



Korea Stewardship Code

**Principles on the Stewardship
Responsibilities of Institutional
Investors**



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Korea Stewardship Code Council Chair & Members

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(Alphabetical Order)

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Principles on the Stewardship Responsibilities of Institutional Investors

Korean Stewardship Code Council, November 18, 2016

Objectives of the “Principles” and their Implications

1. The responsibility institutional investors bear in taking care of or managing assets entrusted by others (stewardship responsibilities, hereafter) refers to a sense of responsibility to promote the mid- to long-term interests of their clients and ultimate beneficiaries by pursuing the mid- to long-term value enhancement and sustainable growth of investee companies.
2. Successful implementation of stewardship responsibilities not only induces the mid- to long-term development of investee companies, contributes to enhancing investor returns, but also supports the sound and substantial growth and development of capital markets and the overall economy.
3. Institutional investors are responsible for monitoring whether or not the board of directors faithfully exercises the responsibilities bestowed upon it and, where necessary, carrying out constructive engagement such as an active dialogue with the board. The board of directors exercises its responsibilities by supervising management on behalf of the company and shareholders.
4. The aim of the “Principles on the Stewardship Responsibilities of Institutional Investors” (the Principles, hereafter) is to propose key principles that are crucial for institutional investors to effectively exercise their stewardship responsibilities, and concrete details for these principles.
5. Activities in implementing stewardship responsibilities (stewardship activities, hereafter) have broad scope, including but not limited to the exercise of voting rights. The activities range from monitoring key management issues such as an investee company’s business strategy and outcome, risk management, and corporate governance, to consultation with the board of directors, etc., as well as more proactive activities concerning shareholder proposals, litigations, etc. Engagement activities of institutional investors include a wide spectrum of shareholder activities geared towards “clear and constructive goals” in conducting a dialogue with investee companies.

6. Institutional investors are broadly categorized into “asset owners” and “asset managers”. Asset managers routinely implement stewardship responsibilities through investment management and dialogue with investee companies. Asset managers namely include asset management companies. Asset owners can carry out stewardship activities by proposing key principles and mobilizing methods such as instructions, evaluations, etc. to ensure that asset managers effectively implement their monitoring and engagement activities. Pension funds and insurance companies are major types of asset owners.

7. Assuming the burden of the responsibility, duty, and an appropriate level of remuneration in fulfilling stewardship responsibilities is essential to the sound growth of investee companies, the protection and enhancement of mid- to long-term investment returns, and the continuous development and advancement of the capital markets. Investors, asset owners, asset managers, and relevant authorities, etc. need to share a common understanding on this point.

8. Stewardship activities do not signify any undue intervention in day-to-day operations of investee companies. Moreover, institutional investors can consider selling their shares should it be deemed in the best interests of their clients and beneficiaries.

9. In order to minimize any legal uncertainties that institutional investors may face during the course of their stewardship activities, institutional investors, relevant authorities, etc. need to make collaborative efforts to categorize shareholder activities in order to make it clear which category of activities is subject to relevant laws and regulations, etc.

Application of the “Principles”

1. The Principles basically apply to domestic and overseas institutional investors holding shares of publicly listed companies in Korea; in other words, asset owners and asset managers.

2. Institutional investors take on ultimate stewardship responsibilities even when they entrust all or part of their stewardship activities to external investors or other (advisory) service providers. Institutional investors should monitor and supervise to ensure that outsourced activities are executed in accordance with their own stewardship policy. Hence, the Principles apply to proxy advisors, investment advisors, etc. that provide (advisory) services related to the detailed contents of the Principles.

3. The Principles are not legally binding. Hence, the Principles apply only to institutional investors, among the aforementioned parties, that agree with the intention

and contents of and that voluntarily affirm participation in the Principles by accepting and implementing them (participating institutional investors, hereafter).

⁴ Participating institutional investors, etc. should comply with the Principles, but when they cannot comply exceptionally, they should explain the reasons (“comply or explain”). When participating institutional investors, etc. cannot adhere to any details set forth in the Principles due to their business model, investment policy, etc., they should provide the reason, sufficiently explain alternatives to stewardship activities to their clients and beneficiaries, and publicly disclose the contents.

⁵ Participating institutional investors, etc. should publicly disclose matters listed below on their website, and periodically review and update the contents where necessary. Should they decide to participate in the Principles or should there be any updates or changes on the website, they should immediately notify these to the Korea Corporate Governance Service with the last updated date, and website address.

- Intention to accept and implement the Principles;
- Details on how to implement each Principle and guideline;

- Details that are required to be publicly disclosed by the Principles and guidelines;
- When there are any unimplemented Principle and guideline, or when there is any undisclosed item that is required to be disclosed under each Principle and guideline, the reasons for the failure to apply it and alternatives to stewardship activities; and
- Whether or not the institutional investor applies the Principles across-the-board to all funds it manages, and related details when there are differences in their application, implementation, and standards.

⁶ Participating institutional investors, etc. may concurrently utilize their disclosed policies and implementation report made in adherence to similar overseas stewardship codes (or Principles of Responsible Investment, PRI) to fulfil the disclosure and reporting requirement of the Principles. But if there are differences in the detailed contents of the Principles and overseas codes, these must be reflected.

⁷ The Korea Corporate Governance Service should periodically examine trends in participation in and implementation of the Principles in order to gauge the overall level of stewardship activities in the capital markets. Furthermore, it should publicly disclose on its own website the list of participating institutional investors, etc. and the website of each investor. This will enable capital market participants, etc. to easily check information on institutional investors, based on which they will be able to select institutional investors that fit their investment preferences, and monitor how well the

investor implements stewardship responsibilities. In addition, the Korea Corporate Governance Service should periodically monitor and improve the detailed contents of the Principles by taking into account best practices and cultures from Korea and overseas related to stewardship activities, capital market development stage, overseas stewardship codes, and domestic and international regulatory trends, etc.

8. Participating institutional investors, etc. should designate staff in charge of policies, procedures, and disclosures related to stewardship responsibilities, and publicly disclose the staff's name and contact information.

Principles

In order to enhance the mid- to long-term value and sustainable growth of investee companies and further the mid- to long-term interests of their clients and ultimate beneficiaries, institutional investors should comply with the Principles stated below.

- 1. Institutional investors, as a steward of assets entrusted by their clients, beneficiaries, etc, to take care of and manage, should formulate and publicly disclose a clear policy to faithfully implement their responsibilities.**
- 2. Institutional investors should formulate and publicly disclose an effective and clear policy as to how to resolve actual or potential problems arising from conflicts of interest in the course of their stewardship activities.**
- 3. Institutional investors should regularly monitor investee companies in order to enhance investee companies' mid- to long-term value and thereby protect and raise their investment value.**
- 4. While institutional investors should aim to form a consensus with investee companies, where necessary, they should formulate internal guidelines on the timeline, procedures, and methods for stewardship activities.**
- 5. Institutional investors should formulate and publicly disclose a voting policy that includes guidelines, procedures, and detailed standards for exercising votes in a faithful manner, and publicly disclose voting records and the reasons for each vote so as to allow the verification of the appropriateness of their voting activities.**
- 6. Institutional investors should regularly report their voting and stewardship activities to their clients or beneficiaries.**
- 7. Institutional investors should have the capabilities and expertise required to implement stewardship responsibilities in an active and effective manner.**

Principle 1

Institutional investors, as a steward of assets entrusted by their clients, beneficiaries, etc, to take care of and manage, should formulate and publicly disclose a clear policy to faithfully implement their responsibilities.

Guidelines

Institutional investors are responsible for acting in the mid- to long-term interests of their clients and beneficiaries by using their deep understanding of investee companies and the economic, social, and business environment, etc. for active communication and shareholder activities in order to pursue the value enhancement and growth of investee companies.

The activities which institutional investors carry out to implement their responsibilities as a manager and steward of the assets entrusted to them should include proactive engagement activities such as monitoring potential problems, constructive dialogue and, where necessary, productive proposals geared towards problem-solving.

Institutional investors should formulate and publicly disclose a documented policy on how they understand stewardship responsibilities, and what are the effective and concrete methods for exercising their responsibilities, etc. This policy should include the principles and guidelines, investment management philosophy, rights and duties, and organization and procedures related to their stewardship activities.

The stewardship responsibility policy should consider what position institutional investors take in the overall investment chain running from capital suppliers such as clients and beneficiaries to investee companies. In particular, stewardship activities of asset managers such as asset management companies, etc. differ from those of asset owners such as pension funds, insurance companies, etc. that in most cases manage external asset managers. Asset owners can not only directly engage in shareholder activities, but can also utilize indirect means such as selection of competent asset managers, and provision of instructions, evaluations, and feedback. Asset managers' shareholder activities should comply with the standards and requirements set out by their clients who are asset owners. In this regard, close communication between asset owners and asset managers is important, and the relevant matters should be included in the "policy".

When an institutional investor entrusts its activities to external service providers, their “policy” should reflect matters related to selection, monitoring, evaluation, and administration of the entrusted investment manager or advisor, and the scope of shareholder activities entrusted, etc.

When an institutional investor manages collective investment vehicles in various asset classes and types that are different in terms of the time horizon, investment management philosophy, etc., the “policy” can reflect the consequent differences in the principles, guidelines, procedures, etc.

Principle 2

Institutional investors should formulate and publicly disclose an effective and clear policy as to how to resolve actual or potential problems arising from conflicts of interest in the course of their stewardship activities.

Guidelines

Institutional investors have the duty to act in the best interests of their clients and beneficiaries.

During the course of their stewardship activities, institutional investors may face a conflict-of-interest situation where their own interests with investee companies prevent them from faithfully promoting the best interests of clients or beneficiaries. Such examples namely include when their ownership or governance structure, or their trade and contractual relationships make casting against votes difficult at the investee company's shareholder meetings.

To effectively address actual conflict-of-interest problems that have arisen or may possibly arise in the course of stewardship activities, institutional investors should review them in minute detail and then formulate and publicly disclose a documented policy. This policy should stipulate matters related to the principles and guidelines, concrete methods, rights and duties, and procedures, etc. for conflict-of-interest monitoring and management.

To manage conflict-of-interest problems, institutional investors in general can adopt various means, including publicly disclosing the relevant policies and detailed guidelines, working with a third-party organization, adopting other methods set forth in Korea's Financial Investment Services and Capital Markets Act and related regulations. Institutional Investors should properly utilize these methods in order to secure enhanced confidence of their clients and beneficiaries.

Principle 3

Institutional investors should regularly monitor investee companies in order to enhance investee companies' mid- to long-term value and thereby protect and raise their investment value.

Guidelines

Institutional investors should monitor investee companies on a regular basis and review the effectiveness of their monitoring activities to promote the value enhancement and continuous growth of investee companies.

Institutional investors need to include for monitoring all factors that could affect the value and sustainable growth of investee companies; for example, not only financial factors such as capital structures, business performances, etc., but also non-financial factors such as corporate governance, business strategy, etc.

Institutional investors should take into consideration their investment policy and internal capacity to determine the appropriate scope for the monitoring of the aforementioned financial and non-financial factors so as to ensure effective stewardship activities.

Institutional investors should make due effort to detect in advance any risk factors that may cause material damage to the investee company's value. If they confirm any risk factors or other matters of concern, they should seek appropriate solutions through constructive communication such as prior consultation in advance of shareholders meetings, etc.

For the reasons stated above, regular monitoring of investee companies is one of the core elements of stewardship responsibilities in seeking to improve investee companies' value and to enhance the interests of their clients and beneficiaries.

Principle 4

While institutional investors should aim to form a consensus with investee companies, where necessary, they should formulate internal guidelines on the timeline, procedures, and methods for stewardship activities.

Guidelines

Institutional investors must endeavor to form a consensus with investee companies with regard to key financial and non-financial management matters based on their pursuit of the mid- to long-term value enhancement of the investee company and their investment and stewardship policies, etc.

In case concerns remain unresolved after sufficient consultation with investee companies, institutional investors should review whether to step up their engagement within the scope of their internal policies.

Institutional investors should take into account investee companies' circumstances, investment policy, and internal capacity, etc. and devise an internal guideline that sets out the scope, procedures, and standards of their communication and engagement activities.

In their active engagement process, institutional investors should beware of the possibility of breaching the regulation banning the use of undisclosed material information set forth in the Financial Investment Services and Capital Markets Act. In particular, they should not use inside information that could substantially affect the investee company's value by attempting to use privileged information to achieve trading gains.

Principle 5.

Institutional investors should formulate and publicly disclose a voting policy that includes guidelines, procedures, and detailed standards for exercising votes in a faithful manner, and publicly disclose voting records and the reasons for each vote so as to allow the verification of the appropriateness of their voting activities.

Guidelines

Institutional investors should make an effort to exercise their voting rights on all shares held, and it is not appropriate to automatically vote in favor of management-proposed resolutions.

Institutional investors should make their for/against voting decision based on the result of sufficient data collection and analysis, in-depth review, dialogue and engagement, etc., with regard to investee companies, and it is advisable to have a discussion with investee companies concerning their voting decision where necessary.

Institutional investors should build up internal resources, organizational structures, and professional capacity to ensure that their voting rights are exercised in order to enhance the mid- to long-term value of investee companies and to advance the interests of clients and beneficiaries, while relevant principles and information should be included in the voting policy to be explained hereunder.

Institutional investors should formulate and publicly disclose a documented voting policy that includes guidelines, procedures, and detailed standards with regard to the disclosure of their voting activities and records. The detailed standards for voting activities should not solely be comprised of a mechanical checklist, but be designed to contribute to the mid- to long-term value enhancement of investee companies.

The voting policy should include policies on preventing conflicts of interest set out in Principle 2 with regard to any potential conflicts of interest institutional investors may face when exercising their votes.

Institutional investors can devise a voting policy that provides a different set of detailed standards and guidelines for each type of collective investment vehicles with varying management targets and philosophies.

Institutional investors should publicly disclose their voting results and concrete reasons for votes for, against, neutral, and abstentions via an appropriate method so that their clients and beneficiaries, etc. can easily check the appropriateness of the voting activity.

Institutional investors should publicly disclose whether or not they use proxy advisory services and, if they use them, the service scope, application method, identity of the provider, and the extent of their reliance on the provider's recommendations.

Even in the case where institutional investors use proxy advisory services, they are ultimately responsible for exercising their votes according to their own responsibility and judgment as a steward.

Institutional investors should reflect in their voting policy information concerning their stock lending and the recall of lent stock if it is deemed to affect matters related to their exercise of voting rights.

Principle 6.
Institutional investors should regularly report their voting and stewardship activities to their clients or beneficiaries.

Guidelines

Institutional investors should keep a record of their stewardship activities, including their exercise of voting rights, and maintain the record for a certain period.

Asset managers in principle should regularly report their stewardship policy and the implementation of such policy to clients and beneficiaries such as asset owners, etc.

Asset owners should report to their clients and beneficiaries their stewardship policy and matters concerning the actual implementation of this policy at least annually.

Institutional investors should make an effort to ensure that their stewardship policy and its actual implementation can be effectively reported, and if there are certain reporting scope and form agreed between them and their clients and beneficiaries, these should be followed. Where appropriate and agreed by their clients and beneficiaries, institutional investors can disclose their shareholder activities on the website or in the annual report as a way to enhance the transparency and accountability of such reporting.

Institutional investors should set out the concrete scope and standards of disclosure on how they implement stewardship responsibilities, etc. in a manner that can be easily monitored and trusted by their clients and beneficiaries. In such cases, the overall impact any detailed disclosure could have on asset value can be considered.

Principle 7.

Institutional investors should have the capabilities and expertise required to implement stewardship responsibilities in an active and effective manner.

Guidelines

Institutional investors need to build up their capacity and expertise that will enable them to deepen their understanding of investee companies and to carry out constructive shareholder activities in order to promote the mid- to long-term development and sustainability of investee companies based on active dialogue and shareholder activities.

To that end, institutional investors should design an appropriate organizational structure, inject internal resources, and make a continuous effort to develop and improve the capacity and expertise of these resources.

An asset owner who entrusts stewardship activities to an asset manager should seek ways to oversee the asset manager and pay an appropriate level of remuneration to allow the asset manager to accumulate the capacity for effective engagement with investee companies through dialogue and shareholder activities.

In light of available internal resources and financial conditions, institutional investors can use external services for professional advice in seeking to implement their stewardship responsibilities.

Institutional investors can establish forums, etc. with the aim of stimulating debates and discussions and to pursue mutual interests, as well as to share and learn relevant experiences and opinions about successful shareholder engagement cases, to improve their expertise and the quality of their shareholder activities.

Recommendations

1. As the organization that examines and monitors the trend of the implementation of the Korea Stewardship Code, it is recommended that the Korea Corporate Governance Service examine the appropriateness of the Code's detailed contents every two years.
2. When the participants of the Korea Stewardship Code or the market at large request, or when the need arises, it is recommended that the Korea Corporate Governance Service prepare and publicly release explanatory documents and undertake measures to introduce overseas examples in order to assist in the understanding and actual implementation of the Code's detailed contents.
3. The Korea Stewardship Code stipulates that the Korea Corporate Governance Service examine and monitor market trends as part of its work. Apart from this work, it is recommended for future discussion the need to examine the implementation of the Code by participating institutional investors separately, as well as the organization in charge, and the scope of its work.