safety such as casualties occurring at workplace. The company deeply understood the necessity and purpose of actively implementing corrective measures, establishing improvement measures to prevent recurrence and disclosing information on such matters in a transparent manner. As a result, the company made progress, including improving work processes and equipment to prevent recurrence, discussing safety issues on a regular basis at BOD by formulating the 'safety first' management principle, enhancing safety-related policies, strengthening governance and organization related to safety, establishing safety systems and programs, expanding safety manpower and education, disclosing more information, etc.

5) Includes 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 involvement in management affairs, but on enhancing shareholder and enterprise value by helping companies develop improvement measures through sufficient dialogues in relation to focus areas and unexpected concerns. When an issue requiring shareholder engagement occurs, NPS seeks to check the facts and conducts sufficient dialogues to address issues according to the Guideline for Stewardship Activities for Domestic Equity. Only when it is difficult to expect improvement from a company is active ownership engagement conducted.

◆ Active Ownership Activities

| Classification | Description |
|-----------------------------|---|
| Target Company | • Companies that show no improvement, from among companies in public focus list and companies subject to confidential dialogues on unexpected concerns |
| Engagement Standards | • Case-by-case with the aim of enhancing long-term profitability and shareholder value in consideration of a range of factors including industrial characteristics, business conditions, feasibility of shareholder proposal, cost-effectiveness, and implication for the market |
| Selection Process | <ul style="list-style-type: none"> • The Special Committee on Responsible Investment & Governance decides on companies that show no improvement, reviews the need for and the contents of a shareholder proposal, and reports it to the National Pension Fund Management Committee (FMC). - The FMC decides the need for and the contents of the shareholder proposal based on the review of the Special Committee. |
| Shareholder Proposal | • The FMC makes a final decision on the contents of a shareholder proposal within a permitted range of the Commercial Act and the Financial Investment Service and Capital Market Act. |

4) Litigation

NPS may file 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 address the request of other shareholders. NPS takes legal action only when it is observed that such action would contribute to maximizing shareholder value over the long term in consideration of the possibility of winning and cost effectiveness.

III Global Investor Network

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 since 2016, it has submitted PRI Transparency Reports.

In order to implement the Responsible Investment & Governance Principles, or Stewardship Code, and enhance associated 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 became a member of the Asia Investor Group on Climate Change (AIGCC)⁹ in November 2020, an initiative to enhance awareness of 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.

Furthermore, NPS joined the IFRS Sustainability Alliance (previously SASB (Sustainability Accounting Standards Board) Alliance)¹⁰, a global membership program for sustainability standards, in 2022, in line with the increasing calls for developing standards for a global baseline of sustainability disclosures and identifying the materiality of ESG factors per industry.

Going forward, NPS will remain committed to ramping up its capacity and expertise in ESG based on research, best practices, and guidelines provided by the ICGN, ACGA, AIGCC, and IFRS Sustainability Alliance, and harness them when making decisions around ESG investing and exercising shareholder rights.

◆ 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. The PRI has 5,391 signatories as of March 2023 and its total assets under management stood at around KRW 137,494 trillion as of Mar. 2021.

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 2023.

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 105 members from 18 countries as of 2023.

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 2023, the AIGCC has 71 members, including pension funds, asset managers and relevant organizations.

10) The IFRS Sustainability Alliance (previously SASB Alliance) was founded in 2011 as a not-for-profit, independent standards-setting organization to establish and maintain industry-specific standards that assist companies in disclosing financially material, decision-useful sustainability information to investors.

IV Looking Ahead

1. Engagement with Overseas Listed Companies
2. Phased Action Plan on Negative Screening
3. Initiation of Litigation
4. Capacity Building in Exercise of Shareholder Rights

As part of efforts to enhance long-term returns by gaining market trust as public pension fund and minimizing investment risks, NPS formulated the Plan to Facilitate Responsible Investment in November 2019. In line with this plan, NPS has developed a roadmap for expanding responsible investment coverage in its portfolio, preparing associated strategies, encouraging external managers to internally foster responsible investment activities, and laying the foundation for fostering responsible investment approaches. Based on this roadmap, NPS will develop specific action plans and accordingly take action. In addition, relevant guidelines such as the Guideline for Stewardship Activities for Domestic Equity will be continuously updated in keeping with changes in the management environment.

1. Engagement with Overseas Listed Companies

The National Pension Fund Management Committee (FMC) has announced a plan to expand the application of shareholder engagement to global equities. In this regard, NPS has reviewed practical measures to do so in consideration of applicable regulatory requirements (e.g. country and industry requirements) and the characteristics of companies on the basis of the results of the commissioned research conducted in 2021. In January 2023, NPS reported measures to conduct responsible investment for global securities to the Special Committee on Responsible Investment & Governance. Once the measures are formulated according to decisions made by the FMC, NPS will conduct dialogues with overseas companies listed on the global stock markets.

2. Phased Action Plan on Negative Screening (Coal Phase-out)

The FMC has announced coal phase-out to reduce carbon emissions, and a phased action plan is currently under development. As issues related to the coal power industry are closely related to climate change and energy security, NPS has been in constant communication with like-minded organizations and experts. Going forward, NPS will undertake the action plan in stages according to decisions made by the FMC and considering the impact on the profitability of the Fund.

3. Initiation of Litigation

In July 2018 when the Responsible Investment & Governance Principles, or Stewardship Code, was adopted, NPS established criteria and grounds to file a derivative suit and damage claim suit, in a bid to contribute to increasing long-term shareholder value. Currently, NPS plans to amend the criteria for filing a derivative suit to include detailed implementation measures. Moving forward, NPS will review cases subject to a derivative suit in consideration of the impact on fund performance, the possibility of winning, and the enhancement of enterprise value in the long term, in accordance with applicable criteria and grounds, when necessary.

4. Capacity Building in Exercise of Shareholder Rights

Since the FMC deliberated on and resolved a Plan to Adopt Responsible Investment & Governance Principles in July 2018, NPS has exercised its shareholder rights for focus areas and unexpected concerns in accordance with the Guideline for Stewardship Activities and relevant guidelines, and also exercised its voting rights by improving its internal system and utilizing an electronic ballot system. Looking ahead, NPS will faithfully exercise its voting and shareholder rights in accordance with the Guideline for Stewardship Activities and relevant guidelines, and constantly review the necessity of amendments to and improvement in such guidelines.

1. Domestic Equity

In 2023, NPS voted on a total of 3,180 agendas in 799 shareholder meetings for domestic equity holdings, including 2,481 FOR (78.02%), 692 AGAINST (21.76%) and 7 ABSTENTION/NON-VOTE (0.22%). The reasons behind 692 votes AGAINST included 221 votes for the appointment of directors and auditors (31.9%), 81 votes for amendments to articles of incorporation (11.7%), 309 votes for remuneration cap for directors (44.7%), and 81 votes for others (11.7%).

① Votes Cast

| Year | No. of Companies NPS invests in | No. of Shareholder Meetings | No. of Votes Cast | Voting Result | | |
|------|---------------------------------|-----------------------------|-------------------|-----------------|------------------|-------------------------------|
| | | | | For (Weight) | Against (Weight) | Abstention /non-vote (Weight) |
| 2023 | 1,243 | 799 | 3,180 | 2,481 78.02% | 692 21.76% | 7 0.22% |
| 2022 | 1,143 | 825 | 3,439 | 2,625 76.33% | 803 23.35% | 11 0.32% |
| 2021 | 1,208 | 773 | 3,378 | 2,808 83.13% | 549 16.25% | 21 0.62% |

② Reasons for Voting Against

| Reason | 2021 | | 2022 | | 2023 | |
|---|------------|--------------|------------|--------------|------------|--------------|
| | No. | Weight (%) | No. | Weight (%) | No. | Weight (%) |
| Appointment of Directors and Auditors | 178 | 32.4 | 251 | 31.3 | 221 | 31.9 |
| Amendments to Articles of Incorporation | 85 | 15.5 | 114 | 14.2 | 81 | 11.7 |
| Remuneration Cap for Directors | 178 | 32.4 | 342 | 42.6 | 309 | 44.7 |
| Others | 108 | 19.7 | 96 | 12.0 | 81 | 11.7 |
| Total | 549 | 100.0 | 803 | 100.0 | 692 | 100.0 |

③ Reasons for Voting Against Appointment of Directors and Auditors

| Reason | 2021 | | 2022 | | 2023 | |
|--|------------|--------------|------------|--------------|------------|--------------|
| | No. | Weight (%) | No. | Weight (%) | No. | Weight (%) |
| Long Service (10+ years) | 22 | 12.4 | 10 | 4.0 | 16 | 7.2 |
| Full-time Employee in the company, an affiliate or a company with a major stake within the recent five years | 45 | 25.3 | 71 | 28.3 | 43 | 19.5 |
| Poor Attendance on the Board (75% or below) | 15 | 8.4 | 13 | 5.2 | 41 | 18.6 |
| Excessive Dual Office Holding | 31 | 17.4 | 33 | 13.1 | 26 | 11.8 |
| Negligence on Duty of Oversight | 19 | 10.7 | 25 | 10.0 | 16 | 7.2 |
| Others | 46 | 25.8 | 99 | 39.4 | 79 | 35.7 |
| Total | 178 | 100.0 | 251 | 100.0 | 221 | 100.0 |

2. Global Equity

In 2023, NPS voted on a total of 577 agendas in 62 shareholder meetings for global equity holdings, including 418 FOR (72.44%), 159 AGAINST (27.56%) and 0 ABSTENTION/NON-VOTE (0.00%).

| Year | No. of Companies NPS invests in | No. of Shareholder Meetings | Voting Result | | |
|------|---------------------------------|-----------------------------|---------------|------------------|-------------------------------|
| | | | For (Weight) | Against (Weight) | Abstention /non-vote (Weight) |
| 2023 | 62 | 577 | 418 72.44% | 159 27.56% | 0 0.00% |
| 2022 | 46 | 376 | 265 70.48% | 111 29.52% | 0 0.00% |

3. Engagement Activities

NPS conducts shareholder engagement in investee companies on focus areas and unexpected concerns by sending confidential-open letters, and conducting confidential dialogues in accordance with applicable guidelines. In addition, companies having ESG controversial issues or under investigation by authorities are subject to NPS's shareholder engagement, such as sending confidential letters and conducting dialogues. Moreover, upon request of companies, NPS engages in shareholder activities including explanations of investment performance and agendas of shareholder meetings. In 2023, NPS undertook 297 shareholder engagement activities, including sending letters and conducting confidential dialogues, with 172 companies.

◆ Shareholder Engagement Activities

| Item | No. of Companies ⁴⁾ | | Letters Sent (Confidential-Open) | | Confidential Dialogues | | Total (Letters and Confidential Dialogues) | |
|-----------------------------------|--------------------------------|------------|----------------------------------|------------|------------------------|------------|--|------------|
| | 2022 | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 | 2023 |
| Dividend Policy | 38 | 33 | 47 | 38 | 25 | 13 | 72 | 51 |
| Remuneration Cap for Directors | 13 | 15 | 13 | 14 | 23 | 25 | 36 | 39 |
| Focus Areas | | | | | | | | |
| Violation of Laws and Regulations | 17 | 9 | 15 | 9 | 25 | 13 | 40 | 22 |
| Repetitive Vote Against | 11 | 13 | 12 | 14 | 23 | 17 | 35 | 31 |
| Climate Change ¹⁾ | - | - | - | - | - | - | - | - |
| Industrial Safety ²⁾ | - | - | - | - | - | - | - | - |
| Unexpected Concerns | 39 | 54 | 50 | 61 | 11 | 12 | 61 | 73 |
| Others ³⁾ | 21 | 48 | 0 | 1 | 28 | 80 | 28 | 81 |
| Total | 139 | 172 | 137 | 137 | 135 | 160 | 272 | 297 |

1) Newly added on Mar. 7, 2023

2) Newly added on Mar. 7, 2023

3) Including fact checks and explanations of agendas at shareholder meetings

4) Indicating the number of companies which NPS sent letters to and conducted confidential dialogues with

Disclaimer

This Responsible Investment & Governance report is published to support a better understanding of stewardship activities conducted by NPS. Please be aware that some information may differ depending on the search date, and additional verification may be required due to the lack of detailed explanations in this report. This report reflects matters related to stewardship activities approved by the National Pension Fund Management Committee. More details are available on the websites of the Ministry of Health and Welfare at www.mohw.go.kr or NPSIM at fund.nps.or.kr. The original annual report was drafted in Korean. This document is an English translation of the original. In case of any discrepancies between the English and the Korean text, the latter will prevail.



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