

2022 RESPONSIBLE INVESTMENT & GOVERNANCE REPORT

2022 NATIONAL PENSION FUND



RESPONSIBLE INVESTMENT
& GOVERNANCE REPORT



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2022 National Pension Fund
Responsible Investment
& Governance Report

I . Responsible Investment

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 forms: 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 altogether. Active Ownership includes the exercise of voting rights at shareholder meetings, as well as shareholder engagement, such as dialogues and shareholder proposals.

NPS Responsible Investment Scheme

PRI	Definition	Adoption 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 coal phase-out
③ Thematic	<ul style="list-style-type: none"> Pursue risk-adjusted returns and ESG outcomes altogether 	Not yet	-
2. Active Ownership			
④ Voting	<ul style="list-style-type: none"> Exercise voting rights at shareholder meetings 	Adopted	<ul style="list-style-type: none"> NPS votes on domestic and global equities
⑤ Engagement	<ul style="list-style-type: none"> 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 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 the domestic equity portfolio in relation to focus areas and unexpected concerns

2. Legal Basis

The legal grounds for responsible investment (RI) to incorporate 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 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 the fiduciary duty, particularly given ESG factors, to enhance the sustainability of assets under management

3. Responsible Investment Policies

NPS conducts responsible investment 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 considered non-financial factors, such as ESG, in accordance with standards, methods, and procedures set out in the Guideline for Stewardship Activities when managing and investing the Fund; has exercised shareholder rights to pursue independence and transparency.

Guideline for National Pension Fund Management

Article 17 (Responsible Investment)
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(1) Where the Fund is administered and managed by means of trading and lending of securities, environmental, social and governance (ESG) aspects may be integrated into investment decisions, in order to deliver long-term stable returns. The principles of responsible investment shall be prescribed by Exhibit 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, ‘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, process and procedure as stipulated in the Guideline for Stewardship Activities approved by the FMC.

Responsible Investment Principles	Responsible Investment & Governance Principles (Stewardship Code)
(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	(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)

PART 4 (Public Disclosure, Submission, etc): Notification and Public Disclosure, Public Disclosure and Submission, Responsible Investment & Governance Report, Internal Control, Record Keeping, Capacity Building, etc.

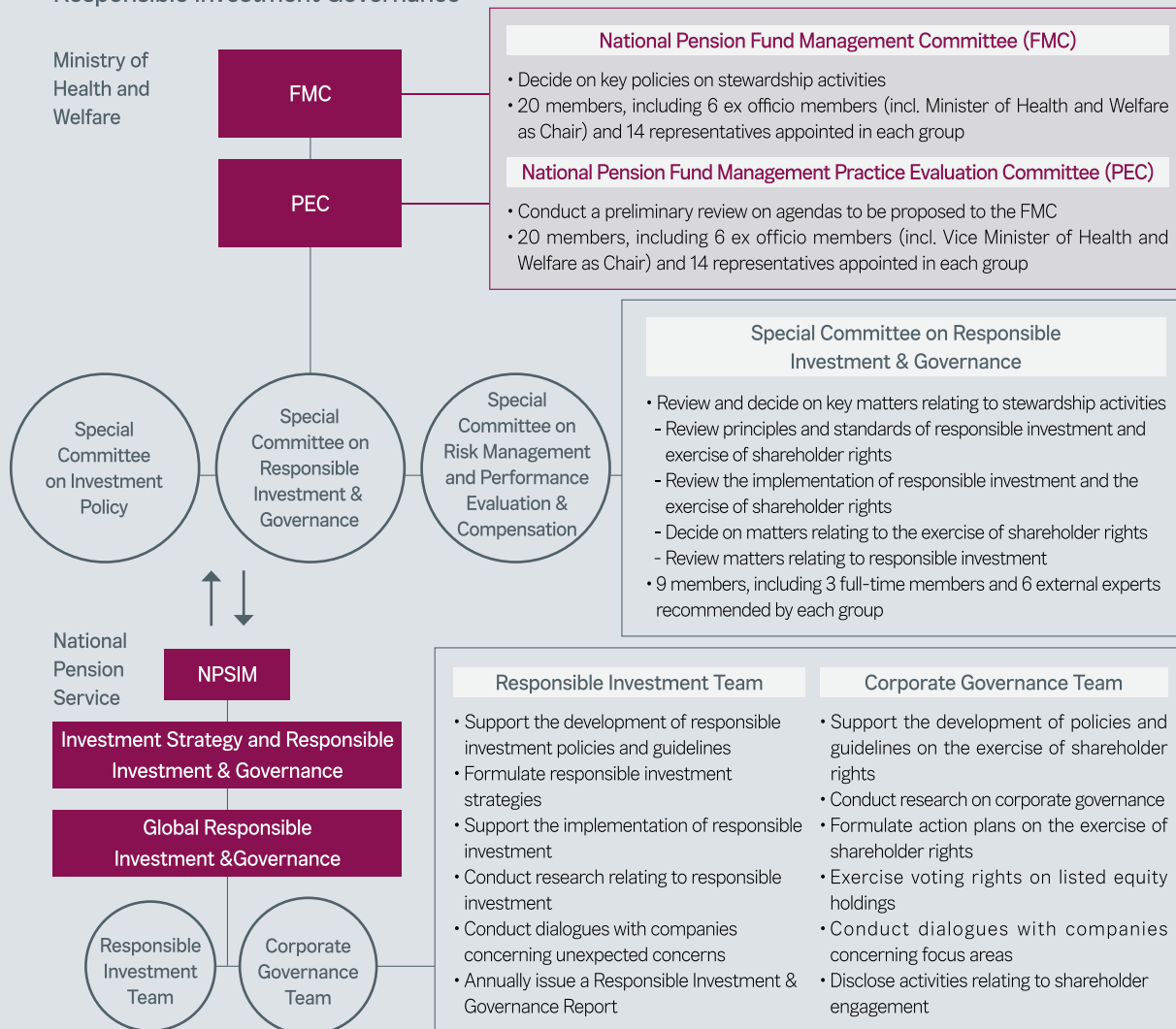
Exhibits: Voting Guidelines for Domestic Equity, Voting Guidelines for Global Equity, Voting Results, Focus Areas Selection Criteria

4. Responsible Investment Governance

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 16 members as of the end of 2022, consists of two teams: the 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 portfolio 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 corporate governance; exercises voting rights on listed companies; holds dialogues with companies concerning focus areas.

Responsible Investment Governance



FMC Meetings on Responsible Investment in 2022

Session	Date	Agenda
1 st	Feb. 25	Amendments to the Guideline for Stewardship Activities (Proposal)
		Interim Reporting of Commissioned Research on the Development of Range and Standards of Coal Mining and Coal-fired Power Industry <Confidential>
2 nd	Apr. 29	Review of Change in the Purpose of Holding Hanjin KAL Stocks
		Final Reporting of Commissioned Research on the Development of Range and Standards of Coal Mining and Coal-fired Power Industry <Confidential>
		Sub-Committee's Progress for Amendments to the Guideline for Stewardship Activities (Proposal) <Confidential>
5 th	Sept. 23	FMC Sub-Committee's Discussion Progress for Amendments to the Guideline for Stewardship Activities (Proposal) <Confidential>

Meetings of Special Committee on Responsible Investment & Governance in 2022

Session	Date	Agenda
1 st	Jan. 24	Selection of Companies Subject to Materiality Assessment on Unexpected Concerns (Proposal)
		Selection of Companies Subject to Confidential Dialogues on Unexpected Concerns (Proposal)
		Decision on Disclosure Scope of Voting Direction Prior to Shareholder Meetings (Proposal)
		Voting Criteria for Board Gender Diversity (Proposal)
		Voting Position on Agendas at Extraordinary General Meeting of POSCO (Proposal)
2 nd	Feb. 17	Amendments to Specific Voting Criteria for Domestic Equity on Labor Director System (Proposal)
		Selection of Companies Subject to Confidential Dialogues on Concerns over Violation of Laws and Regulations (Proposal)
		Selection of Companies Subject to Materiality Assessment on Unexpected Concerns (Proposal)
		Reporting on Voting Rights to be Exercised in Annual General Meetings in March
		Reporting on the Result of Periodic ESG Evaluation on Domestic Equity and Fixed Income in the Second Half of 2021
		Reporting on the Result of Periodic Monitoring on Stewardship Activities and Proxy Voting
3 rd	Mar. 2	Reporting on a Plan to Conduct Confidential Dialogues on Unexpected Concerns (Proposal)
		Selection of Companies Subject to Confidential Dialogues on Unexpected Concerns (Proposal)
		Early Exclusion of Companies Subject to Confidential Dialogues on Unexpected Concerns (Proposal)
		Criteria for Voting Direction on Matters Affecting Enterprise Value and Infringing on Shareholder Rights and Interests (Proposal)
4 th	Mar. 10	Improvement Measures to Provide Information including Voting Schedule for Domestic Equity (Proposal)
		Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Dividend Policies (Proposal)
		Improvement Status of Companies in Confidential Focus List and Selection of Public Focus List on Dividend Policies (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 Subject to Confidential Dialogues and Selection of Confidential Focus List on Repetitive Vote Against (Proposal)
5 th	Mar. 17	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)
		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 SK D&D (Proposal)
		Voting Position on Agendas at Annual General Meeting of HYOSUNG (Proposal)
		Voting Position on Agendas at Annual General Meeting of POSCO (Proposal)
		Voting Position on Agendas at Annual General Meeting of LG Chem (Proposal)
		Voting Position on Agendas at Annual General Meeting of Hanjin KAL (Proposal)
		Voting Position on Agendas at Annual General Meeting of Shinhan Financial Group (Proposal)
Voting Position on Agendas at Annual General Meeting of Hanwha Systems (Proposal)		
6 th	Mar. 24	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 Hana Financial Group (Proposal)

Session	Date	Agenda
6 th	Mar. 24	Voting Position on Agendas at Annual General Meeting of Woori Financial Group (Proposal)
		Voting Position on Agendas at Annual General Meeting of DGB Financial Group (Proposal)
		Voting Position on Agendas at Annual General Meeting of Korea Investment Holdings (Proposal)
		Voting Position on Agendas at Annual General Meeting of KCC Glass Corporation (Proposal)
		Voting Position on Agendas at Annual General Meeting of Netmarble (Proposal)
		Voting Position on Agendas at Annual General Meeting of Kakao (Proposal)
		Voting Position on Agendas at Annual General Meeting of Hankook & Company (Proposal)
		Voting Position on Agendas at Annual General Meeting of SK (Proposal)
		Voting Position on Agendas at Annual General Meeting of Kumho Petrochemical (Proposal)
		Voting Position on Agendas at Annual General Meeting of HDC Hyundai Development Company (Proposal)
		Voting Position on Agendas at Annual General Meeting of SK Innovation (Proposal)
		Voting Position on Agendas at Annual General Meeting of HDC Holdings (Proposal)
		Voting Position on Agendas at Annual General Meeting of Celltrion (Proposal)
		Voting Position on Agendas at Annual General Meeting of Dongkuk Holdings (Proposal)
7 th	Apr. 22	Review of Change in the Purpose of Holding Hanjin KAL Stocks (Proposal)
		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 and Review of Implementation of Active Ownership on Unexpected Concerns
8 th	May 30	Final Reporting of Commissioned Research on the Development of Range and Standards of Coal Mining and Coal-fired Power Industry
		Selection of Companies Subject to Confidential Dialogues on Concerns over Violation of Laws and Regulations (Proposal)
		Selection of Companies Subject to Materiality Assessment on Unexpected Concerns (Proposal)
9 th	June 23	Deliberation on Process of Filing Derivative Suits (Proposal)
		Reporting 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 Dividend Policies (Proposal)
		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)
10 th	July 8	Selection of Companies Subject to Confidential Dialogues on Repetitive Vote Against (Proposal)
		Reporting on a Plan to Conduct Confidential Dialogues on Unexpected Concerns (Proposal)
		Selection of Companies Subject to Confidential Dialogues on Dividend Policies (Proposal)
11 th	July 27	Selection of Companies Subject to Confidential Dialogues on Remuneration Cap for Directors (Proposal)
		Selection of Companies Subject to Confidential Dialogues on Unexpected Concerns (Proposal)
		Reporting on a Responsible Investment & Governance Report
12 th	Oct. 18	Selection of Companies Subject to Confidential Dialogues on Concerns over Violation of Laws and Regulations (Proposal)
		Selection of Companies Subject to Materiality Assessment on Unexpected Concerns (Proposal)
		Reporting on Voting Activities for Domestic Equity
13 th	Nov. 21	Reporting on the Result of Legal Advice on the Right to Determine Whether to File Derivative Suits
		Selection of Companies Subject to Confidential Dialogues on Unexpected Concerns (Proposal)
		Selection of Companies Subject to Materiality Assessment on Unexpected Concerns (Proposal)
		Ways to Apply Responsible Investment to Overseas Securities (Proposal)
14 th	Dec. 9	Reporting on the Result of Periodic Monitoring on Stewardship Activities and Proxy Voting
		Identification of Improvement Status of Companies in Confidential Focus List and Selection of Public Focus List on Violation of Laws and Regulations (Proposal)
		Identification of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Violation of Laws and Regulations (Proposal)
		Selection of Companies Subject to Confidential Dialogues on Violation of Laws and Regulations (Proposal)
		Selection of Companies Subject to Confidential Dialogues on Unexpected Concerns (Proposal)
14 th	Dec. 9	Reporting on Progress of Confidential Dialogues on Violation of Laws and Regulations
		Reporting on the Result of the first periodic ESG Evaluation on Domestic Equity and Fixed Income in 2022
		Interim Reporting on Confidential Dialogues on Unexpected Concerns
14 th	Dec. 9	Reporting on the Result of Periodic Monitoring of Stewardship Activities and Proxy Voting
		Reporting on the Result of Discussion at the FMC's Sub-Committee on Amendments to the Guideline for Stewardship Activities (Proposal)

5. Stewardship Activities Milestones

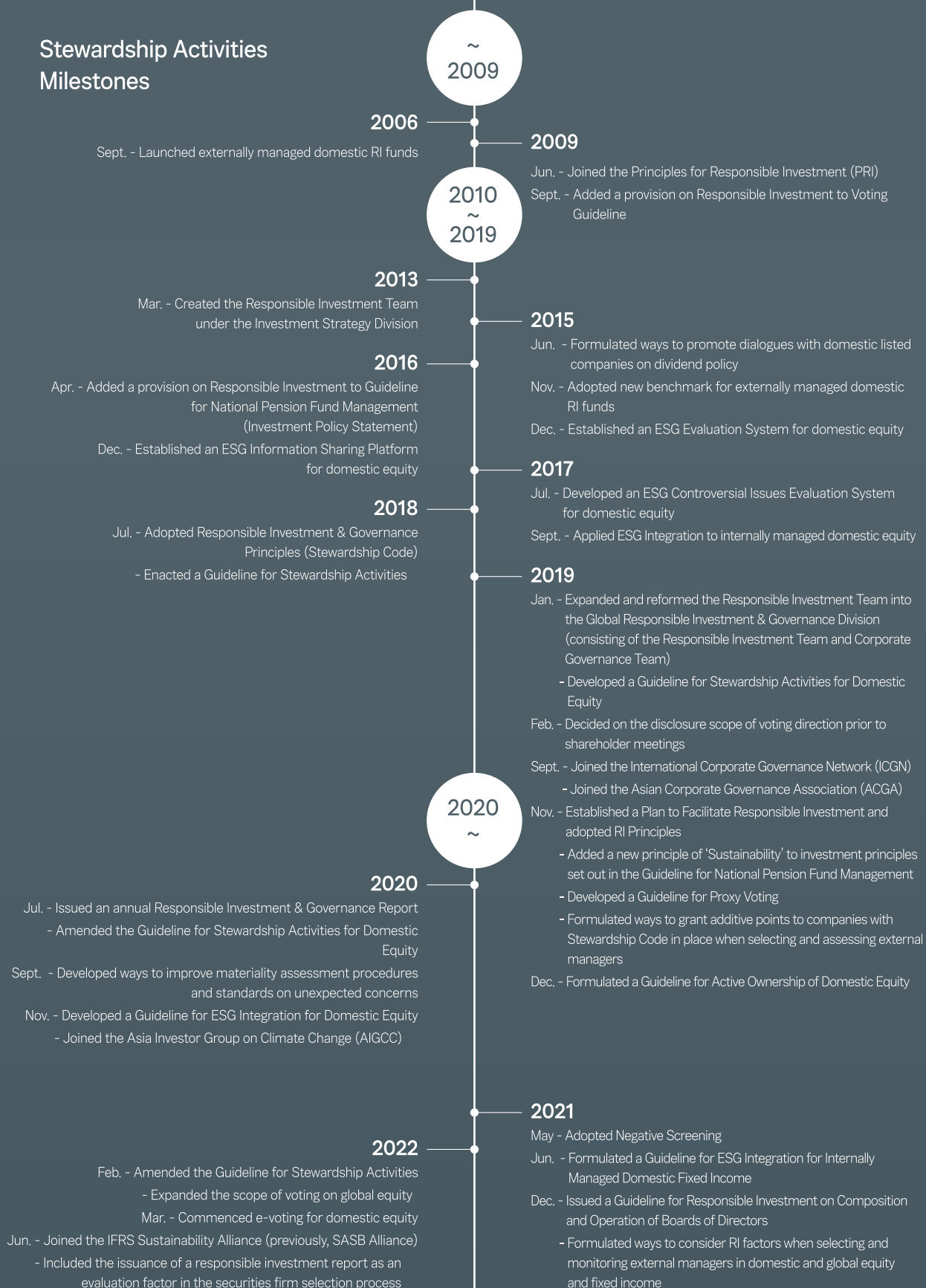
NPS began responsible investment (RI) with externally managed domestic RI funds in September 2006. Since then, NPS has been committed to taking part in a range of RI activities. In June 2009, NPS joined the Principles for Responsible Investment (PRI). In March 2013, the Responsible Investment Team was created under the Investment Strategy Division to bring together all the voting rights that had been exercised separately by domestic and global equity investment teams, thereby paving the way toward adopting stewardship activities. In 2015, ways to promote dialogues with domestic listed companies on dividend policies were developed. In December 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 considered in 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 into the Global Responsible Investment & Governance Division, consisting of the 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 asset classes in the portfolio. In December 2019, a Guideline for Active Ownership of 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 conducted by NPS in a transparent manner. In November 2020, a Guideline for ESG Integration for Domestic Equity was devised to apply ESG Integration to the internally managed domestic equity portfolio. 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 industries).

In June 2021, a Guideline for ESG Integration for Internally Managed Domestic Fixed Income was developed to apply ESG Integration 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 of responsible investment activities by sharing such information with investee companies, and to help them voluntarily run 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 equity (portfolio weight: 0.5% and above → 0.3% and above). In March, e-voting was first utilized for domestic equity. In June, NPS joined the IFRS Sustainability Alliance (previously SASB Alliance), and commenced checking whether a responsible investment report is issued when selecting securities firms. As such, NPS constantly has made endeavors to bolster responsible investment.

Stewardship Activities Milestones



II . Responsible Investing

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 equity assets in December 2015, NPS has formulated an internal ESG research framework and established related strategies, creating an environment to adopt ESG Integration which currently applies to internally managed domestic equity 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 an investment decision-making process for internally managed domestic equity 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 Periodic ESG Evaluation

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 Emissions and Energy Management System, Voluntary Climate Change Adoption, Carbon Emissions, Energy Consumption
	Environmental Impact Management	Environment Management System Certification, Environment Management Objective, Clean Production Management, Water Consumption, Air Pollution, 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, Human Rights, Labor Practices
	Industrial Safety	Health and Safety System, HSE Team, HSE Management System Certification, Designation of Workplace with Frequent Incidents
	Fair Trade	Counterpart 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 System Certification, Product Safety and Consumer Protection Accidents, Consumer Centered Management Certification, Consumer Dispute Settlement Channel
	Information Protection	Information Protection System, Information Protection System Certification, Information Leakage Incidents
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, Ratio of Auditor or Members 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, Non-Compliance with Internal Control and Compliance

Based on the commissioned research conducted in the second half of 2020 on both the improvement of an ESG evaluation system for domestic equity and the establishment of ESG evaluation system for domestic fixed income, NPS enhanced the ESG evaluation system for domestic equity and adopted an ESG evaluation system for domestic fixed income in 2021. The ESG evaluation system was further improved in 2022. ESG controversial issues, such as environmental pollution, industrial safety, and unfair transaction of subsidiaries, were added to the system to reflect them when determining ESG scores and rating of companies subject to ESG evaluation. Going forward, NPS will continue to improve and upgrade the ESG Evaluation System, including ESG indicators, in consideration of a range of internal and external circumstances.

As of the end of 2022, 954 domestic listed companies were evaluated and rated as follows:

2022 ESG Evaluation Result (Equity)

AA	A	BB	B	C	D	Total
94 (9.9%)	180 (18.9%)	201 (21.1%)	323 (33.9%)	149 (15.6%)	7 (0.7%)	954 (100.0%)

As for fixed income securities, 1,043 domestic listed companies, issuers of domestic corporate bonds, and listed companies that have issued non-corporate bonds were evaluated and rated as follows:

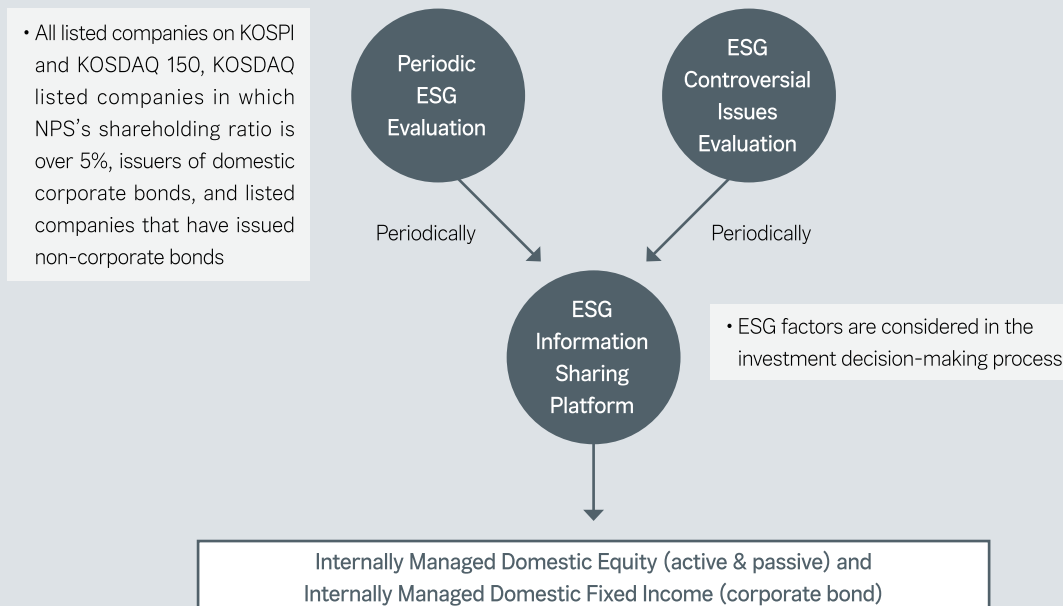
2022 ESG Evaluation Result (Fixed Income)

AA	A	BB	B	C	D	Total
109 (10.5%)	196 (18.8%)	233 (22.3%)	361 (34.6%)	139 (13.3%)	5 (0.5%)	1,043 (100.0%)

Following the evaluation, 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 so that such information can be considered, alongside financial factors, in the investment decision-making process.

② ESG Integration

ESG Evaluation & Internal Management ESG Integration Process



Since 2017, NPS has adopted ESG Integration to internally managed active domestic equity. In November 2020, the strategy was expanded to apply to internally managed passive domestic equity, and a Guideline for ESG Integration for Domestic Equity, which presents enhanced implementation measures, was established to apply ESG Integration to the entire internally managed domestic equity. In 2021, the Guideline for ESG Integration was amended to apply to internally managed domestic fixed income (corporate bond). According to the guideline, 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 the investment universe, securities placed under the lowest ESG rating are checked to identify whether they are included above their benchmarks¹⁾. 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 the investment universe or investing in new securities.

(2) External Management

NPS manages externally managed RI funds as one of the externally managed domestic equities. The funds follow an internally developed benchmark, the NPS-FnGuide Responsible Investment Index, designed to reflect the unique characteristics of externally managed RI funds. In selecting external managers for the RI funds, NPS takes into account a range of aspects such as expertise, ethics, investment strategies, investment process, and compliance with the Guideline for Investment in RI Funds. Once selected, external managers may conduct diverse responsible investment strategies. Since November 2020, NPS has required external managers managing RI funds to submit a responsible investment report, and such reports are harnessed as a way of monitoring external managers.

In addition, in December 2021, NPS devised ways to consider RI factors when selecting and monitoring external managers managing domestic and global equity and fixed income. Moreover, NPS has required all external managers managing domestic and global equity and fixed income, including external managers managing RI funds, to submit a responsible report, in a bid to encourage external managers to strengthen their responsible investment.

Responsible Investment by Asset Class

(in KRW trillion)

Asset Class		2020	2021	2022
Domestic Equity	Internal Management	93.4	84.3	62.0
	External Management	8.0*	7.7*	63.4
Domestic Fixed Income	Internal Management (corporate bond)	-	38.2	37.7
	External Management	-	-	45.6
Global Equity	External Management	-	-	142.6
Global Equity	External Management	-	-	32.8
Total Amount of Responsible Investment		101.4 (12.2%)	130.2 (13.7%)	384.1 (43.2%)
AUM		833.1	948.1	899.8

* The amount of externally managed domestic equity in 2020 and 2021 refers to the amount of externally managed domestic RI funds, while the amount of externally managed domestic equity in 2022 includes all externally managed responsible investments, including externally managed domestic RI funds.

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

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

2. Negative Screening

In November 2019 when the FMC formulated a 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 decided 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 coal mining and coal-fired power industry as part of efforts to combat climate change, and decided to prepare an action plan through commissioned research.

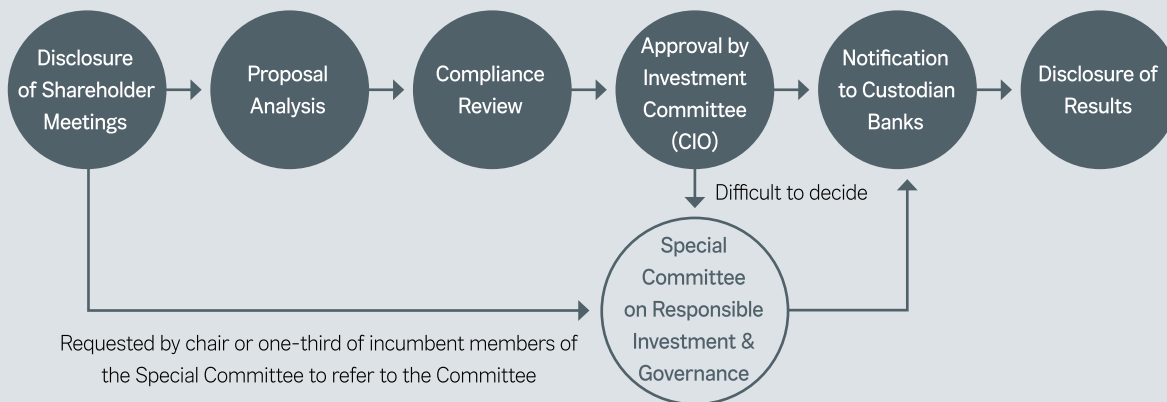
In December 2021, in line with the decisions made by the FMC, NPS commissioned research to analyze the application scope, standards, and selection method of the target industry as a preparation process for the adoption of negative screening. In April 2022, the results of the commissioned research were reported to the FMC. NPS has constantly supported the development of a step-by-step action plan, including the scope and standards of the target industry, selection method of target companies, and implementation timing by asset class and geography, by gathering opinions from various stakeholders based on the research results.

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 which 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 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 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.

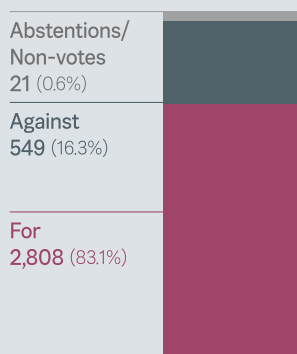
(2) Disclosure and Status

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 2022, NPS disclosed 83 shareholder meetings prior to the meetings.

In 2022, NPS exercised voting rights on 3,439 agendas in 825 shareholder meetings for domestic equities.

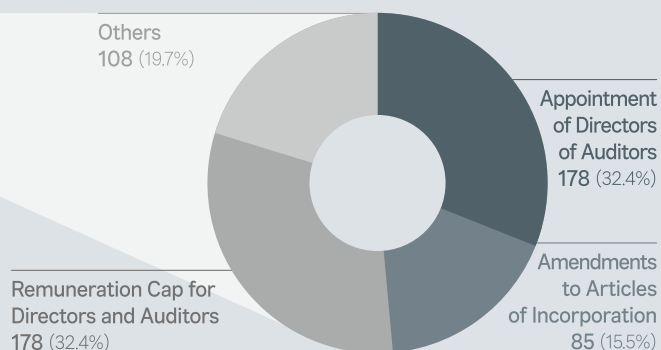
Voting Results in 2021

3,378 in total in 2021



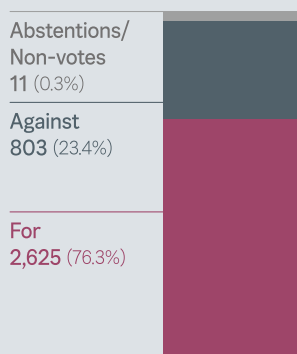
Reasons for Voting Against in 2021

549 in total in 2021



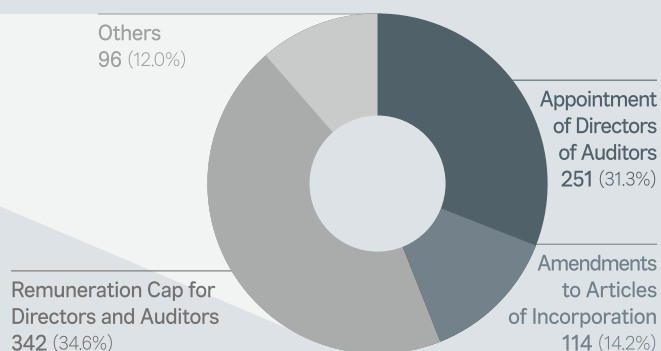
Voting Results in 2022

3,439 in total in 2022



Reasons for Voting Against in 2022

803 in total in 2022



Voting Activities in 2022



① Approval of Financial Statement

Regarding an agenda to approve the financial statement of Company A which did not pay out dividends, NPS voted **For** given that the company publicly discloses its dividend policy, etc. (it plans to implement the dividend policy at a time when revenues, including free cash flow, become stable as it is currently going through intensive investment.)

Regarding an agenda to approve the financial statement of Company B which paid out dividends in excess of net profits for the recent three years, NPS voted **For** given that the company had paid out dividends according to its disclosed dividend policy, as well as it is one-off loss and related to impairment loss.

Regarding an agenda to approve the financial statement of Company C where the BOD proposal was conflicting with shareholder proposal, NPS voted **For** the BOD proposal in consideration of the dividend policy disclosed by the company, dividend payout status in the past, its financial status, comparison with peer firms in the same industry, etc.



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 16 companies including the company; an outside director in Company E, who was a full-time employee in the company within the recent five years; a full-time employee in Company F, who was employed in a corporation that has a major stake in the Company F within the recent five years; an outside director in Company G, who represented an affiliate of the company in lawsuit; an Auditor candidate in Company H, who is a relative of the largest shareholder.

In addition, NPS voted **Against** the appointments of an inside director in Company I which was given legal sanction from the Fair Trade Commission due to illegal assistance and undue benefits, and an inside director in Company J which was given legal sanction from the Commission due to cartel, as the person was considered to have impaired enterprise value and infringed on shareholder rights and interests; and an outside director in Company K which was given legal sanction on mis-selling of financial products, as the person was 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 **For** the appointments to Articles of Incorporation of Company L, that newly add the company's obligations such as compliance with laws and regulations relating to sustainability management, safety management, and construction, establish the HSE Committee within BOD, and disclose sustainability management.



④ Approval for Remuneration Cap for Directors

NPS voted **Against** remuneration cap for directors in Company M as it was observed, after reviewing information on remuneration, that the amount of remuneration and business performance were not aligned, and the company did not provide its opinion on the matter. Meanwhile, NPS voted **For** remuneration cap for directors in Company N as it was observed that the amount of remuneration and business performance seemed to be aligned based on submitted information including severance pay.

4. Shareholder Engagement

NPS has adopted the Responsible Investment & Governance Principles, or Stewardship Code, to fulfill its fiduciary duty to improve the 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 address remuneration cap for directors and violation of laws and regulations, and shareholder rights have been conducted in accordance with standards and procedures of 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 KAL³⁾ in February 2019.

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.

(1) Shareholder Engagement in Focus Areas

With the aim of achieving long-term and stable returns, NPS has focus areas⁴⁾ and conducts shareholder engagement. Focus areas include a dividend policy, remuneration cap for directors, violation of laws and regulations, repetitive vote against, and ESG rating downgrade.

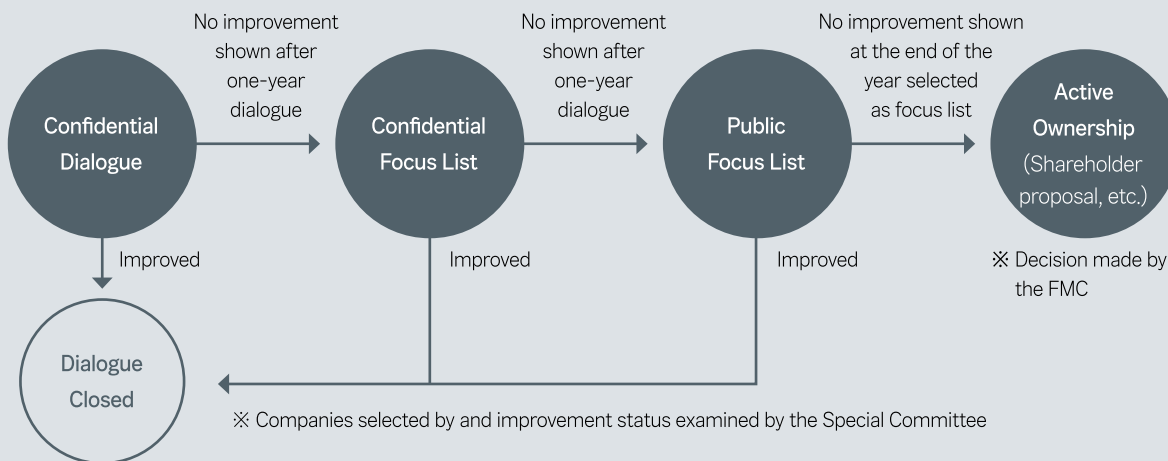
Shareholder engagement in focus areas is undertaken in stages according to the Guideline for Stewardship Activities for Domestic Equity, including a selection of focus list, confidential dialogue, selection of confidential focus list, selection of public focus list, and shareholder proposal. If a company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

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

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

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.

Shareholder Engagement Process on Focus Areas



Selection Criteria of Companies Subject to Focus Area

Dividend Policy	In case a company lacks a reasonable dividend policy or has not paid out dividend 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 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 shows no improvement despite NPS's repetitive votes against at shareholder meetings
ESG Rating Downgrade	In case a company's ESG rating is downgraded by more than two ratings to below Grade C

① Dividend Policy

NPS selects companies subject to confidential dialogues from among companies that have not established nor disclosed a reasonable dividend policy, or have not paid out dividend. In 2022, NPS sent letters to and conducted dialogues with 38 companies on dividend policies. By forming an amicable communication channel, NPS encouraged such 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 their 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 O and Company P, including their BOD and management, to explain the process and purpose of NPS's shareholder engagement in relation to a dividend policy. Prior to the dialogues, the companies did not have a dividend policy in place, but through the confidential dialogues, they deeply understood the necessity and purpose of establishing the dividend policy. As a result, the companies publicly disclose their dividend policy including dividend payout calculation criteria. Company O began considering the establishment of an investment plan to an extent that maintains net debt at 50%~100% level of EBIT, as well as returning 30% of net profits to shareholders. Company P began paying out dividends every six months and maintaining a dividend payout ratio at the level of 10% and above. As such, the disclosure of a dividend policy has helped investors understand the companies' decision-making criteria on dividends and enhance 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, from among companies that NPS voted against at recent shareholder meetings with a reason of excessive actual remuneration at odds with business performance. In 2022, NPS sent letters to and conducted dialogues with 13 companies. NPS formed an amicable communication channel with such companies and encouraged them to develop action plans that help enhance shareholder value. As a result, the companies voluntarily made progress in their remuneration cap policies, including establishing a Remuneration Committee and adjusting their remuneration cap.

NPS conducted confidential dialogues with representatives of companies, including their BOD and management, to discuss △ the process and purpose of NPS's shareholder engagement in relation to remuneration cap for directors, △ concerns over addressing such agendas at shareholder meetings as a mere formality, and △ the linkage between business performance and actual remuneration provided to inside directors, when the gap between remuneration cap and actual remuneration is large. After the confidential dialogues, they deeply understood the purpose of having the confidential dialogues and investors' concerns. As a result, the BOD of Company Q has established its Remuneration Committee, reformed the remuneration system for inside directors, developed a detailed variable pay system considering the characteristics of the industry and in line with performance, and narrowed the gap between actual remuneration and remuneration cap by setting a remuneration cap considering expected remuneration. Company R has enhanced the transparency of its remuneration system by disclosing remuneration cap for stock-based compensation, given that the existing disclosure of remuneration cap for directors, which was paid in cash, did not provide a full explanation of long-term incentives to shareholders in the process of the adoption of the restricted stock unit as part of long-term incentives.

③ Violation of Laws and Regulations

NPS selects companies subject to confidential dialogues from among companies which 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 2022, NPS sent letters to and conducted dialogues with 17 companies. NPS formed an amicable communication channel with such companies and encouraged them to develop action plans that help enhance shareholder value.

NPS selects companies subject to confidential dialogues on concerns over violation of laws and regulations on a quarterly basis, and conducts confidential dialogues even on unresolved issues in the past such as issues whose ruling is not finalized by the Supreme Court. In 2022, NPS conducted confidential dialogues with representatives of Company S, 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, Company S deeply understood the necessity to actively respond to such cases by improving its internal compliance system to prevent the recurrence of similar cases. As a result, the company has developed ways to manage risks and improve its compliance system, and formulated a plan to claim against damage based on the liability ratio decided by the court and in accordance with internal regulations once the punishment of executives is confirmed.

In addition, NPS conducted confidential dialogues with Company T which was found to be sanctioned by the Fair Trade Commission due to illegal assistance, and afterwards, the BOD of the company established measures to prevent recurrence of similar cases across the company by amending its guideline for affiliates and streamlining internal control activities.

④ Repetitive Vote Against

NPS selects companies subject to confidential dialogues in consideration of the number of voting against, room for improvement, and portfolio weight, from among companies which 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 2022, 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 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 with representatives of Company U and V, 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 in relation to repeatedly voting against. As a result, Company U, which received repeated voting against due to having a full-time employee of a company with a major stake in Company U within the recent five years, has added a new provision 'review of the independence of outside directors' to the regulations of its Committee under its BOD. Company V, which received repeated voting against due to negligence on the duty of oversight, has made improvement by establishing measures to prevent recurrence and enhancing internal control.

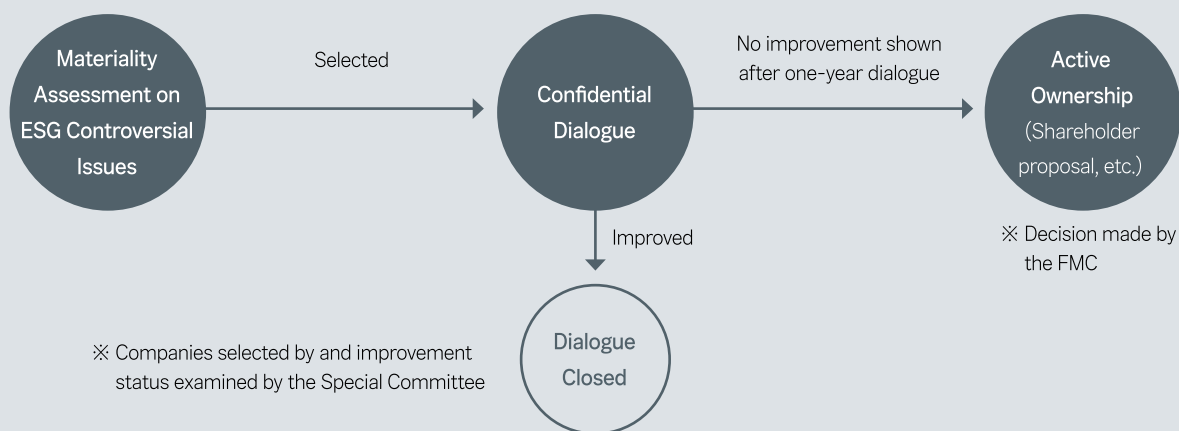
⑤ ESG Rating Downgrade

NPS selects companies subject to confidential dialogues based on a qualitative assessment on the reasons for ESG rating downgrading and NPS's asset exposures, from among domestic listed companies whose ranking dropped by more than two ratings to Rating C or D compared to the previous ESG evaluation. In 2022, no companies had such results.

(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, and making shareholder proposals. If no improvement is made despite a series of shareholder engagements, it is linked with voting on the appointment of directors and auditors at shareholder meeting. 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



In 2022, NPS sent 48 letters to and conducted materiality assessments on companies with ESG controversial issues, including investigations by authorities, violation of environmental laws, and casualties occurring at workplace. NPS sent letters to and conducted dialogues with three companies to form an amicable communication channel and encourage them 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, including the BOD and management, of Company W 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 has made progress in relation to safety, including improving work process and equipment to prevent recurrence, discussing safety issues on a regular basis at BOD by establishing the 'safety first' management principle, strengthening governance and organization relating to safety, establishing safety systems and programs, expanding safety manpower and education, disclosing more information, etc.

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 involvement in management affairs, but on enhancing shareholder and enterprise value by helping 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

	Description
Target Company	<ul style="list-style-type: none"> Companies that show no improvement, from among companies in public focus list and companies subject to confidential dialogues on unexpected concerns
Engagement Standards	<ul style="list-style-type: none"> Case-by-case 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	<ul style="list-style-type: none"> 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 meet 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 for Responsible Investment

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 joined 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. As of March 2022, the PRI has 4,902 signatories with total assets under management of around KRW 162,445 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 111 members from 19 countries as of 2022.

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 2022, the AIGCC has 69 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. ESG Investing

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

(1) Expand RI Coverage in Portfolio

NPS has applied ESG Integration to internally managed domestic equity and internally managed domestic fixed income (corporate bond), and seeks to apply it to global equity and fixed income going forward. In 2022, ways to apply ESG Integration to global equity and fixed income were formulated based on the results of commissioned research conducted in 2021 and discussion with investment departments, and the ways were reported to the Special Committee on Responsible Investment & Governance. According to the measures, NPS will apply ESG Integration to global equity and fixed income by amending the Guideline for ESG Integration.

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

The National Pension Fund Management Committee (FMC) has announced coal phase-out 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 emissions worldwide, including carbon border tax. Following this, the FMC further declared that it would 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, a step-by-step action plan will be formulated based on the results of the commissioned research and opinions from diverse stakeholders, and NPS will implement the action plan according to decisions made by the FMC.

(3) Create Foundation to Promote Responsible Investment

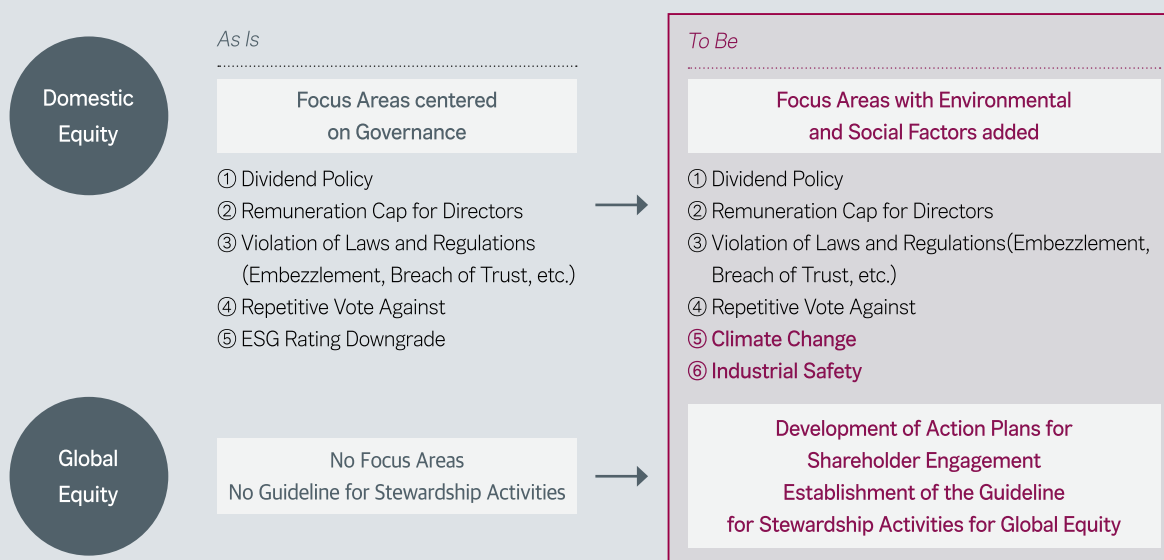
NPS will continue to improve its ESG Evaluation System and review ways to consider ESG-related information for the purpose of maximizing returns in a long-term and stable manner. In addition, as part of efforts to enhance capacity and expertise in responsible investment, NPS has dispatched a professional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

2. Exercise of Shareholder Rights

The 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 asset classes subject to shareholder engagement, such as dialogue, to global equity in line with the Plan to Facilitate Responsible Investment. NPS will implement the decisions 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 related standards for derivative suit.

(1) Expand the Scope of Shareholder Engagement

The FMC has decided to expand the scope of shareholder engagement when developing the Plan to Facilitate Responsible Investment. Accordingly, NPS announced that it would expand shareholder engagement activities for domestic equity and begin conducting shareholder engagement for global equity. To this end, for domestic equity, ways to add climate change and industrial safety to focus areas were reviewed through commissioned research, in a bid to expand the scope of stewardship activities from the current focus on governance to include environmental and social aspects. Based on the results of the commissioned research, climate change and industrial safety are added to focus areas, and a detailed action plan will be developed to conduct shareholder engagement going forward. For global equity, commissioned research was conducted to benchmark the best practices of global leading peers, and based on the research results, ways to implement shareholder engagement considering regulatory policies in each country and the characteristics of each industry will be developed.



(2) Initiate Litigation

In July 2018 when adopting the Responsible Investment & Governance Principles, or Stewardship Code, NPS established the criteria and grounds to file a derivative suit and damage claim suit, in a bid to contribute to increasing shareholder value over the long-term horizon. Currently, NPS is working on the development of standards to file a derivative suit, which include detailed implementation measures.

Going forward, NPS will review cases subject to a derivative suit by comprehensively considering 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.

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

Since July 2018 when the 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 Stewardship Activities and relevant guidelines, and exercised voting rights using an internal system and electronic ballot system. Going forward, NPS will faithfully exercise voting and shareholder rights in accordance with the Guideline for Stewardship Activities and relevant guidelines, and constantly review the necessity of amendments to and improvements in such guidelines.

V . Stewardship Activities Statistics

1. Voting Activities in Domestic Equity

In 2022, NPS voted on a total of 3,439 agendas in 825 shareholder meetings for domestic equity holdings, including 2,625 For (76.33%), 803 Against (23.35%) and 11 Abstention/non-vote (0.32%). The reasons behind 803 votes Against included the appointment of directors and auditors (251, 31.3%), amendments to articles of incorporation (114, 14.2%), remuneration cap for directors (342, 42.6%), and others (96, 12.0%).

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)
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%)
2020	1,033	854	3,397	2,854 (84.02%)	535 (15.75%)	8 (0.24%)

② Reasons for Voting Against

Reason	2020		2021		2022	
	Number	Weight (%)	Number	Weight (%)	Number	Weight (%)
Appointment of Directors and Auditors	245	45.8	178	32.4	251	31.3
Amendments to Articles of Incorporation	37	6.9	85	15.5	114	14.2
Remuneration Cap for Directors	155	29.0	178	32.4	342	42.6
Others	98	18.3	108	19.7	96	12.0
Total	535	100.0	549	100.0	803	100.0

③ Reasons for Voting Against Appointment of Directors and Auditors

Reason	2020		2021		2022	
	Number	Weight (%)	Number	Weight (%)	Number	Weight (%)
Long Service (10+ years)	33	13.5	22	12.4	10	4.0
Full-time Employee in the company, affiliate or a company with a major stake within the recent five years	77	31.4	45	25.3	71	28.3
Poor Attendance on the Board (75% or below)	24	9.8	15	8.4	13	5.2
Excessive Dual Office Holding	43	17.6	31	17.4	33	13.1
Negligence on Duty of Oversight	10	4.1	19	10.7	25	10.0
Others	58	23.7	46	25.8	99	39.4
Total	245	100.0	178	100.0	251	100.0

2. Shareholder 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-related 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 2022, NPS undertook 272 shareholder engagement activities with 139 companies, including sending letters and conducting confidential dialogues.

Shareholder Engagement Activities

Item	No. of Companies ²⁾		Letters Sent (Confidential-Open)		Confidential Dialogues		Total (Letters and Confidential Dialogues)	
	2021	2022	2021	2022	2021	2022	2021	2022
Dividend Policy	30	38	41	47	20	25	61	72
Remuneration Cap for Directors	12	13	12	13	29	23	41	36
Violation of Laws and Regulations	26	17	36	15	39	25	75	40
Repetitive Vote Against	11	11	11	12	16	23	27	35
ESG Rating Downgrade	1	0	1	0	5	0	6	0
Unexpected Concerns	26	39	31	50	7	11	38	61
Others ¹⁾	52	21	45	0	20	28	65	28
Total	158	139	177	137	136	135	313	272

Notes:

1) Others include fact checks and explanations of agendas at shareholder meetings.

2) It indicates the number of companies which NPS sent letters to and conducted confidential dialogues with.



