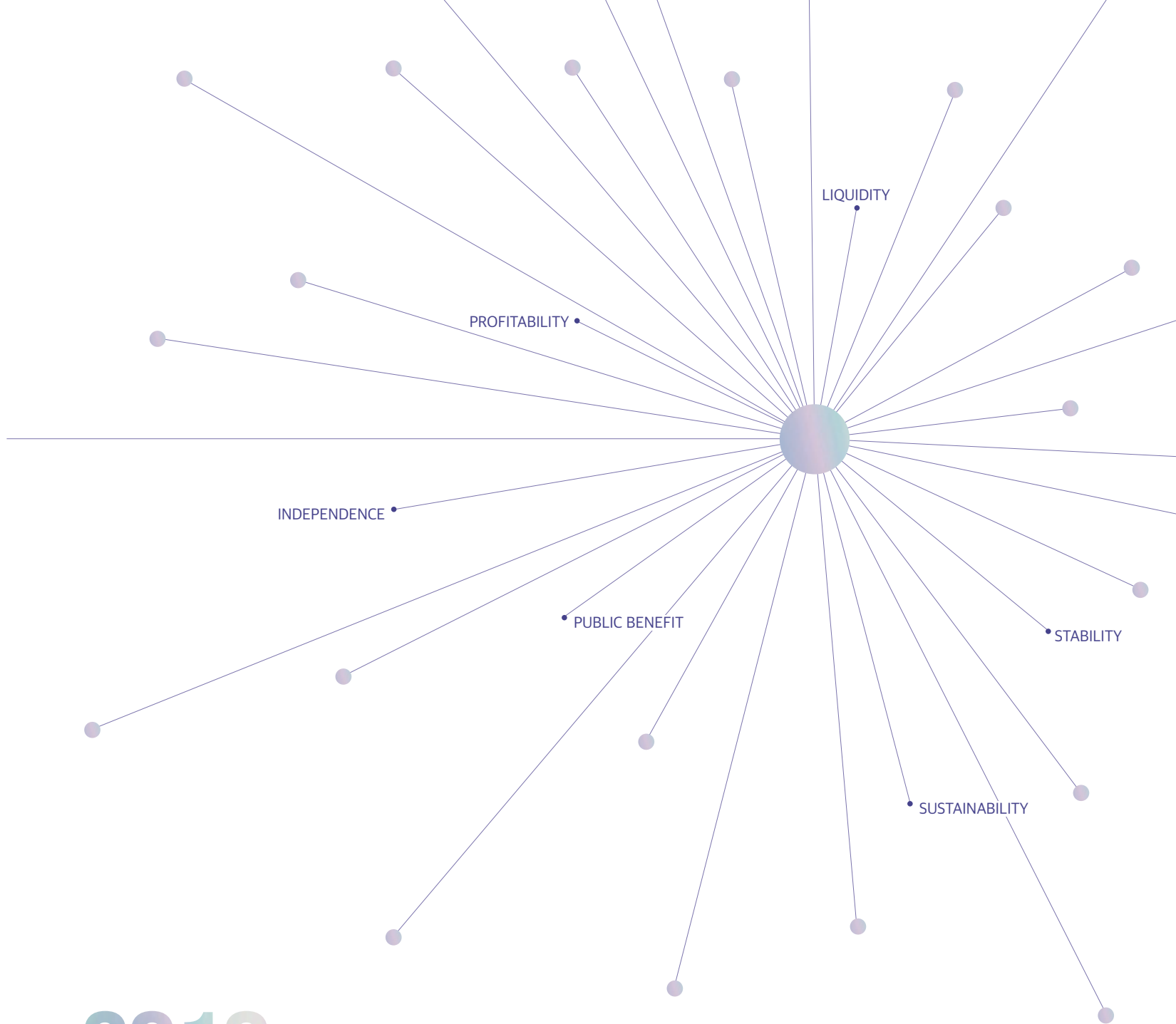




2019 NATIONAL PENSION FUND ANNUAL REPORT

2019 NATIONAL PENSION FUND Annual Report



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National Pension Fund
Responsible Investment & Governance Report



CEO MESSAGE

Park Jung-Bae

Acting Chairperson and Chief Executive Officer of National Pension Service

In spite of a relatively short history of 33 years, the National Pension Fund has come in an era when the number of contributors and beneficiaries have reached 22 million and 5 million, respectively, amid the trust and encouragement of the public.

The National Pension Fund (NPF) is a special account set up to fund the National Pension Scheme. At the time when the NPF was first established in 1988, the reserve fund was worth a meager 500 billion KRW. However, the reserve fund has since seen astronomical growth in value led by a soared contribution income from continuously rising numbers of contributors and investment diversification as well as strong expertise. With these, the reserve fund represented 736.7 trillion KRW in value as of the end of 2019 and was ranked as the third-largest pension fund in the world.

The NPF generated a strong return of 11.3% or 73.4 trillion KRW in 2019. The investment income earned during the year was 1.5 times larger than that of the entire amount of money paid into the fund by 22 million contributors during the same period, and 1.6 times larger than that of the trade surplus of South Korea as a whole. Long-term performance has been stable with a cumulative investment income since the inception of the NPF, which was valued in 367.5 trillion KRW as of the end of 2019, half of the total reserve fund.

We as the National Pension Service (NPS) made various efforts to improve risk management and investment infrastructure in 2019 by i) enhancing preemptive risk management with strong risk management in alternative investments and systemic and sophisticated analysis of performance attributes as well as ii) creating a dedicated team for responsible investment and reorganizing alternative investment teams by asset class after considering local and global environmental changes. We also sought to strengthen skills and expertise in the back office by reorganizing the investment operation team.

In accordance with the adoption of the National Pension Fund Responsible Investment & Governance Principles, so-called the Stewardship Code, in July 2018, NPS has developed the guidelines to implement responsible investment and shareholder activities in 2019. To promote transparency and independence in stewardship activities, NPS has been committed to the principles and the guidelines in fund management processes. We have also set the practical guidelines on shareholders' activities and presented the voting guidance for external management. We seek to implement stewardship activities gradually in pursuit of increasing shareholder value as well as long-term returns.

The actuarial projection predicts that the NPF will see a steep rise in value over the next 33 years and reach a 1,000 trillion KRW within years. Meanwhile, the status of the fund is being increasingly threatened by demographic changes, including a low fertility rate, an aging population, and slow economic growth. In a mid of such challenges, we are determined to pursue a transparent and sound investment practice and maximize long-term return on behalf of all contributors and beneficiaries

In addition, we will strive to generate consistent innovation and become a world-class general welfare service institution. We look forward to the greater attention and support of all Koreans.

Thank you.

CIO MESSAGE



Ahn Hyo-Joon

Executive Fund Director and Chief Investment Officer of National Pension Service

The National Pension Fund (NPF) was established as a reserve fund to finance pension payments as defined in the National Pension Act with an aim to promote public livelihood and welfare benefits. The NPF is managed and invested for a dual mandate of maximizing return while sustaining long-term fiscal stability on the foundation of the six investment principles – Profitability, Stability, Public Benefit, Liquidity, Sustainability and Independence.

The stock markets at home and abroad have rallied over the last year driven by central banks' rate cuts and economic stimulus efforts in major countries as well as the recovery of South Korean export companies. Favorable market conditions have assisted us in achieving a good performance with an annual rate of return of 11.3% and an investment income of 73.4 trillion KRW as of 2019. It was the best performance ever achieved since our investment arm of National Pension Service Investment Management was founded for systemic and professional investment.

Long-term performance has been stable with a 5-year annualized return of 5.45% and since-inception (1988) an annualized return of 5.86% as of 2019.

NPS as a long-term investor spares no effort to be prepared for the future. The projection predicted that the NPF would reach 1,000 trillion KRW in 2024 and 1,700 trillion KRW in 2041 in value. It means that the next 10 years will be a 'Golden Time' where somewhat aggressive investment will be allowed without concern for a liquidity crunch. Accordingly, we have pushed ahead with investment diversification with a focus on more allocations to equities, alternative assets and foreign assets in the portfolios. With such efforts, the weight of fixed income investment was down by 29.5%p over the last 10 years, while those of equities and alternative investments rose by 22.8%p and 7.0%p, respectively.

We are now developing 'an overarching plan for overseas investments' with a view of overcoming investment limits in the domestic market, encouraging overseas investments in search of more investment opportunities abroad and thus further improving return. In addition, we have broadened the functions of our overseas offices, including the New York Office, the Singapore Office and the London Office, from investment support to deal sourcing and review. Currently, overseas investments are valued in 256.8 trillion KRW or 35% of the total fund and will be expanded to 50% or so until the end of 2024.

In addition, we have set up a plan to improve alternative investment execution, as competition has become increasingly intense with other global institutional investors. With this plan, we aim to gain a competitive edge in the market and develop the ability to process large-scale deals by scaling up investments. Meanwhile, we also advanced the investment process by newly creating a subcommittee on alternative investment – the Alternative Investment Sub-committee - that has cut down time spent on the decision-making process. We also introduced a 'program to promote tactical investment for alternative investments' to facilitate investing in a new asset class.

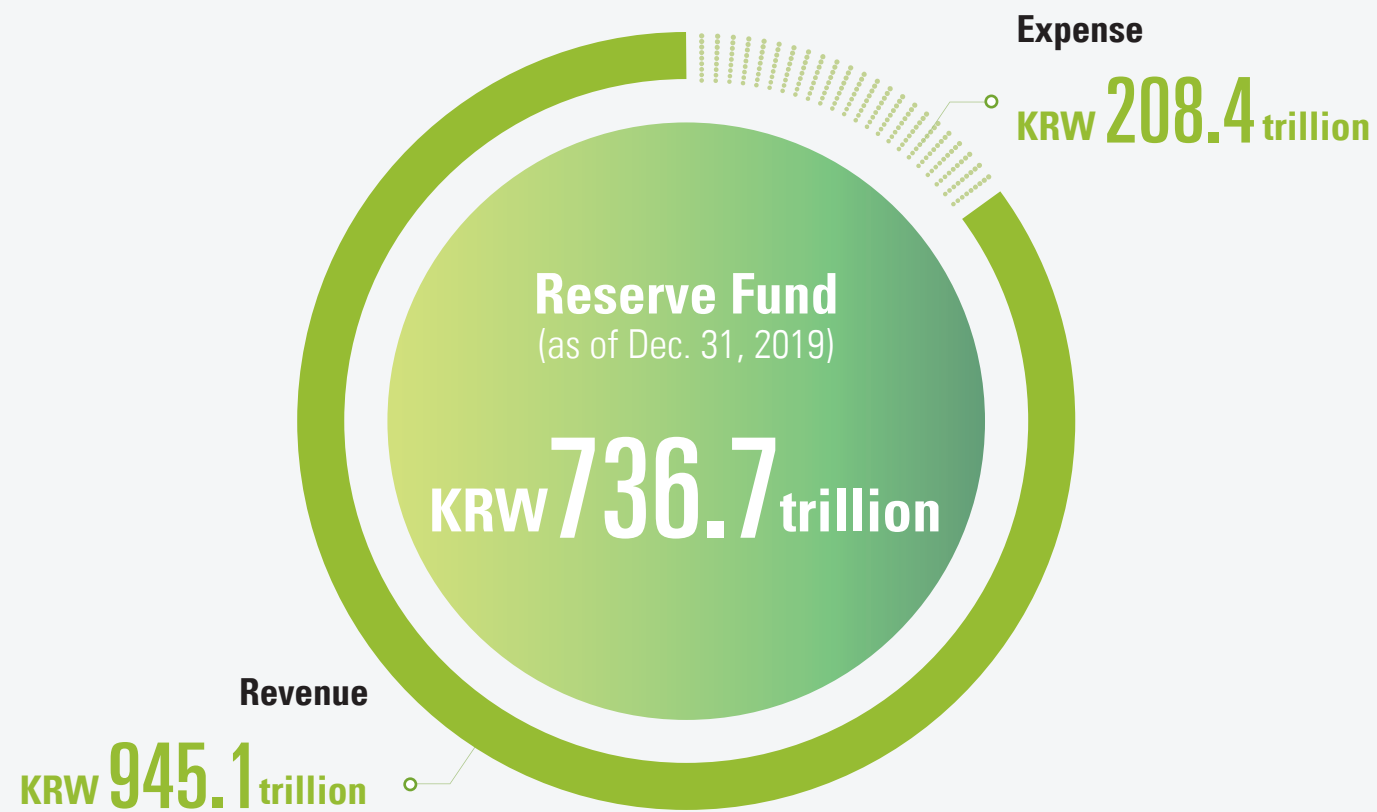
Our outlook for 2020 is that challenging situations will continue to come in the investment landscape at home and abroad amid the unprecedented pandemic of COVID-19 and its fallout in economies and financial markets, which will likely have a major impact on our investment as well.

In this sense, we will be much more flexible in navigating through a rapidly changing investment environment over a long horizon, while sticking to investment diversification and risk management to ensure profitability.

Thank you.

National Pension Fund 2019 HIGHLIGHT

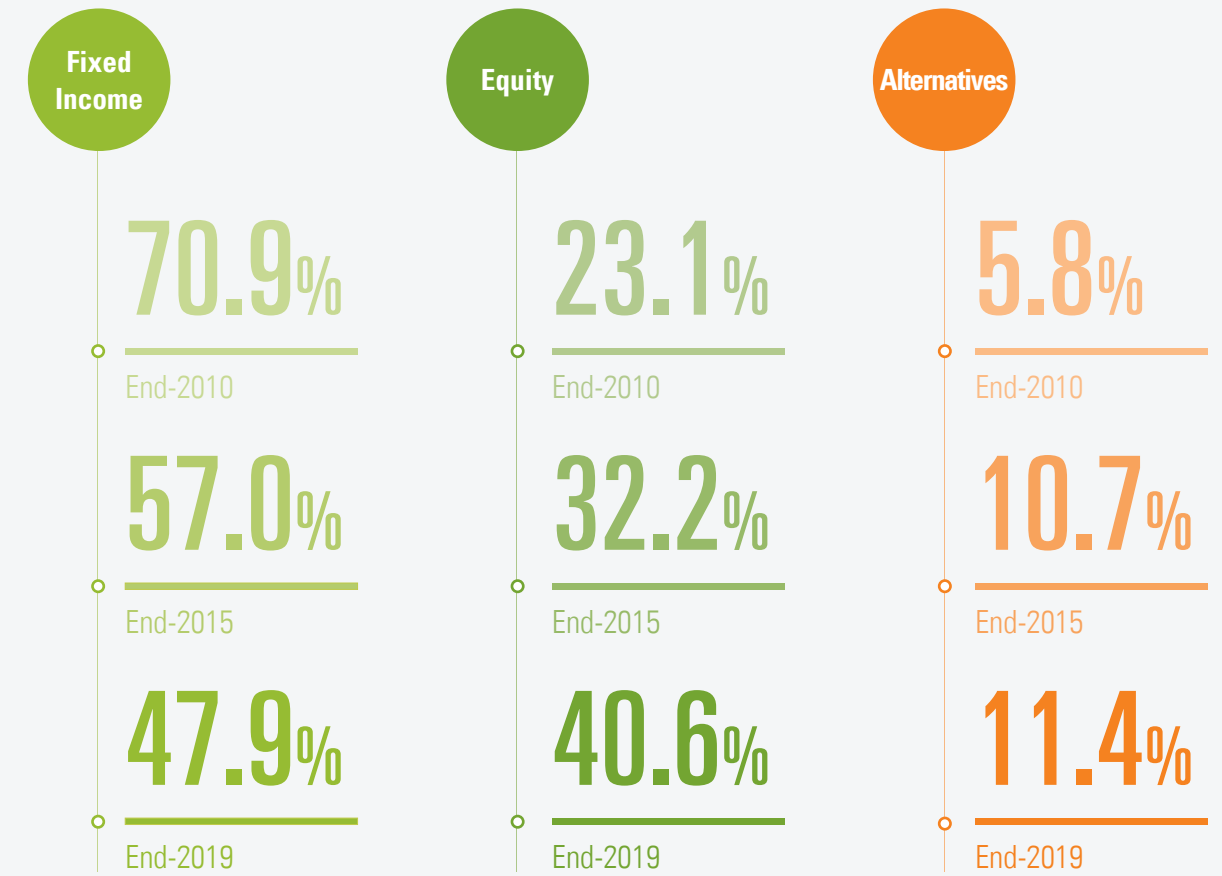
Reserve Fund topping **KRW 700 trillion**



Highest Return since the foundation of NPSIM

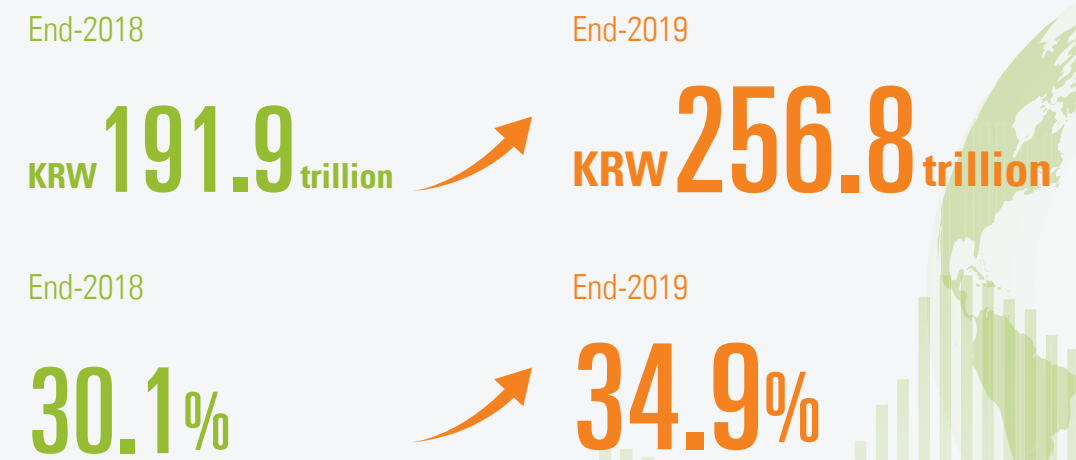


Continuous **Investment Diversification**



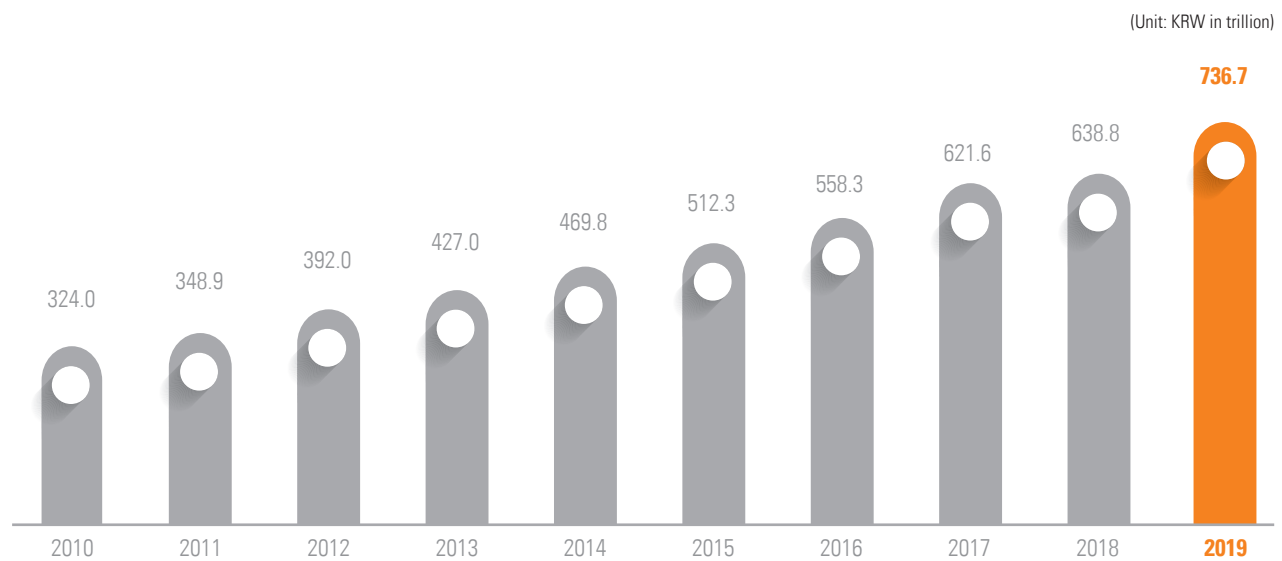
※ Including short-term assets

Expanding **Global Investments**

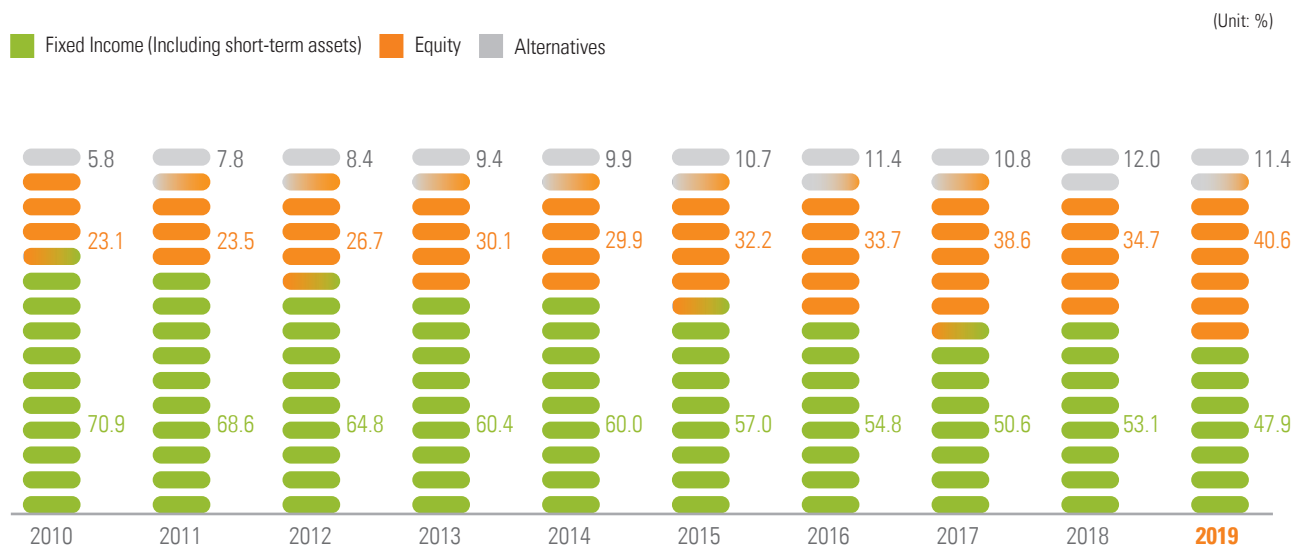


National Pension Fund 2019 HIGHLIGHT

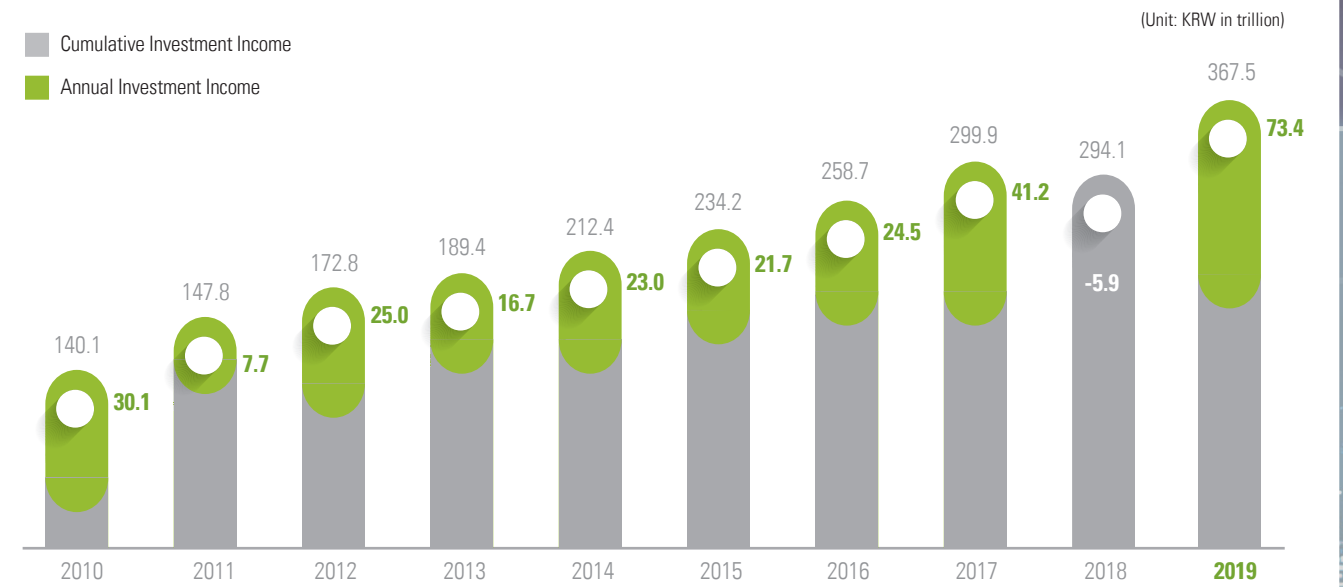
Growth of Reserve Fund



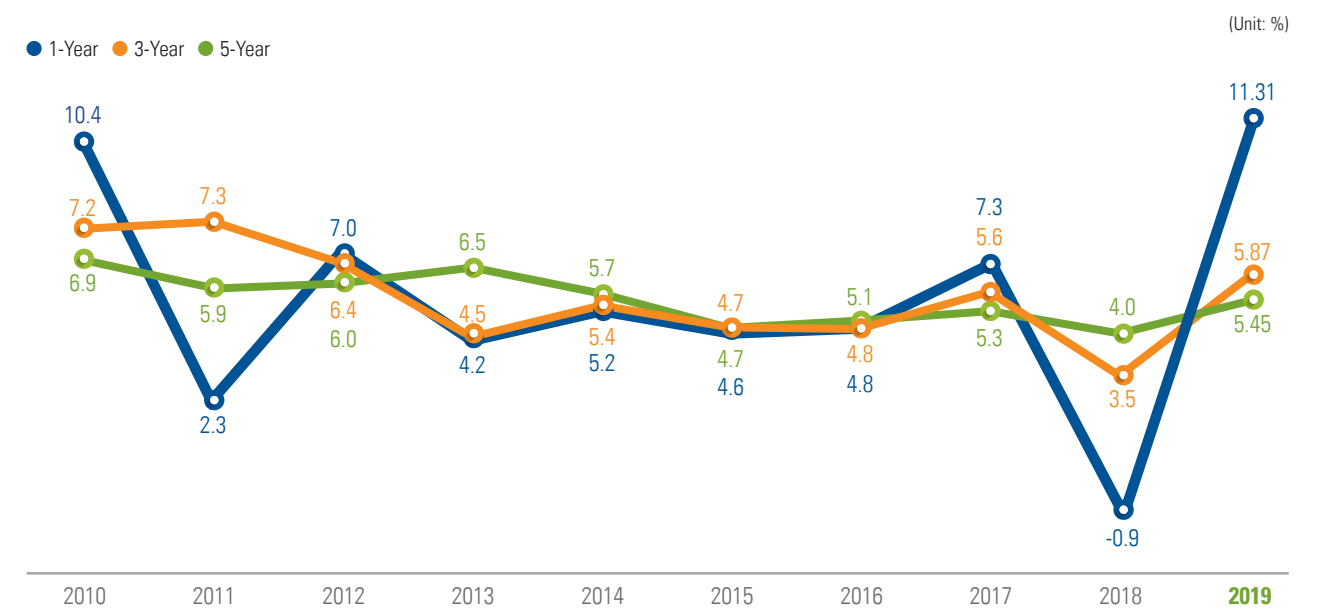
Trend of Investment Portfolio



Trend of Investment Income



Trend of Investment Return



* The 3-year and 5-year rates of return are the average of an annualized average return (AAR) in money weighted for the period of corresponding years. For instance, the 3-year rate of return for 2019 refers to the AAR for the period of 2017 and 2019; and the 5-year rate of return refers to the AAR of the period of 2015 and 2019.

National Pension Fund

2019 HIGHLIGHT



Expanding overseas investments and diversifying investment portfolio

- Efforts will be made to increase allocations to overseas investments and diversify investment portfolios in a direction of investing more in foreign assets and less in domestic fixed income, with an aim to improve profitability and ensure risk aversion.
- The weight of overseas investments increased by 4.8%p, from 30.1% on end-2018 to 34.9% on end-2019. In particular, the weight of global equity investments increased by 4.9%p, from 17.7% to 22.6% during the same period.
- The weight of fixed-income investments fell by 5.1%p, from 52.8% on end-2018 to 47.7% on end-2019. In particular, the weight of domestic fixed income was down by 5.2%p, from 48.7% to 43.5% during the same period.



Adding 'Sustainability' to investment principles

- NPS announced the "Action Plan on Enhanced Responsible Investment" developed to improve long-term returns by gaining market trust as a public pension fund and minimizing investment risk.
- As part of Action Plan on Enhanced Responsible Investment, the Fund Management Guideline was amended to add 'Sustainability' to the investment principles of NPF in a way so that responsible investment factors can be incorporated in fund management processes.
 - Principle of Sustainability : To fulfill the fiduciary duty of managing the National Pension Fund in consideration of environmental, social and governance factors, among others, to improve investment sustainability.



Establishing a plan to improve alternative investment execution

- The competition for promising assets has become increasingly intense, because of the growth in global alternative investments. The competition pushed upward asset valuations in the markets, lowering expected return.
- Alternative investment execution was enhanced by increasing efficiency in the execution processes, scaling up investments and expanding new investments. Investment diversification along with such efforts led to profitability.
- An Alternative Investment Sub-Committee was newly created to cut down on time spent on the decision-making process. The overseas offices expanded their roles.
- NPS sought to ensure stable and large-scale funding and secured execution processes by strengthening strategic partnerships with leading asset managers that it had worked together previously and expanding single investor funds.
- Hedge fund investments that had invested in the Fund of Funds adopted Single Fund in the portfolio.

	Alternative Investment Committee	Alternative Investment Sub-Committee
Chair	CIO	CIO-appointed division head
Member	3 internal, 3 external members	4 internal members
Agenda	All agenda concerning alternative investments	Investment-related agenda qualified for a fast track process



Reorganizing NPSIM

- Three senior positions were created: Managing Director of Investment Strategy and Responsible Investment & Governance, Managing Director of Risk Management and Legal and Managing Director of Investment Operation, IT and External Affairs.
- The alternative investment teams that used to be organized by asset class and region (domestic vs. global) were reorganized by asset class and continent (Asia, Americas and Europe).
- The Private Equity Investment Division deepened its functions and expertise by turning into the Private Equity and Venture Capital Division.



I.

Introduction of National Pension Fund

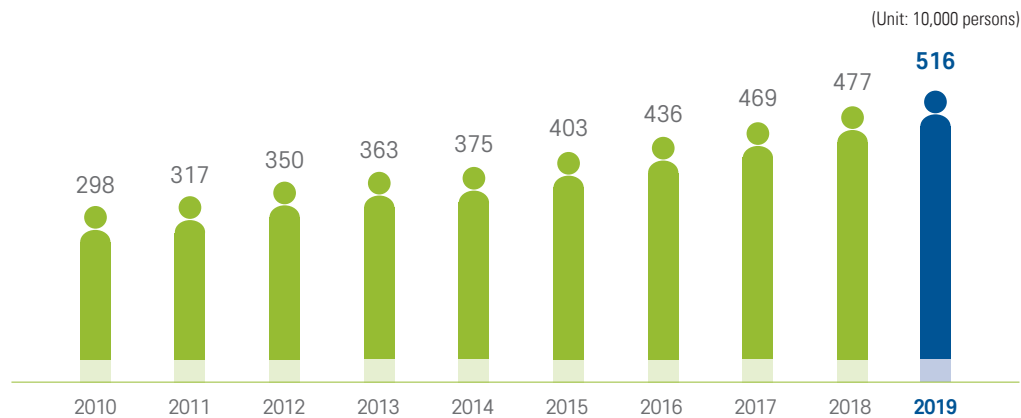
1. National Pension Scheme
2. National Pension Fund
3. National Pension Service

1. National Pension Scheme

The National Pension Fund acts as social insurance established to stabilize and promote public livelihood and welfare in South Korea by providing pensions for old age, disability and survivors.

The National Pension Fund is composed of three types of pensions – Old-Age, Disability and Survivor pensions. The Old-Age Pension benefits individuals who have lost their ability to work after retirement. The Disability Pension benefits individuals who have lost their ability to work due to disease or injury. Finally, the Survivor Pension benefits surviving family members of deceased contributors and beneficiaries of the Scheme.

Beneficiaries



Note) Beneficiaries are comprised of a person who received Old-Age, Disability and Survivor pensions and lump-sum allowances (refunds from Disability and Survivor pensions) for 2019

Annual Benefits for 2019 **KRW 22.8 trillion**

Old-Age Pension

A person who has contributed to the National Pension Scheme for 10 years or more is entitled to receive the Old-Age Pension from the age of 62 if the contributor reached that age and made less or no income, until death. (For those born between 1957 and 1960, the pension commencement age is 62. For those born afterward, the pension age will increase gradually.)



Disability Pension

The Disability Pension is paid to a person who has contributed for the required given years at the first date of medical examination for diseases or injuries, and also paid proportional to the level of disability if the contributor suffers physical or mental disability permanently after the treatment.



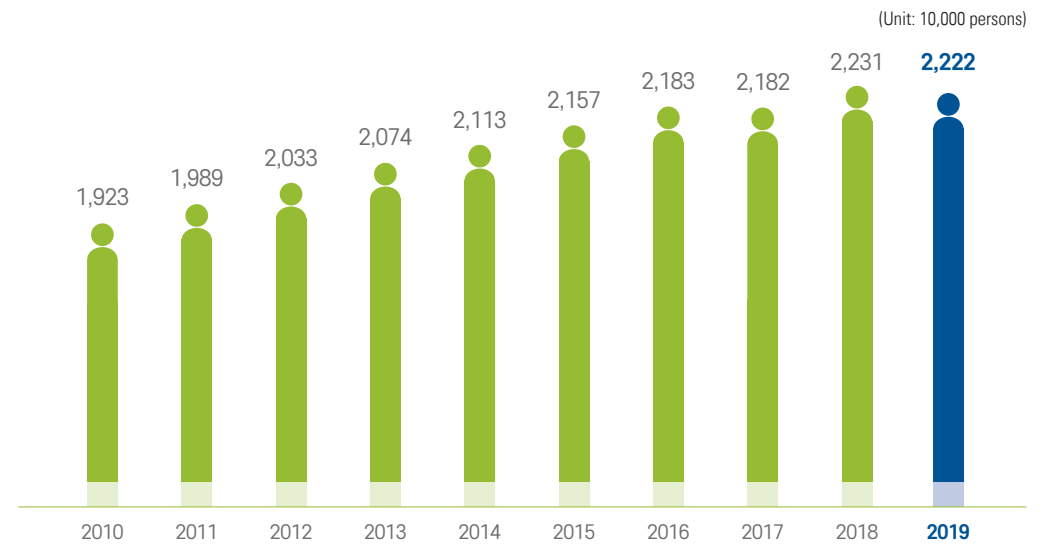
Survivor Pension

The Survivor Pension is paid to surviving family members of a deceased person who has contributed to the National Pension Scheme for the required given years or was entitled to receive benefits when being qualified to receive benefits.



The National Pension Scheme was first implemented in January 1988 to cover employers or employees aged between 18 and 60 at a workplace of 10 or more employees. The coverage has since been expanded phase by phase to cover every individual in South Korea in April 1999, marking an era of ‘Pensions for All.’ The National Pension Fund now serves as leading social insurance in South Korea along with National Health Insurance, Employment Insurance and Industrial Accident Compensation Insurance with 22.22 million contributors and over 5.16 beneficiaries of Old-Age, Disability and Survivor pensions and lump-sum payments as of the end of 2019.

Contributors



Note) The insured persons are comprised of Workplace-based Insured, Individually Insured, Voluntarily Insured and Voluntarily and Continuously Insured Persons.

Annual Contributions for 2019 **KRW 47.8 trillion**

Workplace-based Insured Persons

Employees (including foreigners) of a workplace or employers

Mandatory

Individually Insured Persons

A person who is not regarded as Workplace-based Insured Persons, such as the self-employed, those working in the agricultural and fishing industries, etc.

Voluntarily Insured Persons

A person who is not mandatory to be enrolled as being a housewife or a student aged 27 or younger, but is voluntarily enrolled to the National Pension Scheme

Optional

Voluntarily and Continuously Insured Persons

A person who as the former or current insured voluntarily contributes to the National Pension Scheme after the mandatory enrollment age of 60.

2. National Pension Fund

National Pension Fund was established as a 'reserve fund' to finance the offering of pension services and payment of pension benefits in accordance with Article 101 of the National Pension Act.

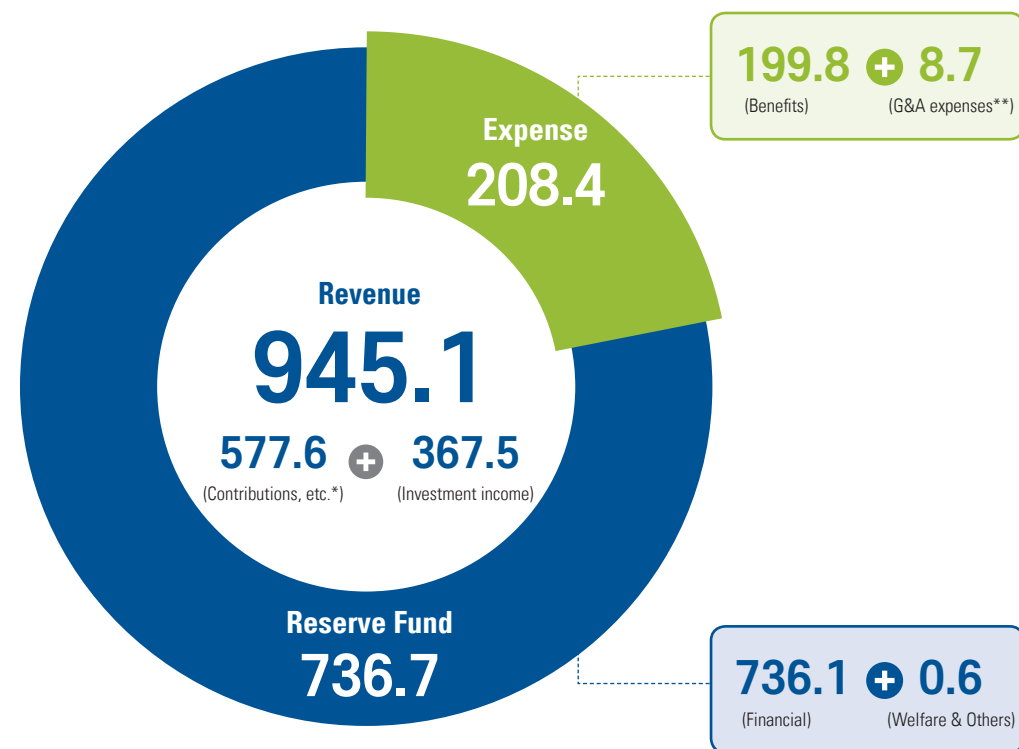
National Pension Fund (NPF) is funded by paid-in contributions and investment gains. Of the total revenues, benefit payouts and general and administrative expenses are deducted to remain as a reserve fund.

As of the end of 2019, the NPF was valued at 945.1 trillion KRW in total, a combination of cumulative contributions and lease deposits of 577.6 trillion KRW and cumulative investment income of 367.5 trillion KRW. From the total revenues, 199.8 trillion KRW and 8.7 trillion KRW were expended for benefits and general&administrative expenses, respectively. The remainder of 736.7 trillion KRW is a reserve fund under administration and management.

The NPF is managed in three different sectors - Financial, Welfare and Other - pursuant to the Fund Management Guideline decided by National Pension Fund Management Committee (FMC). As of the end of 2019, the Financial sector was composed of investments in equities, fixed income and alternative assets, amounting to 638.2 trillion KRW or 99.9% of the reserve fund, while the Welfare and Other sectors stood at KRW 0.6 trillion or 0.1%.

Fund Status

(Unit: KRW in trillion)



* Contributions (KRW 576.4 trillion), lease deposits and others (KRW 1.2 trillion)

** General and administrative expenses

*** All numbers here may not add up precisely because they were rounded up.

During the first year of the foundation in 1988, the number of insured persons was 4.43 million, and the total fund was valued at 527.9 billion KRW. Throughout 31 years since that, NPS has grown dramatically to 22.22 million in the number of the insured and 5.16 million in the number of beneficiaries, and 736.7 trillion KRW in total value as of the end of 2019, the third-largest public pension fund in the world after Japan's Government Pension Investment Fund and Norway's Government Pension Fund Global. The accumulated investment income since the inception stood at 367.5 KRW trillion in 2019, representing 49.9% of the total reserve fund.

The Fund aims to maximize investment return so that its fiscal stability necessary to pay benefits can be maintained over the long run. To this end, the Fund is invested in alignment with the six investment principles on Profitability, Stability, Public Benefit, Liquidity, Sustainability and Independence.

Investment Principles

Profitability

To Maximize return to lessen the burden on the insured persons, especially of the future generations



Stability

To Invest within the permitted ranges of volatility and loss risk in a stable manner



Public Benefit

To consider the spillover effect of fund management activities on the national economy and the domestic financial market



Liquidity

To consider liquidities to ensure benefits payment and take preemptive actions to keep shock on the domestic financial market to a minimum



Sustainability

To fulfill the fiduciary duty of managing the NPF in consideration of environmental, social and governance factors, among others, to improve investment sustainability



Independence

To comply with the aforementioned principles, which should not be compromised for other purposes



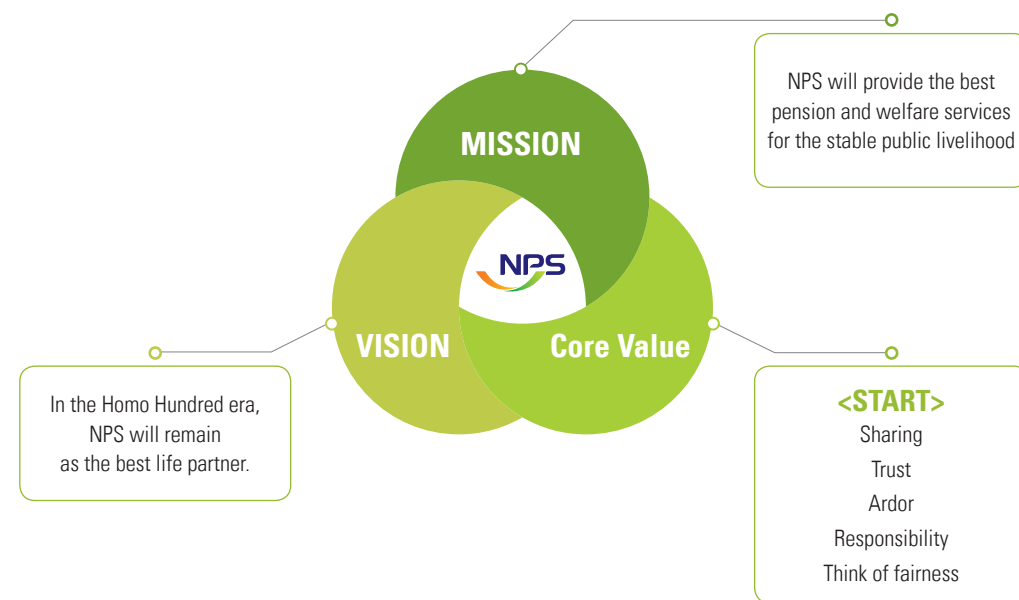
3. National Pension Service

National Pension Service (NPS) was founded in September 18, 1987, to provide pension services and fulfill its purposes, as stated in Article 1 of the National Pension Act on behalf of the Minister of Health and Welfare.

NPS provides a range of pension services, including pension enrollment and pension payment to fulfill its purposes of stabilizing public livelihood and improving public welfare by providing pension benefits for old age, disability and death under Article 1 of the National Pension Act. NPS also provides various welfare services, including Consulting on Successful Aging (CSA), disability registration and support for people with disability, and workability assessments for basic living allowance receivers.

NPS is composed of the main and regional headquarters and 109 regional offices, 43 consulting centers, Disability Assessment Center, National Pension Research Institute and 5 call centers as of January 1, 2020. The main headquarters comprises 15 divisions, 2 sub-divisions and 3 centers as well as Digital Innovation Headquarters, NPSIM and Compliance Officer. Among them, NPSIM is a specialized organization that administers and manages the National Pension Fund that finances benefits payments.

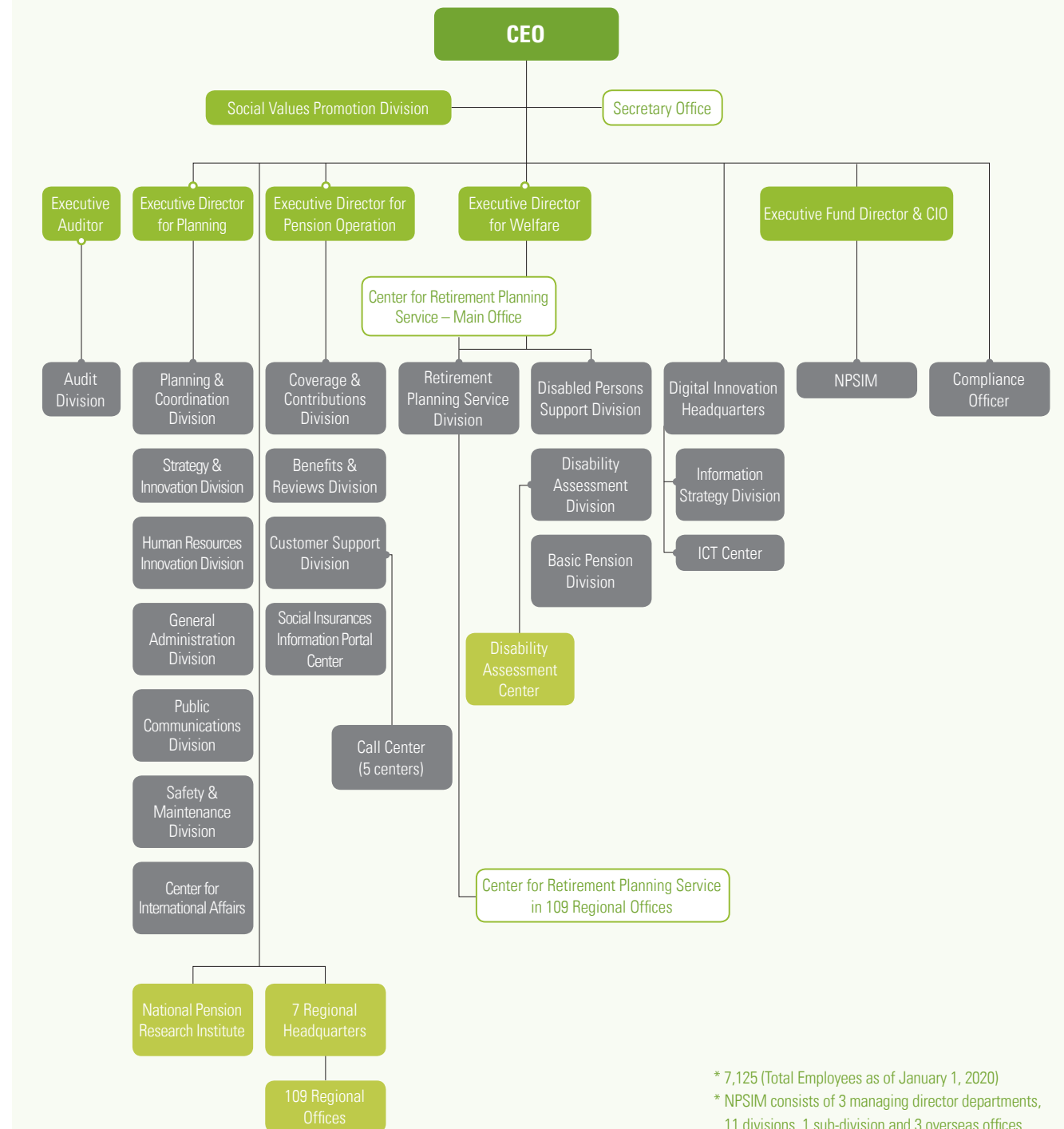
Value Structure



Strategic Direction



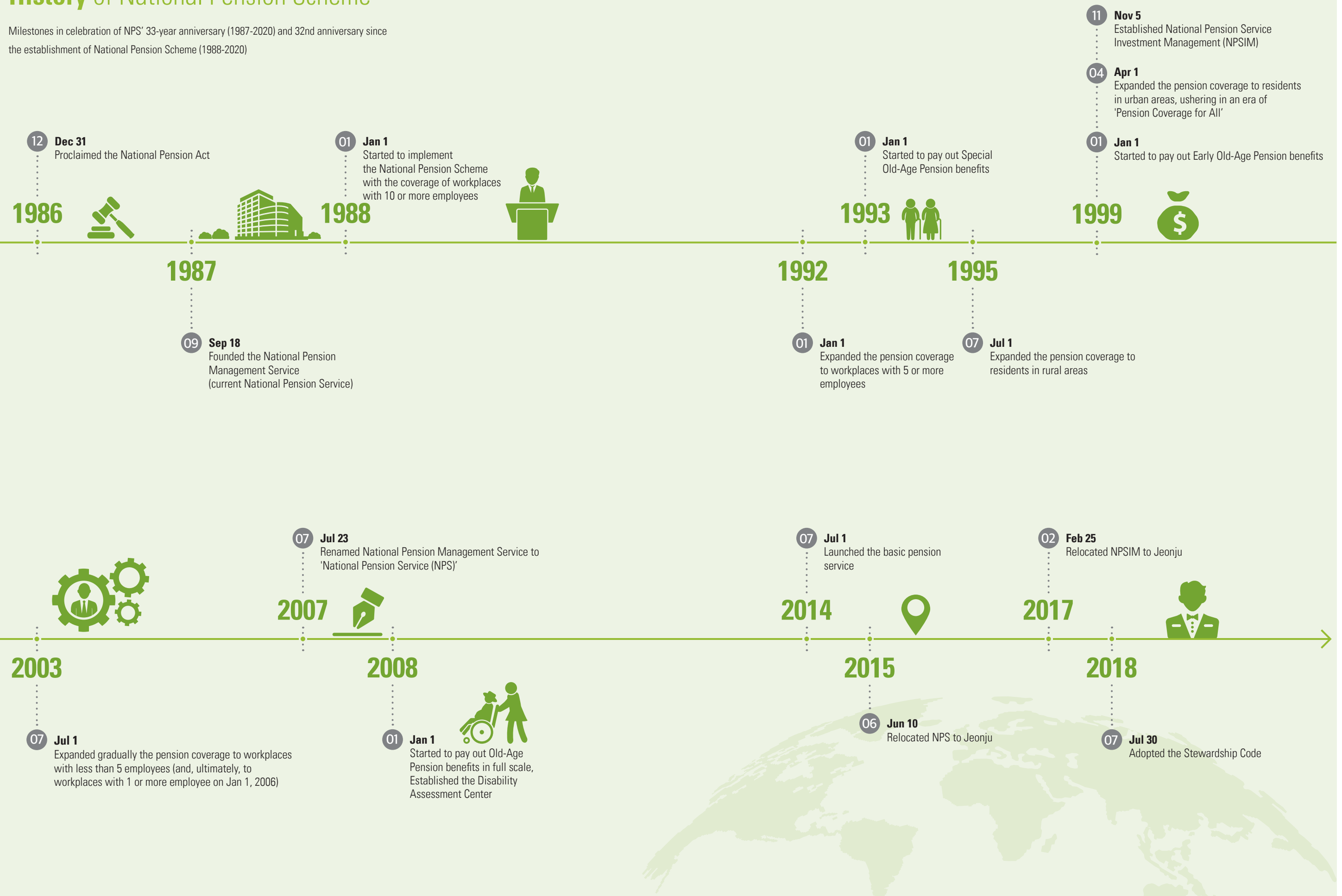
NPS Organizational Structure



* 7,125 (Total Employees as of January 1, 2020)
* NPSIM consists of 3 managing director departments, 11 divisions, 1 sub-division and 3 overseas offices.

History of National Pension Scheme

Milestones in celebration of NPS' 33-year anniversary (1987-2020) and 32nd anniversary since the establishment of National Pension Scheme (1988-2020)





II.

Fund Administration and Management System

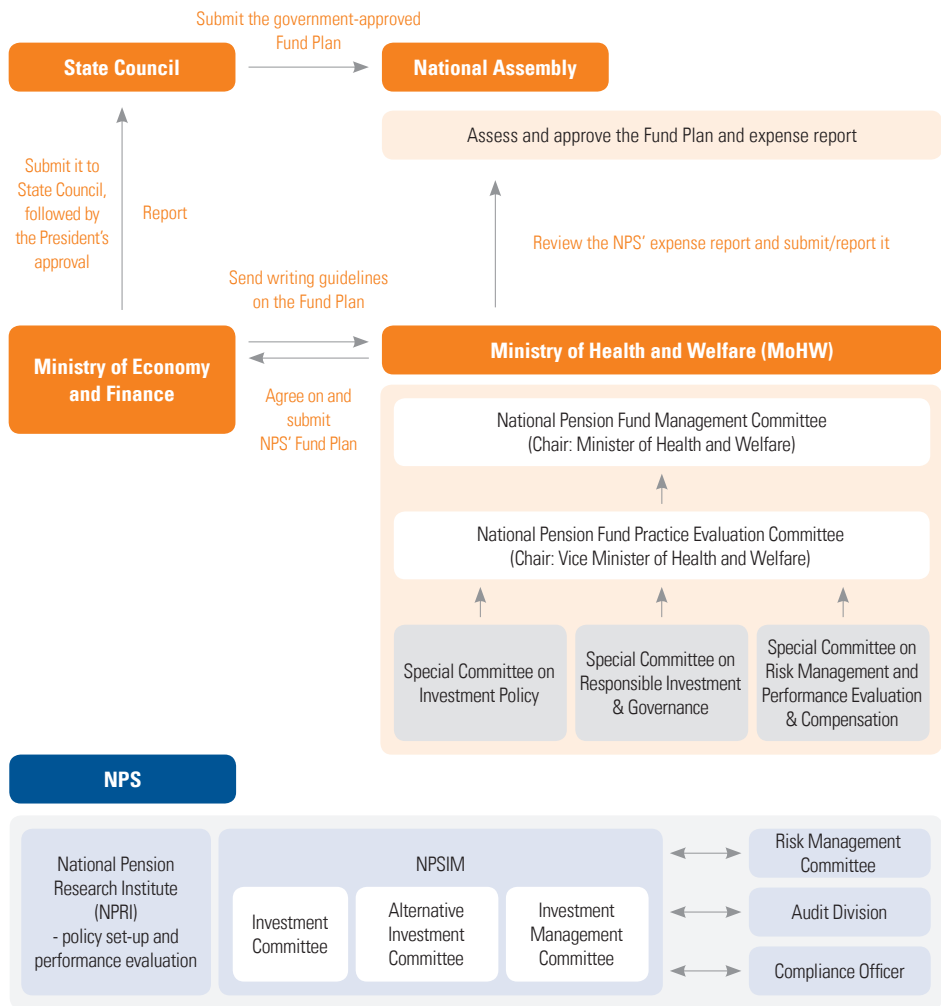
1. Governance
2. NPSIM
3. Fund Management Process

1. Governance

Minister of Health and Welfare oversees the administration and management of the National Pension Fund(NPF) under the National Pension Act. The key matters on fund management are decided by a policy-making body within the Ministry of Health and Welfare and an internal group for investment decision making at NPS.

According to the National Pension Act, Minister of Health and Wealth, the Republic of Korea, operates the 'National Pension Fund Management Committee(FMC)' as the highest decision-making body on fund management to conduct reviews and decisions on key matters concerning fund management and entrusts the businesses of fund administration and management to NPS. NPS founded its arm of asset management, called the National Pension Service Investment Management (NPSIM), that is responsible in conducting a variety of investment activities, including tactical asset allocation, investment execution, market monitoring, and portfolio management. Meanwhile, the Minister of Health and Welfare sets up a fund management plan annually, which is subject to approval by the President of the Government of the Republic of Korea upon being reviewed by FMC and the State Council through a cabinet meeting. Once approved, the scheme is reported by the Government to the National Assembly.

Fund Management Governance



Note) Fund Plan: NPS' fund management plan

Established under Article 103 of the National Pension Act, the FMC is a committee of a total of 20 members, including six ex officio members - the Minister of Health and Welfare as a chair, CEO of NPS and four vice ministers, 12 representatives of pension participants and two outside experts. The representatives are invited to this committee in the sense that the investment decisions can be made democratically and with transparency, while the experts bring a deep academic background and industrial experiences. The FMC members meet at least four times a year to assess and approve fund management guidelines, mid-term and annual fund management plans, investment policies, strategic asset allocation plan, performance evaluation and compensation and external management ratios among other matters.

The FMC has a sub-committee in place to compensate expertise and efficiency in the decision-making process, National Pension Fund Practice Evaluation Committee (PEC) as created under Article 104 of the National Pension Act. The PEC is a committee of accountants, lawyers and other outside experts in economics, business management and financial fields that assists the members of the FMC with its more technical and professional advice based on the review of the agenda items in advance. The PEC is chaired by Vice Minister of Health and Welfare and attended by five ex officio government officials, 12 representatives of employers, employees and pension participants (individually insured persons) and two experts in relative fields.

Governing Bodies for Fund Management



※The introduction of full-time members began as per the amendments to the Enforcement Decree of ational Pension Act in January 2020.

Under Article 80-3 of the Enforcement Decree of National Pension Act, the FMC runs three special committees – the ‘Special Committee on Investment Policy,’ the ‘Special Committee on Responsible Investment and Governance’ and the ‘Special Committee on Risk Management and Performance Evaluation & Compensation’ with an aim to conduct reviews and deliberate on matters in advance before being assessed and approved at the FMC.

The Special Committee on Investment Policy is composed of a chair, three internal (full-time) and two external experts and three members from the FMC. The Special Committee on Investment Policy conducts reviews and assessments on ideas for annual investment plans, investment policies, especially when unbiased judgment based on professional knowledge is required, and other matters regarding development or updating investment policies.

The Special Committee on Responsible Investment and Governance is composed of a chair, two full-time experts and six external experts. This committee conducts reviews and decides on stewardship activities by NPS, including responsible investments and exercise of shareholder rights to listed equities. The result is reported to the FMC.

The Special Committee on Risk Management and Performance Evaluation & Compensation is composed of a chair, two internal (full-time), three external experts and three members from the FMC. The Special Committee on Risk Management and Performance Evaluation & Compensation conduct a range of activities, including research, policy development and advisory in relation to risk management, performance evaluation and compensation for fund management. This committee also reviews or assesses an incentive ratio of all employees and the CIO of NPSIM on behalf of the FMC.

※ Lists of all members of Fund Management Committee, Practice Evaluation Committee, Special Committee on Investment Policy, Special Committee on Responsible Investment and Governance and Special Committee on Risk Management, Performance Evaluation & Performance are available at the Korean-language website of the Ministry of Health and Welfare (www.mohw.go.kr).

Meanwhile, NPS operates additional committees internally – the Risk Management Committee, the Investment Committee, the Alternative Investment (Sub-)Committee and the Investment Management Committee with an aim to deepen expertise in different areas and improve transparency in the decision-making process. Each committee consisting of internal and external experts convenes meetings on a regular or occasional basis. Of them, the Alternative Investment Sub-Committee was created in 2019 to fast track decisions on alternative investment deals with a specific condition* attached. Besides, NPSIM operates committees for the selection of external managers and hiring.

* Less than US\$50M in committed assets, co-investment with the fund committed by NPS, waiver of asset management and performance fees

NPS Internal Committees on Fund Management

	Role	Timeline	Membership
	Risk Management Committee • To establish basic guidelines on risk management • To set and manage risk tolerance or loss tolerance • To develop and operate a risk management system • To address matters on risk management in case of adding new investment assets or styles • To address other matters referred to the meeting at the request of the chair	Periodically (more than 4 times a year) Occasionally	• Chair : CEO • Member : CIO of NPS and 5-7 external experts
	Investment Committee • To establish annual and monthly investment plans • To address matters on criteria for selection and management of vendors • To address other matters referred to the meeting at the request of the chair	Periodically (monthly) Occasionally	• Chair : CIO • Member : CIO-appointed Managing Director or three general directors (head of division), general director relating to investment activities and three or less CIO-appointed team heads
	Alternative Investment (Sub-) Committee • To make decision and revision in relation to investments of certain alternative assets • To address other matters referred to the meeting at the request of chair	Occasionally	• Chair : CIO • Member: Internal member (Managing Director of Investment Strategy and Responsible Investment & Governance, or Head of Investment Strategy Division, Managing Director of Risk Management & Investment Legal, or Head of Risk Management Division, one general director (head of division) and three external experts ※ Pools of external experts are formed and run to cover four sectors - infrastructure, real estate, private equities and natural resource. ※ Chair of Alternative Investment Sub-Committee is appointed by CIO.
	Investment Management Committee • To dispose of investment assets when an invested company becomes default	Occasionally	• Managing Director of Risk Management & Legal (chair), three internal members (Chair-appointed general director or team head at NPSIM) and three external members

2. NPSIM

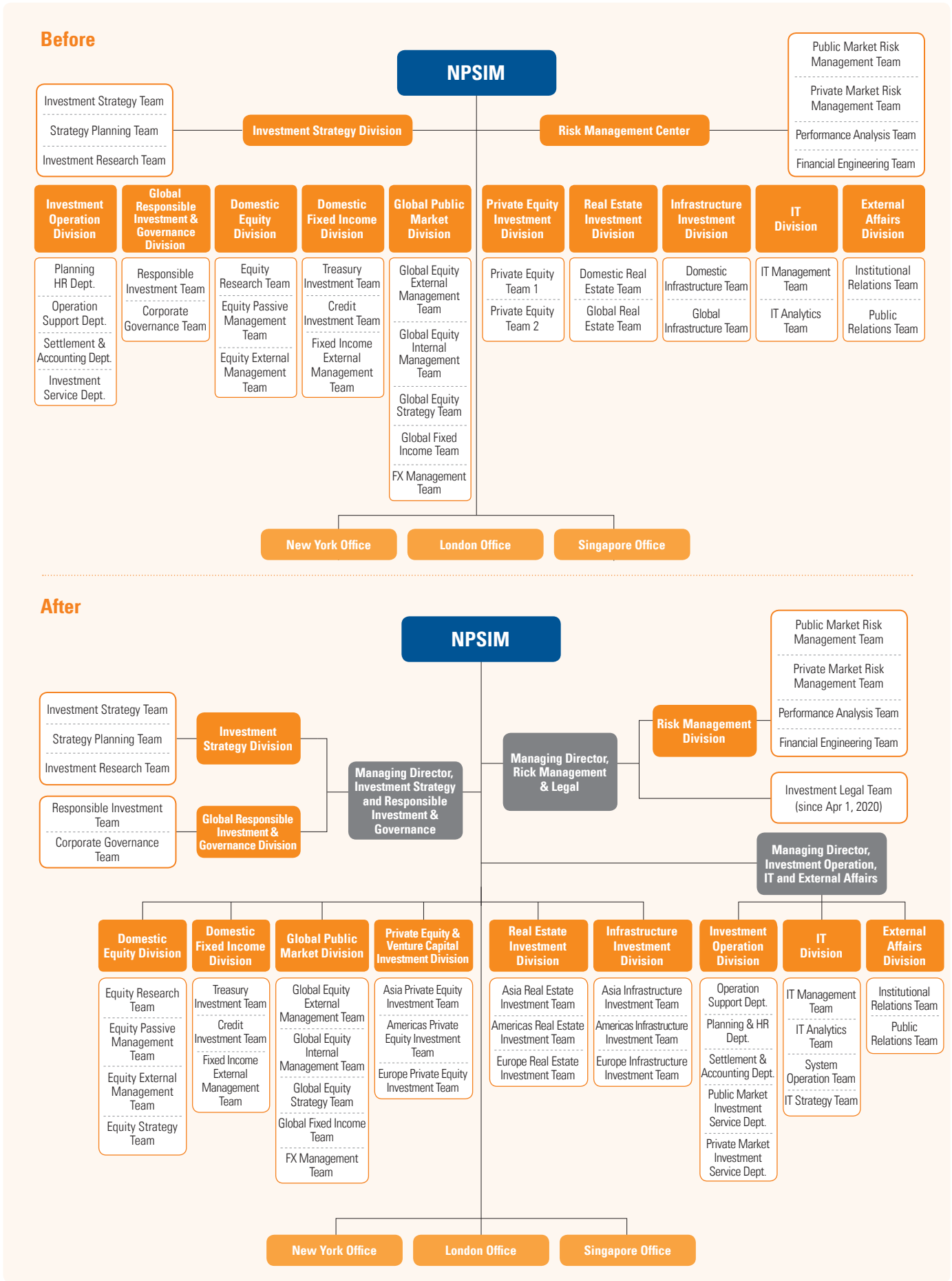
National Pension Service Investment Management as an arm of asset management of NPS is an organization of talents with years of experience in investments of equities, fixed income and alternative assets.

National Pension Service Investment Management (NPSIM) was established in November 1999 to manage assets more professionally and efficiently in light of an evolving investment landscape. Led by CIO, NPSIM comprises three managing directors as well as 11 divisions, a sub-division and three overseas offices as of January 1, 2020. NPSIM employed 359 in total, including CIO, 280 investment staff, 65 administrative staff and 13 local hires at the overseas offices. Aside from them, the Compliance Officer and 19-staffed Compliance Division are responsible for internal control on fund management as of the end of 2019.

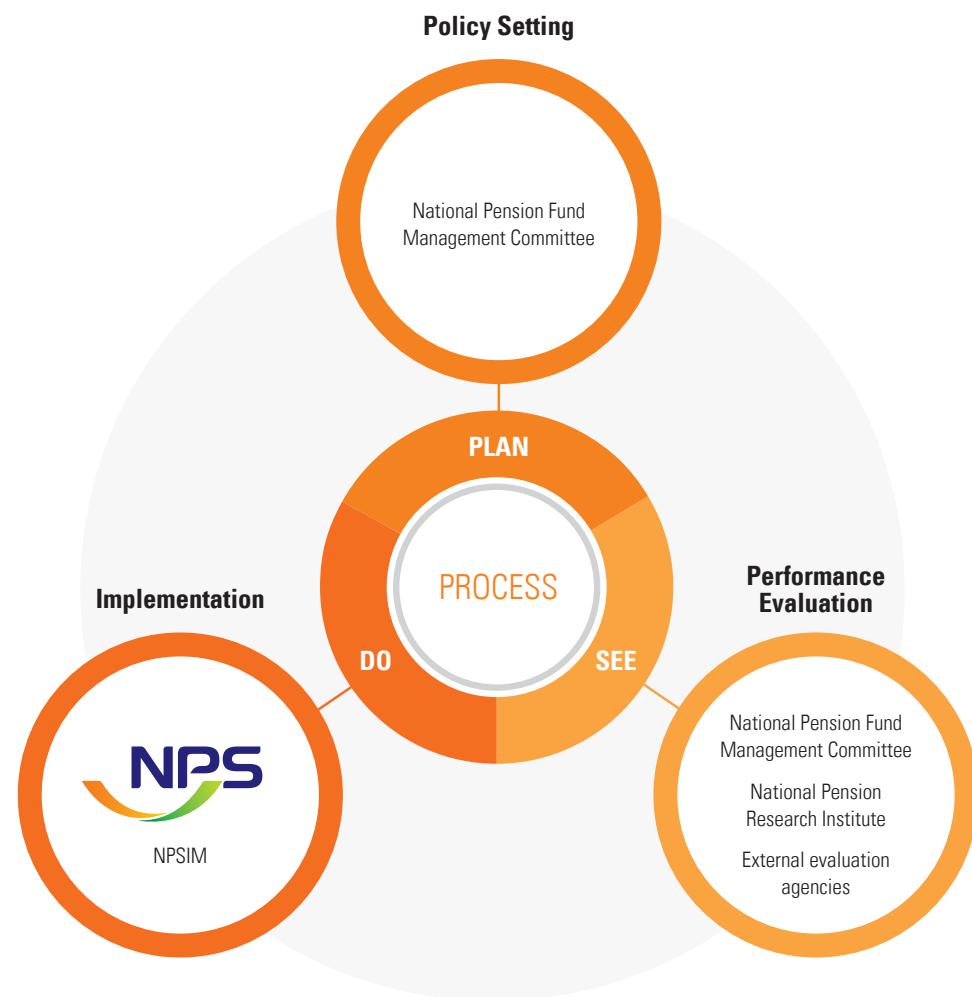
The organization of NPSIM was reformed in 2019 with an aim to respond flexibly to rapidly changing environments at home and abroad and deepen its expertise in fund management. In the course of the reorganization, three senior management posts were created under the leadership of CIO: Managing Director of Investment Strategy and Responsible Investment & Governance, Managing Director of Risk Management and Legal and Managing Director of Investment Operation, IT and External Affairs. The new posts are intended to lessen the burden of the CIO and let him or her concentrate on an investment area. In addition, the private equity investment team was reorganized into Private Equity & Venture Capital Investment Division, while the private equities team and other alternative investment teams were regrouped by continent: Asia, North Americas and Europe. Previously, they used to be organized with a focus on asset class and region, but more broadly – Domestic and Global.

The HR system was also upgraded to attract and retain talented personnel. Job postings were announced by various means to advertise the attractiveness of working at NPSIM. The annual hiring cycle also increased from two to three a year, which resulted in the largest hiring in 2019 since the relocation to Jeonju. Furthermore, the talent development program was adopted to secure skillful and talented employees in a long term; and efforts were made to diversify channels to attract talents with the help of a consulting firm and based on the pilot test on assistant portfolio managers. With such efforts, NPSIM saw an increase of 78% or 166 in the number of total employees, from 212 in 2014 to 378 in 2019. The per-capita AUM was down to 1.9 trillion KRW in 2019 from 2.2 trillion KRW in 2014.

There have been continuous efforts to deepen the expertise of the overseas offices in order to strengthen the ability to execute global investments for investment diversification. The overseas offices seek to gradually broaden their functions from investment support, including monitoring of global financial markets and networking, to investment execution as an independent entity. They will be also allowed to do deal sourcing and review and conduct direct investments.



3. Fund Management Process

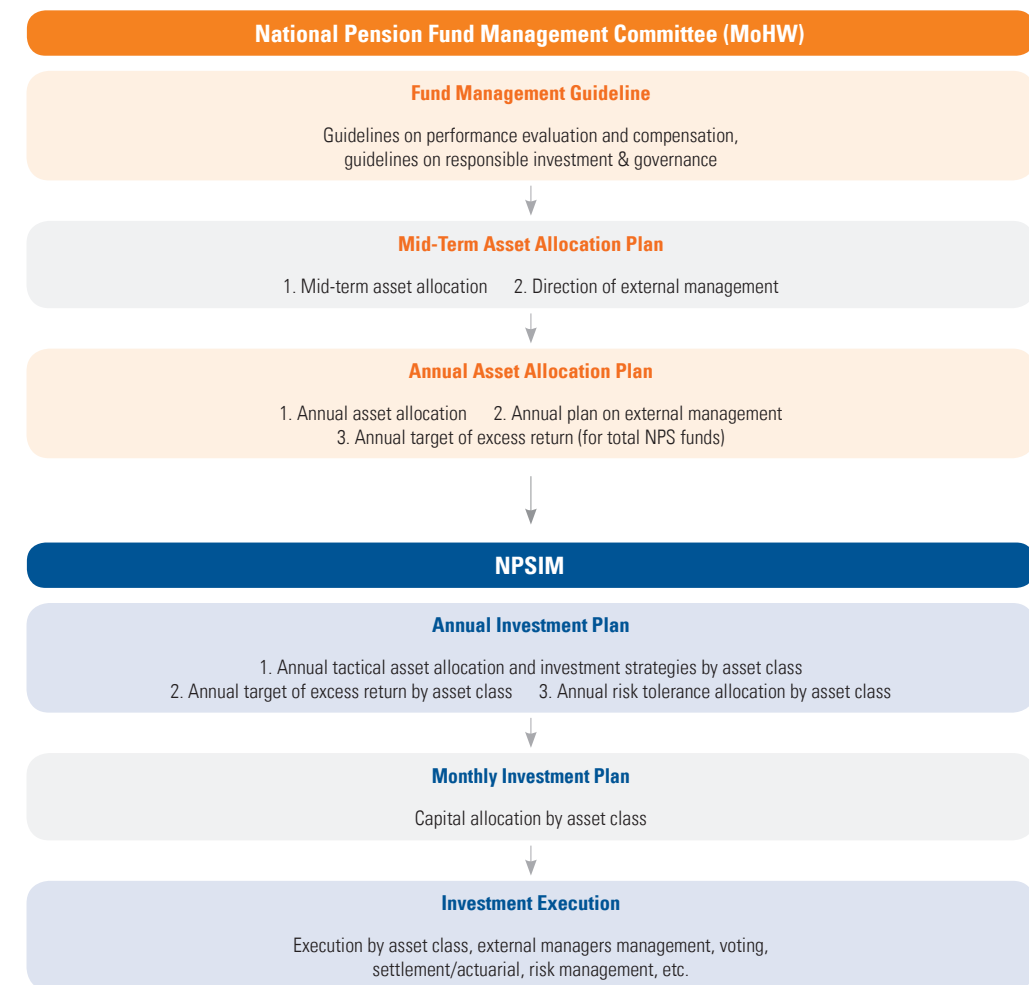


3-1. Asset allocation

Under the National Pension Act, the Minister of Health and Welfare oversees the development of the “National Pension Fund Management Guideline” (Fund Management Guideline) proposing an annual investment policy and implement the guideline upon the approval of the FMC. The Fund Management Guideline as an investment policy statement is publicly disclosed to raise the understanding of policies on fund management among stakeholders while delivering essential information on asset management mandates and investment policies and strategies to individuals related to fund management activities.

Under the National Pension Act, NPS as a custodian entrusted with asset management functions complies with fund management principles, asset allocation policies as well as other guidelines on each subject and asset class, as stipulated in the investment policy statement.

Fund Management Process



In NPS, the investments are executed in line with mid-term and annual asset allocation plans upon annual approval by the FMC. The Mid-term Asset Allocation Plan acts as a reference portfolio for the total fund for the next five years, established in consideration of the expected interest rates applicable to the midterm fiscal outlook as well as the outlook for revenue (contributions) and expenses (benefits). The Annual Asset Allocation Plan is an annual target portfolio reflecting domestic and international investment conditions and portfolio status and proposes the target allocation and permissible range of each asset class.

More specifically, the Mid-term Asset Allocation Plan is a 5-year investment strategy that sets out the target rate of return and the risk tolerance level for the next five years in consideration of the mid-term outlook for the real economy, financial markets and other factors, and sets out the target allocation ratios for each asset class. As the fund size grows, the plan aims at improving the profitability and stability of the fund. In accordance with the Fund Management Guideline, the target rate of return is defined as “real GDP growth + CPI ± adjustments.” The risk tolerance level is defined as around 15% of Shortfall Risk.

The Mid-term Asset Allocation Plan (reference portfolio) as approved by the FMC suggests the target allocation ratios, according to which the NPS should construct its portfolios for the next five years. In theory, once the target ratios are set in the mid-term asset allocation plan, existing portfolios should be rebalanced instantly. However, given the fund size, it is not feasible in reality. That is why an annual target portfolio (the Annual Asset Allocation Plan) is constructed on the basis of the reference portfolio and executed accordingly.

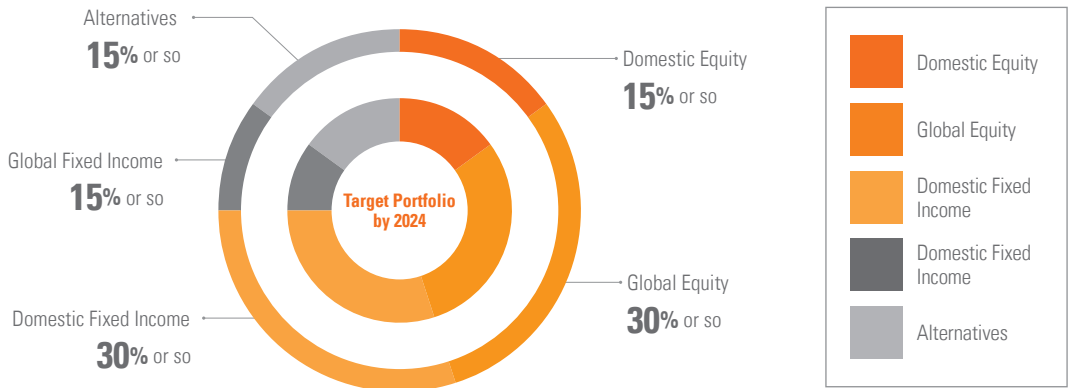
NPS executes investments according to the policies and guidelines decided by the FMC and manages its investment portfolios in consideration of each asset class’ attribution. In addition, NPS establishes a monthly investment plan reflecting financial markets and economic conditions, which is to be reviewed and approved by the Investment Committee, an internal decision-making body. When investing in large-scale projects such as infrastructure or real estate projects inside and outside of Korea, the Alternative Investment Committee with external experts present makes investment decisions after reviewing investment validity and risk factors in advance.

2020-2024 Mid-Term Asset Allocation Plan

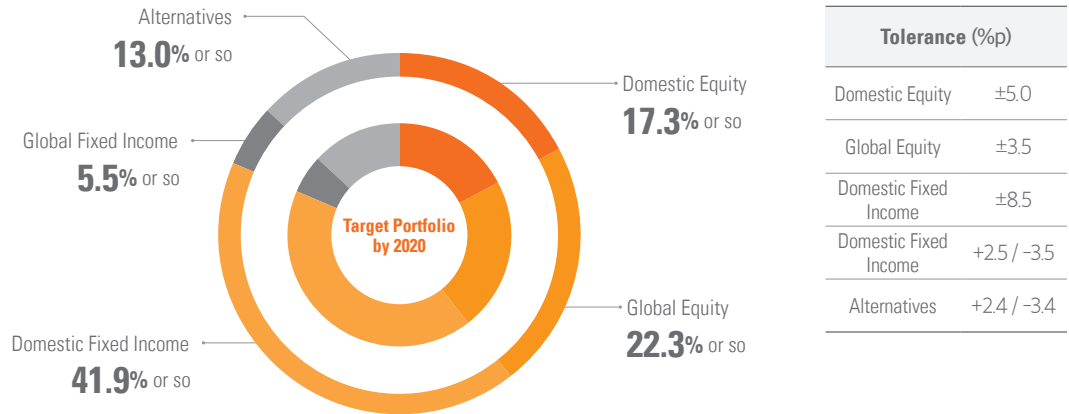
National Pension Fund Management Committee (FMC) set out in 2019 a target rate of return of 5.3% for the period of 2020 to 2024 in consideration of outlook for real economic growth and inflation. The total portfolio sets target allocations of 15% for Domestic Equity, 30% for Global Equity, 30% for Domestic Fixed Income, 10% for Global Fixed Income and 15% for Alternative Investment. (Note that target ratios are loosely set.)

Noticeably, NPS has reduced the weight of fixed income assets to around 47% at the end of 2019 from more than 50% previously, while having increased that of foreign equities to a great degree. Going forward, NPS is poised to continue on this investment diversification strategy characterized by cutting allocations to fixed-income to around 40% while raising allocations to foreign and alternative assets.

Mid-Term Asset Allocation Plan



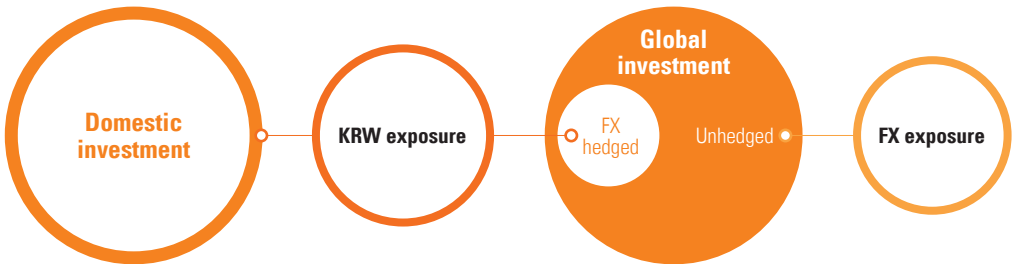
Annual Asset Allocation Plan



Tolerance (%p)	
Domestic Equity	±5.0
Global Equity	±3.5
Domestic Fixed Income	±8.5
Domestic Fixed Income	+2.5 / -3.5
Alternatives	+2.4 / -3.4

FX Management Policy

NPSIM presents guidelines on risk management and investment of exposures to foreign currencies that are an irreversible byproduct of overseas investments. According to Article 13 of the Fund Management Guideline, the FX hedging policy aims to reduce volatility in portfolios, improve return within the permissible range and prevent a large-scale foreign exchange loss. The FX hedging policy is to set and manage the strategic FX hedge ratios for investments in foreign assets while making a strategic currency composition that prevents currency concentration of unhedged foreign assets.



The FMC set the strategic FX hedge ratios in December 2007 under the goal of ‘keeping the volatility of individual asset classes to a minimum,’ and reset the ratios in September 2009 under the goal of ‘keeping the volatility of entire assets to a minimum.’ In addition, the tactical FX exposures were adjusted within the permissible range according to the tactical asset allocation plan, which led to a gradual increase from ±3% for the period of 2017 and 2018 to ±5% in 2019 and beyond. There will be consideration over further adjustments to the tactical FX exposures depending on the developments of changing FX exposures, including results of tactical responses, impacts on the FX derivatives market.

Strategic FX Hedge Ratios for Foreign Assets

Asset Class	2007	2009	2015
Global Fixed Income	100%	100%	0%
Global Equity (including Global Alternative Investment)	50%	0%	0%
Strategic FX Hedging Goal	Minimize risk in individual asset classes	Minimize risk in entire assets	Minimize risk in entire assets

Changes in Tactical FX Exposures

- ※ The FX exposures are adjusted depending on foreign exchange movements within ±5% of the total FX exposures.
- * The FX exposures increased from ±3% for the period of 2017 and 2018 to ±5% in 2019

Note 1. FX hedging: A practice of hedging risks associated with foreign exchange movements by trading derivative instrument, which creates the effect of fixing foreign exchange rates.
Note 2. FX exposures: The amount of investments exposed to foreign currency volatility risk

3-2. Investments by asset class

The National Pension Fund is categorized into three sectors of Financial, Welfare and Other in accordance with the fund management plan. The Financial sector represents investments to various asset classes - Domestic Equity, Global Equity, Domestic Fixed Income, Global Fixed Income, Alternative Investment and Short-term Assets. The purpose of classifying funds into multiple asset classes is to diversify investment portfolios and improve profitability and stability in fund management. There are ongoing efforts to maintain this investment diversification strategy.

NPS sets a benchmark index to use it as a guide for investments by asset class and an indicator of performance evaluation. The benchmark index is a summary of investment direction and principles, of which appropriateness and validity are subject to consistent review and upgrade. The benchmark index itself is also monitored yearly and can be revised, if necessary, upon approval by the National Pension Fund Management Committee.

Benchmark by Asset Class

Asset Class		BM Index
Equity	Domestic Equity	KOSPI (including dividends)
	Global Equity	MSCI AC World Index (e.g. Korea, Unhedged-to-KRW)
Fixed Income	Domestic Fixed Income	Customized Index
	Global Fixed Income	NPS Customized Index (ex KRW, Partial hedged (other currencies-USD), Unhedged (USD-KRW))
Alternatives	Domestic Private Equity	$(\text{KOSPI 3-year annualized average return} + 2.5\%) \times w1^{1)} + (\text{Domestic Fixed Income BM 3-year annualized average YTM} + 1.5\%) \times (1 - w1)$
	Global Private Equity	Peer Group Index IRR
	Domestic Real Estate	$\text{IPD Korea Index} \times w2^{2)} + [\text{Korean CPI growth rate (real)} + 5\%] \times (1 - w2)$
	Global Real Estate	Weighted average of IPD Country Indices (seven countries)
	Domestic Infrastructure	$[\text{Korean CPI growth rate (real)} + 4\%] \times w3^{3)} + [\text{The existing investments' real return (\%)} \times (1 - w3)]$
	Global Infrastructure	KRW hedged return (%) of [OECD CPI growth rate (real) + 5%]
	Hedge Fund	$\text{HFRI FoFs} \times 0.5 + [\text{U.S. short-term interests (90-day T-bills)} + 4.5\%] \times 0.5$

※ The Total Return Index is applied in performance evaluation.
Note 1. w1: The weight of domestic private equities for the year.
Note 2. w2: Initially set at 50% and be increased by 10%p every year (IPD Korea Index being used from 2018 on).
Note 3. w3: The actual weight of newly committed investments in the asset class from when the benchmark was applied.
Note 4. The Total Return Index is applied in performance evaluation.
Note 5. The benchmark indices for alternative investments are for performance evaluation.

Detailed Investment Guidelines by Asset Class

Domestic Equity

- Domestic equities seeks investment over a long horizon and seeks to maximize investment profits within risk tolerance.
- The internal management of domestic equities composes an investment university, a pool of investable securities, from which the portfolio is constructed and implemented. The internal management pursues passive management in the mid- to long-term.
- The external management of domestic equities uses a range of investment techniques of private institutions and pursues active management.

Domestic Fixed Income

- Fixed income aims to hold to maturity and diversify portfolios by bond type, issuer, industry (credits) and maturity structure in order to generate a stable, long-term return.
- Investment should be made after considering issuers' credit rating and spreads with risk-free bonds while making efforts to generate an excess return by adjusting duration within a given range.
- NPS submits to the FMC annually 'total credit exposures' of bonds exposed to credit risk by issuer and industry.

Global Investments

- Global investments aim at improving efficiencies in asset allocation by using the effect of investment diversification that complements domestic investment and broadens the type of investments.
- Global investments pursue advancing investment techniques in the long term by strengthening partnerships with renowned international institutions.
- In the case of expanding the weight of global investments, it is appropriate to consider asset disposals that are required for benefits payment at the phase of fund decline and minimize any negative impact of asset liquidation on the domestic financial market.
- NPS submits the total FX exposures to the FMC annually.

Alternative Investments

- Alternative investments aim at improving the efficiencies of fund management by using the different risk-return profile from traditional assets such as equities and fixed income.
- Alternative investments herein refer to investments in real estate, infrastructure, venture capital, corporate restructuring vehicle (CRV) investment, private equities, hedge funds and natural resource development.
- Alternative investments allocate annual commitment limits considering the fact that it is executed phase-by-phase over the commitment period.
- In addition to the Investment Committee, NPS runs an internal committee dedicated to making decisions on alternative investment, "Alternative Investment Committee, to enhance efficiencies and expertise in investment decision making processes.
- When establishing detailed investment plans, executing investments and conducting the follow-up management for alternative investments, the advisory of private experts or professional agencies should be taken into consideration.
- NPS needs to make utmost efforts to explore new investment opportunities.

Short-Term Asset

- Short-term assets refer to idle assets held temporary for the purpose of paying pension benefits or investing in mid-to-long term assets.
- Korean won denominated short-term assets should be managed to minimum and invested in high-return securities for the investment period of less than 3 months, upon review of the assets' stability and liquidity.
- Short-term assets denominated in foreign currencies can be managed for the purpose of maintaining stable foreign currency liquidity, while being invested within US\$ 600 million of daily average balances of each quarter in consideration of the effects on foreign exchange markets.

Securities Lending

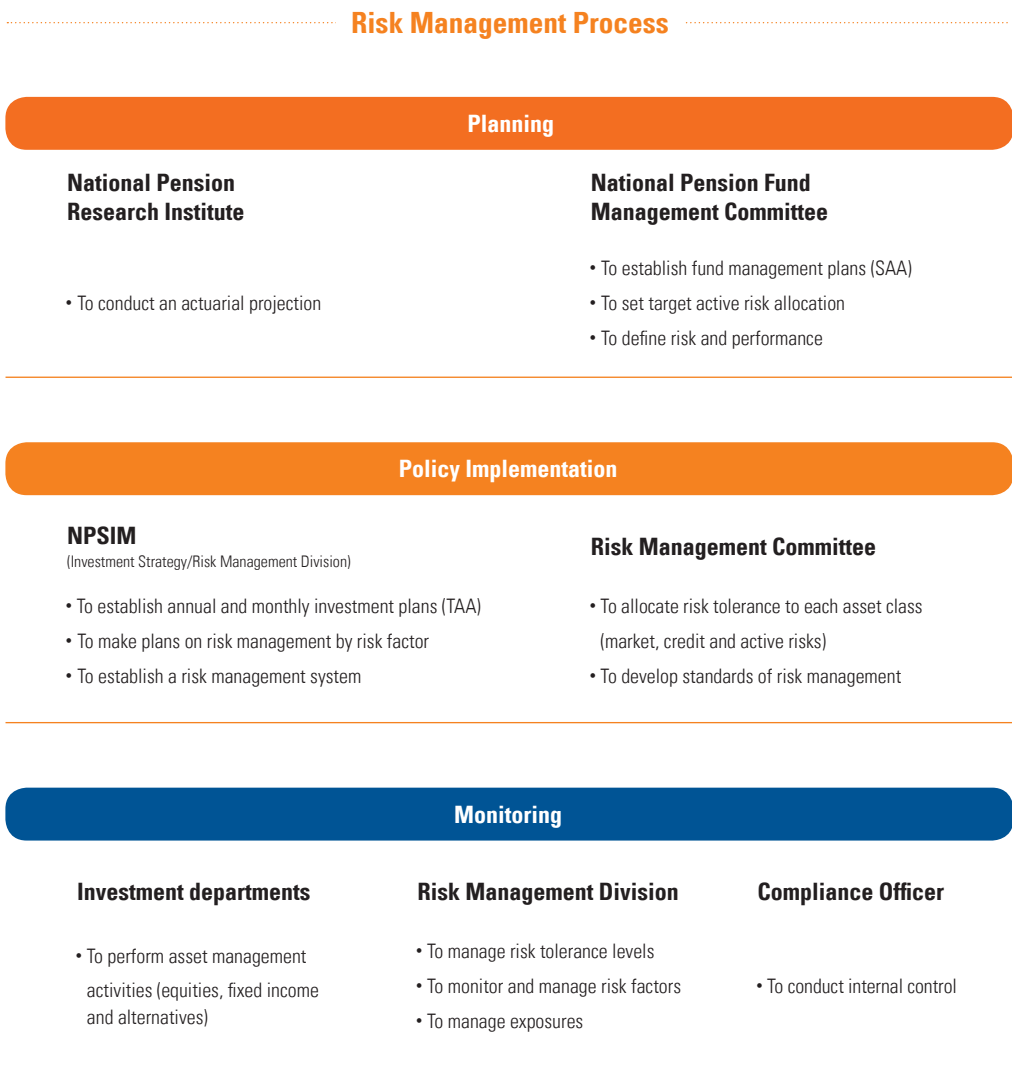
- NPS can conduct securities lending within the range of which the transactions do not undermine stability in search of excess return.

3-3. Risk Management

With increasing investment risks amid growing uncertainties in economic and financial landscapes at home and abroad, NPS manages a variety of risk factors by bolstering the risk management system.

NPS thoroughly manages and controls a wide range of risks that might affect the stability and profitability of the National Pension Fund, including market risk, credit risk, liquidity risk, operational risk, and legal risk. NPS also sets annual risk tolerance levels for the total fund and each asset class according to the strategic asset allocation plan and monitor them constantly. As investment gains are generated through proper risk tolerance and risk management policy, NPS makes an effort to not be exposed to excessive or extra risks relative to returns.

NPSIM has an organization dedicated to risk management, Risk Management Division, and operates an internal committee, Risk Management Committee (RMC), to manage all risks associated with fund management activities in an efficient way. In addition, Compliance Officer working within NPS, but independently of NPSIM, takes charge of internal control on fund management. Aside from this, NPS is subject to internal and external audits, including its internal audit team, independent auditors, Board of Audit Inspection of Korea and the National Assembly of Korea.



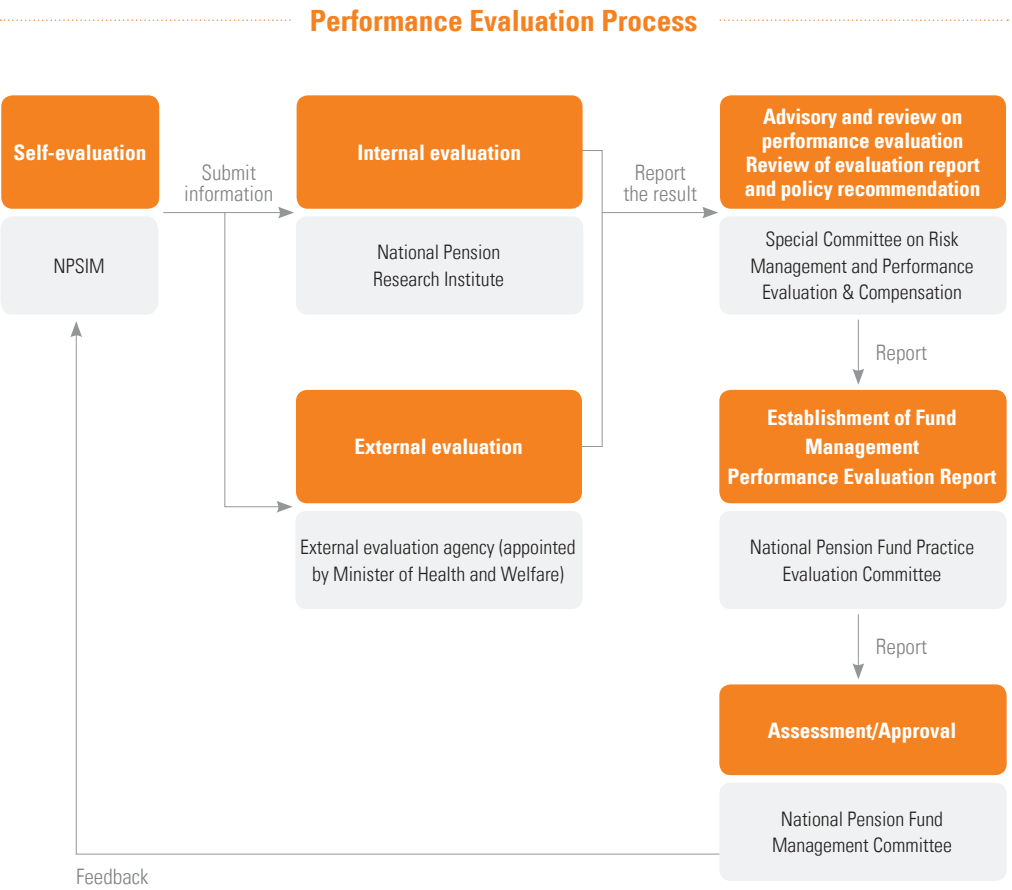
3-4. Performance Evaluation

NPS conducts performance evaluations annually with an aim to improve and advance fund management practices.

The performance evaluation on fund management aims at transparently disclosing unbiased performance results to gain public trust while encouraging to improve and advance the fund management processes using such results. The evaluation is conducted every year for a period of 3 years or longer, which includes not just quantitative evaluation comparing to benchmark, but also qualitative evaluation such as improvements in fund management system and risk management practices.

A performance evaluation report prepared by National Pension Research Institute (NPRI) and an independent evaluation agency is submitted to the Special Committee on Risk Management and Performance Evaluation & Compensation for review, which is then submitted to the National Pension Fund Practice Evaluation Committee (PEC) for assessment and finally reported to the National Pension Fund Management Committee (FMC).

The performance evaluation processes are implemented in compliance with the internationally accepted standard of Global Investment Performance Standards (GIPS®). NPS uses a time-weighted rate of return for performance evaluations, but also uses a money-weighted rate of return to show the return on the total fund. In addition, a rate of return in book value may be used in parallel, depending on investment conditions of assets. The rate of return is calculated with total revenues that include both realized and unrealized gains and losses. All rates of returns are produced after deducting any real transaction costs accrued during the period of which evaluation is carried out.



History of National Pension Fund

NPF
Growth

38

39

NPSIM
Growth

1988

Established NPF

1999

Founded NPSIM

The FMC was reformed in a way that the chair was changed from Minister of Finance and Economy to Minister of Health and Welfare; and the number of members increased from 15 to 20

1990

Started to invest in domestic equities

2001

Started to invest in foreign assets

2003

Reached KRW 100 trillion in AUM

2004

Started to invest in domestic real estate

2005

Started to invest in overseas PEF and infrastructure

2006

Started to invest in SRI (Social Responsible Investment) funds

Started to invest in overseas real estate

2007

Reached KRW 200 trillion in AUM

2007

Restructured investment organizations by asset class

2006

Created dedicated teams for overseas investments

2010

Reached KRW 300 trillion in AUM

2011

Opened New York Office

Expanded and reformed the global investment teams

2012

Opened London Office

2013

Reached KRW 400 trillion in AUM

2013

Created Responsible Investment Team

2015

Opened Singapore Office

2015

Reached KRW 500 trillion in AUM

2016

Restructured risk management organizations by asset class

Split the global equities team into internal and external management teams

Created Performance Analysis Team, Investment Research Team and Alternative Investment Management Team

2016

Started to invest in hedge funds

2017

NPSIM headquarters relocated to Jeonju

2017

Reached KRW 600 trillion in AUM

2018

Adopted Responsible Investment & Governance Principles (Stewardship Code)

2018

Created Global Responsible Investment & Governance Division

Reorganized alternative investment teams by asset class (PE, Real Estate and Infrastructure)

2019

Reached KRW 700 trillion in AUM

2019

Created a new position of managing director

Reorganized alternative investment Division by continent (Asia, Europe and Americas)

Renamed Private Equity Investment Division to Private Equity & Venture Capital Investment Division

Created IT Division and External Affairs Division



III.

Investment Status and Performance

1. Investment Portfolio Overview
2. Investment Performance
3. Investments by Asset Class

1. Investment Portfolio Overview

NPS reported KRW 736.7 trillion in market value in assets under management as of the end of December 2019, an increase of 97.9 trillion from KRW 638.8 trillion at the end of 2018.

The reserve fund represents 99.9% of the Financial Sector and 0.1% of the Welfare and Other Sectors. The Financial Sector occupying the largest proportion of the reserve fund consists of equities, fixed income, alternative investments and other assets.

The investments in fixed income, the most invested asset class, were valued at 351.2 trillion KRW in market value in 2019, an increase of 13.6 trillion KRW from the previous year. Of them, domestic and global fixed-income investments were valued at 320.8 trillion KRW and 30.5 trillion KRW, respectively, a year-on-year growth of 9.8 trillion KRW and 3.9 trillion KRW, respectively. As such, the investment values of the fixed income portfolios were up due to rising inflows to the NPF as a whole, while the investment weights were reduced in both domestic and global fixed-income investments. NPSIM lowered the allocations to fixed-income investments from over 50% to 47.7% as of the end of 2019 through its continuous efforts to diversify portfolios in a way of investing in less fixed income and more foreign assets.

The investments in equities, the second-most invested asset class, were valued at 298.8 trillion KRW in market value in 2019, an increase of 76.9 trillion KRW from the previous year. Of them, domestic and global equities investments were valued at 132.3 trillion KRW and 166.5 trillion KRW, respectively, a year-on-year growth of 23.3 trillion KRW and 53.6 trillion KRW, respectively. Equities saw a surge in both investment values and weight in 2019 compared to the previous year. The decline in fixed income allocations driven by investment diversification led to an increase of equity investments by 5.9%p to 40.6% in 2019 on a year-on-year basis.

In addition to conventional assets such as fixed income and equities, NPS also invests in alternative assets, including real estate, infrastructure, and private equities. Alternative investments were valued at 84.3 trillion KRW, or 11.4% of the total fund, as of the end of 2019. The alternative investment portfolios represented 59.5 trillion KRW in investments in foreign real estate, infrastructure, private equities funds, hedge funds and other foreign alternative assets, while 24.8 trillion KRW in investments in domestic real estate, infrastructure, venture capital, private equities funds and other domestic alternative assets. Alternative investments saw an increase of 7.7 trillion KRW in value, but a fall of 0.6%p in weight.

Asset Allocation Status

(Market value, Unit: KRW in trillion, %, %p)

	End 2019 (A)		End 2018 (B)		Difference (A-B)	
	Amount	Weight	Amount	Weight	Amount	Weight
Total	7,366,538	100.0	6,387,811	100.0	978,728	0.0
Financial	7,360,790	99.9	6,382,168	99.9	978,622	0.0
Equity	2,987,885	40.6	2,218,747	34.7	769,138	5.9
(Domestic)	1,322,609	18.0	1,089,138	17.1	233,471	0.9
(Global)	1,665,277	22.6	1,129,610	17.7	535,667	4.9
Fixed Income	3,512,134	47.7	3,375,800	52.8	136,334	-5.1
(Domestic)	3,207,512	43.5	3,109,927	48.7	97,585	-5.2
(Global)	304,622	4.1	265,874	4.2	38,749	-0.1
Alternatives	842,952	11.4	766,195	12.0	76,757	-0.6
(Domestic)	247,971	3.4	244,065	3.8	3,906	-0.4
(Global)	594,981	8.1	522,130	8.2	72,851	-0.1
Short-Term Asset	17,819	0.2	21,426	0.3	-3,607	-0.1
Welfare ²⁾	1,663	0.02	1,446	0.02	217	0.0
Other ³⁾	4,085	0.1	4,196	0.1	-111	0.0

Note 1. Welfare sector: a resort for employee welfare (Cheongpung Resorts), loans for credit recovery and emergency loans for the elderly (NPS Silver Loan)
2. Other sector: company buildings, deposits

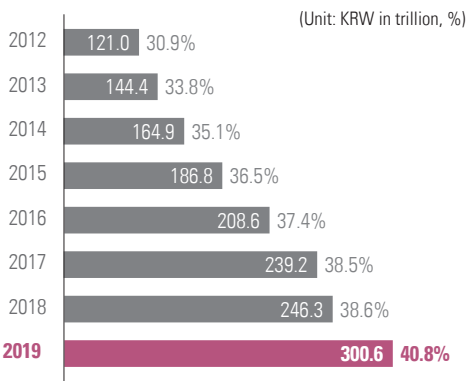
Meanwhile, management of the NPF is partially outsourced to external asset managers with a view of using the expertise of the private sector to achieve risk aversion and diversify profit sources. Given the sheer size of AUMs, NPS manages its assets internally and externally, while the target external management ratios for each asset class are to be approved by the FMC. NPS manages the externally-managed portfolios for each asset by investment type within the predefined range of external management in consideration of asset characteristics, market conditions, asset managers' capacities.

Meanwhile, management of the NPF is partially outsourced to external asset managers with a view of using the expertise of the private sector to achieve risk aversion and diversify profit sources. Given the sheer size of AUMs, NPS manages its assets internally and externally, while the target external management ratios for each asset class are to be approved by the FMC. NPS manages the externally-managed portfolios for each asset by investment type within the predefined range of external management in consideration of asset characteristics, market conditions, asset managers' capacities.

Furthermore, NPS has been investing abroad with an aim to minimize the impact that its excessive assets relative to the domestic economy would have on the domestic market and improve returns under the principles of public benefit and liquidity. The overseas investments began in 2001 with investments in Korean bonds dominated in foreign currencies and have since been diversified by asset class. Currently, NPS is investing overseas in real estate, private equities, infrastructure and hedge funds as well as equities and fixed income.

Overseas investments in equities, fixed income and alternative assets saw an increase of 34.9%, or 256.8 trillion KRW, as of the end of 2019 from the previous year at 30.0%, or 191.9 trillion KRW. NPSIM seeks to ramp up the global investments up to around 50% of the fund reserve by 2024 according to the Mid-Term Asset Allocation Plan.

Growth of External Management



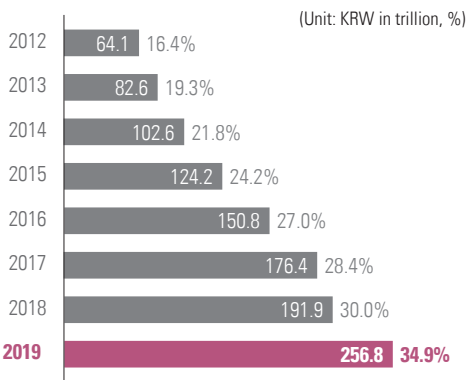
External Management by Asset Class

(As of end-2019, Market value, Unit: KRW in 100 million)

	Total	Equity	Fixed Income	Alternatives
Amount	3,005,512	1,630,365	594,688	780,459
(Domestic)	1,206,221	606,419	414,324	185,478
(Global)	1,799,291	1,023,946	180,364	594,981

Note 1. The entire global alternative investment is externally managed.
2. All numbers here may not add up precisely because they were rounded up.

Growth of Global Investment



Global Investments by Asset Class

(As of end-2019, Market value, Unit: KRW in 100 million, %)

	Amount	Weight
Total	2,567,858	100.0
Equity	1,665,277	64.8
Fixed Income	304,622	11.9
Alternatives	594,981	23.2
Short-Term Asset	2,978	0.1

2. Investment Performance

The National Pension Fund generated an annual rate of return of 11.31% in 2019 and a cumulative rate of return (an annualized rate of return since the inception of the National Pension Fund in 1988) of 5.86%.

The global stock market had remained weak during 2018, largely driven by trade disputes among major countries, monetary tightening and escalated credit risks in poor emerging countries. On the contrary, uncertainties were removed from the market in 2019 due to U.S.-China trade deals, improved economic indicators and better earnings outlook for export companies, especially semiconductor manufacturers. Favorable investment conditions have led to a high performance in the stock market, in particular, yielding the highest rate of return and investment income since the foundation of NPSIM on November 5, 1999.

- * Domestic stock market (KOSPI): Increase of 7.67% in 2019
- * Global stock market (MSCI ACWI ex-Korea in dollar term): Increase of 26.83% in 2019

With concerns over the economic downturn, major central banks cut base rates and took other quantitative easing measures. It has lowered the interest rates and pushed valuations upward for domestic and foreign fixed income. An increase in the exchange ratio of the Korean won and the U.S. dollar also boosted foreign currency translation gains, generating a higher bond yield ratio.

- * Domestic fixed income: Korean Treasury (3-year) down by 46.8bp in 2019
- * Global fixed income: U.S. Treasury Note (10-year) down by 76.7bp in 2019

Having increased in an allocation ratio of the total portfolios over the mid- to long –term, alternative investments have delivered interest and dividend incomes throughout the year. In addition, the foreign currency translation gains were generated by the increased KRW-USD exchange ratio, and the holding assets enjoyed higher valuations last year. Such favorable conditions led to an improved performance in alternative assets.

NPS as a long-term investor has produced stable returns in the mid- to long –term, with 5.86% and 367.5 trillion KRW in an annualized rate of return and cumulative investment income, respectively, 5.87% in a 3-year rate of return and 5.45% in a 5-year rate of return as of the end of 2019.

Given its focus on taking a long-term perspective on investment, NPS will make continuous efforts to diversify its portfolios in a direction of investing more in foreign and alternative assets and improving long-term returns.

Calculation of Rate of Return

- Money-weighted rate of return = investment income÷average investment balance×100
 - Investment income: Gains/losses on trading and valuation, dividend income, securities lending income, interest income, etc.
 - Average investment balance: A weighted-average of the average investment principal amount during the investment period
- Time-weighted rate of return = [(1+R1)×(1+R2).....(1+Rn)]-1
 - The time-weighted rate of return deems the time of which new cash flow is generated as the starting point of an investment period. During each of the investment period, the rate of each return is calculated and geometrically averaged. The time-weighted rate of returns are used to compare against the benchmark returns.
 - The fund administrative expenses (i.e. internal investment fees, indirect costs, etc.) are not deducted from the gain/loss amounts.

Investment Performance At a Glance

(Market value, Unit: KRW in 100 million, %)
M/W: Money-weighted rate of return
T/W: Time-weighted rate of return

	2019			3-Year (2017-2019)		5-Year (2015-2019)		Since Inception (1988-2019)	
	Income	T/W	M/W	T/W	M/W	T/W	M/W	Income ²⁾	Return ³⁾
Total	734,247	-	11.31	-	5.87	-	5.45	3,674,776	5.86
Public ¹⁾	-	-	-	-	-	-	-	190,827	8.26
Financial	734,135	11.34	11.33	5.79	5.88	5.32	5.46	3,475,758	5.78
Equity	516,839	22.39	21.91	8.75	8.74	7.43	7.70	1,207,482	7.30
(Domestic)	143,238	12.46	12.58	5.68	5.47	4.86	4.80	572,469	5.59
(Global)	373,601	31.64	30.63	11.21	12.22	9.88	11.06	635,013	10.08
Fixed Income	141,963	4.24	4.30	3.15	3.25	3.10	3.18	1,826,440	4.77
(Domestic)	109,183	3.55	3.61	2.94	3.04	2.99	3.05	1,687,105	4.74
(Global)	32,780	12.05	11.85	5.40	5.70	4.33	4.66	139,335	5.14
Alternatives	75,569	9.82	9.62	8.80	8.76	9.73	9.49	431,443	8.89
(Domestic)	16,703	7.08	6.78	7.15	6.92	7.23	6.98	142,663	6.75
(Global)	58,866	11.09	10.92	9.54	9.65	11.15	10.87	288,780	10.55
Short-Term Asset	413	1.46	1.46	1.59	1.39	1.79	1.57	15,719	3.89
Welfare	-16	-	-1.08	-	-1.40	-	-1.52	6,081	6.23
Other	128	-	1.11	-	0.90	-	0.81	2,110	1.64

- Note 1. No new investment has been made in the Public Sector since 2000. The remaining investments were fully recovered as of the end of 2005.
2. It is the investment income accumulated for the period of between 1988 and December 2019.
3. It is the money-weighted rate of return since inception.

3-1. Domestic Equity

NPS first invested in domestic equities in 1990, two years after its establishment. As of the end of 2019, domestic equity investments were valued at 132.3 trillion KRW, which was 18.0% of the total NPS fund coverage and an increase of 23.4 trillion KRW from the end of 2018.

South Korean stock markets experienced a higher volatility all year round in 2019 with growing external uncertainty from the U.S.-China trade conflict and Japan's export restrictions. The mood had dramatically changed in the third quarter when the U.S.-China 'Phase One' trade deal and elevated expectation of corporate earnings recovery led a rally in the local stock market. As of the end of 2019, KOSPI and KOSPI 200 ended its trading day with an annual return of 7.67% and 12.13%, respectively. The market confidence followed by strong liquidity in the stock market had driven up stock valuation and thereby increased the share of domestic equities in the total portfolio of NPS by 0.9%p compared to the previous year's figure.

Domestic equity investments are composed of active and passive portfolio management. The portfolio management of active styled investment strategies is partially outsourced to external asset managers, while the passive investment strategies are 100% internally managed. In 2019, the weights of active-internal and active-external investments in the domestic equity portfolio represented 20.4% and 45.9%, respectively, while the coverage of passive investments was 33.7%, a small change as opposed to the previous year's figure.

The stock market was highly volatile last year, as concerns rose over the global economic slowdown and U.S.-China trade tensions. In spite of challenging market conditions, NPS successfully defended its return from a deep dive through optimal sector and security selection. In addition, the recovery in the domestic stock market after the second half of the year provided a positive impact on its total portfolio performance. As a result, its domestic equity investments generated a time-weighted return of 12.46%, outperformed its benchmark by 2.38%p in 2019. The annualized return for the respective three and five years outperformed its benchmark as well.

Looking into its sub-portfolio performance, the active-internal investments returned 15.87%, a gain of 1.06%p relative to its benchmark, while the active-external investments returned 9.30%, a gain of 0.69%p relative to its benchmark. The passive investments returned 14.75%, a loss of 0.06%p relative to the benchmark. In particular, the active-external investments generated an increase in excess return compared to 2018 through improvement in the capital allocation process to external fund managers, development of type-specific benchmarks and the expansion of the investable equity universe.

Meanwhile, manufacturing represented 64.9% of the domestic equities portfolio coverage in 2019, an increase of 6.2%p from 2018. Aside from manufacturing, NPS invests in a wide range of sectors including financials, consumer services, retail, telecommunications, construction, electricity & gas, and transportation & warehousing.

Rate of Return for Domestic Equity

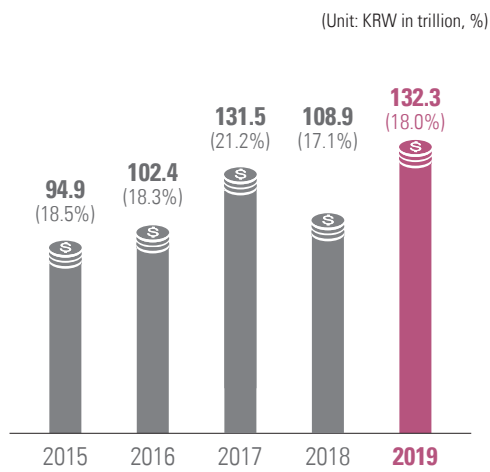
(Unit: %)		
	Time-Weighted	BM
Annual Return for 2019	12.46	10.08
3-Year (2017-2019)	5.68	4.84
5-Year (2015-2019)	4.86	4.73

NPS Investments in Domestic Stock Markets

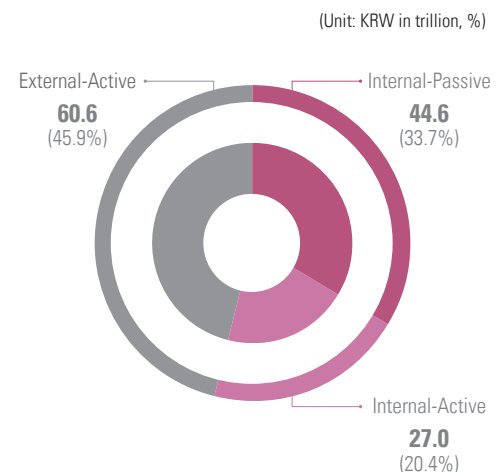
(Unit: KRW in trillion, %)						
	2019		2018		2017	
	Amount	Weight	Amount	Weight	Amount	Weight
KOSPI	126.7	8.6	104.7	7.8	126.7	7.9
KOSDAQ	3.7	1.5	2.8	1.2	3.7	1.3
Total	130.4	7.6	107.5	6.8	130.4	6.9

Note. This data does not contain unlisted equities, and externally-managed capital equivalences and option on futures.

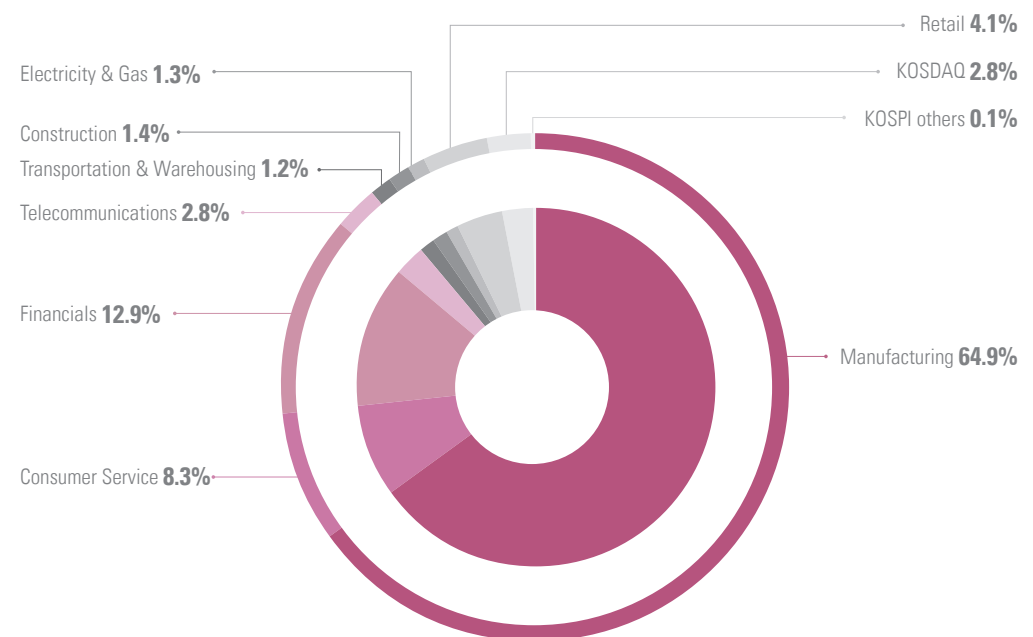
Trend of Domestic Equity



Domestic Equity Portfolio



Domestic Equity by Sector



3-2. Global Equity

Global equities investments reached 166.5 trillion KRW, which comprises 22.6% of the total NPS Fund at the end of 2019 and is an increase of 53.5 trillion KRW from the previous year. Last year was another successful year of steadfast growth in our global equity assets having commenced global equity investments in 2002.

The global stock market remained strong in 2019, a steep increase of 26.83% in MSCI World Index ex-Korea in dollar term, compared to 2018, driven by monetary easing policies from major central banks, global economic recovery outlook and an expectation that U.S.-China trade tension would be eased. There was also a significant improvement of performance across developed and developing countries; and the USD/KRW exchange ratio was up 3.55% from the end of 2018. The improved market conditions laid a positive effect on the rate of return on global equity investments. The recovery in the global stock market increased the share of global equities in the total NPS funds by 4.9%p compared to the previous year, the largest growth among all other asset classes.

Global equities investments are composed of active management and passive management. The passive management strategy seeks for safety return through diversification and provision of liquidity when needed, while the active management pursues to achieve a higher risk-adjusted excess return mainly through securities selection. Moreover, the passive investments are managed mostly internally with a smaller portion externally managed, while all of the active investments are delegated to external managers.

Last year was a great year of success for our investment results. Global equity investments delivered a time-weighted return of 31.64% in 2019, an outperformance of 0.19%p relative to the benchmark. By portfolio strategy, the passive-internal investments returned 33.35%, a gain of 1.03%p relative to the benchmark, while the passive-external and active-external investments returned 23.52% and 31.20%, respectively. Passive investments achieved a high level of positive excess return as they benefited from a strong rally in the developed markets against the performance in emerging markets. On the contrary, the active-external investments relatively underperformed the benchmark but made a significant contribution to pushing up the overall absolute returns as they comprise the largest investment portion in global equities portfolio.

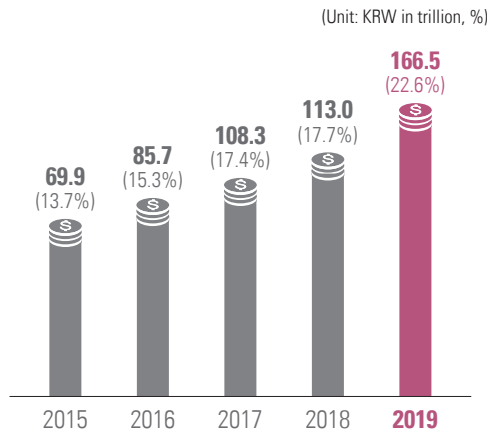
Meanwhile, global equity investments are composed of various global sectors. Of them, the combined weights of these four sectors – IT, Financials, Healthcare, Consumer Discretionary – comprises a majority of the global equities portfolio. Looking at the investment’s regional breakdown, North America (58.3%) investments were the largest, then Europe (21.1%) and Asia (17.1%) in 2019. Due to the strong outperformance of the U.S. equity markets, we can observe that the exposures to Europe and Asia slightly decreased compared to the previous year, while that for North America has gained.

NPS seeks to advance strategies for global equity investments by further diversifying active investment strategy while increasing the investment size and activeness of the internal investments along with further diversification of the externally-managed portfolio’s style factors. In line with NPS investment objectives to achieve consistent long-term returns, global equity investment teams have continued research efforts to develop leading capabilities (i.e. low-volatility strategy, high-dividend strategy, etc.) and execute our investment strategies. Going forward we will increase efforts to integrate technology, data and our knowledge to make further enhancements to our quantitative and fundamental research database, systems and infrastructure.

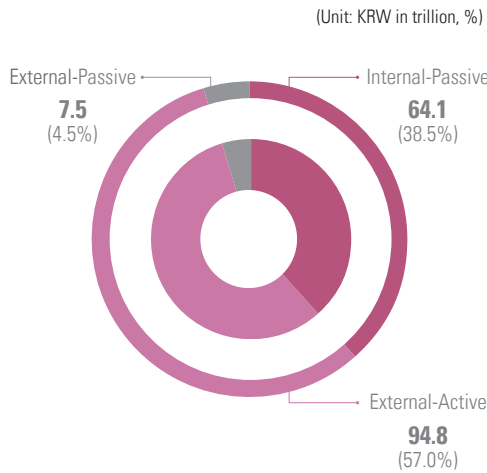
Rate of Return for Global Equity

	(Unit: %)	
	Time-Weighted	BM
Annual Return for 2019	31.64	31.45
3-Year 2017-2019	11.21	10.88
5-Year 2015-2019	9.88	9.56

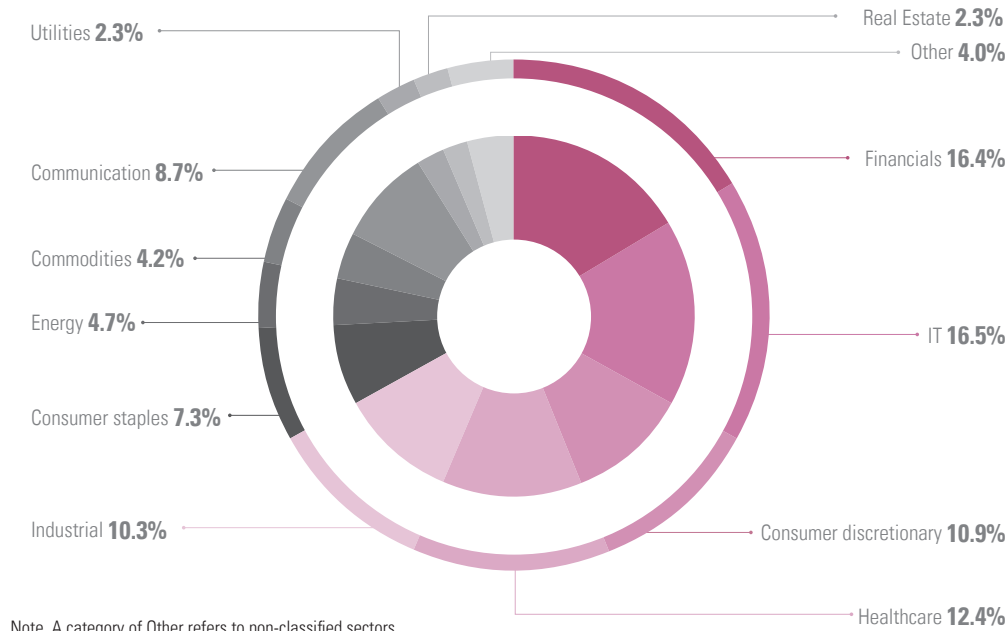
Trend of Global Equity



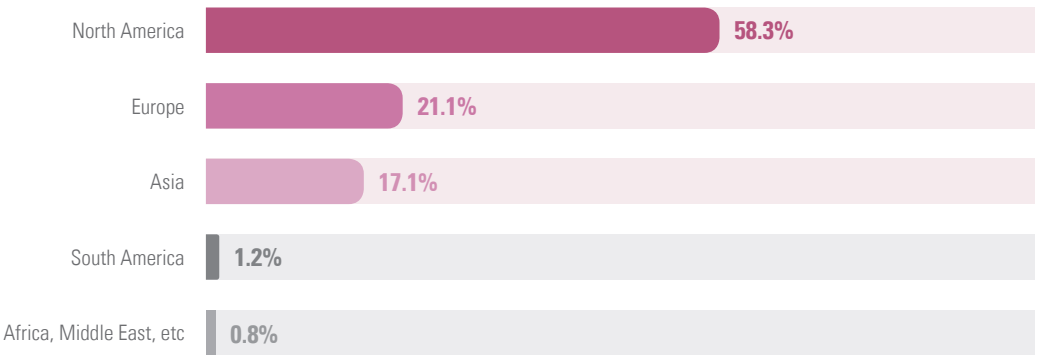
Global Equity Portfolio



Global Equity by Sector



Global Equity by Region



3-3. Domestic Fixed Income

NPS began to invest in domestic fixed income in 1988 when the National Pension Fund was established. Domestic fixed income investments were valued at 320.8 trillion KRW, or 43.5% of the total NPS funds as of the end of 2019, an increase of 9.8 trillion KRW from the end of 2018.

Korean treasury bond yields declined in 2019. Trends in global interest rates showed a steep decline driven by escalated U.S.-China trade tensions and the Fed's rate cut. In response to the global economic slowdown, major economies came up with economic stimulus policies; and the Bank of Korea also cut the interest rate twice. Lowered bond yield and the constant inflows to the National Pension Fund resulted in the amount of domestic fixed income investments remaining upward last year. However, the share of domestic fixed income in the total portfolio was down 5.2%p compared to the previous year, the largest fall among all asset classes, because of a strong performance of equities and the reduced target ratio of domestic fixed income in the mid-to long –term investment plan.

Domestic fixed income portfolio is composed of passive-styled internal management and active-styled external management. The internal management returned 3.54% in 2019, an excess gain of 0.04%p relative to the benchmark. The external management returned 3.67%, an excess gain of 0.18%p relative to the benchmark. Both internally and externally managed portfolios achieved positive excess return through optimal allocation of maturity and sector reflecting lower rate environment. As a whole, domestic fixed income investments returned 3.55%, outperforming 0.06%p relative to the benchmark in 2019.

Meanwhile, the share of NPS investments in the South Korean bond markets reduced to 14.4%, a decline of 0.6%p from 15.0% in 2018. The decline was due to the local bond markets growing at a faster pace than the inflows into the domestic fixed income portfolio. In comparison with the NPS' share in the local market, the shares of government bonds or Korea Treasuries, municipal bonds and government-related agency bonds were par above the average of 14.4% at 17.6%, 21.9% and 18.2%, while those of monetary stabilization bonds, financial bonds and corporate bonds were below the average at 11.1%, 10.0% and 12.1%.

As of 2019, the share of Korean Treasury bonds within domestic fixed-income portfolio represented the largest portion of 40.3%, following government related agency bonds at 20.0%, corporate bonds at 16.6%, financial bonds at 15.4%, monetary stabilization bonds at 6.1% and municipal bonds at 1.6%. Compared to the allocation ratios in 2018, municipal bonds, monetary stabilization bonds and financial bonds were up 0.4%p, 0.1%p and 1.1%p, respectively, while Korean Treasuries and government-related agency bonds were down 1.0%p and 0.6%p, respectively. The ratio of corporate bonds remained unchanged.

In an era of low growth and low rate, NPS is diversifying the domestic fixed income portfolio with a view to improving the return of domestic fixed income investments. NPS is also continuing its effort to invest in asset-backed securities and other undervalued bonds in terms of credit rating, as well as regional development bonds and public municipal bonds. In the future, NPS seeks to explore a high return, stable ESG bonds to increase return, while taking social responsibility and sustainability for investment into account.

Rate of Return for Domestic Fixed Income

	(Unit: %)	
	Time-Weighted	BM
Annual Return for 2019	3.55	3.49
3-Year (2017~2019)	2.94	2.92
5-Year (2015-2019)	2.99	2.96

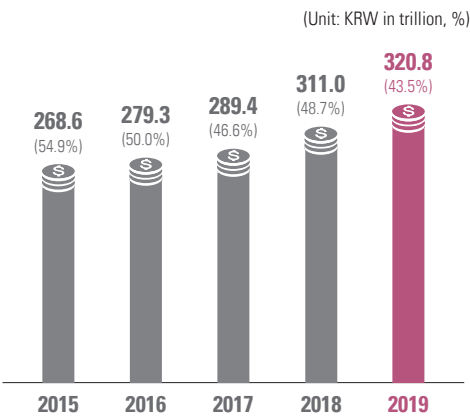
NPS Investments in Domestic Bond Markets

(Unit: KRW in trillion, %)

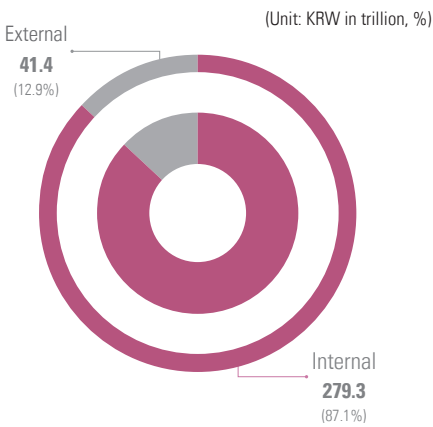
	2019		2018		2017	
	Amount	Weight	Amount	Weight	Amount	Weight
Total	301.2	14.4	295.3	15.0	280.2	14.8
KTB*	121.2	17.6	122.0	19.0	121.1	19.6
Municipals	4.9	21.9	3.5	15.8	2.8	12.6
Gov-related	60.2	18.2	60.8	18.5	60.7	17.7
MSB**	18.4	11.1	17.8	10.4	12.7	7.4
Financials	46.3	10.0	42.1	9.4	37.4	9.4
Corporates	50.1	12.1	49.1	13.3	45.4	13.3

*KTB: Korea Treasury Bond **MSB: Monetary Stabilization Bond
Note 1. The value of the Korean bond markets was calculated based on the outstanding bonds while that of bonds invested by NPS was based on the book value.
2. Short-term assets were excluded from the table above.
3. MBS was categorized into government related; ABS was into corporates; and credit finance bonds were into financials.

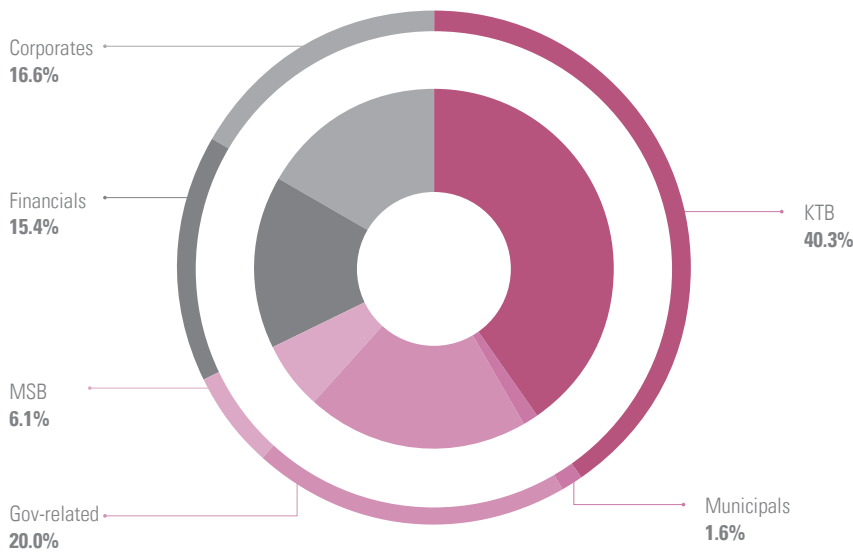
Trend of Domestic Fixed Income



Domestic Fixed Income Portfolio



Domestic Fixed Income by Sector



3-4. Global Fixed Income

NPS began to invest in global fixed income in 2001 with an investment in Korean bonds denominated in foreign currencies. Global fixed-income investments were valued at 30.5 trillion KRW, or 4.1% of the total NPS funds as of the end of 2019, an increase of 3.9 trillion KRW from the end of 2018.

The global bond market experienced lowered market interest rates across major countries in 2019, as concerns rose over U.S.-China trade tension and global economic downturn. Amid this, global fixed income investments saw a rise of KRW 3.9 trillion in value compared to the previous year driven by valuation gains from rate cuts and new investments and currency valuation gains from the depreciation of Korean won.

Global fixed-income investments are composed of internal and external management, both of which pursue an active style of investing. The internal management seeks a stable return with a focus on government bonds and high-credit-rated corporate bonds in developed countries. The external management aims to generate an excess return through allocations by sector and asset manager. As of 2019, the internal and external managements returned 11.92% and 12.14%, respectively underperforming 0.16%p and 0.06%p, respectively, relative to the benchmark. As a whole, global fixed income investments delivered a time-weighted return of 12.05% in 2019, an increase of 7.80%p from 2018.

The long-term performance of global fixed income has been stable with a 10-year annualized rate of return of 5.47%. In addition, the average excess performance has been improved over the last 36 months, as positive excess gains were generated in both internal and external management in 2017, and positive excess returns were delivered in dollar term in 2019.

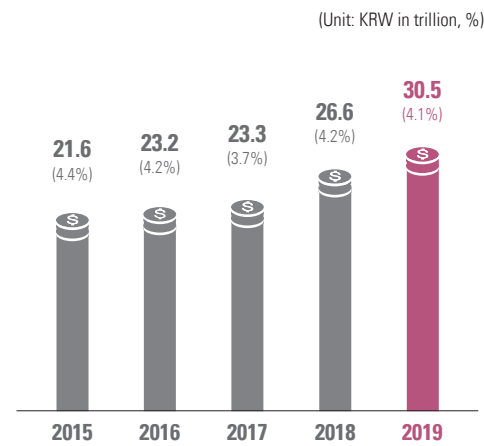
The global fixed income portfolio as of 2019 showed little changes from the previous year, consisting of treasuries of major countries at 48.5%, government-related bonds at 21.5%, corporate bonds at 21.9% and others. By region, the portfolio is allocated into North America with 39.9% of the total portfolio, Europe with 31.0% of the total portfolio, Asia with 25.7% and others making up the rest of the portfolio.

In view of expanding overseas investments, NPS has sustained its efforts to improve an investment return of global fixed income that serves as a linchpin among foreign assets. The internal management diversifies the portfolio by shifting its focus from developed markets to high-growth emerging markets such as China, while investing in various sectors, including U.S. MBS. The external management seeks to expand the BB-rating universe beyond corporates toward all sectors.

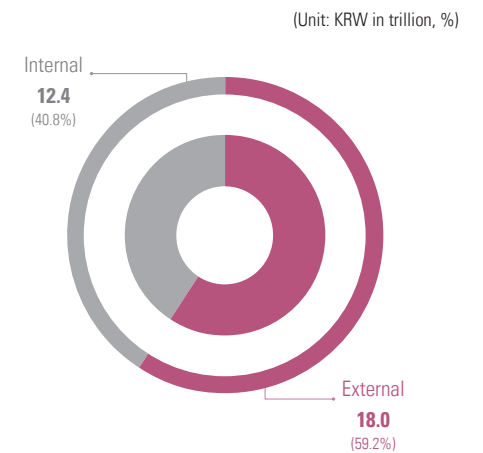
Rate of Return for Global Fixed Income

	(Unit: %)	
	Time-Weighted	BM
Annual Return for 2019	12.05	12.21
3-Year (2017~2019)	5.40	5.43
5-Year (2015-2019)	4.33	4.59

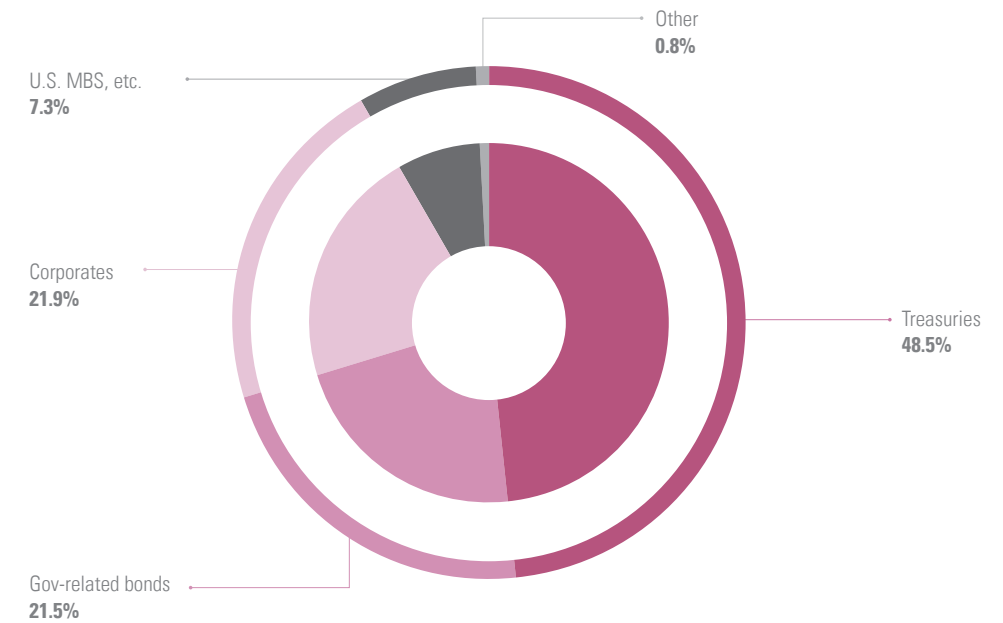
Trend of Global Fixed Income



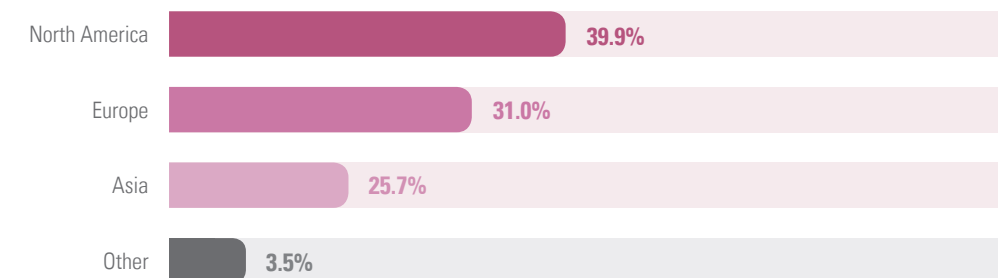
Global Fixed Income Portfolio



Global Fixed Income by Sector



Global Fixed Income by Region



3-5. Alternative Investments

NPS began to invest in alternative assets in 2002 with an investment in a domestic venture capital company. The exposure to alternative assets has since grown in value, and been diversified by sector, to represent 11.4% of the total NPS funds. Alternative investments were worth 84.3 trillion KRW as of the end of 2019, an increase of 7.7 trillion KRW from the end of 2018. The alternative investment portfolio is composed of real estate, infrastructure, private equities and foreign hedge funds.

With the aim of a higher return and risk aversion, the investment portfolios have been diversified in a direction of increasing investments in foreign assets and alternative assets. In particular, unlike traditional asset classes such as equities or fixed income, alternative assets have a different risk-return profile, contributing to generating a stable return over a long period. With an ongoing effort on diversification, investments in overseas alternative assets have seen a surge of 7.3 trillion KRW in value from 2018 to 59.5 trillion KRW, or 70.6% of the total alternative investments portfolios, in 2019. Investments in domestic alternative assets increased by 0.4 trillion KRW to 24.8 trillion KRW, or 29.4%, during the same period.

By sector, the alternative investments portfolios represented the largest share of real estate at 37.1%, private equities and hedge funds at 34.9% and infrastructure at 28.1%. Of them, private equities increased 3.9 trillion KRW in value year on year, the largest growth among other alternative sectors. real estate and infrastructure jumped 2.9 trillion KRW and 0.9 trillion KRW, respectively.

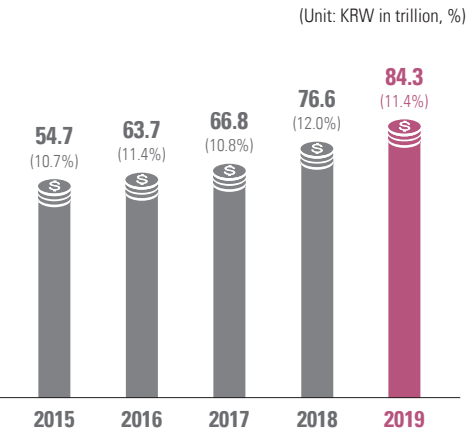
Looking into performance of alternative investments in 2019 by region, domestic alternative investments generated a time-weighted return of 7.08%, an excess gain of 0.46%p relative to the benchmark. Global alternative investments returned 11.09%, underperforming the benchmark 0.01%p. The domestic investment portfolio saw a return of around 8% in real estate and around 6% in infrastructure and private equities. The global investment portfolio delivered a double-digit return driven by a positive foreign exchange effect amid a stronger dollar. As a whole, alternative investments returned 9.82% in time-weighted, an excess return of 0.13%p relative to the benchmark, in spite of being impacted by a rate of return of dividend and interest rate and a rate of return of price change.

NPS set up ‘a plan to improve the execution of alternative investments’ in 2019 with a view to accelerating the execution of alternative investments. Under the plan, a new subcommittee, Alternative Investment Sub-Committee, will be created to shorten the decision-making period, while bolstering the competitiveness of alternative investments by strengthening strategic partnerships with existing good asset managers and setting up more single investor funds for investment scale-up. In addition, NPS introduced Single Funds in overseas hedge funds investments to lower fees and internalize investment know-how, that had been confined to Fund of Funds previously.

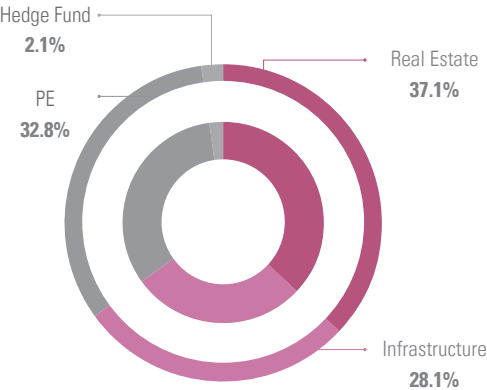
Rate of Return for Alternative Investments

		(Unit: %)					
		2019		3-Year (2017-2019)		5-Year (2015-2019)	
		T/W	BM	T/W	BM	T/W	BM
Domestic	Real Estate	8.59	7.30	7.56	6.62	7.88	6.96
	Infrastructure	6.15	6.27	6.10	6.24	5.95	6.04
	PE	6.67	6.38	7.79	7.32	8.03	5.88
	Sub-total	7.08	6.62	7.15	6.70	7.23	6.22
Global	Real Estate	10.36	10.90	8.81	6.98	10.83	9.40
	Infrastructure	11.12	10.95	9.13	5.75	11.01	6.42
	PE	12.27	11.14	11.74	11.75	12.29	14.04
	Hedge Fund	9.81	11.31	1.84	3.54	-	2.74
	Sub-total	11.09	11.10	9.53	7.97	11.15	10.02
Total		9.82	9.70	8.80	7.62	9.73	8.50

Trend of Alternative Investments



Alternative Investment Portfolio



NPS Alternative Investments

Real Estate

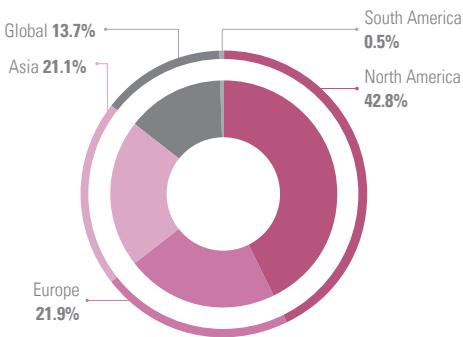
Real estates invested by NPS are divided into a project type and a fund type. The project type is to choose certain properties such as office buildings before. The fund type is to invest by strategy through domestic and global asset managers. NPS makes decisions on alternative investments in consideration of expected returns of individual deals and legal and industrial conditions as well as risk and expected returns of the alternative investment portfolios as a whole.

Real Estate Investment

(Unit: KRW in 100 million)

	Domestic	Global	Total
2015	57,013	154,834	211,847
2016	59,366	190,602	249,968
2017	64,595	183,009	247,604
2018	72,708	210,648	283,356
2019	75,498	236,862	312,360

Global Real Estate by Region



Infrastructure

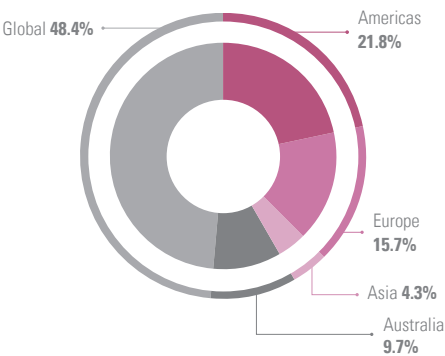
NPS invests in SOC such as roads and railroads. The SOC projects are largely categorized into a state-led project funded by the government and a private project funded by institutional investors, including pension funds. Given the right to operate business being returned to the government after a certain period of time, the private projects are designed to recover investment return and principal value in a stable manner in annual installment up to the point where the operation right is transferred.

Infrastructure Investment

(Unit: KRW in 100 million)

	Domestic	Global	Total
2015	83,946	77,010	160,956
2016	83,064	103,208	186,271
2017	77,964	122,454	200,418
2018	80,803	146,938	227,741
2019	80,659	155,862	236,521

Global Infrastructure by Region



Private Equity

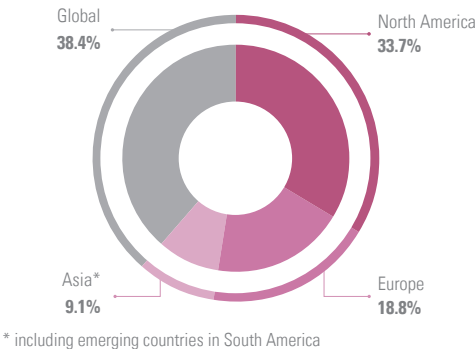
NPS invests in venture capitals, private equities and overseas hedge funds with an aim of risk aversion and return stability. The hedge fund investments of NPS take the form of fund of funds and single funds as of 2019 and pursue a mid-risk, mid-return strategy in overall by diversifying the hedge fund portfolio by investment strategy.

Private Equity Investment

(Unit: KRW in 100 million)

	Domestic	Global	Total
2015	82,444	91,338	173,782
2016	77,022	123,406	200,428
2017	80,217	140,123	220,340
2018	90,554	164,544	255,098
2019	91,814	202,258	294,072

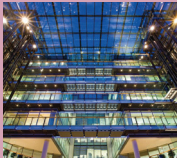
Global Private Equity by Region



Global Alternative Investment



U.K



Plumtree Court 40 Grosvenor PI High Speed Interconnects(HS1)

Germany



Mainzero VTG AG

Singapore



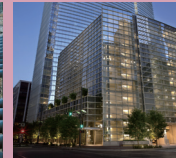
Fraser's Tower Miner

Australia



Aurora Place Eastlink Endeavor Energy

U.S.



One Vanderbilt Colonial Pipeline BG Group Place Cheniere Energy

An aerial photograph of a modern, multi-story glass skyscraper with a curved facade, situated in a city. The building is surrounded by older, more traditional architecture. A blue circular overlay is positioned on the right side of the image, containing white text. The background shows a clear blue sky and a city street with some vehicles and pedestrians.

IV.

Responsible Investment and Governance

1. Steward Activities Overview
2. Responsible Investment
3. Exercise of Shareholder Rights

1. Stewardship Activities Overview

To achieve a stable and higher long-term return, the National Pension Fund (NPF) conducts stewardship activities including responsible investment and exercise of shareholder rights. With regard to NPS' stewardship activities, responsible investment refers to an investment practice of incorporating non-financial factors likely to affect invested assets, such as environmental, social and governance (ESG) factors, along with financial factors. The exercise of shareholder rights is a practice whereby institutional investors as shareholders engage in various shareholder activities including exercising their rights to vote in relation to companies they hold shares in as well as engagement.

A clear legal basis for responsible investment has been in place since Jan 2015, by an amendment to the National Pension Act, to incorporate ESG factors on investment decision-making process. With regard to the amendment, new provisions were added in April 2016 to the National Pension Fund Management Guideline (Fund Management Guideline) for its implementation. Furthermore, Responsible Investment & Governance Principles (Stewardship Code) and other related guidelines were enacted or revised to support the exercise of shareholder rights in July 2018 and in December 2019 to undertake a broader range of stewardship activities. The introduction of the Action Plan on Enhanced Responsible Investment for the National Pension Fund (Action Plan on Enhanced RI) in November 2019, added a new principle of Sustainability to the existing five investment principles - Profitability, Stability, Public Benefit, Liquidity and Independence - under the Fund Management Guideline and established a set of responsible investment principles for NPS. This in turn helped nurture an environment that would promote responsible investment practices and encourage the exercise of shareholder rights within NPS.

Based on such environment, NPS seeks to incorporate non-financial factors (ESG factors) of invested assets in the fund management process and exercise its shareholder rights in an independent and transparent manner, in compliance with standards, practices and procedures described in related guidance such as Responsible Investment Principles, Responsible Investment & Governance Principles (Stewardship Code) and Responsible Investment & Governance Guidelines.

Basis and Policies of Stewardship Activities

National Pension Act

Article 102(4) In the case of administering and managing the National Pension Fund (NPF) pursuant to paragraph (2)3, NPS may take into consideration environmental, social and governance factors in investment processes to achieve stable and higher long-term returns.

Fund Management Guideline

Article 4 (Investment Principles) 5. Principle of Sustainability

The investment activities shall be performed in good faith with a view to improve the sustainability of investments through the incorporation of environmental, social and governance factors into the investment process.

Article 17 (Responsible Investment)

(1) In case administrating and managing the Fund through securities trading and/or securities lending, environmental, social and governance (ESG) factors may be taken into consideration in an investment process in order to achieve stable and higher long-term returns. The Principles of Responsible Investment are seen in Table 4.

Article 17-2 (Responsible Investment and Governance Principles)

NPS adopted Korea Stewardship Code, or the Stewardship Responsibility Principles for local institutional investors, to create its own version, with an aim to promote transparency and independence of stewardship activities at NPS. Based on this, the "Responsible Investment and Governance Principles" was newly established and became effective upon approval by the Fund Management Committee.

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

- (1)** NPS engages in responsible investment practice and exercises shareholder rights to achieve the stable growth of the assets.
- (2)** NPS engages in responsible investment practice and exercises shareholder rights in good faith with a view to the best interest of contributors to and beneficiaries of the National Pension Plan.
- (3)** NPS engages in responsible investment practice and exercises shareholder rights in a way of amplifying shareholder value.
- (4)** Standards, methodologies and procedures relating to responsible investment and exercise of shareholder rights are in line with the "Responsible Investment and Governance Guidelines" as approved by the Fund Management Committee.

After the launch of an externally managed domestic responsible investment (RI) fund in September 2006, NPS joined the Principle in Responsible Investment (PRI), a global initiative for responsible investment, in June 2009. NPS set up a new team, the Responsible Investment Team within the Investment Strategy Division in March 2013, to bring together all the voting rights that had been exercised separately by domestic and global equity investment teams across NPSIM, and therefore paving the road towards adopting stewardship activities.

In June 2015, NPS set a plan to promote engagement with locally listed companies for development of reasonable dividend policy, and in, December 2015, established an ESG assessment system for domestic equities. Following this, NPS built an internal IT system to feed the company's ESG related information to a portfolio manager, called the "ESG System, to build the foundation for ESG incorporation.

In July 2018, NPS adopted the Responsible Investment & Governance Principles as a stewardship code for the National Pension Fund with the expansion of the Responsible Investment Team to the GRI&G Division, consisting of the 'Responsible Investment Team' and the 'Corporate Governance Team' and 'Corporate Governance Team' in January 2019. The highlights of 2019 surrounding stewardship activities include the establishment of the Action Plan on Enhanced RI that would apply responsible investment practices to more assets in the portfolio as well as the establishment of the Proactive Stewardship Guidelines that would further expand the scope of shareholder activities.

Milestones of Stewardship Activities

Sep. 2006	Launched the externally-managed domestic RI Funds
Jun. 2009	Joined the Principle for Responsible Investment (PRI)
Dec. 2009	Added a provision of responsible investment to Voting Guidelines
Mar. 2013	Established the Responsible Investment Team within the Investment Strategy Division
Nov. 2015	Introduced a new benchmark for the externally-managed domestic RI Funds (RI Benchmark)
Jun. 2015	Developed a plan to promote developing appropriate dividend policies for domestic equities
Dec. 2015	Built an ESG Evaluation System for domestic equities
Apr. 2016	Added a provision of responsible investment to the Fund Management Guideline (Investment Policy Statement)
Dec. 2016	Built an ESG System for domestic equities
Jul. 2017	Established an evaluation system to assess ESG Controversial Issues for domestic equities
Sep. 2017	Started to incorporate ESG factors in the investment of internally-managed domestic equities
Jul. 2018	Introduced the Responsible Investment & Governance Principles (Stewardship Code) Renamed the Voting Guideline to Responsible Investment & Governance Guidelines
Jan. 2019	Expanded the former Responsible Investment Team to Global Responsible Investment and Governance (GRI&G) Division consisting of two teams – Responsible Investment Team and Corporate Governance Team Introduced the Responsible Investment & Governance Guidelines for Domestic Equities
Feb. 2019	Decided on the scope of disclosing voting directions prior to shareholder meetings
Sep. 2019	Joined the International Corporate Governance Network (ICGN) Joined the Asian Corporate Governance Association (ACGA)
Nov. 2019	Introduced the Action Plan on Enhanced RI and adopted the RI Principles Added a 'Sustainability' to the investment principles in the Fund Management Guideline Introduced the Guidelines on Voting Right Delegation to External Managers Introduced plans to add extra scores to external managers for the availability of stewardship codes in the manager selection or evaluation process
Dec. 2019	Introduced the Proactive Stewardship Guidelines

2. Responsible Investment

NPS laid the foundation of introducing responsible investment by building the framework for ESG research focusing on responsible investment while implementing various responsible investment strategies: i) ESG Integration (incorporating non-financial (ESG) factors in part of domestic equities investments), ii) Screening (including or excluding given asset from an investment universe based on ESG standards) and iii) Engagement (dialogue). NPS is currently investing in externally managed domestic RI funds worth approximately 5.2 trillion KRW. The incorporation of ESG data has begun since 2018 partially in internally-managed domestic equities investments (Active Domestic Equity), driving up the total size of responsibly invested assets in the portfolios to 27.0 trillion KRW as of the end of 2019.

For a systemic analysis of non-financial factors, or ESG factors, from investments, NPS established a distinct ESG evaluation system with the unique characteristics of the NPF reflected (ESG Evaluation System) and now conducts the ESG Evaluation on listed domestic stocks (KOSPI+KOSDAQ100) twice a year. The ESG Evaluation System is composed of 13 issues affecting corporate value in areas of environment, society and governance (ESG) with its 52 evaluation indicators. Each issue is scored and graded for ESG after being weighted differently to reflect industrial differences. The improvement and maintenance of ESG evaluation system are scheduled on a regular basis, in accordance with internal/external conditions.

NPS keeps track of ESG related issues likely to affect company values pursuant to the Responsible Investment & Governance Principles and the Responsible Investment & Governance Guidelines and conducts assessments from the viewpoint of severity and recurrence to measure the impact that such issues would have on company value and shareholder value, otherwise known as a “Materiality Assessment.” NPS adjusts the ESG Evaluation results or conducts shareholder activities, including Engagement after considering the results of the Materiality Assessment, how much of a certain stock is held by NPS (the holding ratio) and what percentage of such holdings make up the NPS’ portfolio (the portfolio percentage).

Meanwhile, NPS announced in November 2019 the Action Plan on Enhanced RI to build trust in the market as a public pension fund and seek a higher long-term return with mitigating risk. Based on this new responsible investment plan, the road map was created to contain several steps to promote a responsible investment practice of: i) expanding RI coverage on asset classes and developing the strategy for it, ii) reinforcing RI characteristics on externally managed RI funds and iii) building foundation to promote RI. NPS seeks to develop and execute more detailed plans to implement the road map.

Action Plan on Responsible Investment(Summary)

① Expanding RI coverage and developing its strategy

- To aim to expand the RI coverage to all asset classes, but first to apply RI strategies to equities and fixed income (corporate bonds, etc.) in and outside of Korea before other asset classes.
- To introduce the ESG Integration strategy more broadly to equities and fixed income in and outside of Korea, considering characteristics of each asset class and each investment style.
- To expand the coverage of the Engagement programs to global equities beyond domestic equities.
- * However, the timeframe for including alternative investments to RI coverage will be reviewed based on the applicability and structural uniqueness of alternative investments, and then decided upon.

② Reinforcing RI characteristics on externally managed RI funds

- To develop and apply a new benchmark index focusing on ESG factors for an externally managed ‘domestic’ responsible investment (RI) fund.
- To mandate current external managers to include responsible investment activities in an investment report of their RI funds, which will be further expanded to other externally managed RI funds.
- To improve the selection and evaluation system for external managers in a way of reflecting responsible investment factors in the selection and evaluation processes.

③ Building foundation to promote RI

- To improve the ESG evaluation system and increase the use of evaluation results.
- To strengthen global networking and bolster staff for stewardship activities in overseas offices gradually.
- To make continuous efforts to improve institutions for better corporates’ ESG reporting with a view of promoting responsible investments in the capital market.

3. Exercise of Shareholder Rights

NPS adopted the Responsible Investment & Governance Principles (Stewardship Code) to fulfill the obligation of fiduciary duty to improve the dual mandate of long-term profitability and stability while enhancing independence and transparency in exercising shareholder rights. Through the Code, the scope of shareholder activities has been expanded to address director remuneration, legal and regulatory violation and others. Previously, the shareholder activities were confined to voting and corporate engagement mainly about the dividend payout. Now, NPS is undertaking shareholder activities in accordance with criteria and procedures in the Responsible Investment & Governance Guidelines and the Responsible Investment & Governance Guidelines for Domestic Equities.

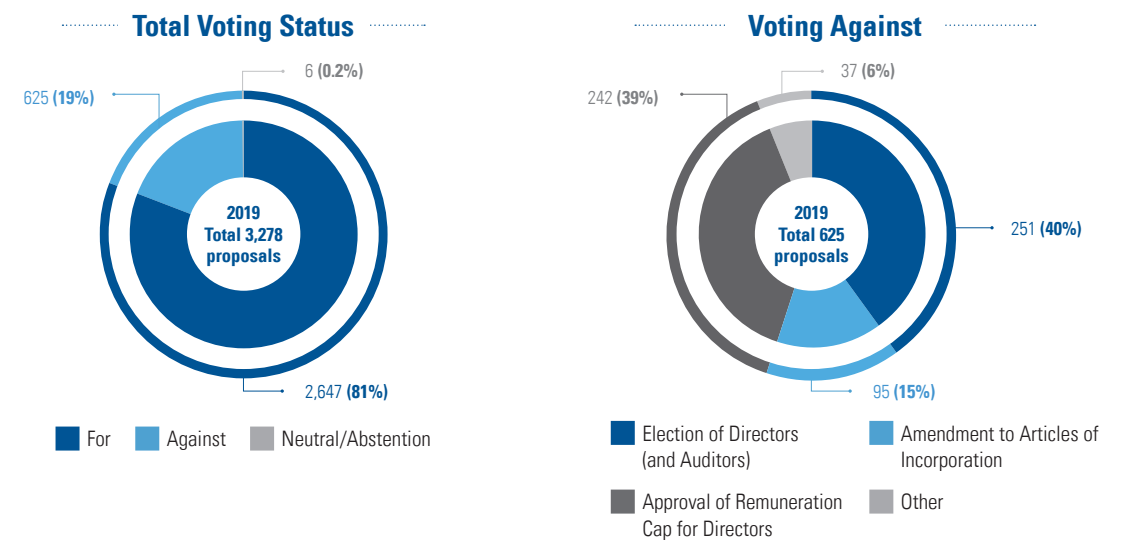
3-1 Exercise of Voting Rights

NPS exercises the voting rights to the listed stocks held, according to the fiduciary duty, under the National Finance Act of the Republic of Korea and the Fund Management Guideline in the best interests of the contributors to and beneficiaries from the National Pension Plan. NPS exercises the voting rights in line with the Responsible Investment & Governance Guidelines that define standards, procedures and practices around voting, and takes heed of advice from external agenda analysis advisors for a more professional and informed voting process.

The voting process is based upon how much of a certain stock is held by NPS (ownership) and what percentage of such holdings makes up of the NPS’ portfolio (the portfolio percentage) through review and approval by the Investment Committee, an internal committee of NPSIM. Having said that, the Special Committee on Responsible Investment & Governance may decide the direction of voting in such cases as i) where NPS requests to the committee, or ii) where an agenda is demanded to be discussed at the committee by over a third of the committee’s registered members for its long-term impact on shareholder values. The FMC also established the Guidelines on Voting Right Delegation to External Managers and decided to delegate the voting power of some holdings to external managers, effective at the annual shareholder meeting dated in March 2020.

NPS discloses the rationale for voting against in detail, containing voting results and supporting clauses in guidelines within 14 days of the opening of a shareholder meeting. Nevertheless, the voting direction may be disclosed before the opening of a shareholder meeting, if it is about an agenda for a company held by NPS 10 percent or higher or occupying more than one percent of the portfolio, or an agenda decided by the Special Committee on Responsible Investment & Governance. NPS made a prior disclosure of the voting direction for 103 shareholder meetings in 2019.

NPS voted on a total of 3,278 proposals in 767 shareholder meetings for domestic equities in 2019, with ‘for’ of 2,647 cases (80.7%), ‘against’ of 625 cases (19.1%) and ‘neutral/absentee’ of 6 cases (0.2%). The rationales behind 625 votes were for the election of directors and shareholders (251 votes, 40.2%), the amendment to articles of incorporation (95 votes, 15.2%) and others (37 votes, 5.7%).



3-2 Shareholder Activities

For its long-term and stable return, NPS identifies the following matters as Focus Area and conducts shareholder activities: i) likely to cause damage to corporate value or shareholder right regarding the company's dividend policy, ii) reasonable remuneration cap for directors and legal violation, iii) showing no improvement even after a repetitive vote-against and vi) downgrading in a regular ESG evaluation. NPS also engages in shareholder activities when unexpected concerns occur that might undermine corporate value or infringe shareholder's rights from the ESG perspective. Shareholder activities are undertaken through phases of company selection, closed dialogue, selection of the Non-Public Focus List, selection of the Public Focus List and shareholder proposal, etc., according to the Responsible Investment & Governance Guidelines for Domestic Equities.

In December 2019, NPS established the Proactive Stewardship Guidelines to enhance company value and provide transparent and fair shareholder activities. The active engagement program under these guidelines does not aim at any form of intervention in business management, but rather seek a chance to talk with an engaged company, which will guide into the company's improvement and, eventually, increase the values of the company and shareholders. If the condition is met, NPS seeks to undertake shareholder activities under the guidelines, ranging from fact-checking and communication with companies to others to address issues. The 'Active Engagement' program proceeds only when the room for improvement is extremely narrow.

Meanwhile, when adopting the Responsible Investment and Governance Principles (Stewardship Code), the FMC decided to establish guidelines on the composition and operation of the board, delegation of voting rights to external managers and a weighted scoring system for selection and evaluation of external managers. Based on these, NPS will prepare new guidelines on board composition and operation, while diligently implementing the already developed guidelines for voting delegation and weighted scoring during the selection and evaluation of external managers.

Stewardship Activities Surrounding Focus Area and Unexpected Concern

Type	Focus Area	Unexpected Concern
Objective	To increase shareholder value and long-term profitability	
Activities	Call for improvement in the areas	Call for improvement of the concern
Engagement	• (Target) A company 5% or more owned by NPS or representing 1% or more of the NPS' total portfolios and meeting the criteria for which the company has an issue selected as the Focus Area • (How To) Guide the company to set up plans or measures to improve shareholder value by building a friendly communication channel. * Any activity surrounding the Engagement program remains confidential. However, if companies show no sign of improvement (i.e. refusal to talk), a publicized letter would be sent.	• (Target) A company decided by the Special Committee on Responsible Investment & Governance (the Special Committee) to have a non-public dialogue with, based on the result of Materiality Assessment on the company's ESG-related Controversial Issues*. *A collection of all issues that might adversely affect company value or cause controversy. • (How To) Guide the company to set up plans or measures to improve shareholder value by building a friendly communication channel. * Any activity surrounding the Engagement program remains confidential. However, if companies show no sign of improvement (i.e. refusal to talk), a publicized letter would be sent
Non-Public/Public Focus List Selection	• (Target) A company showing no improvement despite attending dialogues for a certain amount of time • (How To) Put the company on the Focus List and encourage it constantly to improve itself. * Any activity surrounding the Engagement program remains confidential. If there is no improvement from being put on the list through the end of the year, a decision would be made over whether to publicize the company's name on the list.	N/A
Active Engagement	• (Target) A company showing no improvement despite attending dialogues for a certain amount of time • (How To) Proceed with shareholder proposals upon review of the Special Committee and approval of FMC under the Proactive Stewardship Guidelines set by FMC. * Establishment of dividend policy and appropriate remuneration cap for directors are matters decided by the Special Committee. Before any decision, Non-Management Participation Purpose shareholder proposals are proceeded with on such items.	• (Target) A company showing no improvement despite attending dialogues for a certain amount of time • (How To) Proceed with shareholder proposals upon review of the Special Committee and approval of FMC under the Proactive Stewardship Guidelines set by FMC.

A low-angle, upward-looking photograph of a modern skyscraper with a glass facade, framed by a complex, geometric metal structure resembling a geodesic dome or a network of cables. The sky is a clear, pale blue. A large, solid green circle is overlaid on the right side of the image, containing the text for the Appendix.

Appendix

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1. 2019 Financial Statements
 2. FMC Meetings
 3. Key Statistics

1. 2019 Financial Statements

Independent Auditors’ Report (Based on a report originally issued in Korean)

To Minister of Health and Welfare and the National Pension Fund Management Committee

Opinion

We have audited the financial statements of National Pension Fund (hereinafter the “NPF”), which comprise the statement of financial position as at December 31, 2019 and December 31, 2018, and , the statements of financial operation, and statements of changes in net assets for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of December 31, 2019 and 2018 and the results of its operation, and the changes in its net assets for the years then ended in conformity with the National Accounting Standards of the Republic of Korea.

Basis for Opinion

We conducted our audit in accordance with Korean Standards on Auditing. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the NPF in accordance with the ethical requirements that are relevant to our audit of the financial statements in Korea, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the National Accounting Standards of the Republic of Korea, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the NPF’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the NPF or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the NPF’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Korean Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Korean Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Grant Thornton Daejeon

Seoul, Korea
February 21, 2020

This audit report is effective as of the independent auditor’s report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditors’ report date to the time this audit report is used. Such events and circumstances could significantly affect the accompanying financial statements and may result in modifications to this report.

Grant Thornton Daejeon(대주회계법인/大州會計法人), a Korean Accounting Firm is a member of Grant Thornton International Ltd(GTIL), “Grant Thornton” refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the requires. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another’s acts or omissions.

Statements of Financial Positions

As of December 31, 2019 and 2018
(In Korean Won)

	2019	2018
Assets		
I . Current Assets	₩ 193,396,855,311,437	₩ 143,096,600,780,244
1. Cash and cash equivalents	1,249,801,520,722	1,410,925,158,744
2. Short term financial instruments	12,810,000,000,000	7,558,995,614,834
(1) Bank deposits	12,810,000,000,000	7,430,000,000,000
(2) Other short term financial instruments	-	128,995,614,834
3. Short term investment securities	176,790,816,685,524	131,772,957,256,033
(1) Debt securities	41,119,268,209,938	32,449,864,639,394
a. Government bonds	8,054,212,856,690	4,589,159,264,432
b. Public bonds	281,901,933,785	570,399,595,890
c. Municipal bonds	220,267,450,566	334,669,607,623
d. Special bonds	4,092,600,879,147	6,063,546,902,238
e. Financial bonds	14,199,028,978,993	8,351,322,431,755
f. Credit financial bonds	2,176,815,045,803	1,310,388,840,109
g. Corporate bonds	10,522,326,690,460	10,452,850,764,605
h. Foreign bonds	1,042,332,253,032	175,991,174,110
i. CP	-	19,967,468,494
j. Electronic short-term bonds	529,782,121,462	581,568,590,138
(2) Equity securities	135,671,548,475,586	99,323,092,616,639
a. Domestic stocks	71,612,131,661,625	58,843,105,039,562
b. Foreign stocks	64,059,416,813,961	40,479,987,577,077
4. Other receivables	2,218,469,666,455	2,017,699,237,818
(1) Accrued interest income	2,088,832,339,857	1,905,947,795,693
(2) Accrued other income	82,191,612,190	64,137,867,361
(3) Other accounts receivable	47,754,218,140	48,163,849,847
Allowance for other accounts receivable	(308,503,732)	(550,275,083)
5. Short term loans	318,506,479,318	309,745,944,895
(1) Short term loans	361,182,080,782	380,290,266,079
Allowance for bad debts	(42,675,601,464)	(70,544,321,184)
6. Other current assets	9,260,959,418	26,277,567,920
(1) Derivatives	9,096,840,318	26,246,321,870
(2) Prepaid income taxes	164,119,100	31,246,050
II . Investments	542,790,746,116,004	495,230,712,420,443
1. Long term investment securities	538,034,924,939,260	490,094,680,661,669
(1) Debt securities	236,343,218,462,914	242,775,110,697,051
a. Government bonds	112,048,395,315,200	114,478,852,412,118
b. Public bonds	1,292,312,288,810	1,939,338,229,318
c. Municipal bonds	4,215,306,004,160	2,584,988,517,565
d. Special bonds	51,496,470,856,795	49,159,207,988,341
e. Financial bonds	18,916,485,149,070	26,768,847,387,008
f. Credit financial bonds	7,291,835,779,465	7,520,309,730,475

	2019	2018
g. Corporate bonds	29,724,338,197,507	29,705,015,475,345
h. Foreign bonds	11,358,074,871,907	10,618,550,956,881
(2) Equity securities	301,691,706,476,346	247,319,569,964,618
a. Domestic discretionary contract assets	102,071,755,899,664	88,005,925,374,815
b. Foreign discretionary contract assets	120,428,883,500,592	88,173,596,874,675
c. Stocks	5,468,251,358,205	5,448,840,542,965
d. Equity investments	9,907,699,736,933	9,642,891,947,177
e. Beneficiary certificates	5,377,733,524,869	4,750,741,840,271
f. Foreign equity securities	58,437,382,456,083	51,297,573,384,715
2. Long term loans	4,755,821,176,744	5,136,031,758,774
(1) Long term loans	4,774,439,703,931	5,169,634,147,366
Allowance for bad debts	(18,618,527,187)	(33,602,388,592)
III . Other non-current assets	587,753,851,455	584,449,531,760
1. General business accounting assets	429,157,591,831	449,983,952,150
2. Welfare business accounting assets	158,596,259,624	134,465,579,610
Total assets	₩ 736,775,355,278,896	₩ 638,911,762,732,447
Liabilities		
I . Current liabilities	84,409,486,714	95,243,806,096
1. Derivatives	54,864,421,397	53,118,825,477
2. Other accounts payable	24,355,581,337	37,740,838,658
3. Accrued expenses	2,988,979,053	2,183,637,034
4. Other deposits received	2,200,504,927	2,200,504,927
II . Other non-current liabilities	37,101,698,370	35,446,202,830
1. Security deposits received from NPS	37,101,698,370	35,446,202,830
Total liabilities	121,511,185,084	130,690,008,926
Net assets		
I . Basic net assets	335,261,900	335,261,900
II . Reserve and surplus	606,977,283,159,124	565,949,733,204,144
1. Reserve for national pension benefits	376,652,101,014,176	351,616,388,516,346
2. Surplus	230,325,182,144,948	214,333,344,687,798
III . Net asset adjustments	129,676,225,672,788	72,831,004,257,477
1. Accumulated gain on investment securities valuation	129,676,225,672,788	72,897,435,903,876
2. Accumulated loss on derivatives valuation	-	-
3. Other changes in net assets	(58,184,959,406)	(66,431,646,399)
Total net assets	736,653,844,093,812	638,781,072,723,521
Total liabilities and net assets	₩ 736,775,355,278,896	₩ 638,911,762,732,447

Statements of Financial Operations

For the years ended December 31, 2019 and 2018
(In Korean Won)

	2019	2018
I . Net program cost	₩ 542,876,316,849	₩ 536,562,350,192
1. Program(A): Pension service		
(1) Gross cost	48,325,893,870,065	42,265,975,381,151
(2) Revenue	(47,809,883,696,576)	(41,792,777,312,120)
(3) Net program cost	516,010,173,489	473,198,069,031
2. Program(B): Buildings and Welfare		
(1) Gross cost	49,881,206,571	53,788,061,733
(2) Revenue	(23,015,063,211)	(22,547,270,674)
(3) Net program cost	26,866,143,360	31,240,791,059
II . Management and operating expense	61,542,599,112	57,467,682,555
1. Transfers for management and operating	61,542,599,112	57,467,682,555
III . Non-allocated expenses	2,847,953,015,702	3,168,084,906,167
1. Commission expense	13,254,482,010	11,374,775,753
2. Bad debt expense	91,341,415	4,360,083,659
3. Loss on valuations	55,506,623,776	53,466,919,915
(1) Loss on derivative valuation	54,864,421,397	53,118,825,477
(2) Loss on foreign currency translation	642,202,379	348,094,438
4. Loss on disposition of assets	1,763,592,368,817	1,377,285,314,106
(1) Loss on disposition of short term investment securities	1,339,806,823,632	801,550,216,587
(2) Loss on disposition of long term investment securities	423,785,545,185	575,735,097,519
5. Assets impairment loss	128,653,400,000	-
6. Taxes and dues	1,111,139,954	1,143,247,137
7. Other expenses	885,743,659,730	1,720,454,565,597
(1) Loss on foreign currency transactions	452,304,057,763	572,158,454,749
(2) Loss on derivative transactions	367,907,663,246	1,089,307,613,917
(3) Miscellaneous	65,531,938,721	58,988,496,931
IV . Non-allocated revenues	19,434,032,388,813	18,583,618,240,301
1. Interest income	7,458,431,516,118	7,670,351,909,018
(1) Interest income on financial instruments	252,169,725,450	148,138,495,208
(2) Interest income on bonds	6,789,805,067,128	6,985,159,020,069
(3) Interest income on loans	416,456,723,540	537,054,393,741
2. Gain on valuations	9,103,996,442	26,253,620,285
(1) Gain on derivative valuation	9,096,840,318	26,246,321,870
(2) Gain on foreign currency translation	7,156,124	7,298,415
3. Gain on disposition of assets	5,839,934,921,885	4,461,534,604,189
(1) Gain on disposition of short term investment securities	1,457,425,060,592	1,832,613,224,805
(2) Gain on disposition of long term investment securities	4,382,509,861,293	2,628,921,379,384

Statements of Changes in Net Assets

For the years ended December 31, 2019 and 2018
(In Korean Won)

	Basic Net Assets	Reserve and Surplus	Net asset Adjustments	Total Net Assets
<Prior Year>				
I . Net assets at January 1, 2017	₩ 335,261,900	₩ 527,497,277,004,937	₩ 94,163,490,452,654	₩ 621,661,102,719,491
1. Reported amount	335,261,900	527,497,277,004,937	94,163,490,452,654	621,661,102,719,491
II . Operating results	-	(14,831,660,301,387)	-	(14,831,660,301,387)
III . Adjustments	-	23,620,795,897,820	(21,332,486,195,177)	2,288,309,702,643
1. Gain on investment securities valuation	-	-	(21,301,186,158,300)	(21,301,186,158,300)
3. Other increase in net assets	-	23,620,795,897,820	(31,300,036,877)	23,589,495,860,943
IV . Net assets at December 31, 2018 (I - II + III)	₩ 335,261,900	₩ 565,949,733,204,144	₩ 72,831,004,257,477	₩ 638,781,072,723,521
<Current Year>				
I . Net assets at January 1, 2019	₩ 335,261,900	₩ 565,949,733,204,144	₩ 72,831,004,257,477	₩ 638,781,072,723,521
1. Reported amount	335,261,900	565,949,733,204,144	72,831,004,257,477	638,781,072,723,521
II . Operating results	-	(15,991,837,457,150)	-	(15,991,837,457,150)
III . Adjustments	-	25,035,712,497,830	56,845,221,415,311	81,880,933,913,141
1. Gain on investment securities valuation	-	-	56,836,974,728,318	56,836,974,728,318
3. Other increase in net assets	-	25,035,712,497,830	8,246,686,993	25,043,959,184,823
IV . Net assets at December 31, 2019 (I - II + III)	₩ 335,261,900	₩ 606,977,283,159,124	₩ 129,676,225,672,788	₩ 736,653,844,093,812

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The National Pension Fund has adopted National Accounting Standards abiding by the Article 11, Clause 1 of the National Accounting Act, effective from 2009, and detailed accounting standards approved by the National Accounting Act Business Accounting Deliberation Council (BADC) in the preparation of its financial statements.

(1) Basis of Financial Statement Presentation

The NPF maintains its official accounting records in Korean Won and prepares financial statements in Korean language which is in conformity with National Accounting Standards. The accompanying financial statements have been translated into English from Korean language financial statements. Certain accounting principles applied by the NPF that conform with National Accounting Standards in the Republic of Korea may not conform to those standards used in other countries. Accordingly, these financial statements are intended for those who understand National Accounting Standards of Republic of Korea.

(2) Pension Contributions and Disbursements

Pension contributions are recognized as their revenue that is based on the amount deposited into the National Pension Fund Account in the Bank of Korea as of the balance sheet date. The fund is transferring out as Pension Benefit Transfer-Out fund to general business accounting fund for paying out pension benefit. The difference between pension contributions and pension benefit transfer-out is accrued as an expense item in the Statements of Financial Operations and is reflected as net assets in the Statements of Financial Positions

For the period from the introduction of National Pension Scheme which was January 1, 1988 to December 31, 2019, the total billed pension contributions were KRW 587,856,805 million. Of this contributions, KRW 576,416,484 million was collected and KRW 11,440,321 million (1.9%) was not collected as of December 31, 2019. The uncollected amount was not recognized as revenue. The accumulated billed pension contributions for workplace based insured persons are KRW 503,635,113 million and the accumulated uncollected amount is KRW 5,718,993 million (1.1%). The accumulated billed pension contributions for individually regional based insured persons are KRW 84,221,693 million and the accumulated uncollected amount is KRW 5,721,328 million (6.8%).

If the uncollected amount had been recognized as receivable by billing basis, the effect of such recognition should be as follows; Total assets in the statement of financial position (accumulated uncollected amount less the estimated bad debt amount) and net assets (Pension benefit reserve) would be increased. There would have been no effect on the result of financial operation since the total revenue (earnings from uncollected amount in the current period) and gross cost (pension benefit reserve transfers, etc.) in the Statements of Financial Operation would be increased in the same amount.

(3) Cash and Cash Equivalents

Cash and cash equivalents include currencies, substitute securities of currencies including checks issued by others, savings and checking accounts, and securities and financial instruments with high liquidity that can be converted into cash without serious costs and interest rate risk and of which maturities are three month or less at the time of purchase.

(4) Long Term and Short Term Financial Instruments

The NPF recognizes time deposits, time installment deposits, structured products owned by the NPF for short-term funding purpose, and products with a maturity of less than one year as short-term financial instruments. The rest of financial instruments besides cash and cash equivalents and short-term financial instruments are classified as long-term financial instruments.

(5) Securities

Based on the maturity, securities are categorized into short-term and long-term securities. The short-term securities include debt and equity securities with a maturity of less than one year, or expected to be disposed within a year as of balance sheet date. The long-term securities include such securities with a maturity of more than one year, or expected to be disposed in more than a year as of balance sheet date.

The historical costs of securities are the sum of market value and incidental expenses at acquisition of the investment securities. In the investment securities, the NPF uses moving average method to calculate the historical costs for equity securities, including stocks and equity investment, while using specific identification of cost method for debt securities. When historical costs of debt securities differ from face value, the effective interest rate method is applied to amortize the difference over the remaining term of the securities.

Both for long-term and short-term investment securities, the fair value available to measure at the balance sheet date is used to evaluate the securities. The difference between the book value and fair value of the securities is appeared as a reconciliation item in the statement of changes in net assets.

For equity securities, market price is considered as fair value and is the closing price at the balance sheet date. For debt securities with unavailable market quotations, an average debt value determined by independent credit rating agencies authorized as debt evaluation agencies is used to determine fair value.

The fair value of beneficiary certificates, including discretionary contract assets, is their trading price presented by fund managers. The fair value of non-marketable securities included into underlying investment assets is calculated by using rational evaluation model and estimated value suggested by outside professional evaluation agencies.

For equity securities with unavailable market quotations, fair values are evaluated by external independent valuation companies applying reasonable valuation models and estimates. For foreign equity investments, net asset values provided by external asset management companies are used to estimate fair values. However, loans, BTL/BTO and SOC investments of which investment amount are less than KRW 10,000 million, and investments in individual companies (projects) and real estates of which investment period is less than one year at balance sheet dates are not subject to such fair value evaluation.

When recoverable value of securities decreases below the book value and the decrease stays significantly long to recover, the NPF recognizes the difference between recoverable and book value as impairment losses in net operating cost.

(6) Allowance for Bad Debts

The NPF provides allowance in accordance with estimate amount of loss from short- term and long-term loans and advance payments based on rational and specific method. Abiding by its guidelines for asset quality classification, the loans are classified into five levels in consideration with the borrowers' credit risk ratings, "normal," "precautionary," "substandard," "doubtful," and "estimated loss, ". The minimum loan loss rates according to the guidelines for loans range from 0.5% (0.2 % for loans guaranteed by Korean government, local government or government invested organizations) for normal, 2.0% for precautionary, 20% for substandard, 50% for doubtful and 100 % for estimated loss.

(7) Derivatives

The NPF evaluates rights and responsibilities according to contracts for derivative instrument and sums them as assets and liabilities in the financial statements. The gain/loss created by the contracts reflects as a part of net operating cost when they occur. The derivative instrument designated as hedging the exposure to variability in expected future cash flows of an asset or a liability is attributable to gain/loss on valuation of derivatives in the statements of changes in net assets.

(8) Provisions, Contingent Liabilities

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities which are not recognized as liabilities because they are either possible obligations, as it has yet to be confirmed whether the entity has a present obligation that could lead to an outflow of resources embodying economic benefits or present obligations that do not meet the recognition criteria in this Standard (because either it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made) is disclosed in the notes.

(9) Foreign Currency Translation

The NPF converts foreign currency-denominated monetary assets and liabilities into Korean won based on basic rates announced by Seoul Money Brokerage Service at balance sheet dates. Foreign currency translation gains/loss reflects into the calculation of net operating cost. For foreign currency-denominated investment securities, the difference between fair value, which is the amount in KRW translated at reporting period, and book value is presented as a part of adjustments in the net asset statements. The Korean won equivalent of assets and liabilities denominated in foreign currencies are translated in these financial statements based on the basic rate of KRW 1,157.8 to USD 1.00 on December 31, 2019, as announced by Seoul Money Brokerage Service.

(10) Transactions with General Business Accounting and Welfare Business Accounting

The NPF appropriates the amount transferred to purchase assets for general businesses for “general business accounting assets” in the statement of financial position, while the amount transferred to operate welfare businesses for “welfare business accounting assets.” In addition, the amount transferred to general business accounting to pay pension benefits and spend for operation of the NPF is all reflected on the statements of financial operations as Pension Benefit and management and operating expense.

The NPF recognizes the changes in net asset values due to the net income (loss) of general or welfare business accountings as general/welfare business gain/loss in the statements of financial operations.

2. FMC Meetings

Meeting (Date)	No	Agenda	Result
1st (Jan16)	1	Decision on whether to put it to 'the Special Committee on Responsible Investment and Governance' for assessment of the active engagement program and other actions on Korean Air and Hanjin KAL	Fully approved
	2	The 8 th FMC meeting minute of 2018 (summary)	Reported
	3	Active risk allocation results by asset class	
	4	Preliminary report of NPS' fund management status as of Oct. 31, 2018	
	5	Responsible Investment & Governance Guidelines for Domestic Equities	
2nd (Feb1)	1	Decision on whether to exercise shareholder rights to Korean Air and Hanjin KAL and how far the scope of exercising shareholder rights may extend	Fully approved
	2	The 1 st FMC meeting minute of 2019 (summary)	Reported
	3	Preliminary report of NPS' fund management status as of Nov. 30, 2018	
3rd (Mar 29)	1	Proposed NPS' financial settlement plan of 2018	Fully approved
	2	The amendments to Guidelines on Responsible Investment & Governance	Fully approved
	3	Plan to strengthen accountability of FMC members as a public official	Fully approved
	4	The 2 nd FMC meeting minute of 2019 (summary)	Reported
	5	Results of dividend-related shareholder proposals to the companies on the Public Focus List	
	6	Results of an assessment on how far the scope of disclosing voting direction can be prior to shareholder meetings	
	7	Preliminary report of NPS' fund management status as of Jan. 31, 2019	
4th (May 3)	1	Plan to improve alternative investment execution	Fully approved
	2	Proposed amendments to the Operational Regulations of Special Committee on Responsible Investment and Governance	Re-discussed
	3	The 3 rd FMC meeting minute of 2019 (summary)	Reported
	4	Update report on development of the proposed Mid-Term Asset Allocation Plan (2020-2024) <confidential>	
	5	Proposed revision to the objective for which NPS holds shares issued by Hanjin KAL	
	6	Preliminary report of NPF fund management status as of Feb. 28, 2019	
5th (May 31)	1	The NPS' Mid-Term Asset Allocation Plan (2020-2024) <confidential>	Approved with the 2 nd resolution
	2	The NPS's fund management plan of 2020	Fully approved
	3	Proposed amendments to the Operational Regulations of Special Committee on Responsible Investment and Governance	Fully approved
	4	The 4 th FMC meeting minute of 2019 (summary)	Reported
	5	Preliminary report of NPF fund management status as of Mar. 31, 2019	
6th (Jul 5)	1	The NPS' performance evaluation report of 2018	Fully approved
	2	The 2018 incentive plan for NPSIM	Fully approved

Meeting (Date)	No	Agenda	Result
6th (Jul 5)	3	Proposed amendments to the NPS' fund management plan	Fully approved
	4	The 5 th FMC meeting minute of 2019 (summary)	
	5	Draft follow-up guidelines on Responsible Investment & Governance Principles	
	6	Draft Action Plan on Enhanced Responsible Investment	Reported
	7	Proposed plan to build 'Intelligent-based Integrated Platform for Pension & Welfare'	
	8	Preliminary report of NPF fund management status as of Apr. 30, 2019	
7th (Oct 11)	1	The amendments to Fund Management Guidelines	Fully approved
	2	The 6 th FMC meeting minute of 2019 (summary)	
	3	Plan to improve operation of FMC	
	4	Plan to improve NPS' portfolio rebalancing <confidential>	Reported
	5	Progress of the "Follow-up Measures on Responsible Investment & Governance Principles"	
	6	Preliminary report of NPF fund management status as of Jul. 31, 2019	
8th (Nov 29)	1	Proposed amendments to the NPS' fund management plan of 2019	Fully approved
	2	Proposed Follow-up Measures on Responsible Investment & Governance Principles	Partially approved
	3	Proposed Action Plan on Enhanced Responsible Investment	Fully approved
	4	The 7 th FMC meeting minute of 2019 (summary)	Reported
	5	Preliminary report of NPS' fund management status as of Sep. 30, 2019	
9th (Dec 27)	1	Proposed Proactive Stewardship Guidelines	Amended and approved
	2	Target excess return plan of 2010	Approved with the 2 nd resolution
	3	Revision of target ratio of fixed income external management and proposed amendments to Fund Management Guideline in an area of fixed income	Approved
	4	The 8 th FMC meeting minute of 2019 (summary)	Reported
	5	Preliminary report of NPS' fund management status as of Oct. 30, 2019	

3. Key Statistics

(Unit: KRW in 100 million, Persons)

	2015	2016	2017	2018	2019
Total Reserve Fund (market value)	5,123,241	5,582,991	6,216,611	6,387,811	7,366,538
Financial Investments	5,116,983	5,576,819	6,210,372	6,382,168	7,360,790
Domestic Equity	948,965	1,023,591	1,315,200	1,089,138	1,322,609
Domestic Fixed Income	2,686,368	2,793,444	2,894,009	3,109,927	3,207,512
Global Equity	699,357	856,582	1,082,793	1,129,610	1,665,277
Global Fixed Income	215,932	232,154	232,740	265,874	304,622
Alternatives	546,585	636,668	668,362	766,195	842,952
Short-term Asset	19,776	34,380	17,273	21,426	17,819
Welfare	1,362	1,396	1,433	1,446	1,663
Other	4,896	4,777	4,806	4,196	4,085

Total Reserve Fund (book value)	4,540,901	4,889,498	5,271,788	5,655,446	6,063,088
Income	5,803,439	6,328,563	6,907,928	7,505,543	8,147,486
Contribution income	4,034,222	4,424,580	4,842,430	5,286,164	5,764,165
Investment income	1,762,493	1,894,146	2,058,573	2,212,350	2,376,172
Government subsidies, etc.	6,724	6,837	6,925	7,029	7,149
Expense	1,262,538	1,439,065	1,636,140	1,850,097	2,084,398
Pension Benefits	1,200,953	1,371,635	1,562,474	1,770,000	1,997,644
Other administrative expenses, etc.	61,585	67,430	73,666	80,097	86,754

The Insured	21,568,354	21,832,524	21,824,172	22,313,869	22,216,229
The Workplace-based Insured	12,805,852	13,192,436	13,459,240	13,817,963	14,157,574
The Individually Insured	8,302,809	8,060,199	7,691,917	7,694,885	7,232,063
The Voluntarily Insured, etc.	459,693	579,889	673,015	801,021	826,592
Beneficiary	4,028,671	4,362,254	4,692,847	4,769,288	5,163,110
Old-Age Pension	3,151,349	3,412,350	3,706,516	3,778,824	4,090,497
Disability Pension	75,688	75,497	75,486	75,734	77,872
Survivor Pension	605,151	647,445	693,141	724,132	792,774
Lump-sum Allowance	196,483	226,962	217,704	172,598	201,967



Attachment

NATIONAL PENSION FUND

Responsible Investment & Governance Report

STEWARDSHIP ACTIVITIES

Stewardship Activities Overview

To achieve a stable and higher long-term return, the National Pension Fund (NPF) conducts stewardship activities including responsible investment and exercise of shareholder rights. With regard to NPS’ stewardship activities, responsible investment refers to an investment practice of incorporating non-financial factors likely to affect invested assets, such as environmental, social and governance (ESG) factors, along with financial factors. The exercise of shareholder rights is a practice whereby institutional investors as shareholders engage in various shareholder activities including exercising their rights to vote in relation to companies they hold shares in as well as engagement.

1. Basis of Stewardship Activities

A clear legal basis for responsible investment has been in place since Jan 2015, by an amendment to the National Pension Act, to incorporate ESG factors on investment decision-making process. With regard to the amendment, new provisions were added in April 2016 to the National Pension Fund Management Guideline (Fund Management Guideline) for its implementation. Furthermore, Responsible Investment & Governance Principles (Stewardship Code) and other related guidelines were enacted or revised to support the exercise of shareholder rights in July 2018 and in December 2019 to undertake a broader range of stewardship activities. The introduction of the Action Plan on Enhanced Responsible Investment for the National Pension Fund (Action Plan on Enhanced RI) in November 2019, added a new principle of Sustainability to the existing five investment principles - Profitability, Stability, Public Benefit, Liquidity and Independence - under the Fund Management Guideline and established a set of responsible investment principles for NPS. This in turn helped nurture an environment that would promote responsible investment practices and encourage the exercise of shareholder rights within NPS.

Basis of Stewardship Activities

National Pension Act

Article 102(4) In the case of administering and managing the National Pension Fund (NPF) pursuant to paragraph (2)3, NPS may take into consideration environmental, social and governance factors in investment processes to achieve stable and higher long-term returns.

Fund Management Guideline

Article 4 (Investment Principles) 5. Principle of Sustainability

The investment activities shall be performed in good faith with a view to improve the sustainability of investments through the incorporation of environmental, social and governance factors into the investment process

Article 17 (Responsible Investment)

(1) In the case of administrating and managing the Fund through securities trading and/or securities lending, environmental, social and governance (ESG) factors may be taken into consideration in the investment process in order to achieve stable and higher long-term returns. The Principles of Responsible Investment are seen in Table 4.

Article 17-2 (Responsible Investment and Governance Principles)

NPS adopted the Korea Stewardship Code, and the Stewardship Responsibility Principles for local institutional investors, to create its own version, with an aim to promote transparency and independence in stewardship activities at NPS. Based on this, the “Responsible Investment and Governance Principles” was newly established and became effective upon approval by the Fund Management Committee.

2. Policies of Stewardship Activities

NPS conducts responsible investment activities and exercises its shareholder rights in the best interest of its contributors and beneficiaries for stable growth of assets. NPS adopted Responsible Investment Principles (RI Principles) and the Korea Stewardship Code, and has taken into account non-financial factors, such as ESG factors, in the fund management process as well as exercising the shareholder rights independently and transparently depending on the criteria, methods and procedures defined by the Responsible Investment & Governance Guidelines.

Policies of Stewardship Activities

Fund Management Guideline

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

- (1) NPS engages in responsible investment practice and exercises shareholder rights to achieve the stable growth of the assets.
- (2) NPS engages in responsible investment practice and exercises shareholder rights in good faith with a view to the best interest of contributors to and beneficiaries of the National Pension Plan.
- (3) NPS engages in responsible investment practice and exercises shareholder rights in a way of amplifying shareholder value.
- (4) Standards, methodologies and procedures relating to responsible investment and exercise of shareholder right are in line with the “Responsible Investment and Governance Guidelines” as approved by the Fund Management Committee.

Stewardship Code

- (Principle 1) To establish and announce principles of stewardship activities
- (Principle 2) To establish and announce policies of anti-conflict of interests
- (Principle 3) To conduct a periodic review and monitoring of invested companies
- (Principle 4) To establish guidelines for stewardship activities and implement shareholder activities (engagement)
- (Principle 5) To establish and announce voting policies and disclose voting records and commentary
- (Principle 6) To periodically report on stewardship activities
- (Principle 7) To improve competence and expertise that would ensure the effective implementation of stewardship activities

RI Principles

- (Principle 1) To aim at achieving stable and higher long-term returns
- (Principle 2) To comply with the Responsible Investment and Governance Guidelines
- (Principle 3) To conduct responsible investment practices for equities and fixed income
- (Principle 4) To incorporate non-financial factors, including environmental, social and governance (ESG) factors in investment
- (Principle 5) To engage with invested companies
- (Principle 6) To take into account responsible investment factors in the selection and evaluation of external managers
- (Principle 7) To encourage ESG disclosure of companies that have been invested in
- (Principle 8) To improve competence and expertise in responsible investment
- (Principle 9) To construct a regular reports on responsible investment activities

Responsible Investment & Governance Guidelines

PART 1 (General Provisions)

Objective, scope of application, basic principles, details of stewardship activities and key decision maker

PART 2 (Responsible Investment)

Coverage, incorporation of non-financial factors (ESG)

PART 3 (Exercise of Shareholder Right)

- Voting (coverage, basic principles, sub-standards, etc.)
- Stewardship activities on Focus Area (Confidential Dialogue, Non-Public/Public Focus List Selection, published Letter, shareholder proposals, etc.)
- Litigation

PART 4 (Disclosure and Reporting, etc.)

Notification and announcement, disclosure and reporting, publication of a report on stewardship activities, internal control, document storage, capability improvement, etc.

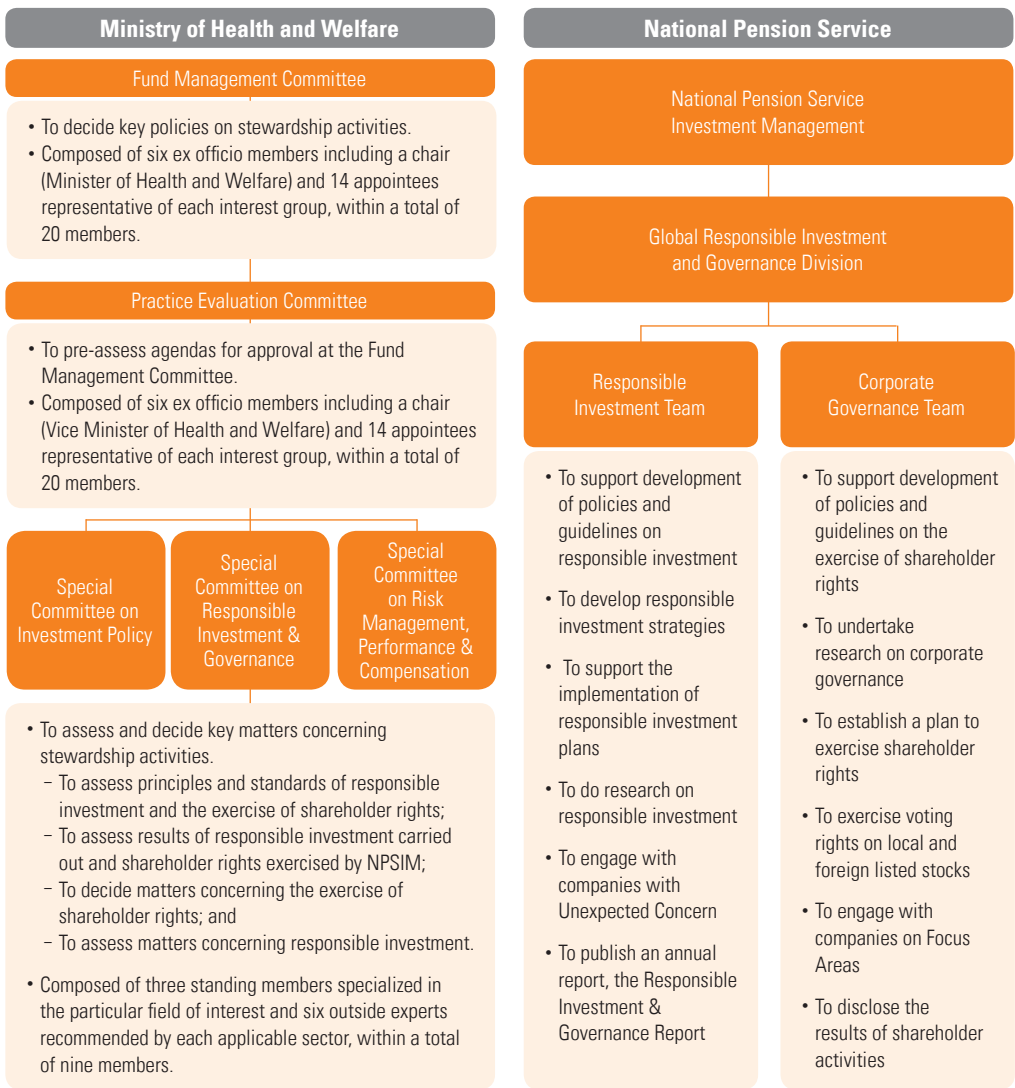
Attached tables: detailed voting criteria for domestic and global equities, form of voting results to be disclosed and selection criteria for Focus Area

3. Governance Structure and Organization for Stewardship Activities

NPS takes on stewardship activities in line with the policies that the Fund Management Committee(FMC), a highest decision-making body for fund management at NPS (FMC) approves for NPS’ stewardship activities. The FMC possesses a special committee concerning stewardship activities - the Special Committee on Responsible Investment and Governance. The Special Committee on Responsible Investment and Governance composed of external experts supports the FMC on making decisions surrounding stewardship activities while also playing a part in constructing reviews and decisions on agendas on responsible investment and the exercise of shareholder rights for the Fund.

The Global Responsible Investment and Governance (GRI&G) Division takes lead on NPS’ stewardship activities under Managing Director of Investment Strategy and Responsible Investment & Governance at NPSIM. The GRI&G is a group of 14 members of staff as of the end of 2019. The Responsible Investment Team supports the development of policies and guidelines related to responsible investment, and establishes responsible investment strategies and their action plan. Following the guidelines, internal portfolio managers can incorporate ESG factors in the investment decision-making process. To that end, the Responsible Investment Team conducts internal assessment of companies which have been invested in on ESG issues (ESG Assessment), monitoring of any ESG-related controversial issues (ESG Controversial Issue) and other researches, as well as engagement with companies on their ESG issue. The Corporate Governance Team supports development of policies and guidelines in order to exercise shareholder rights. The Corporate Governance Team is in charge of NPS’ research on corporate governance and its shareholder activities, including voting at general meetings and engagement with companies that have been invested in.

Governance Structure and Organization for Stewardship Activities



Fund Management Committee Meetings on ‘Stewardship Activities’ for 2019

Date	Agenda Items
Jan. 16	Decided whether to put it to ‘the Special Committee on Responsible Investment and Governance’ for assessment of the active engagement program and other actions on Korean Air and Hanjin KAL Reported the Responsible Investment & Governance Guidelines for Domestic Equity
Feb. 1	Decided whether to exercise shareholder rights to Korean Air and Hanjin KAL and how far the scope of exercising shareholder rights may extend
Mar. 29	Discussed the results of dividend-related shareholder proposals to companies on the Public Focus List
	Discussed the results of an assessment on how far the scope of disclosing voting direction can be prior to shareholder meetings
	Discussed amendments to the Responsible Investment & Governance Guidelines
	Discussed plans to strengthen the public accountability over members of committees relating to the National Pension Fund
May 3	Assessed revision to the objective for which NPS holds shares issued by Hanjin KAL
May 31	Discussed proposed amendments to the Operational Regulations of Special Committee on Responsible Investment and Governance
Jul. 5	Discussed draft Follow-up Measures on Responsible Investment & Governance Principles
	Discussed the draft Action Plan on Enhanced Responsible Investment
Oct. 11	Reported on progress of the “Follow-up Measures on Responsible Investment & Governance Principles”
Nov. 29	Discussed the proposed Follow-up Measures on Responsible Investment & Governance Principles
	Discussed the proposed Action Plan on Enhanced RI
Dec. 27	Discussed the Proactive Stewardship Guidelines

Meetings of Special Committee on Responsible Investment & Governance for 2019

Date	Agenda Items
Jan. 23	Assessed whether to exercise shareholder rights to Korean Air and Hanjin KAL and how far the scope of exercising shareholder rights may extend
Jan. 29	Called a meeting pursuant to the Operational Regulations of the Special Committee on Responsible Investment and Governance
Feb. 7	Discussed proposed plan on dividend-related shareholder proposals to the lists of the Public Focus List Company
	Discussed proposed decision on how far the extent of disclosing voting direction could be prior to shareholder meetings
	Discussed proposed amendments to the Responsible Investment & Governance Principles
Feb. 14	Discussed plans on dividend-related shareholder proposals Public Focus List Companies
Mar. 14	Discussed proposed voting directions on proposals from an ordinary shareholder meeting for Hyundai Mobis, Hyundai Motor Company and the Hyosung Corporation
Mar. 20	Discussed proposed voting directions on proposals from an ordinary shareholder meeting for both Samsung Biologics and Hyundai Elevator
Mar. 25	Discussed proposed voting directions on proposals from an ordinary shareholder meeting for both Korean Air and SK Group
Mar. 26	Discussed proposed voting directions on proposals from an ordinary shareholder meeting for Korean Air and SK Group
Mar. 27	Discussed proposed voting directions on proposals from an ordinary shareholder meeting for Hanjin KAL
May 29	Discussed proposed voting directions on proposals from a special shareholder meeting for Hyundai Heavy Industries Co., Ltd.
Jun. 24	Discussed the proposed exploration of the Action Plan on Responsible Investment
	Discussed the draft follow-up guidelines on Responsible Investment & Governance Principles
Jul. 29	Reported cases where NPS exercised voting right
	Reported cases of stewardship activities taken on domestic stock holdings for Focus Areas and Unexpected Concerns
Oct. 17	Discussed proposed Action Plan on Enhanced RI
Nov. 5	Discussed cases of stewardship activities that were taken on domestic stock holdings for Focus Areas and Unexpected Concerns
	Discussed draft Guidelines on Composition and Operation of the Board
Nov. 14	Discussed proposed voting directions on proposals from a special shareholder meeting for Fila Holdings Corp.
Nov.21	Discussed proposed Follow-up Measures on Responsible Investment & Governance Principles
Nov. 22	Discussed proposed Action Plan on Enhanced RI

4. Milestones of Stewardship Activities

After the launch of an externally managed domestic responsible investment (RI) fund in September 2006, NPS joined the Principle in Responsible Investment (PRI), a global initiative for responsible investment, in June 2009. NPS set up a new team, the Responsible Investment Team within the Investment Strategy Division in March 2013, to bring together all the voting rights that had been exercised separately by domestic and global equity investment teams across NPSIM, therefore paving the road towards adopting stewardship activities. In June 2015, NPS set a plan to promote engagement with locally listed companies for development of reasonable dividend policy, and in, December 2015, established an ESG assessment system for domestic equities. Following this, NPS built an internal IT system to feed company's ESG related information to portfolio managers, called the "ESG System", to build the foundation for ESG incorporation. In July 2018, NPS adopted the Responsible Investment & Governance Principles as a stewardship code for the NPF with the expansion of the Responsible Investment Team to the GRI&G Division, consisting of the 'Responsible Investment Team' and the 'Corporate Governance Team' in January 2019. The highlights of 2019 surrounding stewardship activities include the establishment of the Action Plan on Enhanced RI that would apply responsible investment practices to more assets in the portfolio as well as the establishment of the Proactive Stewardship Guidelines that would further expand the scope of shareholder activities.

Milestones of Stewardship Activities

Sep. 2006	Launched the externally-managed domestic RI Funds
Jun. 2009	Joined the Principle for Responsible Investment (PRI)
Dec. 2009	Added a provision of responsible investment to Voting Guidelines
Mar. 2013	Established the Responsible Investment Team within the Investment Strategy Division
Nov. 2015	Introduced a new benchmark for externally-managed domestic RI Funds (NPS-FnGuide RI Index)
Jun. 2015	Developed a plan to promote developing appropriate dividend policies for domestic equities
Dec. 2015	Built an ESG Evaluation System for domestic equities
Apr. 2016	Added a provision of responsible investment to the Fund Management Guideline (Investment Policy Statement)
Dec. 2016	Built an ESG System for domestic equities
Jul. 2017	Established an evaluation system to assess ESG Controversial Issues for domestic equities
Sep. 2017	Started to incorporate ESG factors in the investment of the internally-managed domestic equities
Jul. 2018	Introduced the Responsible Investment & Governance Principles (Stewardship Code) Renamed Voting Guidelines to the Responsible Investment & Governance Guidelines
Jan. 2019	Expanded the former Responsible Investment Team to the Global Responsible Investment and Governance (GRI&G) Division consisting of two teams – the Responsible Investment Team and Corporate Governance Team Introduced the Responsible Investment & Governance Guidelines for Domestic Equities
Feb. 2019	Decided on the scope of disclosing voting directions prior to shareholder meetings
Sep. 2019	Joined the International Corporate Governance Network (ICGN) Joined the Asian Corporate Governance Association (ACGA)
Nov. 2019	Introduced the Action Plan on Enhanced RI and adopted the RI Principles Added a principle of sustainability to the investment principles in the Fund Management Guideline Introduced the Guidelines on Voting Right Delegation to External Managers Introduced plans to add extra scores to external managers for the availability of stewardship codes in the manager selection and evaluation process
Dec. 2019	Introduced the Proactive Stewardship Guidelines

Responsible Investment

Since the launch of an externally managed domestic responsible investment (RI) fund in September of 2006, NPS has paved the way towards adopting responsible investment practices by building internal research for responsible investment and by developing responsible investment strategies. Currently, NPS is implementing the responsible investment strategies on Domestic Equity. Upon the approval of the Action Plan on enhanced RI by the FMC in November 2019, the responsible investment activities at NPS will be further expanded through the expansion of RI coverage on asset classes and reinforcement of RI characteristics on externally managed RI funds.

1. Implementation of Responsible Investment Strategies

To implement the responsible investment principles, ESG incorporation (reflecting ESG factors in the investment decision-making process) and Engagement (improving ESG-related risk management and increasing company value through a constructive dialogue with a company that has been invested in) is widely used. ESG Incorporation can be broken down into three strategies – i) ESG incorporating financial and non-financial (ESG) factors, ii) Screening including or excluding given asset from an investment universe based on ESG standards and iii) Theme Investing, an ESG-themed investment strategy. NPS is taking the strategies of ESG Integration and Screening, partially, on Domestic Equity, and engaging with companies pursuant to the Responsible Investment & Governance Guidelines. Going further, the introduction of the responsibility investment strategies will be widely applied to local and foreign equities and fixed incomes.

(a) ESG Incorporation

[Internal Management]

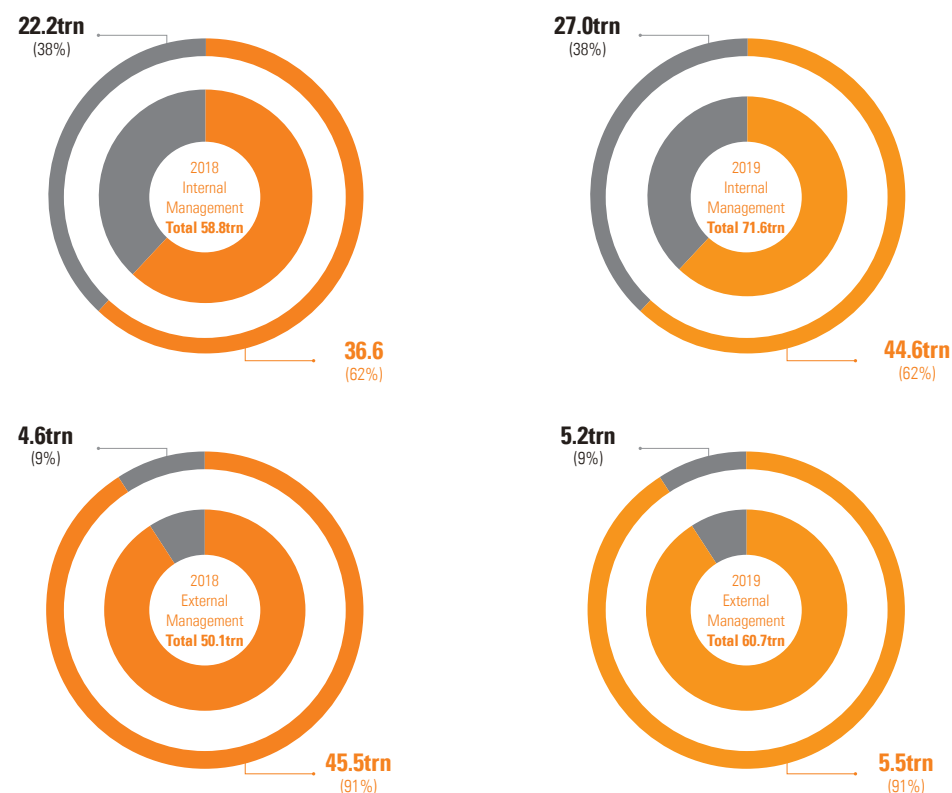
NPS has applied the ESG Integration strategy to some portion of the active-styled, internally-managed Domestic Equity investments (Active Internal Domestic Equity Investments) since 2018. When a new company is added to an Investable Universe (IU), portfolio managers review its ESG data. They also check ESG data when monitoring invested securities in a Model Portfolio (MP) and submit commentary on any securities included above the benchmark (BM) that would fall into the lower end of the ESG grade.

[External Management]

NPS manages the externally managed domestic RI funds as one of many options for Domestic Equity's external management. The RI funds, currently run by five external managers, is worth around KRW 5.2 trillion as of the end of 2019. NPS introduced an internally developed benchmark index for these RI funds, named the "NPS-FnGuide Responsible Investment Index." This benchmark index was developed in consideration of the funds' distinct attributes. ESG factors are incorporated with exclusion of alcohol, gambling and tobacco. Thus, NPS implements a Screening strategy that excludes alcohol, gambling or tobacco to RI funds.

When selecting an external manager for these RI funds, some key points, such as the managers' professionalism and morality as to responsible investment, responsible investment strategy and process and compliance of investment guidelines for the funds., are considered in an assessment. This includes managers' professionalism and morality as to responsible investment, responsible investment strategies and processes as well as compliance of investment guidelines for the funds. Aside from the Screening strategy, various responsible investment strategies are likely to be applied by different external managers.

Domestic Equity Assets under Responsible Investment



■ ESG Incorporated

(b) Engagement

NPS engages with companies by communicating with them via letter or dialogue to fact-check or address pressing issues as well as calling for improvement, in the case whereby an occurrence of any ESG-related issue is likely to affect company value, or in the case whereby it needs to engage to increase shareholder value or enhance long-term return for the Fund.

In 2019, NPS engaged with 20 companies through letters and dialogue concerning ESG-related issues, such as ones investigated by law enforcement (prosecutor offices and police) or that have violated environmental regulations or caused casualties at the workplace.

Engagement Case for Product Safety

NPS has engaged with companies that it holds shares in both at home and abroad, including product manufacturers or distributors (e.g. Company A), since 2016, through letters and dialogue with the aim of minimizing the risk of harming shareholder value in relation to a product safety scandal where the products manufactured or distributed by them had caused massive casualties. During the course, NPS has helped companies to make improvement through efforts to i) fact-check and review corrective measures, ii) develop policy to prevent the recurrence of the same incidents, iii) implement a new system for human and physical resource management and iv) improve the transparency of company disclosure. The result was of the engaged company having improved in ways that strengthened policy to tighten the management of toxic chemical materials, established system and expanded organization to prevent the recurrence of similar incidents, while also creating a new committee under the Board and an enhanced reporting system. The engaged distributor also showed improvement in ways that toughened the validation process for product safety, let the third party conduct evaluation over its self-owned brand ('PB Product') and published a whole list of ingredients of any potential harmful products on their website. Companies that in 2019 were under investigation by law enforcement were kept in constant contact through letters or dialogues, with NPS continuing to monitor them.

Engagement Case for Occupational Safety and Health

NPS has engaged with companies that have been invested in (e.g. Company B) since 2016, through letters and dialogue for employees on sick leave or repetitive casualties. During the process, NPS has investigated causes and looked into corrective measures proposed by the company, before holding discussions on how to ensure the health and safety of employees and go further to promote information disclosure and transparency. In 2018, the company made an official apology and suggested compensatory measures to the affected employees, and conducted an overall assessment of the production lines through an independent body of specialists on industrial health and preventive medicine.

2. ESG Research

(a) ESG Evaluation

For a systemic analysis of non-financial factors, or ESG factors, from investments, NPS established a distinct ESG evaluation system with the unique characteristics of the NPF reflected (ESG Evaluation System), and now conducts the ESG Evaluation on listed domestic stocks (KOSPI+KOSDAQ100) twice a year. The ESG Evaluation System is composed of 13 issues affecting corporate value in the areas of the environment, society and governance (ESG) with 52 evaluation indicators. Each issue is scored and graded for ESG after being weighted differently to reflect industrial differences. The improvement and maintenance of the ESG evaluation system are scheduled on regular basis, in accordance with internal/external conditions.

ESG Evaluation System on Domestic Equity Assets

	Issue	ESG Indicator
Environment	Climate Change	Greenhouse Gas Emission Management System, Carbon Emission, Energy Consumption
	Clean Production	Clean Production Management System, Water Consumption, Chemical Consumption, Air Pollution, Waste Emission
	Green Products Development	Eco-friendly Production, Eco-friendly Patents, Eco-friendly Certification, Product Improvements
Society	Human Resources Management	Wage, Fringe Benefit, Employment, Organizational Culture, Employment Tenure, Human Rights, Labor Customs
	Industrial Safety	Health & Safety System, Certification on Safety & Health Management System, Industrial Accident Frequency
	Subcontract Transaction	Contract Process, Compliance Program on Fair Trade, Contractor Support Activities, Subcontract Act Compliance
	Product Safety	Product Safety System, Product Safety Management System Certification, Product Safety Accident
	Fair Competition and Social Development	Internal Transaction Committee, Fair Trade Limit Activities, Information Protection System, Endowment
Governance	Shareholder Rights	Poison pill, Shareholder Opinion Convergence, Notice of Shareholder Meeting
	Board Composition and Activities	CEO & BOD Chair Separation, BOD Independence, Independent Director Composition, BOD Activities, Compensation Committee, Director Remuneration Policy
	Audit System	Independent Director Ratio of Audit Committee, Extended Tenure Auditor Ratio, Audit to Non-Audit Service Ratio
	Affiliation Risk	Affiliation Contingent Liability to Net Assets, Affiliation Sales Ratio, Affiliation Purchase Ratio
	Dividend	Shareholder Return Ratio, Total Shareholder Return, Recent 3 Years Dividend, Insufficient Dividend Payout

As of the end of 2019, NPS conducted an ESG Evaluation on 891 listed companies in Korea and graded ESG scores to put them into each of six grade levels as below.

ESG Evaluation Result

AA	A	BB	B	C	D	Total
75 (8.4%)	116 (13.0%)	195 (21.9%)	245 (27.5%)	198 (22.2%)	62 (7.0%)	891 (100.0%)

ESG data such as the ESG Evaluation results are provided via the ESG System to portfolio managers who integrate this data, as well as financial data, to a decision-making process on investment of domestic equity assets. If it falls below a certain level in a regular ESG Evaluation process following reflecting the ESG evaluation results, with its necessity driven from the internal evaluation, the company goes into the shortlist for Engagement and stewardship activities.

(b) ESG Monitoring

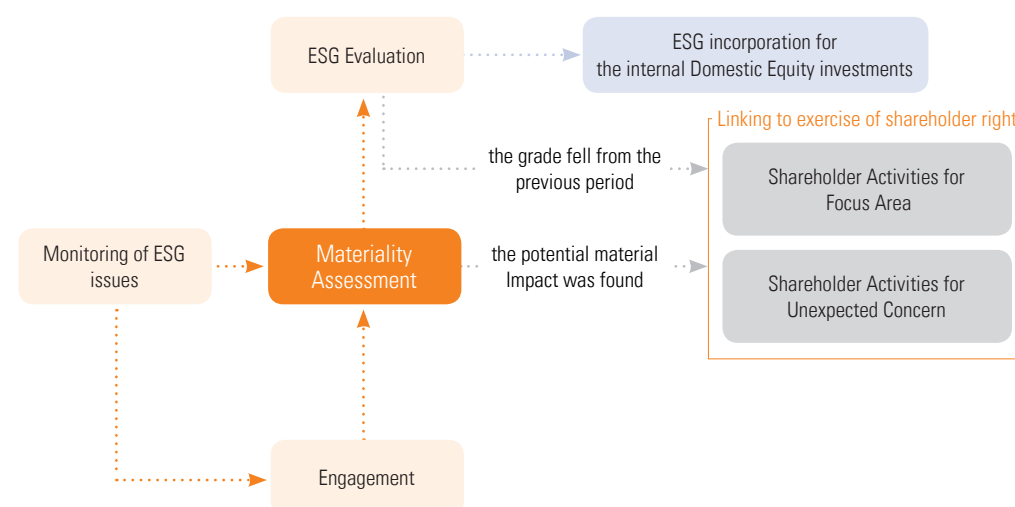
NPS keeps track of ESG related issues likely to affect company value pursuant to the Responsible Investment & Governance Principles and the Responsible Investment & Governance Guidelines, and conducts assessments in a viewpoint of materiality¹⁾ and recurrence²⁾ to measure the impact that such issues would have on company value and shareholder value, called the “Materiality Assessment.” NPS adjusts the ESG Evaluation results, or take shareholder activities including Engagement after considering the result of the Materiality Assessment and how much of a certain stock is held by NPS (the holding ratio) and what percentage of such holdings make up the NPS’ portfolio (the portfolio percentage).

Meanwhile, if company that has been invested in becomes subject to ‘Shareholder Activities for Unexpected Concern’ in the result of the Materiality Assessment, it is likely to be invited to a confidential dialogue by procedures and criteria set out in the Responsible Investment & Governance Guidelines for Domestic Equities. The details of the Shareholder Activities for Unexpected Concerns are described in the next section the “Exercise of Shareholder Rights”.

NPS conducted a Materiality Assessment on 49 ESG-related cases in 2019. 12 companies were subject to adjustment of its ESG results from a Materiality Assessment of 49 ESG-related cases in 2019.

- 1) Assessment of materiality is made in consideration of the implication of damage, the period of which damage has occurred and the likability and level of punishment.
- 2) Assessment of recurrence is made in consideration of communication, improvement level and recurrence.

ESG Research Process for Domestic Equity



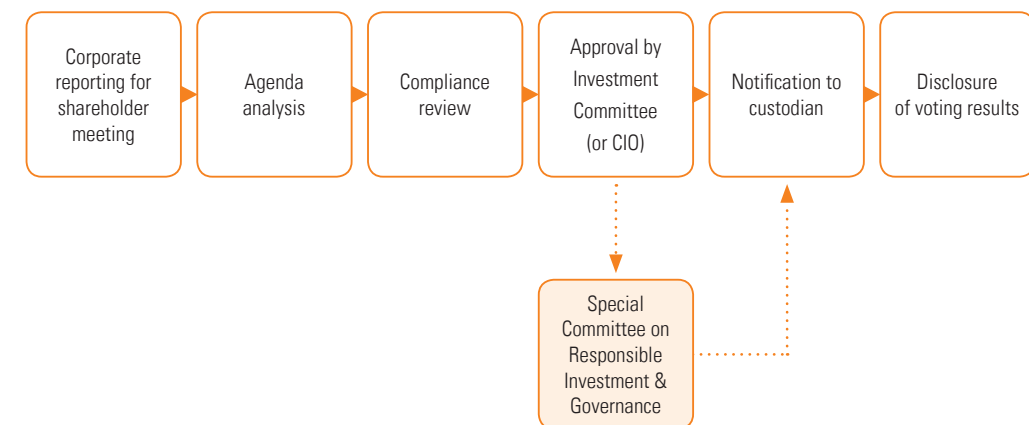
Exercise of Shareholder Rights

1. Exercise of Voting Rights

[Standard and Procedure]

NPS exercises voting rights on listed stocks held, according to the fiduciary duty, under the National Finance Act of the Republic of Korea and the Fund Management Guideline in the best interests of the contributors to and beneficiaries of the National Pension Plan. NPS exercises the voting rights in line with the Responsible Investment & Governance Guidelines that define standards, procedures and practices around voting, and takes the heed of advice from external agenda analysis advisors for a more professional and informed voting process.

Voting Procedures



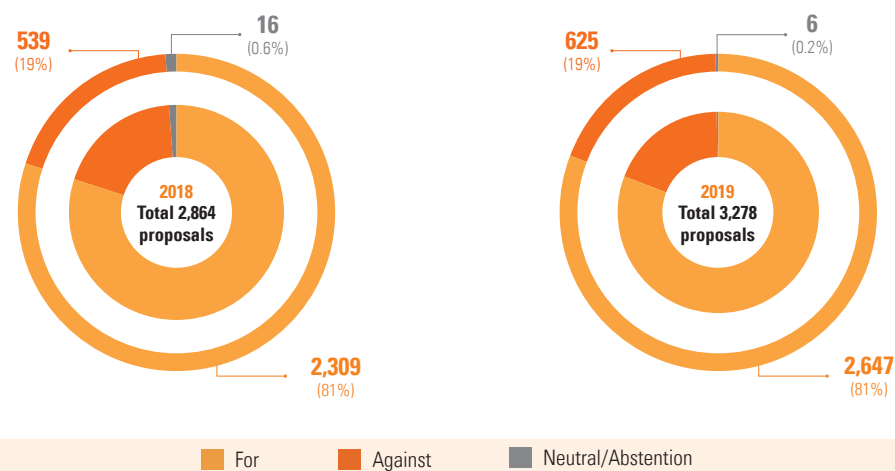
The voting process is based upon how much of a certain stock is held by NPS (ownership) and what percentage of such holdings makes up the NPS’ portfolio (the portfolio percentage) through review and approval by the Investment Committee, an internal committee of NPSIM. Having said that, the Special Committee on Responsible Investment & Governance may decide the direction of voting in such cases as i) where NPS makes a request to the committee, or ii) where an agenda is demanded to be discussed at the committee by over a third of the committee's registered members for its long-term impact on shareholder values. The FMC has also established the Guidelines on Voting Right Delegation to External Managers and decided to delegate the voting power of some holdings to external managers, effective at the annual shareholder meeting dated in March 2020.

[Disclosure and Voting Status]

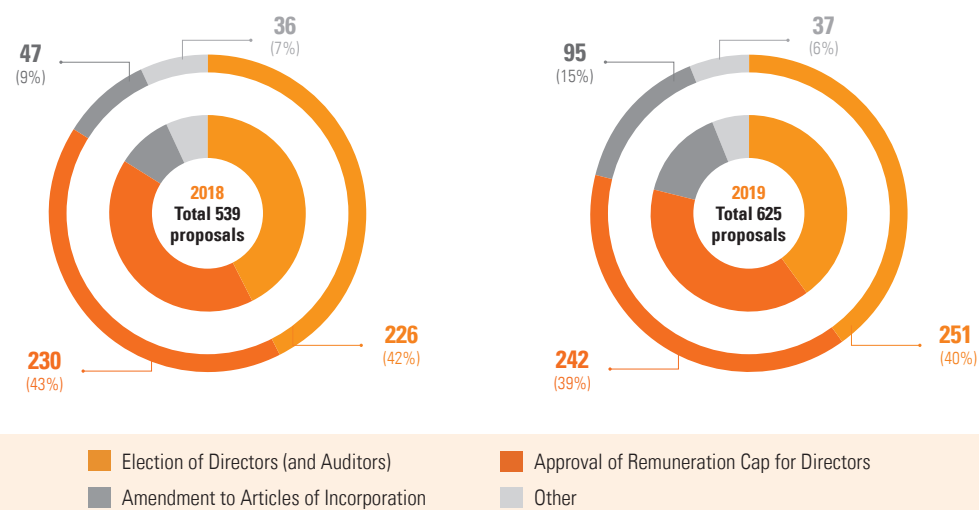
NPS discloses the rationale for vote against in detail, containing voting results and supporting clauses in guidelines within 14 days of opening shareholder meetings. Nevertheless, the voting direction may be disclosed before opening shareholder meetings, if it is about an agenda for a company held by NPS with 10 percent or higher or occupying more than one percent of the portfolio, or an agenda decided by the Special Committee on Responsible Investment & Governance. NPS has made a prior disclosure of the voting direction for 103 shareholder meetings in 2019.

In 2019, NPS voted on a total of 3,278 proposals at 767 shareholder meetings.

Voting Status



Vote-Against Status



Voting Decisions in 2019

(i) Approval of Financial Statement

NPS voted for approval of financial statement considering, in spite of its low dividend payout ratios, the company's overall conditions, business and industrial position that demands intensive capital investment instead of paying dividends (Company C). On contrary, NPS voted against the same proposal in March 2019 for a low dividend payout ratio and the failure to present any investment plan or a dividend policy without reasonable explanation despite being in a good fiscal standing (Company D). Meanwhile, as the shareholders opposed approval of appropriation of retained earnings (dividend decision) in the board proposal (Company E*, Company F**), NPS put it to the Special Committee on Responsible Investment and Governance to decide. As per the decision by the special committee that the dividend ratio from the shareholder proposal was excessive, NPS voted for the board proposal in March of 2019.

* Company E (dividend per common share): Board (KRW4,000/share), Shareholder (KRW26,399/share),

** Company F (dividend per common share): Board (KRW3,000/share), Shareholder (KRW21,967/share)

(ii) Election of Directors and Auditors (Supervisors)

NPS voted against an election of directors and auditors (supervisors) in March 2019 because the nominees were full-time employees of the affiliated company or any company which has had a relationship with the stock in question within the last five years of the decision being made. In detail, the nominee was a full-time employee of a non-profit company that belongs to a corporate group (Company G); was a significant shareholder of the company or a full-time employee of an important vendor (Company H) or was a full-time employee of the company providing advisory services on a regular basis by contract (Company I). During the same period, NPS also voted against this proposal for three companies for the following reasons. The nominee had committed embezzlement as the largest shareholder (Company J); violated the accounting standards of the company (Company K); as an outside director committed negligent supervision for overseeing corporate value or shareholder rights being compromised; and as a retired public official who had no clear record of pre-approval for employment from the Public Official Ethics Commission (Company L).

(iii) Amendment to Articles of Incorporation

NPS voted against amendments to articles of incorporation in March 2019 for the following reasons: i) there were concerns over diluted shareholder value from an excessive issuance cap of Convertible Bonds (CB) and Bond With Subscription Warrants (Company M); and ii) the company changed their policies surrounding a resolution item without proper justification that would allow the board, not shareholders, to separate internal directors and Non-Executive directors (NED) (Company N).

(iv) Approval of Remuneration Cap for Directors

NPS voted against approval of remuneration caps for directors because the proposed cap on directors' remuneration was excessive relative to the company's performance after review of the company's compensation policy (Company O), while having voted for the same proposal in March 2019 because the proposed cap was not excessive relative to the company's performance based on the rationale provided by the company, such as with a one-off cost (Company P).

2. Shareholder Activities

NPS adopted the Responsible Investment & Governance Principles (Stewardship Code) to fulfill the obligation of the fiduciary duty to improve the dual mandate of long-term profitability and stability while enhancing independence and transparency in the exercise of shareholder rights. Through this Code, the scope of shareholder activities has been expanded to address director remuneration, legal and regulatory violation as well as other agendas. Previously, the shareholder activities were confined to voting and corporate engagement mainly surrounding dividend payouts. Now, NPS is undertaking shareholder activities in accordance with criteria and procedures in the Responsible Investment & Governance Guidelines and the Responsible Investment & Governance Guidelines for Domestic Equities.

Meanwhile, when introducing the Responsible Investment & Governance Principles, NPS first adopted activities not constituting the Management Participation Purpose³⁾ in consideration of concerns over the potential intervention in business management and a return of short-term gains on trading, while having permitted Management Participation Purpose activities with the exception of being approved by the FMC, which will be adopted at full scale after the foundations have set. In February 2019, the FMC conducted an exceptionally-permitted Management Participation Purpose activity by approving a shareholder proposal that would narrow requirements for directors against Hanjin KAL for the purpose of increasing shareholder value, citing concerns over the disruptive acts of the owner family of Korean Air and Hanjin KAL may potentially damage shareholder value. Moreover, as the need for more predictable and transparent shareholder activities rises, and relieving concerns over intervention in business management and infringement of autonomy is required, NPS established the Proactive Stewardship Guidelines that clarify principles, standards and procedures for active shareholder activities and engagement. NPS performs shareholder activities according to the instructions or the guidelines and, by doing so, guides companies into voluntarily coming up with improvements including how to increase shareholder value.

³⁾ an exercise of shareholder rights by virtually influencing the company on matters including election of directors and other related shareholder proposals

⁴⁾ As per the decision by the FMC, NPS presented a shareholder proposal in compliance with the procedures that was rejected in the annual shareholder meeting of Hanjin KAL in March 2019, with 48.66% voting for and 51.34% voting against.

(a) Shareholder Activities for Focus Area

For its long-term and stable return, NPS identifies the following matters as Focus Areas and conducts shareholder activities surrounding: i) likely causes of damage to corporate value or shareholder right regarding the company's dividend policy, ii) reasonable remuneration caps for directors and legal violations, iii) evidence of improvement even after a repetitive vote-against and vi) down grading in a regular ESG evaluation.

The shareholder activities for Focus Areas are undertaken by company selection, confidential dialogue, selection of Non-Public Focus List, selection of Public Focus Lists and shareholder proposals, etc., according to the Responsible Investment & Governance Guidelines for Domestic Equities. If the company fails to show improvement even after the phased shareholder activities as mentioned above, NPS can vote against any relevant agenda or election of directors in the company's shareholder meeting, or send an open letter.

Process of 'Shareholder Activities for Focus Area'



Focus Area Selection Standard

Focus Area	Selection Standard
Company's dividend policy	In case the company failed to establish a reasonable dividend policy or pay out dividends accordingly.
Reasonable remuneration cap for directors	In case the shareholder right is likely to be violated by the company that proposed the remuneration cap for directors that was not associated with compensation or business performance.
Damage to corporate value or shareholder right from legal violation concern	In case the company falls into the following cases based on the fact, such as the investigation led by authorities, 1) involved in embezzlement or breach of trust in relation to the company 2) provided unfair support to a special-interest party or other companies (unfair support) 3) assigned an unfair gain to a special-interest party (profit-taking by the management)
No improvement after repetitive vote-against	In case the company failed to show improvement despite NPS' repetitive vote-against decisions in the company's shareholder meeting.
Downgraded in regular ESG evaluation	In case the result of a regular ESG evaluation found that the total ESG grade fell by two grades or more, to grade C.

[Establishment of Company's Dividend Policy]

NPS selected a list of companies for confidential dialogue that have not established and published reasonable dividend policy, or payed out dividend accordingly. In 2019, NPS communicated with 35 companies through letters or dialogues, building a friendly communication channel. Throughout the process, NPS has emphasized that companies should improve themselves by setting out dividend policies voluntarily and by communicating with the market, rather than following a suggested dividend ratio or level. Following the closed dialogue, the companies disclosed a reasonable dividend policy through a local electronic disclosure system, Data Analysis, Retrieval & Transfer (DART) of Financial Supervisory Service (FSS), and their website, which has eventually improved the predictability of dividend payouts for investors.

NPS held confidential dialogue with representatives of companies (Company Q and Company R), such as the board of directors and management, to discuss the procedures and the intention of the NPS' shareholder activities, particularly, the establishment of the dividend policy. The companies understood the necessity for dividend policy. Previously, the companies made a superficial dividend policy, just stating that they 'set the dividend ratio in consideration of profit, investment and financial position.' However, Company Q, following discussions with NPS, decided to allocate a certain percentage of its net profit to dividend for the next three years and, in the eventuality of any noticeable change in dividend payouts, inform NPS over the reason behind it. Company R also published dividend payouts in more detail - to allocate a certain percentage of its net profit (excluding one-off extraordinary profit) within the limit of dividend income. The disclosure of the detailed dividend policy gave investors a clear sense of how the company makes decisions surrounding dividends and improved the predictability of dividend payouts.

Meanwhile, NPS held confidential dialogue with Company S and Company T in 2016 according to the engagement policy and procedures as approved by the FMC in 2015. As improvements to those companies was not satisfactory, NPS continued communication with companies by selecting a Non-Public Focus List in 2017 and a Public Focus List in 2018.

Company S established and published dividend policies containing 'a plan to maintain the Dividend Payout Ratio (DPR) of 13% (based on the consolidated financial statements) for the period of 2018 to 2020 with an aim to increase shareholder value.' Considering the predictability of the company's dividend policy had improved, the Special Committee on Responsible Investment and Governance decided to put Company S out of the Public Focus List in February 2019.

Company T failed to show any improvement over dividend policy, resulting in a shareholder proposal not constituting Management Participation Purpose (to establish a committee for review or advisory over establishment and disclosure of the dividend policy) presented by NPS in February 2019 and rejected in the shareholder meeting. Still, talks with Company T have since continued, and, as a result, the company disclosed its dividend policy documents through Data Analysis, Retrieval & Transfer (DART) of Financial Supervisory Service (FSS) and its website, including a plan for stable dividends and a review of the dividend policy. Considering such improvements, the special committee decided to put Company T out of the Public Focus List in January 2020, provided however that the special committee ordered continuous monitoring of the company's dividend policy because improvements to dividend policy were relatively unsatisfactory.

[Reasonable Remuneration Cap for Directors]

At recent shareholder meetings, NPS has voted against a proposal of ‘Approval of Remuneration Cap for Directors’ by some companies where the remuneration cap had no link to business performance or was excessive relative to the actual remuneration paid to directors. From these companies, NPS selected the companies to hold confidential dialogue with considering the ratio of their remuneration cap for directors versus actual remuneration. NPS has communicated with six companies through letters or dialogue, and built an amicable relationship with them, while encouraging companies to adopt more plans for better shareholder value in 2019. As a result, those companies spontaneously showed improvement in making reasonable remuneration cap policies

In light of the procedures and intent of the NPS’ shareholder activities on reasonable remuneration caps for directors, there were concerns that a larger gap between the remuneration cap and the actual remuneration may lead to a resolution just as a perfunctory. So, NPS decided to have a talk in private with representatives of the companies such as the board and management. The companies acknowledged and understood what was intended for confidential dialogue over the remuneration cap for directors and of what point investors had been concerned. The result was Company U and Company V both changed their previous excessive remuneration caps to a reasonable level, as compared to the actual remuneration. More importantly, Company U revised the articles of incorporation to ensure that a sub-committee on remuneration within the board undertakes a new role of conducting diligent reviews on directors’ remuneration, while Company V spontaneously established a new plan for compensatory measures (stock) linked to a director’s performance.

[Damage to Corporate Value or Shareholder Right from Legal Violation Concern]

NPS selected a number of companies to hold confidential dialogue with that could potentially cause damage to shareholder value or violate shareholder right out of concern on profit-taking by the management supported by the investigation by authorities or law enforcement. Throughout 2019, NPS has communicated with four companies through letters or dialogue, and built an amicable relationship with them, while encouraging the companies to adopt more plans for better shareholder value. As a result, those companies showed improvements in implementing corrective measures.

The confidential dialogue was organized and held by NPS with the presence of the companies’ representatives, such as the board and management, to discuss the procedures and intent of the NPS’ shareholder activities on legal violation concern, and the detail of incidents, corrective measures and proposed improvements. Company W acknowledged and understood what was intended for the closed talk regarding legal violation concern, and (as a result) took actions to strengthen the role of a sub-committee functioning in the related field within the board and seek out voluntary measures on resolutions to ease concern.

[Repetitive Vote-Against Agenda]

Among the companies voted against by NPS in an item over election of directors and auditors (supervisors) more than twice for the same rationale over the last five years, NPS selected the ones to hold a confidential dialogue with considering how many votes were cast against, a room for improvement, the holding ratio, and so on. Throughout 2019, NPS has communicated with five companies in form of letter and dialogue, and share a better understanding with them about why a certain item was voted against under the Responsible Investment & Governance Guidelines and encouraged the companies to adopt more plans for better shareholder value. As a result, those companies showed improvement in implementing the corrective measures.

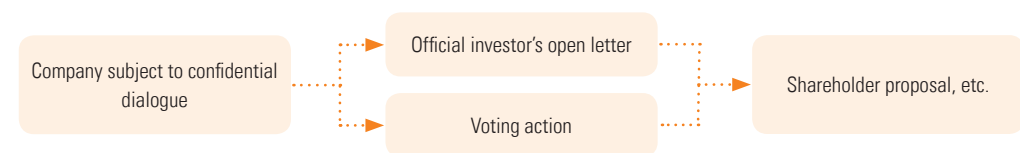
In light of the procedures and intent of the NPS’ shareholder activities on repetitive vote-against agendas, and the reason behind the repetitive decisions to vote against (i.e. a low attendance in the board of an acting official of the largest shareholder (company) – an acting auditor at Company X, and an acting official of a majority shareholder (company) – an outside director at Company Y), NPS talked in private with the companies’ representatives, such as the board and management. The companies acknowledged and understood what was intended for the private talk regarding a repetitive vote-against agenda. As a result, Company X and Company Y both showed improvements in excluding the NPS rejected individuals from the nomination process at the shareholder meeting

(b) Shareholder Activities for Unexpected Concern

To improve shareholder value and a long-term return, NPS seeks shareholder activities in occurrence of any unexpected concern that might cause damage to a company’s value or violate shareholder right relevant to environment, society and governance (ESG).

According to the Responsible Investment and Governance Guidelines for Domestic Equities, the Shareholder Activities for Unexpected Concern includes multiple steps of the company selection from companies facing ESG Controversial Issues⁶⁾ based on the Materiality Assessment, confidential dialogue and shareholder proposal. With no improvement after a series of shareholder activities, the company may confront voting against the election of directors or other items at the general meeting. If it is judged that no further improvement is possible as hinted by a refusal to attend a closed dialogue, the company may receive an open letter from NPS.

NPS conducted the Materiality Assessment on 49 cases of ESG Controversial Issues in 2019. None of them were selected for the Shareholder Activities for Unexpected Concern.

Process of Shareholder Activities for Unexpected Concern

5) Controversial Issues refers to a set of issues or scandals that cause an impact on corporate value.

(c) Active Engagement

In December 2019, NPS established the Proactive Stewardship Guidelines to enhance company value and provide transparent and fair shareholder activities. The active engagement program under these guidelines does not aim at any form of intervention in business management, but rather seek a chance to talk with an engaged company, which will guide into the company’s improvement and, eventually, increase the values of the company and shareholders. If the condition is met, NPS seeks to undertake shareholder activities under the guidelines, ranging from fact-checking and communication with companies to others to address issues. The ‘Active Engagement’ program proceeds only when the room for improvement is extremely narrow.

Active Engagement Program

Type	Details
Target Company	Companies either on the public focus list or in the closed dialogue for unexpected concern that failed to show improvement.
Engagement Standard	Engagement depends on an overall consideration of an improvement threshold for each item, a company’s industrial profile and internal situation, a real effect of shareholder proposal, its cost-effectiveness and market implications to increase long-term return and shareholder value.
Selection Process	The Special Committee on Responsible Investment and Governance decides which company showed no improvement. The committee also conducts review on whether the shareholder proposal - The actual decision on shareholder proposal is made by the FMC based on the review from the committee.
Shareholder Proposal	An appropriate item for shareholder proposal is taken within the permitted range of the Commercial Code and the Financial Investment Service and Capital Market Act of the Republic of Korea. The FMC has a final say on this.

(d) Litigation

NPS may file a claim, such as shareholder derivative suit or compensatory damage suit with a view to creating more long-term shareholder value of a company that has been invested in, according to the Responsible Investment and Governance Guidelines for Domestic Equities. Still, filing a suit does neither aim at exercising an influence on the company or its director, nor meeting the demand from other shareholders. Even if the condition for litigation is met, NPS takes legal action exclusively when the legal action contributes to amplifying shareholder value over a long-term horizon, after an assessment of the chance for winning, the legal cost versus benefit, and other factors.

NPS’ Footprint in Global Initiatives on Stewardship Activities

As there was a joining of the Principle for Responsible Investment (PRI)⁶⁾, a global initiative on responsible investment in June 2009, NPS has attended a number of annual conferences and broadly cooperated with other global institutional investors through exchanging and sharing of best practices and networking. NPS has published for Public Transparency Report from PRI since 2016.

In September 2019, NPS became a member of two international collaborative bodies for corporate governance, shareholder engagement and other stewardship activities – International Corporate Governance Network (ICGN)⁷⁾ and Asian Corporate Governance Association (ACGA)⁸⁾ – to be more competent and skilled in implementing stewardship activities and better enforce the Stewardship Code pursuant to the Responsible Investment and Governance Principles (Stewardship Code). While networking with overseas institutional investors through annual conferences or other member activities hosted by ICGN and ACGA, NPS seeks to identify emerging trends or issues regarding stewardship activities and improve its expertise on Responsible Investment.

- 6) The Principle for Responsible Investment (PRI) is a global initiative that was established in collaboration of United Nations Environment Program Finance Initiative (UNEP FI), UN Global Compact and financial institutions. The PRI announced six principles for the effective incorporation of responsible investment values into overall investment practice. The PRI was signed by 2,372 financial institutions representing a total asset under management of around KRW 10,313 trillion at the end of 2019.
- 7) International Corporate Governance Network (ICGN) is the world’s largest collaborative body for corporate governance that provides a member with multiple studies and research, and networks. The ICGN has 749 members across 42 countries as of June 2019.
- 8) Asian Corporate Governance Association (ACGA) is a collaborative body that was established to improve the financial environment and ecology, including corporate governance, in Asia. The ACGA provides an analysis of laws and regulations on corporate governance, and a group of 113 members in 18 countries as of June 2019.

Annual Conferences Led by Global Initiatives

Source: Website of each initiative



PRI in Person

The world's leading responsible investment conference

10-12 September 2019
Palais de Congrès de Paris

www.unpri.org/Paris2019



ICGN
International Corporate Governance Network



ONTARIO TEACHERS' PENSION FUND

ICGN Annual Conference 2020, Toronto

Hosted by the OTPP

Fairmont Royal York Hotel, 9 - 11 June 2020

Sponsorship Opportunities

ICGN is proud to be hosted by the Ontario Teachers' Pension Plan (OTPP) for the 2020 Annual Conference & Annual General Meeting. Over 500 influential governance professionals will convene in Toronto to discuss developments in corporate governance from an international perspective. As the governance and investor stewardship landscape continues to evolve, our leading expert speakers will provide attendees with key insights into best practice and highlight future priorities for companies, investors and stakeholders.

Sponsorship Benefits

By aligning your corporate brand with the ICGN, you benefit from being at the heart of global governance dialogue and we invite you to join us to share knowledge and best practices as a valued Sponsor. Benefit from:

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- Brand alliance with the prestigious reputation of the ICGN
- Marketing opportunities, advertising and product positioning
- Engagement with governance experts and senior decision-makers

ACGA 18th Annual Conference

Asian Business Dialogue on Corporate Governance 2018

The Rise of ESG in Asia:
Implications for Companies and Investors

13-14 November 2018
Grand Hyatt Beijing, China

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EY

2019 Responsible Investment & Governance Report

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2019 NATIONAL PENSION FUND

Forward Plan for Stewardship Activities

1. Responsible Investment

NPS announced in November 2019 the Action Plan on Enhanced RI to build trust in the market as a public pension fund and seek a higher long-term return with mitigating risk. Based on this new responsible investment plan, the road map was created to contain several steps to promote a responsible investment practice of: i) expanding RI coverage on asset classes and developing the strategy for it, ii) reinforcing RI characteristics on externally managed RI funds and iii) building foundation to promote RI. NPS seeks to develop and execute more detailed plans to implement the road map.

(a) Expanding RI Coverage on Asset Classes and Developing Its Strategy

NPS has announced that it will apply the responsible investment principles across all asset classes in the portfolio. Taking account of our unique condition, domestic and global equity assets and domestic and global fixed income assets would be the priority for RI implementation. The Engagement strategy is also currently being applied to domestic listed equity assets, and will be expanded to global listed equity assets.

To that end, NPS will apply the ESG Integration strategy at full scale to the internally managed domestic equity investments by 2020, and set the framework for ESG research on the global equity and domestic fixed-income investments and do research by 2021. In 2021, the selection of ESG-related Focus Areas will cover not just domestic equities, but also global equities; and new guidelines will be prepared on how to engage with companies for global equities.

(b) Reinforcing RI Characteristics on Externally Managed RI Funds

NPS will develop a new benchmark index focusing on ESG factors for an externally managed 'domestic' responsible investment (RI) fund during 2020. NPS will also give a mandate to external managers to include responsible investment activities in an investment report of the RI funds, which will be expanded by 2022 to other externally managed RI funds investing in local and foreign equities and fixed income.

Meanwhile, NPS will introduce a plan in 2021 to improve the selection and evaluation process of external managers. RI will be implemented in the selection of external managers and its assessment on domestic and global equities and fixed income assets in 2022.

(c) Building Foundation to Promote RI

NPS will review to revise the ESG Evaluation System, while utilizing its plans to increase the use of evaluation results. In addition, NPS will continue to expand its network with other pension funds and investors through global initiatives and gain more expertise in an area of responsible investment, and the workforce dedicated to responsible investment at the overseas office is to be increased to encourage responsible investment activities overseas assets and enhance global networking.

Furthermore, NPS seeks to create a friendly environment by promoting a company's disclosure of ESG information. NPS will revise the existing regulations to encourage a reporting of ESG matters of companies and ultimately enhance responsible investment practice in the capital market; and ensure that capital market participants such as asset managers, some of which work in partnership with NPS, and brokerage firms should include ESG information in their company analysis report.

2. Exercise of Shareholder Rights

At the time of adopting the Responsible Investment and Governance Principles (Stewardship Code), the FMC decided to establish guidelines on composition and operation of the board, delegation of voting rights to external managers and a weighted scoring system for selection and evaluation of external managers. Based on these, NPS will prepare new guidelines on board composition and operation, while diligently implementing the already developed guidelines for voting delegation and weighted scoring during the selection and evaluation of external managers.

(a) New Guidelines on Board Composition and Operation

The FMC decided to suggest the best practices on the composition and operation of the board, election of directors and auditors and other corporate governance matters in the form of general principles. The general principles, for example, may include standard practices such as 'boards shall be capable of efficient decision making and management oversight,' 'directors shall be elected through the transparent procedures, comprehensively reflecting different shareholder views,' and 'boards shall create an internal committee dedicated to helping the board run efficiently.' NPS will prepare the general principles of composition and operation of the board based on related laws, standard norms on corporate governance and the NPS' Responsible Investment and Governance Principles.

(b) Delegation of Voting Rights to External Managers

As concern has risen over the excessive influence that NPS might pose via voting, the FMC decided to delegate the voting rights to external managers. As a follow-up measure of this decision, NPS announced in November 2019 the Voting Right Delegation to External Managers, a set of mandates detailing the qualification of external managers to be delegated voting rights, the scope of delegation and responses to potential delegation restriction, with a view to ensuring that external managers implement an enriched voting practice.

According to those guidelines, NPS adopted the Responsible Investment and Governance Guidelines, under which the voting rights can be delegated to i) an external manager that was qualified to be delegated voting rights under the Financial Investment Service and Capital Markets Act and ii) to an external manager to which NPS has outsourced 100% of its investments in a given company in Korea, in proportion to the holding percentage. Having said that, the delegation of voting rights excludes certain agenda in shareholder meetings, such as the agenda coming from a company that expects merger and acquisition activities creating the buyback rights of shareholders, or is put on the Focus List.

Furthermore, NPS seeks to trace the voting results from external managers on a quarterly basis and take responsive actions afterward. For instance, if the possibility of inappropriate voting was raised, NPS may review the company's legal violation and reflect the result in the evaluation of external managers.

(c) Weighted Scoring System for Selection and Evaluation of External Managers

With an aim to guide into diligently undertaking stewardship activities among external managers managing assets on behalf of NPS, the FMC decided to weighted-score them in the selection and evaluation processes, depending on whether they had adopted a stewardship code and, if so, implemented it.

The weighted scoring system will be first introduced in the 'selection' process of external managers for Domestic Equity, because it has been on early-stage after the Stewardship Code was adopted in NPS, and considering the current external managers' organizational and staff capacity and a score gap. However, after the Code takes root, the extra score giving will be applied in the 'evaluation' process as well.

Statistics of Stewardship Activities

1. Voting of Domestic Equity

NPS voted on a total of 3,278 proposals in 767 shareholder meetings for domestic equities in 2019, with 'for' making up 2,647 of all cases (80.7%), 'against' making up 625 of all cases (19.1%) and 'neutral/absentee' accounting for 6 overall cases (0.2%). The focus of agenda behind 625 votes consisted of election of directors and shareholders (251 votes, 40.2%), amendments to articles of incorporation (95 votes, 15.2%) and others (37 votes, 5.7%).

(a) Voting Results

Year	Invested Company	Shareholder Meeting	Proposal	Result		
				For (%)	Against (%)	Neutral/Abstention (%)
2019	1,059	767	3,278	2,647 80.7%	625 19.1%	6 0.2%
2018	764	768	2,864	2,309 80.6%	539 18.8%	16 0.6%
2017	772	708	2,899	2,519 86.9%	373 12.9%	7 0.2%

(b) Vote-Against Cases on Each Proposal

Proposal	2017		2018		2019	
	Proposal	Ratio (%)	Proposal	Ratio (%)	Proposal	Ratio (%)
Election of Directors and Auditors	226	60.6	226	41.9	251	40.2
Amendment to Articles of Incorporation	65	17.4	47	8.7	95	15.2
Compensation of Directors and Auditors	43	11.5	230	42.7	242	38.7
Other	39	10.4	36	6.7	37	5.9
Total	373	100.0	539	100.0	625	100.0

(c) Rationale for Votes Against (on Election of Directors and Auditors)

Election of Directors and Auditors	2017		2018		2019	
	Proposal	Ratio (%)	Proposal	Ratio (%)	Proposal	Ratio (%)
Long service (over 10 years)	68	30.1	35	15.5	52	20.7
Fully employed by the company, affiliates or a company that the invested company shares the important relations with over the last five years	55	24.3	61	27.0	58	23.1
Lack of attendance on the board meetings (75% or less)	22	9.7	27	11.9	15	6.0
Excessive dual office holding	53	23.5	47	20.8	34	13.5
Negligent oversight	6	2.7	12	5.3	16	6.4
Other	22	9.7	44	19.5	76	30.3
Total	226	100.0	226	100.0	251	100.0

2. Engagement

NPS places importance on Focus Areas and Unexpected Concerns in regards to shareholder activities on invested companies, while implementing Engagement programs according to the related guidelines, which includes sending an official or confidential investor's letter or hosting confidential dialogue. When companies face the onset of an investigation by authorities or are the cause of ESG issues, they may be invited to an Engagement programs, including unpublished letters or confidential dialogue. Aside from that, NPS communicates with companies based on requests, such as ESG strategy and business performance or explanation of shareholder meeting agendas.

In 2019, NPS took part in 236 Engagement program events, corresponding with 123 companies through letters and dialogue.

Engagement for 2019

Type	Topic	Company ¹⁾	Letter	Dialogue	Sub-total
Focus Area	Establishment of dividend policy	35	44	33	77
	Reasonable remuneration cap for directors	6	6	9	15
	Legal violation concern	4	5	5	10
	Repetitive vote-against	5	5	14	19
	Downgraded at the regular ESG Evaluation	1	1	1	2
Engagement on ESG issues, etc.		72	21	92	113
Total		123	82	154	236

1) Figures may be double-counted to include companies that are relevant to more than one topic.

GUIDE TO THE WEBSITE

For more information on the National Pension Fund, visit the NPS website (www.nps.or.kr) or the NPSIM's website (fund.nps.or.kr) that provides details on fund management, including invested assets and return.

STEP 1

Visit NPSIM's website (fund.nps.or.kr).



STEP 2

Click on the icon “Publications.”



STEP 3

Check what you want.



This report is a comprehensive report published to promote understanding of how the National Pension Fund is managed. This report has reflected the performance evaluation results on the National Pension Fund for the full year 2019, as approved by the National Pension Fund Management Committee chaired by the Minister of Health and Welfare. In general, the committee confirms and approves the final performance evaluation for the prior year, on June of every year. For more information, contact on the website of the Ministry of Health and Welfare (www.mohw.go.kr) or the NPS website (fund.nps.or.kr).



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This book is printed with eco-friendly ink made of soybeans and insper-eco paper which has obtained eco-label certification with 30% recycled pulp, with a mind to think about people and the environment.