

# **ANDA Asset Management Proxy Voting and Engagements**

## **Value Strategy**

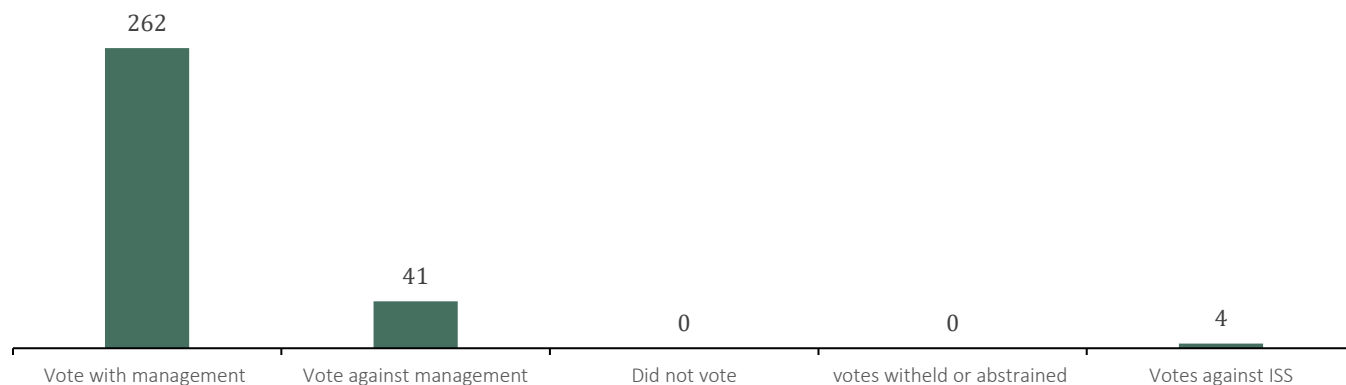
**Monitoring and taking action on  
environmental, social and governance factors**

## **February 2023**

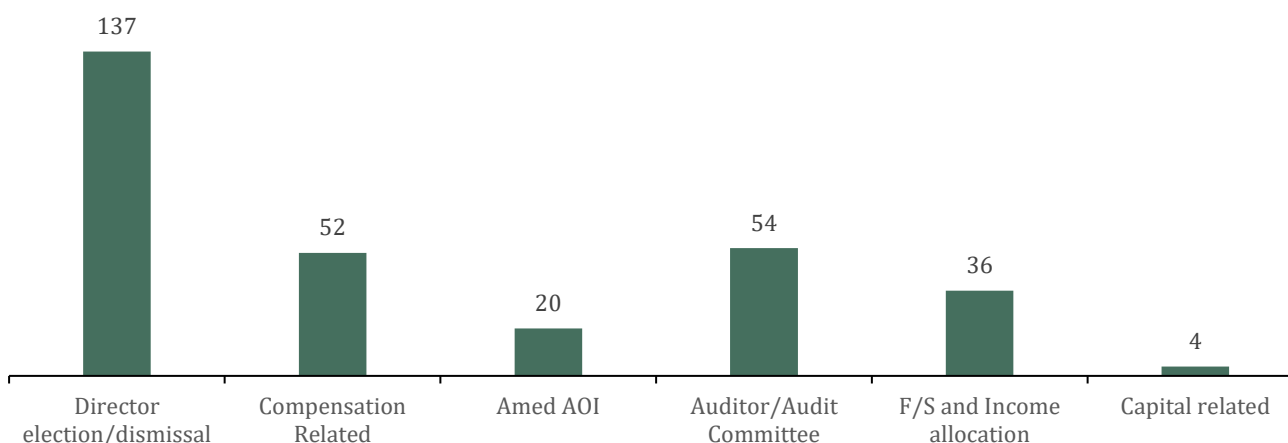
# Proxy Voting Summary in 2022<sup>1</sup>

Total meetings available	= 39
Number of agendas	= 303
Meetings instructed	= 303
Did not vote	= 0

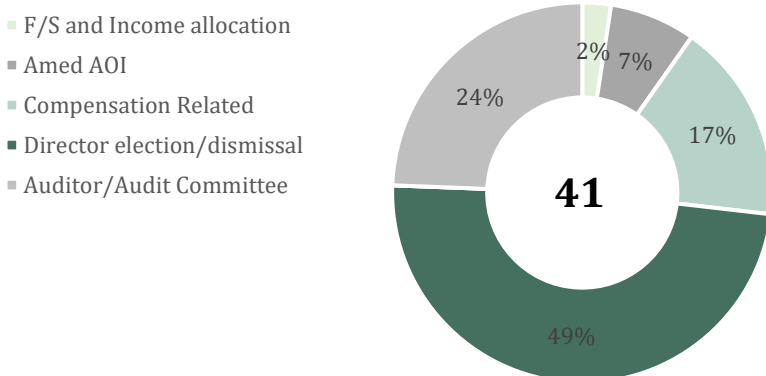
## Vote Instructions



## Shareholder Proposed Resolutions by Agenda Item



## Votes Against Management Proposal by Subject



<sup>1</sup> Excludes votes cast at extraordinary shareholder meetings.

\* Source: ISS, ANDA Asset Management - Internal Estimates

\* Data as of December 31, 2022

## Commentary on voting against management

There were **41 votes** against management in 2022. Four votes against management were not in line with ISS recommendations. All these votes were related to the AGM of SK Chemicals, a company ANDA has been constructively engaging with since 2021.

- We voted against the approval of the allocation of income as SK Chemicals payout ratio of 19 percent is significantly lower other major listed companies in Korea.
- We voted against reappointment Gwanghyeon Jeon as an inside director. Mr. Jeon has a concurrent position as a director of SK Bioscience. Thus, a conflict of interest is likely to occur once SK Chemicals divests part of its stake in SK Bioscience.
- We voted against the appointment of Jaehyun Ahn as a non-standing director of SK Chemicals because he will be appointed as a chief executive officer of SK Discovery, the parent company of SK Chemicals. The board of directors of SK Chemicals consists of 2 inside directors and 4 outside directors, so there is no reason to appoint another non-standing director from its parent company. It seemed that SK Chemicals intends to block an opportunity for a candidate supported by minority shareholders to participate in the board of directors, by appointing Jaehyun Ahn as non-standing director.
- We voted against the total remuneration of Directors as the remuneration cap is exceedingly high relative to the market average and given the poor share price performance and low payout ratio.

## Executive Summary

During the 2022 proxy season, we saw increased shareholder activism and progress on governance reforms in Korea. The unstable market conditions raised investors expectations for companies on a range of ESG issues, including climate change, diversity and capital mismanagement. These investor expectations influenced the outcome of director elections and shareholder proposals. For the first time, some director elections received significant shareholder dissent due to lack of climate related policies or disclosure. The number of shareholder proposals increased by 10 percent compared to 2021 and we witnessed higher voting dissent than in previous years.

We have also seen positive regulatory developments this year. Ahead of the gender diversity law, which became fully enforced in August 2022, a notable number of companies appointed female directors. Most large Korean companies now have at least one female board member. We also observed one case where the three percent rule limiting major shareholder voting power worked as intended, empowering minority shareholders in their support of a shareholder proposal.

Despite the government's continuous efforts to disperse the meeting concentration, the majority of companies continued to hold their meetings in the last five working days of March. Nevertheless, increasing minority shareholder activism and regulatory changes to strengthen minority shareholder rights are encouraging signs of the improving corporate governance landscape in Korea.

## 2022 Corporate Governance & Board Dynamics

### Gender Diversity

The Capital Markets Act was amended in 2019 to require all large-size companies with assets of KRW 2 trillion or greater to consist of more than one gender among board members. Even though the new gender law was not effective during the 2022 proxy season, we saw the representation of female directors increase substantially. At large companies, 43 percent of new outside director candidates this year, were female. The majority of whom came from academic and legal backgrounds. There are a total of 380 female directors of Korean companies under coverage by Glass Lewis, of which 116 were newly appointed last year. While the increase in the number of female directors is encouraging, Korea remains one of the least gender diverse boards in the world.

### Executive Compensation

Companies are encountering increasing dissent amongst shareholders on remuneration. The average percentage of opposition votes on approval of remuneration cap has increased from 1.3 percent in 2010 to 8.4 percent last year. The remuneration cap on directors has been among the most opposed proposals, following the election of directors and allocation of income over the past three years.

While investors have targeted excessive pay to chaebol executives, the scope has expanded in recent years to compensation practices of technology and high growth companies. In this proxy season, following a substantial decline in share prices and governance issues, the CEOs of Celltrion and Kakaopay vowed to receive no compensation until their respective share prices recovered. In the past, zero compensation was generally reserved for only directors sentenced to imprisonment.

## **Election of Audit Committee**

Under the current regulations, when voting to elect audit committee members and internal auditors, shareholders who own more than three percent of a company's voting rights are not entitled to voting rights of greater than three percent (3% rule). From 2021, companies are legally required to separately nominate at least one independent director who also serve as an audit committee member from the usual director nomination process. In 2022, some activist funds submitted shareholder proposals to leverage the 3% rule through the submission of dissident nominated audit committee candidates. The changed requirement impacted the voting result of some contentious meetings, most notably SM Entertainment.

While the 3 percent limitation on the voting of major shareholders for the appointment of audit committee members, protects the rights of minority shareholders it creates a risk that proposals may be rejected for lack of quorum. In 2022, a total of 52 companies had proposals rejected for lack of quorum, most of which were proposals for the appointment of audit committee members.

## **Shareholder Proposals and Activism**

Since the implementation of the Stewardship Code in 2019, a growing number of minority shareholders have expressed opposition to board activities that have questionable benefits for minority shareholders. In 2022, shareholder proposals increased by ten percent. The most common type of shareholder proposal was related to the election of directors, audit committee members and internal auditors, followed by amendments to the articles, income allocation and directors' compensation. Also a first of its kind E&S related shareholder proposal was submitted at Hyundai Development Company by APG Asset Management, requesting the company include an article introducing advisory shareholder proposals related to ESG issues in the company's articles of incorporation. Five shareholder proposals gained majority support in 2022.

Meanwhile, the National Pension Service and some institutional investors continued to exercise opposition votes on directors with governance concerns. Mostly these were family members of prominent chaebol groups whom want to secure board seats as part of the family succession, despite their past misconduct.

# 2022 Key AGM Meetings

## SM Entertainment

- *Proposal 3.02 Shareholder Proposal Election of GWAK Jun Ho as Corporate Auditor - **Approved***

SM is known as a pioneer in the K-pop industry and ranked first in album sales in Korea in 2021. However, in February 2022, SM's market capitalization was less than one-sixth of HYBE, the second ranked company in the industry. This is due to SM's long-standing poor corporate governance practices and lack of board accountability to shareholders. Align Partners, which owns 0.21 percent of SM, raised concerns that excessive royalty payments to Like Planning ("LP" (a related party advisor wholly-owned by the founder of SM)), impaired SM's revenue and led to its low valuation. Align pointed out that SM paid KRW 142.7 billion to LP over the past 22 years, while it has never paid any dividends to its shareholders. In March 2022, Align submitted a shareholder proposal nominating internal auditor Gwak Jun Ho as corporate auditor of SM. SM has been criticized in the past by investors for unfairly favoring the interests of the founder. While shareholders have repeatedly raised concerns over SM's checks and balance function and independence of the board, the company never addressed such concerns. Align emphasized the need for SM to have an independent corporate auditor, who has no conflict of interest with SM to protect shareholder value. SM held several campaigns, including a non-deal road show to promote their candidate for corporate auditor. Ultimately, the dissident proposed nominee gained sufficient support from shareholders.

Subsequently, the company terminated the production contract with LP which should significantly boost earnings from 2023. The company also announced it will work with Align to restructure. In early 2023, the company announced 12-steps to improve governance and create shareholder value, including appointing CEO of Align Partners as an independent director, paying out at least 20 percent of its parent-based net income through 2024 and adopting a multi-producing system, so it will no longer rely solely on LP.

## Hyundai Development Company

- *Proposal 4.02 – Shareholder proposal adoption of advisory vote system - **Rejected***
- *Proposal 4.03 – Mgmt proposal establishment of safety and health committee - **Approved***
- *Proposal 4.04 – Mgmt proposal disclosure of sustainability management - **Approved***

Hyundai Development Company ("HDC")'s building safety issues became serious after the fatal collapse of its Gwangju construction project in January 2022, which killed or injured 14 people. Some civic organizations claim that the lack of safety policy and the board's risk oversight led to the collapse in January as the company continued the construction despite a similar collapse in 2021. These incidents led many to question industrial safety standards in Korea and significantly damaged the corporate value of HDC.

On February 8, 2022, HDC announced APG Group submitted shareholder proposals to amend the company's articles of incorporation to include preventive measures of such incidents in the future. In response to the shareholder proposals on March 4, HDC announced the board resolved to endorse the proposals regarding the establishment of a health and safety committee as well as sustainability management disclosure and put them forth as management proposals for 2022 AGM. HDC's board decide to oppose APG's request for the company to include advisory shareholder votes related to ESG issues given the lack of any legal provisions for advisory vote system in Korea.

The market reacted positive to APG Group's shareholder proposals as well as HDC's decision to accept two of the three shareholder proposals. This meeting demonstrated that when a company faces serious ESG management issues, shareholders are likely to no longer remain silent.

# Engagements

## Overview

ANDA defines engagement as direct conversations with companies which include seeking positive change in corporate behavior, challenging corporate practices, requesting improved ESG disclosure, and monitoring and providing feedback on corporate ESG strategy. Company participants range from board level management to subject matter experts from the company.

As an active manager with direct access to company management and boards of directors, we believe engagement is often our most productive means to effectuate change at our portfolio companies and serve our clients' long-term interests. The purpose of engagement is wide ranging and includes the following methods:

- Developing constructive relationships with company counterparts
- Addressing issues outside the scope of analysts' ongoing due diligence meetings
- Collecting specific information on an ESG topic
- Understanding the pace of change within a company in addressing concerns
- Discussing an upcoming vote
- Adding to the overall view of a company

## Engagement themes

Environment	Social	Governance
Climate change Environmental strategy Pollution and waste management Water	Customer-supplier relationship Labor relations & Human resources Product responsibility Local communities	ESG strategy Board structure Executive remuneration Shareholder protection and rights Succession planning

In certain circumstances, our investment team may take a more targeted and focused approach, especially in relation to our engagement priorities. Typically, an engagement will be escalated through additional meetings with the management and/or a dialogue with the board of directors. Where these engagements do not progress to our satisfaction or if our ownership level is insufficient for an effective escalation on a standalone basis, other options are considered, including, but not limited to:

- Voting against management resolutions;
- Collaborating with other institutional investors to engage management or submit shareholder proposals; and/or
- Selling part or all of our investment.

## 2022 Direct Engagements

Our research team continues to engage with companies to address critical issues. In 2022 these included dialogues on ESG disclosure, setting greenhouse emission targets and decarbonization, capital mismanagement, and improving board/employee diversity, among many other important issues (collectively our “2022 Priorities”). As an input in our research process we incorporate the responsiveness of a company’s management to our feedback on ESG, which provides our investment team with insight on how companies have performed over time and enables us to hold boards and management teams accountable for their actions. On a quarterly basis, we review ESG scores of all companies within the portfolio, engaging those companies with the lowest scores. A copy of the 2022 ESG Risk Rating Scorecard for the portfolio is attached as **APPENDIX 1**.

Throughout the year, our engagements focused on all our 2022 Priorities, however, our analysts put a heavier focus on capital mismanagement setting greenhouse emission targets and decarbonization last year. For examples of our engagements, please refer to our ***ESG Brochure***.

## 2023 Initiatives

The global shift in regulatory environment towards climate-risk transparency has encouraged more companies to the Net Zero commitment. Since 2001, we have increasingly chosen to participate in large share coalitions to engage companies on decarbonization and climate-related disclosure. The results are encouraging as companies have been supportive of a coalitional model and the groups have been able to gain access to upper management and effectuate change within the companies. In 2022, we expand the scope of collaborative engagements to include other engagement priorities such as capital mismanagement, inadequate shareholder return policies and executive compensation packages. This year we plan to expand the scope of our collaborative engagements to address other issues negatively impacting share prices. By bringing more capital to the table, collaborative work can elevate an issue or strategy far beyond what ANDA generally could achieve working alone.

In 2023, our research team will continue to engage with companies to address critical issues. These include, but not limited to, dialogues on ESG disclosure, capital mismanagement, executive remuneration, among many other important issues. Our 2023 Priorities are a continuation of 2022 but will focus more on encouraging companies to improve capital mismanagement and enhance shareholder return policies.



## 2022 ESG Risk Ratings <sup>2</sup>

### Top 5

Name	Sector	Code	Total	E	S	G
KB FINANCIAL GROUP	FINANCIALS	105560	A+	A+	A+	A+
SK CHEMICAL	MATERIALS	285130	A+	A+	A+	A
OCI	ENERGY	010060	A	B+	A	A
LG ELECTRONICS	CONSUMER DISCRETIONARY	066570	A	A	A+	A
HYUNDAI E&C	INDUSTRIALS	000720	A	A	A	B+

### Worst 5

Name	Sector	Code	Total	E	S	G
KOREA PETRO CHEM	ENERGY	006650	C	B	B	D
DN AUTOMOTIVE	INDUSTRIALS	007340	C	C	D	B
SARAMIN HR	COMMUNICATION SERVICES	143240	C	D	C	B
LG CHEM	MATERIALS	051910	B	C	A	B+
HANWHA SOLUTIONS	MATERIALS	009830	B	A	A	C

## Engaging on Public Policy

ANDA engages with policymakers and regulators for the same reason we engage with companies: to protect and advance the long-term interest of our clients. Unlike company-specific engagement, however, public policy engagement has the potential to extend best practice to entire industry, and establish uniform standards.

### Presidential Committee on Climate Change

In October 2021, ANDA and 22 other members of Climate 100+ sent a letter to Korea's Presidential Committee on Carbon Neutrality, encouraging it to outline a clear and fully aligned-2050 decarbonization pathway to support Korean companies' transition to net zero.

The letter explains how both directly and collectively Climate 100+ investors, including ANDA, have been actively engaging Korean companies on climate change. These engagements have been largely constructive but the companies need clear market signals from policymakers about the economic transition required to reach net-zero emissions by 2050, so that the companies can develop business transformation strategies and allocate capital expenditure. This must include clear dates for the phase-out of fossil fuels, especially coal as set out in the International Energy Agency Net Zero 2050 scenario. The letter was picked-up by local media and shortly thereafter the governance announced a revised NDC of GHG reduction of 40 percent against 2018 levels. For more details, please refer to the attached **APPENDIX 2- Letter to the Presidential Committee on Carbon Neutrality**.

<sup>2</sup> Based on the Korean Corporate Governance Service ESG risk ratings for companies within the Value Portfolio as of December 31, 2022. KCGS's overall ESG score, uses the following weighting for each factor: Environment (30%), Social (30%), Governance (40%). ANDA's analysts use KCGS reports to form their own analysis of the companies under coverage and provide an ESG risk rating score for each company within the portfolio.

# APPENDIX 1

## ESG Risk Rating by Portfolio/Universe

Score out of 5.0	Total	E	S	G
Value Portfolio	3.60	3.60	3.98	3.48
KCGS Universe	2.22	1.99	2.51	2.48

Name	Sector	Code	Total	E	S	G	Year
KIA CORP	CONSUMER DISCRETIONARY	000270	B+	A	A	B	2022
SK HYNIX	INFORMATION TECHNOLOGY	000660	B+	B+	A	B+	2022
HYUNDAI ENGR. & CONSTR.	INDUSTRIALS	000720	A	A	A	B+	2022
SAMYANG FOODS	CONSUMER STAPLES	003230	B+	A	A+	B	2022
LG CORP	INDUSTRIALS	003550	A	B+	A+	A	2022
HYUNDAI MOTOR CO	CONSUMER DISCRETIONARY	005380	B+	A	B+	B	2022
POSCO HOLDINGS	MATERIALS	005490	A	A	A	A+	2022
SAMSUNG ELECTRONICS CO	INFORMATION TECHNOLOGY	005930	A	A	A+	B+	2022
SAMSUNG SDI CO	INFORMATION TECHNOLOGY	006400	A	A	A+	B+	2022
KOREA PETRO CHEMICAL	ENERGY	006650	C	B	B	D	2022
DN AUTOMOTIVE	INDUSTRIALS	007340	C	C	D	B	2022
SAMSUNG ELECTRO-MECH. CO	INFORMATION TECHNOLOGY	009150	A	A	A+	A	2022
HANWHA SOLUTIONS	MATERIALS	009830	B	A	A	C	2022
OCI	ENERGY	010060	A	B+	A	A	2022
KOREA ZINC	MATERIALS	010130	B	B+	A	C	2022
HY-LOK	INDUSTRIALS	013030	n/a	n/a	n/a	n/a	2022
SAMSUNG C&T CORPORATION	INDUSTRIALS	028260	A	A	A	A	2022
KT&G CORP(KOREA TOBACCO)	CONSUMER STAPLES	033780	A	A	A+	A	2022
NAVER	COMMUNICATION SERVICES	035420	A	A	A	A	2022
LG H&H	CONSUMER STAPLES	051900	A	A	A+	A	2022
LG CHEM	MATERIALS	051910	B	C	A	B+	2022
LG ELECTRONICS	CONSUMER DISCRETIONARY	066570	A	A	A+	A	2022
HYUNDAI GLOVIS CO	INDUSTRIALS	086280	A	A	A+	A	2022
LOTTE RENTAL	CONSUMER DISCRETIONARY	089860	n/a	n/a	n/a	n/a	2022
SK INNOVATION CO	ENERGY	096770	A	B+	A+	A+	2022
KB FINANCIAL GROUP	FINANCIALS	105560	A+	A+	A+	A+	2022
SARAMIN HR	COMMUNICATION SERVICES	143240	C	D	C	B	2022
COSMAX	CONSUMER STAPLES	192820	B	B+	A	C	2022
SAMSUNG BIOLOGICS	HEALTH CARE	207940	A	A	A+	A	2022
DOOSAN BOBCAT	INDUSTRIALS	241560	B+	B	A	B+	2022
KRAFTON	COMMUNICATION SERVICES	259960	n/a	n/a	n/a	n/a	2022
JIN AIR	INDUSTRIALS	272450	B+	B	B+	A	2022
SK CHEMICAL	MATERIALS	285130	n/a	n/a	n/a	n/a	2022
HYOSUNG ADVANCED MATERIALS	MATERIALS	298050	n/a	n/a	n/a	n/a	2022
HYUNDAI HEAVY INDUSTRIES	INDUSTRIALS	329180	n/a	n/a	n/a	n/a	2022
NEPES ARK	INFORMATION TECHNOLOGY	330860	n/a	n/a	n/a	n/a	2022

\* Source: KCGS, ANDA Asset Management

\*\* Data as of December 31, 2022

# APPENDIX 2



Dear Co-Chairs of the Presidential Committee on Carbon Neutrality,

We are institutional investors, responsible for \$6.7 trillion (₩7,993 trillion) in assets under management, who are actively engaging with Korean companies on climate change, or supporting these efforts, through Climate Action 100+ and other avenues.

These engagements have been largely constructive, and we are thankful to those companies who are working with their investors to develop transition plans to net zero emissions by 2050 to protect shareholder value, cut greenhouse gases and ensure profitability in a carbon-constrained world.

Investors are engaging with companies because we recognise climate change creates systemic financial and economic risks that threaten long-term sustainable returns for our beneficiaries and because company transition is essential to achieving our common Paris Agreement goals to limit global warming to well below 2°C and pursuing 1.5°C.

For many of the companies we are engaging with, the outcome of national South Korean policy on energy and climate change is critical to the achievement of their net zero ambition. Adopting a clear pathway to net zero emissions by 2050 is also crucial for the Korean economy to remain competitive in global capital markets.

In this light, it is important that an energy transition consistent with the International Energy Agency's Net Zero 2050 (IEA NZ2050) scenario is pursued in South Korea. This scenario specifies that unabated coal power will be phased out in advanced economies by 2030 and at the latest by 2040 in all other regions. Generation using natural gas without carbon capture starts falling by 2030 and is 90 per cent lower by 2040 compared with 2020.

We recognise the work of the Presidential Committee on Carbon Neutrality to develop pathways for the Republic of Korea to achieve the national commitment to reach net zero emissions by 2050. We believe that the private coal-fired power plants currently under construction in Korea will go against efforts of the Committee, putting assets at risk of becoming stranded and unprofitable due to low utilization rates and extra efforts necessary to offset emissions incurred. The IEA NZ2050 scenario, including the indicative fossil fuel phase out dates, should be embedded in the scenarios being developed by the Committee. The companies that we are engaging will also need other private-public collaborative solutions to advance and deploy at scale those technologies that can cut emissions from heavy industry production, such as green hydrogen.

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