

NATIONAL PENSION FUND  
**2021 ANNUAL REPORT**

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**ANNUAL REPORT**  
**2021** 

# 2021 NATIONAL PENSION FUND ANNUAL REPORT



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2021 Responsible Investment & Governance Report

## Interim CEO's Message



**PARK Jung-Bae**

Interim Chairperson and Chief Executive Officer, National Pension Service

On behalf of the National Pension Service (NPS), it is my pleasure to present a summary of its investment strategy and performance for the financial year ending December 31, 2021.

Since the inception of the Nation Pension Plan in 1988, NPS has faced and surmounted a myriad of challenges, and now become one of the major social security systems for the Korean people. As of the end of 2021, the Plan had more than 22.35 million contributors and 5.79 million beneficiaries, and the National Pension Fund, which stood at merely KRW 500 billion in the first year of the Plan, grew significantly to reach around KRW 949 trillion, cementing its position as one of the world's largest pension funds.

In 2021, NPS achieved a return of 10.77%, equivalent to KRW 91.2 trillion, despite uncertainty and disruption to markets around the world, driven by the spread of the COVID-19 variants and inflationary pressures. The investment income was nearly 3.1 times the pension benefits paid and 2.6 times the country's trade surplus in the same period. Notably, an average annualized return for the recent three-year period exceeded 10%, demonstrating a stable performance amid the pandemic.

The strong performance was underpinned by its effective diversification strategies aimed at enhancing long-term returns with a focus on overseas and alternative investments, as well as its unwavering commitment to improving the fund management process to generate stable returns in response to rapidly changing financial markets. Diversification by asset class and strategy helps increase returns; however, it is imperative to achieve diversification based on a thorough risk management. In this context, NPS will adopt a risk severity index by country and harness an early warning system for credit risk of domestic and overseas companies to further strengthen its risk management capabilities.

Facing the crisis of COVID-19, the urgency of climate change and the value of the environment have gained traction more than ever before. Acknowledging the need to reduce carbon emissions, NPS has announced a coal phase-out and is in the course of developing an action plan by conducting commissioned research and obtaining the opinions of various stakeholders. As it was the NPS that adopted Responsible Investment & Governance Principles, or Stewardship Code, for the first time among Korean pension funds, NPS will take the lead in the transition towards carbon neutrality.

In preparation for the era of KRW 1,000 trillion in assets under management, NPS has created its professional development program called the NPS WING Program, short for 'to become World-class Investor to jump into New Growth,' with an aim of bolstering its global investment capabilities in line with the growing size of the Fund. NPS will continue to actively make use of the program to retain and develop competent and innovative global talents.

It is expected that considerable discussions on pension reform are held ahead of the upcoming fifth national pension actuarial forecast. Going forward, NPS will be fully committed to improving both the pension system and fund management process to deliver higher profitability and ensure the stable management of the Fund, the valuable assets of the nation.

Thank you.

## CIO's Message



**AHN Hyo-Joon**

Executive Fund Director and Chief Investment Officer, National Pension Service

The National Pension Fund was founded in 1988 to meet the mandates of the National Pension Plan to secure financial resources necessary for national pension services and ensuring the long-term financial stability of the Plan. To achieve this in a more systematic and professional manner, the National Pension Service Investment Management (NPSIM) was established in 1999 as a dedicated fund management arm of the National Pension Service (NPS). Having commenced with only six teams, NPSIM evolved into a global investment organization, consisting of three Managing Directors, 12 Divisions, one Sub-division and three overseas offices under the leadership of the Chief Investment Officer as of the end of 2021.

In 2021, the investment portfolio of financial assets returned 10.79%, delivering the second highest performance in NPSIM's history, only behind the record in 2019. The main drivers of this achievement amid the ongoing COVID-19 pandemic included constant upward trends in equity markets, triggered by abundant global liquidity and forecasts of continued economic recovery in line with expanded vaccine rollout, and particularly an upswing in overseas assets, supported by foreign exchange gains arising from a rise in the USD/KRW exchange rate and an increase in the value of alternative assets.

However, the underlying backbone of this achievement was its constant commitment to portfolio diversification, increasing the allocation to overseas and alternative assets by shifting from the previous focus on domestic fixed income. The allocation to fixed income reduced from 62.8% at the end of 2011 to 42.6% at the end of 2021, whereas the allocation to equity increased from 23.5% to 44.5% during the same period, making 2021 the first year of having a higher allocation to equity than fixed income.

As part of efforts to align with the growing size of the Fund and increased exposure to overseas assets, NPSIM reorganized the Global Public Market Division by asset class. Furthermore, to augment portfolio management capabilities, the TAA team was newly established under the Investment Strategy Division to oversee externally managed multi-asset funds and adopt tactical asset allocation overlay through multi-asset strategies.

In order to capture the best investment opportunities and facilitate investment execution in alternative markets, approval requirements in the Alternative Investment Sub-Committee were eased. Moreover, the Strategic Alternative Investments Team was newly created under the Private Equity & Venture Capital Investment Division to seize new strategies such as GP stakes and secondary markets.

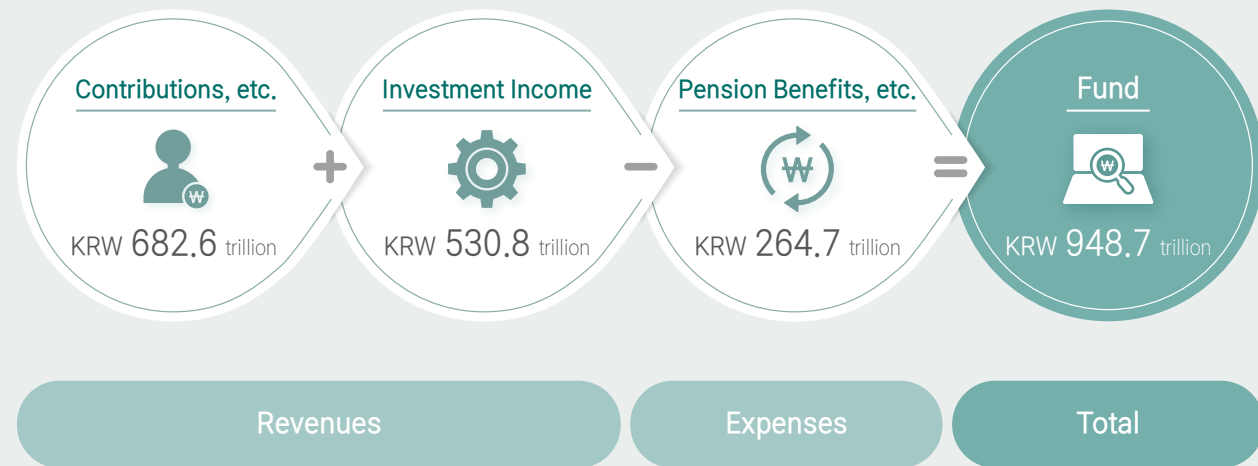
As a fiduciary entrusted to invest and manage the Fund, retirement savings for most Korean people, NPS has also focused on enhancing responsible investment. The scope of ESG integration strategies, which had previously applied to domestic equity only, was expanded to include domestic fixed income. Moreover, commissioned research has been conducted to further expand the scope to include overseas equity and fixed income.

Looking ahead, NPS will do its utmost to maximize returns with an aim of fulfilling the mandates of the Fund.

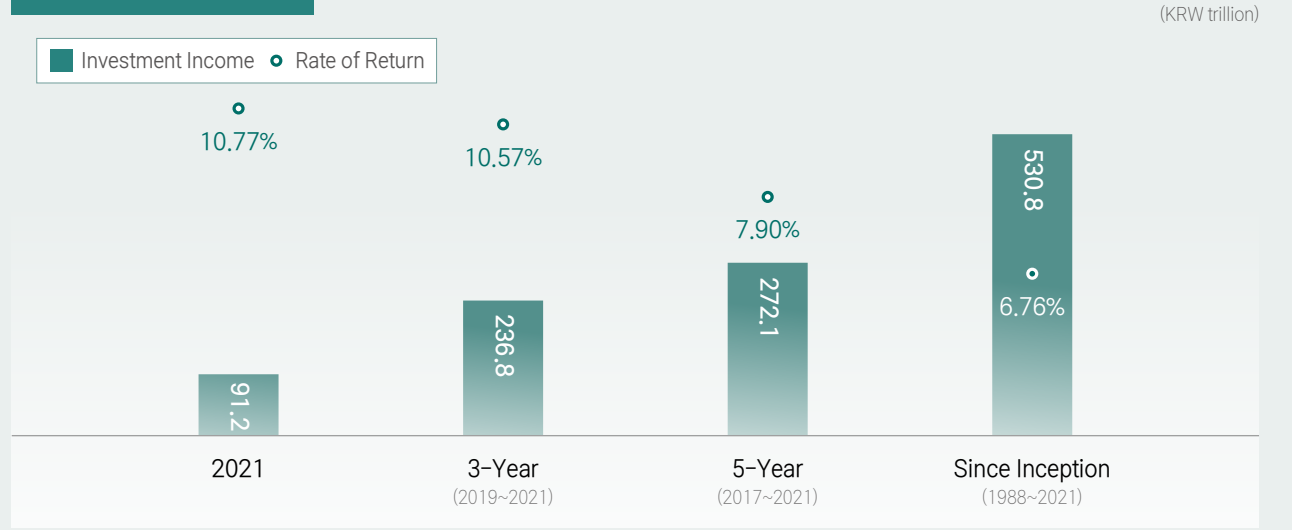
Thank you.

## National Pension Fund at a Glance

### National Pension Fund

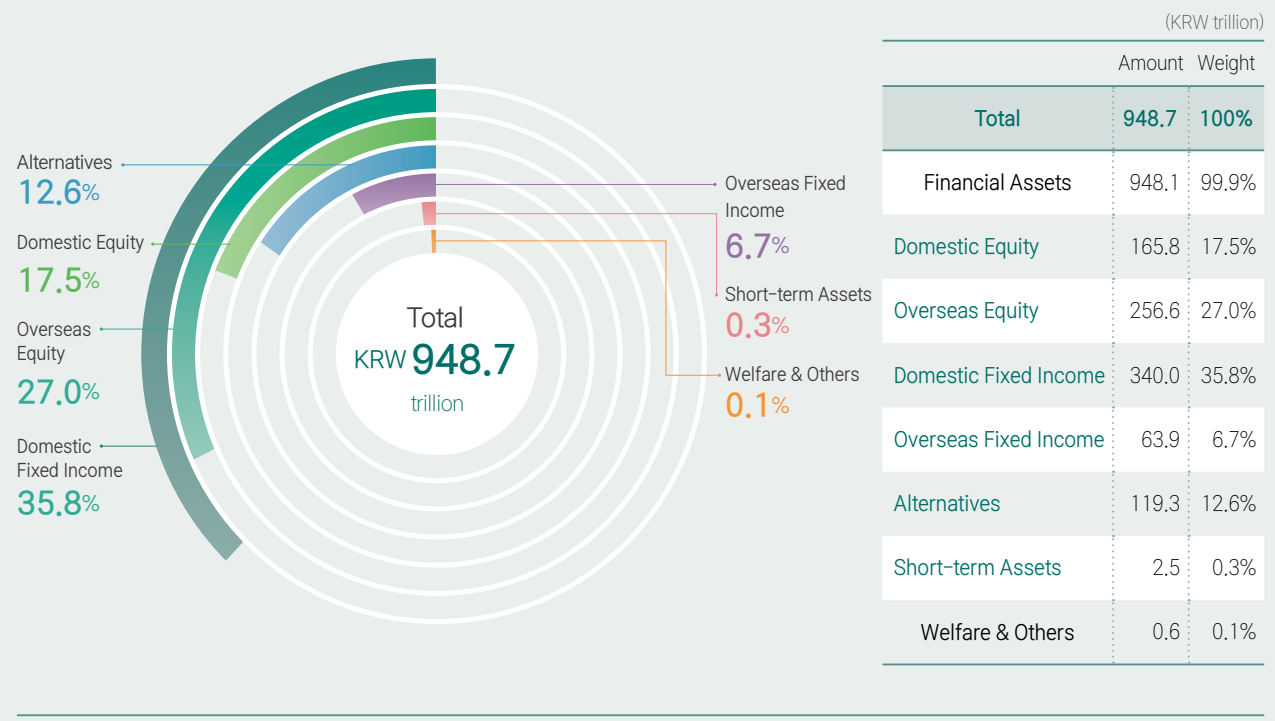


### Fund Performance

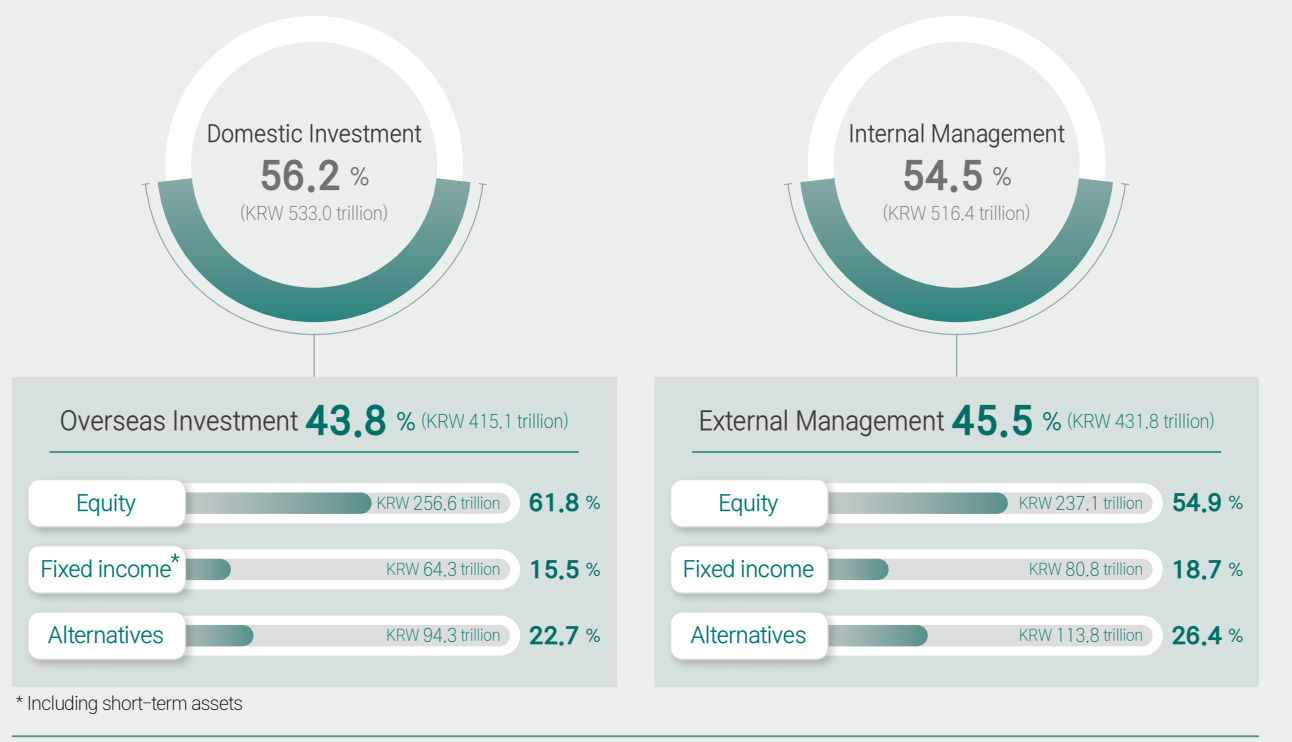


Notes: 1) Investment income for a certain period refers to the total amount of investment income during the corresponding period.  
2) Return for a certain period refers to an average annualized return during the corresponding period.

### Fund Portfolio



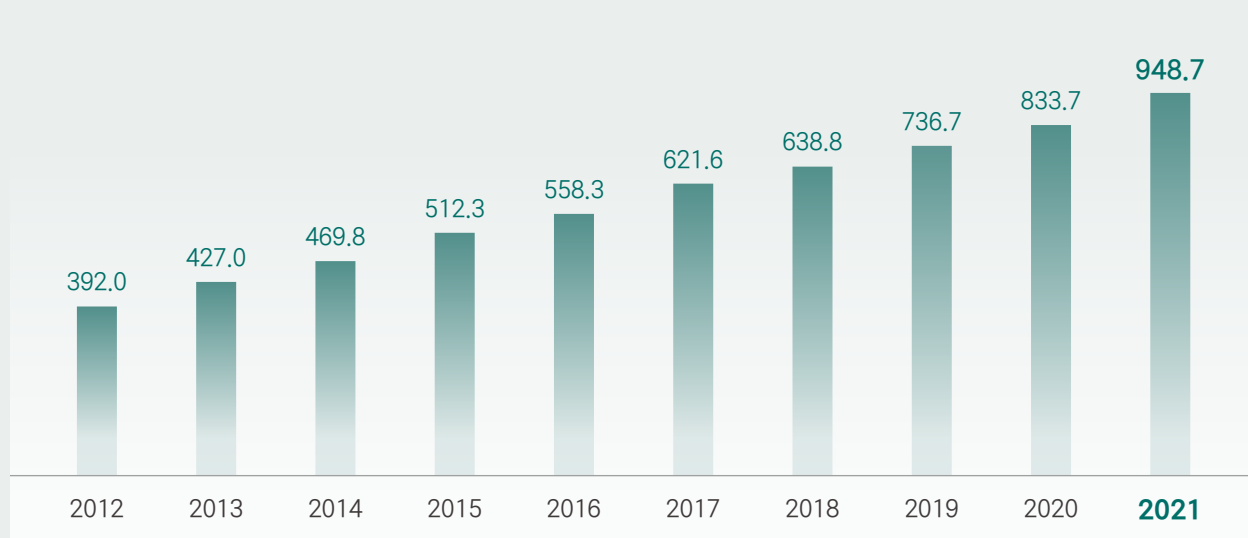
### Portfolio Breakdown



# National Pension Fund Highlights

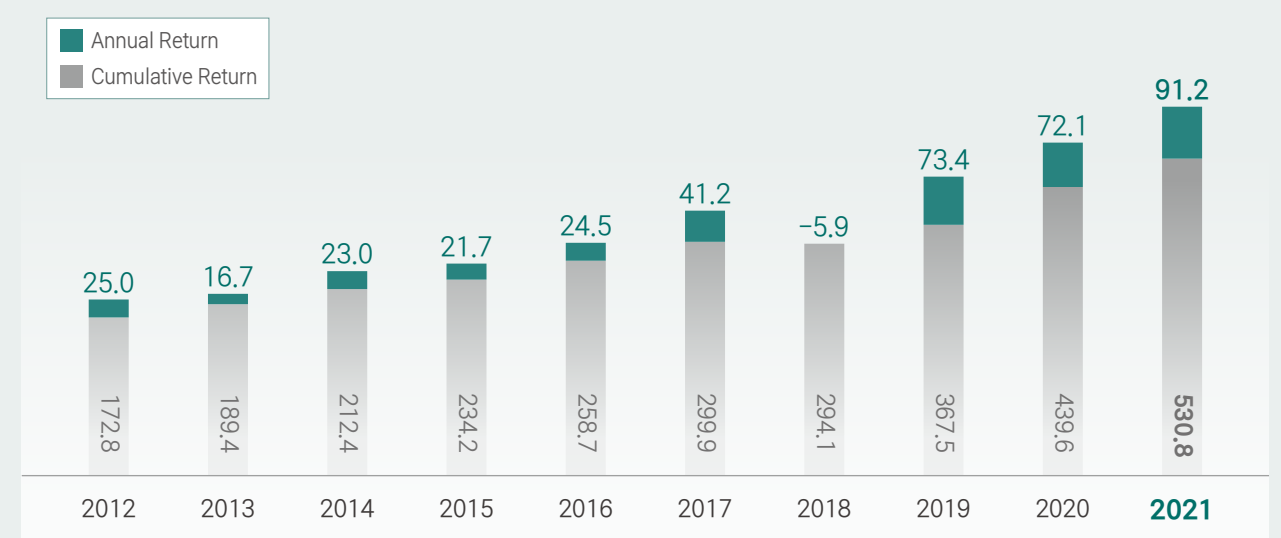
## Growth of the Fund

(KRW trillion)



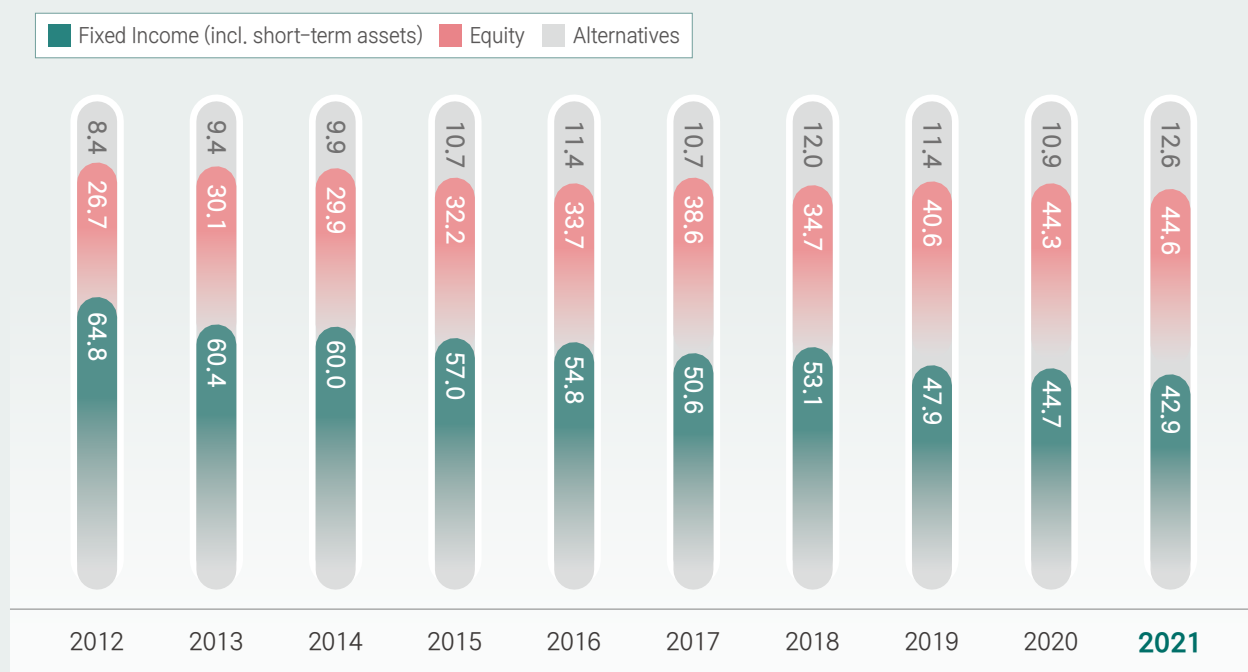
## Investment Income

(KRW trillion)



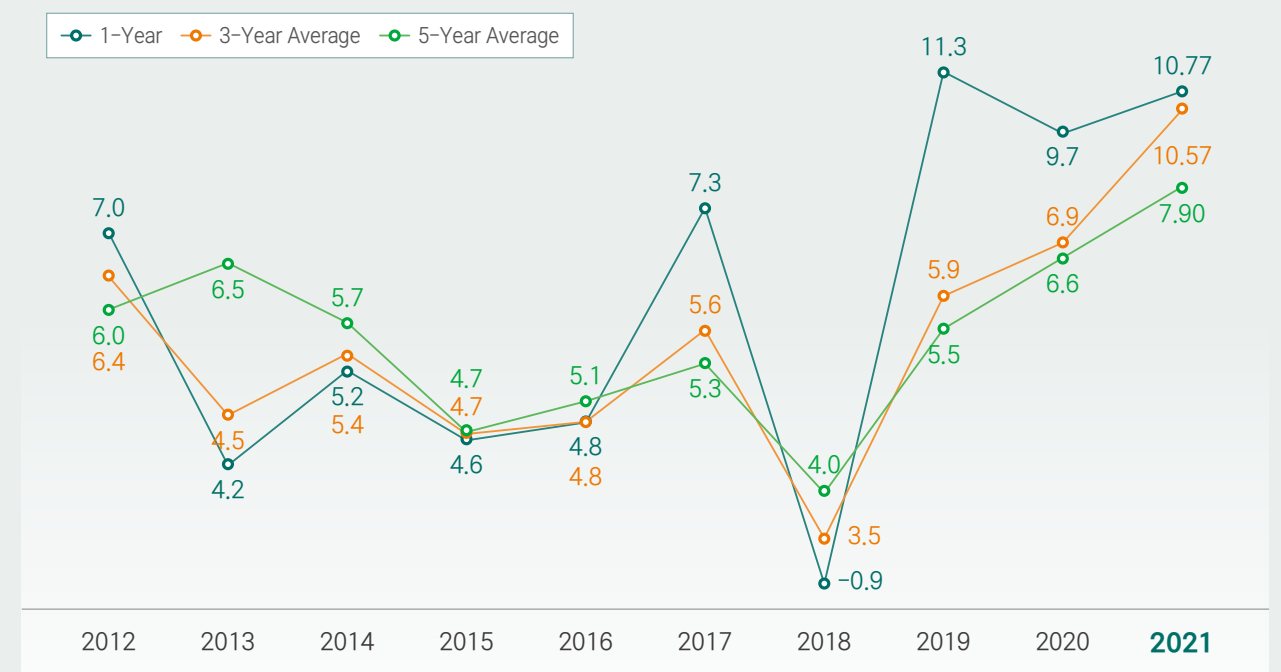
## Fund Composition

(%)



## Investment Return

(%)



## Fund Milestones



### 1988

- Established the National Pension Fund (KRW 527.9 billion in AUM)
- Commenced investment in domestic fixed income

### 1990

- Commenced investment in domestic equity

### 1999

- Established the National Pension Service Investment Management (NPSIM)
- Reformed the National Pension Fund Management Committee

(Amendments made on Chair from Minister of Economy and Finance to Minister of Health and Welfare, and the number of Members from 15 to 20)

### 2001

- Commenced overseas investment

### 2002

- Commenced investment in domestic venture capital
- Commenced investment in overseas equity

### 2003

- Achieved KRW 100 trillion in the total Fund

### 2004

- Commenced investment in domestic real estate



### 2005

- Commenced investment in domestic private equity fund (PEF) and infrastructure
- Commenced investment in overseas PEF

### 2006

- Launched externally managed responsible investment funds
- Commenced investment in overseas real estate

### 2007

- Commenced investment in overseas infrastructure
- Achieved KRW 200 trillion in the total Fund



### 2010

- Achieved KRW 300 trillion in the total Fund

### 2011

- Opened New York Office

### 2012

- Opened London Office

### 2013

- Achieved KRW 400 trillion in the total Fund



### 2015

- Opened Singapore Office
- Achieved KRW 500 trillion in the total Fund

### 2016

- Commenced investment in overseas hedge fund

### 2017

- Achieved KRW 600 trillion in the total Fund
- Relocated NPSIM to Jeonju

### 2018

- Adopted Responsible Investment & Governance Principles (Stewardship Code)

### 2019

- Commenced investment in overseas private debt
- Achieved KRW 700 trillion in the total Fund

### 2020

- Created Managing Director Positions (Investment Strategy, Risk Management, Investment Operation)
- Achieved KRW 800 trillion in the total Fund

### 2021

- Segregated Global Public Market Division into Global Equity Division and Global Fixed Income Division
- Commenced investment in Multi-Asset
- Achieved KRW 900 trillion in the total Fund



# I

## OVERVIEW OF NATIONAL PENSION FUND

1. NATIONAL PENSION PLAN
2. NATIONAL PENSION FUND



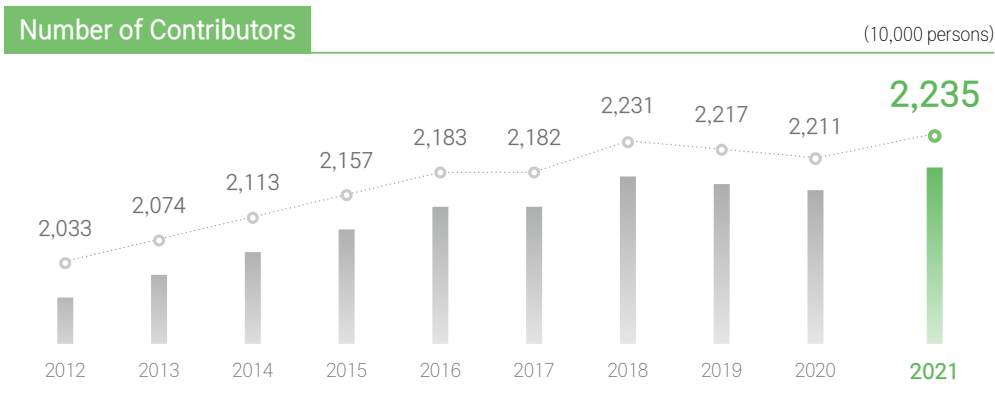
# 1. National Pension Plan

The National Pension Plan is one of the major social insurance schemes in the Republic of Korea that aims to stabilize the livelihood of the people and build a sustainable welfare state by providing old-age, disability and survivor's pensions.

The National Pension Plan mainly consists of old-age, disability and survivor's pension. The old-age pension benefits contributors who are not engaged in income-earning activities after retirement. The disability pension benefits contributors who have a physical or mental disability due to illness or injury. The survivor's pension benefits bereaved family members of a deceased contributor or beneficiary.

The Plan was introduced and implemented in January 1988, covering employers and employees aged between 18 and 60 in establishments with 10 or more employees. Over time, the compulsory coverage was expanded gradually, and in April 1999, it was expanded further to cover the entire nation, unleashing the era of "Pensions for All Nation." Along with National Health Insurance, Employment Insurance and Industrial Accident Compensation Insurance, National Pension is one of the major social insurance schemes in the country with more than 22.35 million contributors and 5.79 million beneficiaries as of the end of 2021.

Contributions Collected in 2021  
**KRW 53.5 trillion**



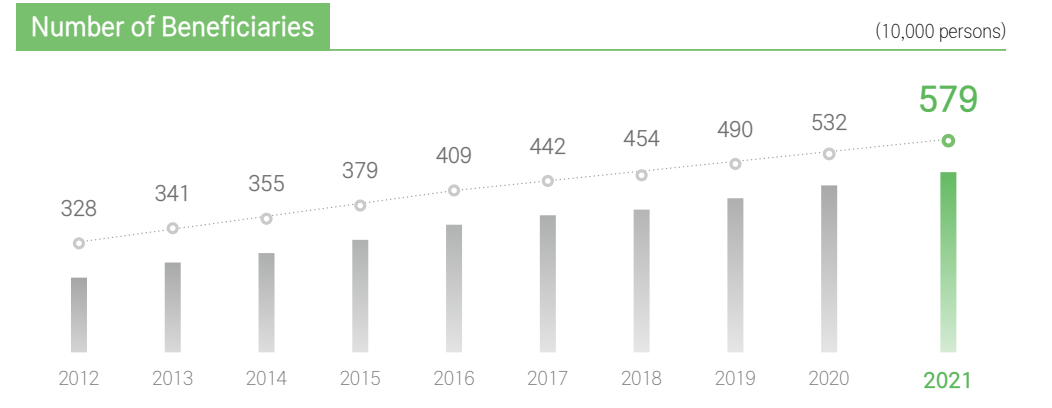
## Types of Contributors

 <b>Mandatory</b>	<b>Workplace-based Contributor</b>	Employers and employees (including foreigners)
 <b>Mandatory</b>	<b>Individually Insured Contributor</b>	Those who are not workplace-based contributors, such as the self-employed, farmers or fishers
 <b>Optional</b>	<b>Voluntarily Insured Contributor</b>	Those who are insured voluntarily although their subscription is not mandatory (e.g. full-time housewives, students under the age of 27)
 <b>Optional</b>	<b>Voluntarily and Continuously Insured Contributor</b>	Those who wish to continue to make pension contributions even after the age of 60, among current or former contributors

In a bid to ensure the efficient implementation of the National Pension Plan, the National Pension Service (NPS) was founded on September 18, 1987 pursuant to the National Pension Act. Since its inception, NPS has provided not only a range of national pension services, including pension enrollment and payment, but also various welfare services, including old age preparation services, disability registration screening, support for people with disability, and work capacity assessment for basic living allowance recipients.

As of the end of 2021, NPS had a headquarters and 109 regional offices, Disability Assessment Center and National Pension Research Institute. The headquarters consists of 13 divisions, one sub-division, three centers, National Pension Service Investment Management (NPSIM), Compliance Officer and Digital Innovation Office. Among them, NPSIM takes charge of administering and managing the National Pension Fund that finances the payments of pension benefits.

Pension Benefits Paid in 2021  
**KRW 29.1 trillion**



## Types of Pension Benefits



**Old-age pension**

The old-age pension is paid during the remaining time to current or former contributors whose contribution period is at least ten years, beginning with the year when he/she reaches age 62.

※ For those born in between 1957 and 1960, the pensionable age is 62. For those born afterward, the pensionable age will be gradually escalated to age 65.



**Disability pension**

The disability pension is paid to current or former contributors who have a physical or mental disability due to illness or injury, and meet certain requirements at the time of the first medical examination of the relevant illness or injury. The amount of pension is subject to the level of disability in case the disability persists even after the relevant illness or injury is completely cured.



**Survivor's pension**

The survivor's pension is paid to bereaved family members of a deceased contributor or beneficiary who contributed for a certain period of time, when a family member meets pension recipient requirements.

## About the National Pension Service

### Purpose of Establishment

To contribute to the stabilizing the people's livelihood and promoting national welfare by providing old-age, disability, and survivor's pensions.

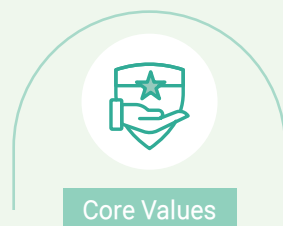
### Our Value



To become a global leader in public pension that creates happiness for the people over generations



To contribute to the stable livelihood of contributors through sustainable pension benefits and welfare services

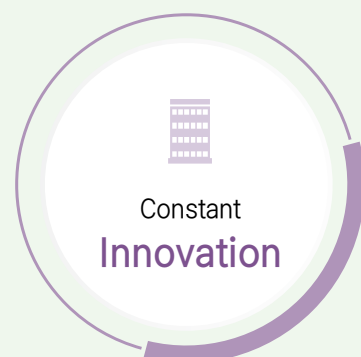
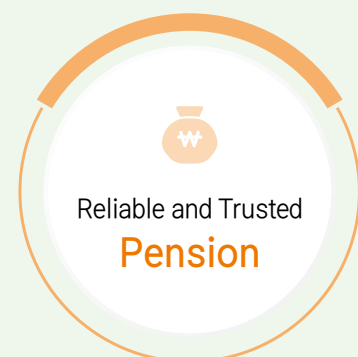


Inclusion and Happiness, Responsibility and Trust, Fairness and Innovation

### Mission Statement

## ' Pension for All that Makes Everyone Happy '

National Pension Service will be fully committed to making the National Pension Plan benefit the entire nation and bringing hope for the future.



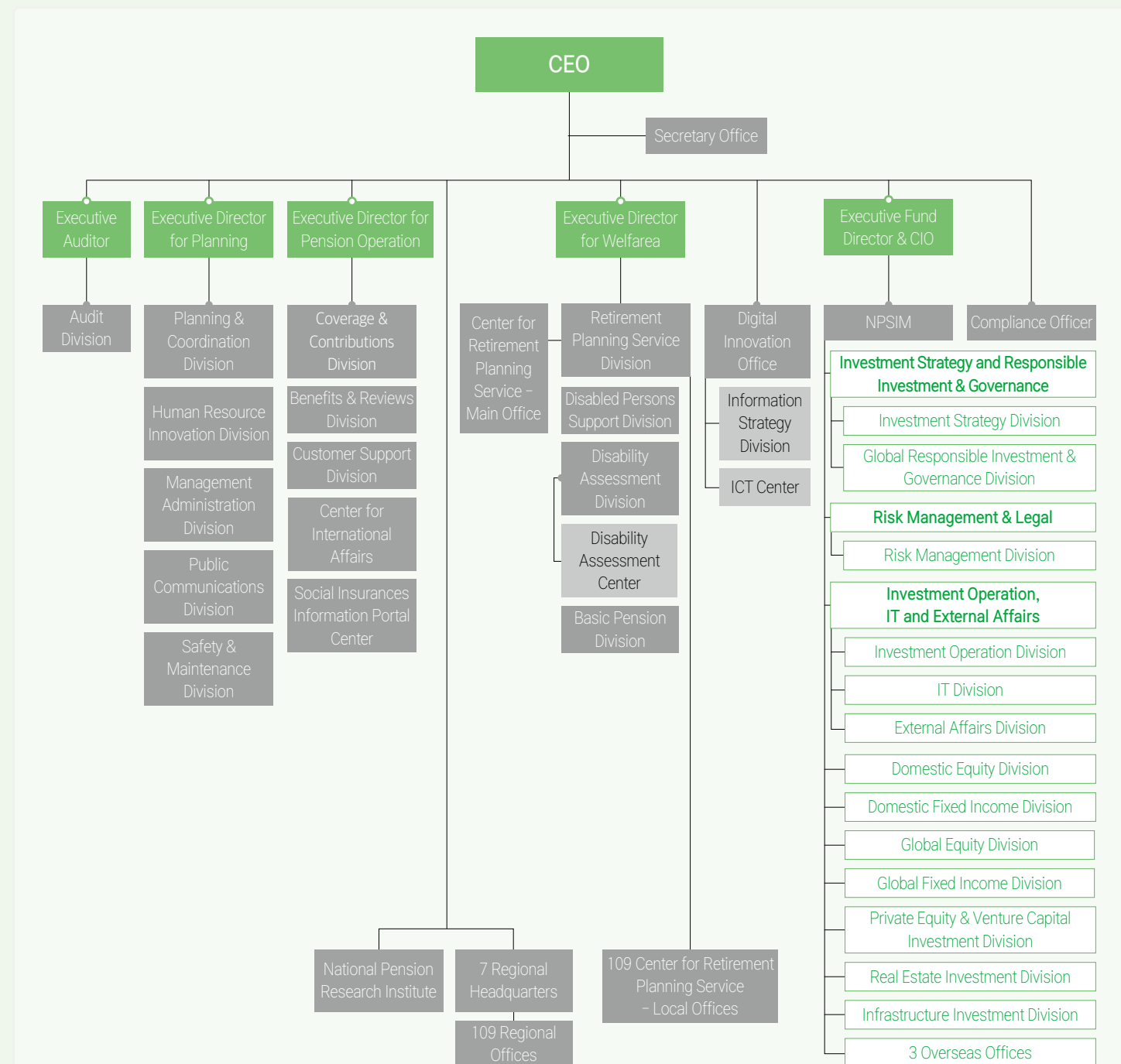
### NPS Organization Structure

Total Employees : 7,186 (as of the end of 2021)

**Headquarters** 13 divisions, 1 sub-division, 3 centers, NPSIM, Compliance Officer, Digital Innovation Office

**Regional Offices** 109 regional offices, Disability Assessment Center, National Pension Research Institute

### NPS Organization Chart



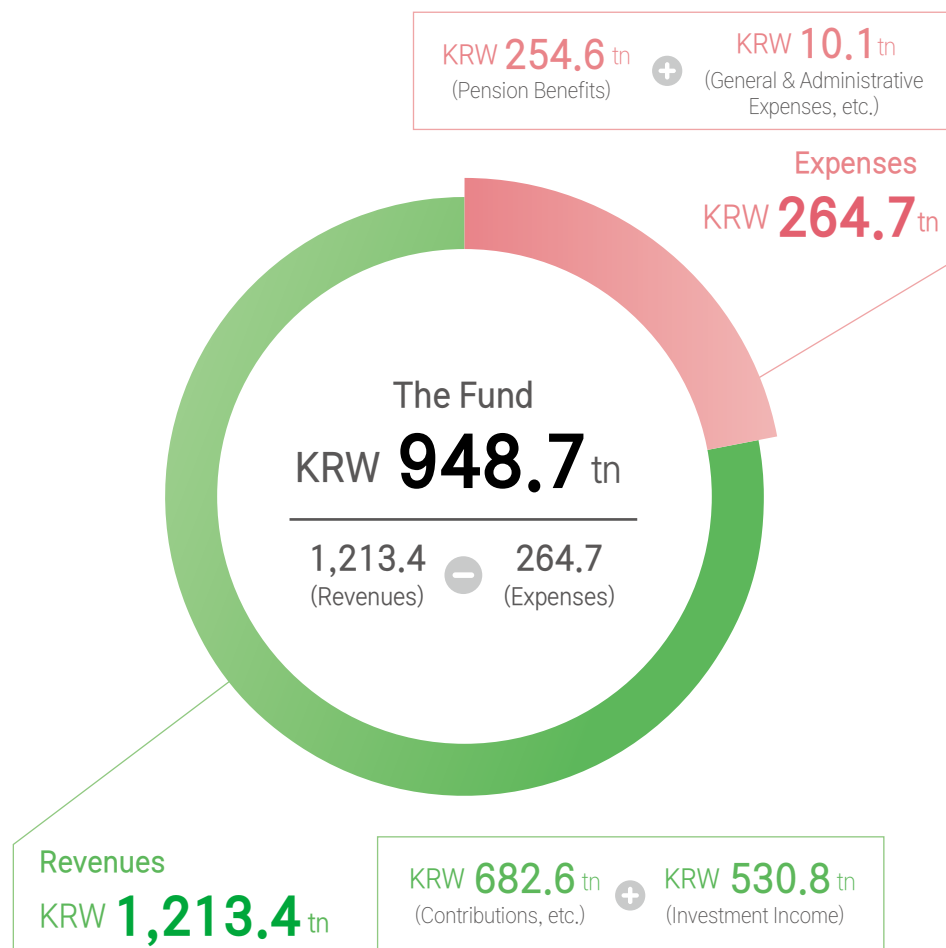
## 2. National Pension Fund

The National Pension Fund was created as reserve fund under Article 101 of the National Pension Act for the purpose of securing financial resources necessary for national pension services and pension benefit payments.

The Fund is generated by subtracting pension benefit payments and general & administrative expenses from revenues collected from contributions and investment income. As of the end of 2021, the Fund reached KRW 948.7 trillion after subtracting KRW 264.7 trillion in expenses from KRW 1,213.4 trillion in revenues, a combination of KRW 682.6 trillion in cumulative contributions and KRW 530.8 trillion in cumulative investment income.

As outlined in the Guideline for National Pension Fund Management approved by the National Pension Fund Management Committee (FMC), the Fund is managed in three areas – Financial Assets, Welfare Sector and Others. As of the end of 2021, 99.9% of the Fund, equivalent to KRW 948.1 trillion, was invested in Financial Assets, including equity, fixed income and alternatives, while 0.1%, equivalent to KRW 0.6 trillion, was managed in Welfare Sector and Others.

### Fund Status



At the end of 1988 when the National Pension Plan was introduced, the Fund was valued at KRW 527.9 billion. 33 years later, in 2021, the Fund exponentially grew to reach KRW 948.7 trillion and became one of the world's largest pension funds. The cumulative investment income since inception stood at KRW 530.8 trillion, representing nearly 56.0% of the total Fund.

The Fund is managed with a view to maximizing returns to ensure the financial stability of the National Pension Plan over the long run. To this end, the National Pension Service manages and invests the Fund in compliance with six investment principles – Profitability, Stability, Public Benefit, Liquidity, Sustainability and Independence.

### Investment Principles



#### Profitability

To pursue the highest possible returns to alleviate financial burdens on pension contributors, especially on future generations



#### Stability

To manage the fund within acceptable risk and volatility parameters



#### Public Benefit

To take into account the spillover effect on the domestic economy and financial markets, given the sheer size of the Fund and the objectives of the National Pension Plan targeting the entire nation



#### Liquidity

To maintain sufficient liquidity to meet its pension payment obligations and seek ways in advance to minimize shocks on domestic financial markets, in particular when disposing of investment assets



#### Sustainability

To fulfill its fiduciary duty, particularly in consideration of environmental, social and governance (ESG) factors, to enhance the sustainability of assets under managements



#### Independence

To comply with the aforementioned principles and ensure that such principles are not compromised for other purposes

# II

## FUND MANAGEMENT SYSTEM



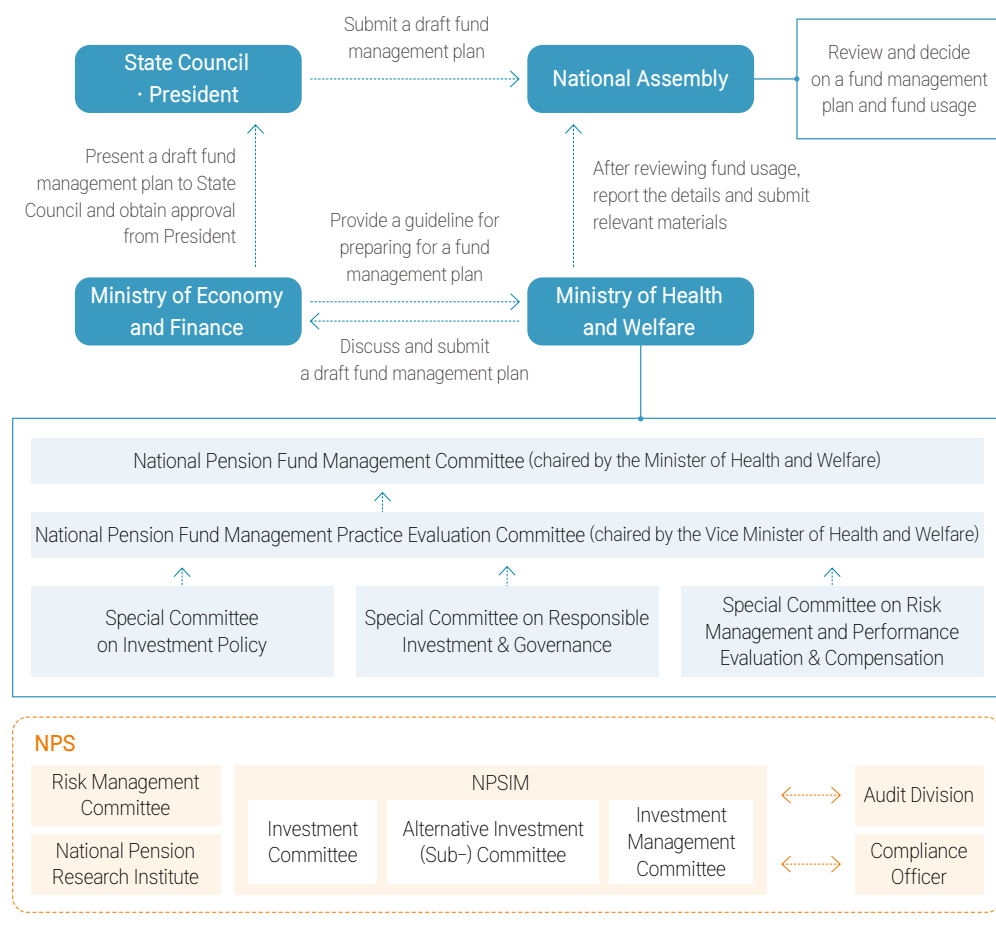
1. GOVERNANCE
2. FUND MANAGEMENT PROCESS
3. National Pension Service  
Investment Management

# 1. Governance

Pursuant to Article 102 of the National Pension Act, the Minister of Health and Welfare oversees the administration and management of the National Pension Fund. Key matters on fund management are decided by the National Pension Fund Management Committee (FMC) chaired by the Minister of Health and Welfare. In addition, the National Pension Fund Management Practice Evaluation Committee (PEC) and three Special Committees support the FMC with expertise during the decision-making process.

According to the National Pension Act, the FMC is chaired by the Minister of Health and Welfare, and serves as the highest decision-making body on fund management that reviews and approves matters relating to fund management guidelines, asset allocation plans, performance assessment, etc. The Minister of Health and Welfare is responsible for overseeing the management of the Fund and has entrusted the National Pension Service (NPS) with the implementation of such activities. To manage the Fund in a streamlined and professional manner, NPS has formed the National Pension Service Investment Management (NPSIM) as a dedicated investment arm where investment professionals undertake a range of investment activities, including tactical asset allocation, investment execution, market monitoring and portfolio management. Furthermore, the Minister of Health and Welfare designs an annual fund management plan, which is to be reviewed by the FMC and State Council, and then approved by the President of the Republic of Korea. Following this, the plan is submitted to the National Assembly for final approval.

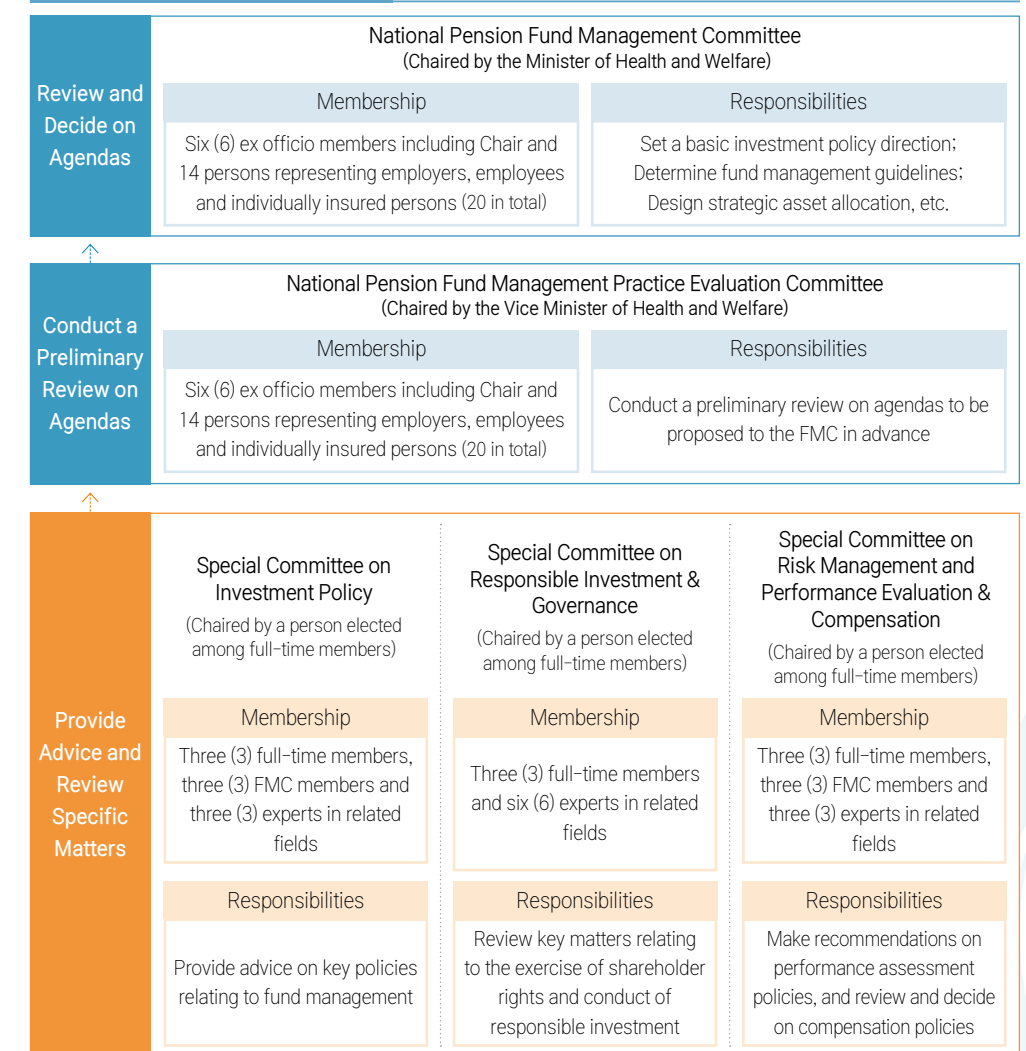
## Fund Management Governance



Established under Article 103 of the National Pension Act, the FMC is composed of 20 members: six (6) ex officio members, including the Minister of Health and Welfare as chair, the CEO of NPS, and four vice ministers of related ministries; 12 persons who represent employers, employees and individually insured persons appointed to enhance their representation and the transparency of fund management; two (2) external experts with in-depth knowledge and experience in national pension. The FMC holds meetings at least four times a year to review and decide on matters relating to fund management guidelines, a mid-term asset allocation plan, annual fund management plan, risk management, performance assessment, compensation, etc.

In order to gain expertise and efficiency in investment decision-making, the National Pension Fund Management Practice Evaluation Committee (PEC) has been formed as a sub-committee under the FMC according to Article 104 of the National Pension Act. The PEC is composed of accountants, lawyers and experts in economics, business management and financial fields, and provides technical and professional advice on the FMC on agendas to be proposed to the FMC in advance. The PEC consists of six (6) ex officio members, including the Vice Minister of Health and Welfare as chair and five (5) government officials: 12 persons who represent employers, employees and individually insured persons; and two (2) experts in related fields.

## Decision Making Framework



At the same time, there are three special committees – Special Committee on Investment Policy, Special Committee on Responsible Investment & Governance, and Special Committee on Risk Management and Performance Evaluation & Compensation – that review and examine agendas in advance before deliberation by the FMC. Each special committee is composed of nine (9) members, including three (3) full-time members who serves as a chair of each special committee.

As part of efforts to foster constant discussions and enhance expertise and representation in investment decision-making, a full-time expert advisor system has been introduced through the amendments to the Enforcement Decree of the National Pension Act in 2020. Organizations of employers, employees and individually insured persons recommend one person with expertise to be appointed as full-time members of special committees, and a total of three (3) full-time expert advisors serve as Chair of each special committee.

The Special Committee on Investment Policy reviews and makes recommendations on matters relating to major plans for an annual fund management plan, investment standards, development of new investment policies, changes in existing investment policies, etc. The Special Committee on Responsible Investment & Governance examines and decides on key matters relating to stewardship activities, including responsible investment and exercise of shareholder rights, and reports the result to the FMC. The Special Committee on Risk Management and Performance Evaluation & Compensation makes recommendations on policies relating to risk management, performance assessment and compensation, and reviews and decides on the performance bonus percentage of NPSIM employees.

Moreover, in a bid to build on expertise in each field and improve transparency in investment decision-making, NPS has internal committees: Risk Management Committee, Investment Committee, Alternative Investment (Sub-) Committee and Investment Management Committee.

The Risk Management Committee is composed of the CEO of NPS as a Chair, CIO of NPS, and five (5) to seven (7) external experts. The Committee reviews and approves matters relating to key risk management prior to investment execution, and recommends corrective actions when appropriate.

The Investment Committee consists of the CIO of NPS as Chair, three (3) Managing Directors or Division Heads appointed by the CIO from among Investment Strategy, Risk Management and Investment Operation, and eight (8) members from among other division heads and team leads (up to three) appointed by Chair. The Committee reviews and approves investment guidelines and plans for all investment assets executed by NPSIM.

The Alternative Investment Committee, a separate decision-making body for alternative assets, is aimed at strengthening efficiency and expertise in investment decision-making for the asset class. The Committee is composed of the CIO of NPS as Chair, three (3) internal members (excluding division heads involved in projects under review), and three (3) external experts. The Committee reviews and approves investment decisions and changes in alternative investment. In order to simplify the approval process, the Alternative Investment Sub-Committee was formed in 2019 for alternative assets which meet simplified approval requirements. The Sub-Committee consists of a division head appointed by the CIO as Chair, team leads and heads of overseas offices (excluding team lead involved in projects under review).

The Investment Management Committee is composed of Managing Director of Risk Management & Legal as Chair, three (3) internal members (from among division heads or team leads) appointed by Chair, and three (3) external members. The Committee reviews key matters relating to post-investment management. The Committee's review result is not subject to approval, but recorded in associated agenda items to refer to the Investment Committee or Alternative Investment Committee.

For details on the Committees under the Ministry of Health and Welfare (MoHW) such as FMC, PEC and special committees, please visit the website of the MoHW at [www.mohw.go.kr](http://www.mohw.go.kr)

NPS Committees			
	Agenda Items	Meeting Frequency	Membership
<b>Risk Management Committee</b>	<ul style="list-style-type: none"> <li>• Matters relating to basic guidelines on risk management</li> <li>• Matters relating to setting and managing risk appetite and risk tolerance</li> <li>• Matters relating to designing and operating risk management systems</li> <li>• Matters relating to risk management on new investment assets or methods</li> <li>• Other matters deemed necessary by Chair to vote at a meeting</li> </ul>	Periodically (more than four times a year)  Occasionally	<ul style="list-style-type: none"> <li>• No. of members: 7 to 9</li> <li>• Chair: CEO of NPS</li> <li>• Members: CIO of NPS and 5 to 7 external experts</li> </ul>
<b>Investment Committee</b>	<ul style="list-style-type: none"> <li>• Matters relating to preparing annual and monthly investment plans</li> <li>• Matters relating to selection and management of counterparties to transaction</li> <li>• Other matters deemed necessary by Chair</li> </ul>	Periodically (Monthly)  Occasionally	<ul style="list-style-type: none"> <li>• No. of members: 12</li> <li>• Chair: CIO of NPS</li> <li>• Members: 3 Managing Directors or Division Heads appointed by CIO in Investment Strategy, Risk Management and Investment Operation, and 8 members from among other division heads and team leads appointed by CIO (up to 3 team leads)</li> </ul>
<b>Alternative Investment (Sub-) Committee</b>	<ul style="list-style-type: none"> <li>• Investment decision-making and change in alternative investments</li> <li>• Other matters deemed necessary by Chair</li> </ul>	Occasionally	<ul style="list-style-type: none"> <li>• No. of members: 7</li> <li>• Chair: CIO of NPS</li> <li>• Members: 3 internal members (Either Managing Director of Investment Strategy or Head of Investment Strategy, either Managing Director of Risk Management &amp; Legal or Head of Risk Management, 1 Division Head from among divisions which are not associated with projects under review) and 3 external experts</li> <li>※ External expert pool is formed in four areas: Infrastructure, Real Estate, Private Equity &amp; Venture Capital and Natural Resources Development</li> <li>※ Chair of Alternative Investment Sub-Committee is appointed by CIO from among division heads in NPSIM (excluding division head associated with a project under review)</li> </ul>
<b>Investment Management Committee</b>	<ul style="list-style-type: none"> <li>• Matters relating to disposal of investment assets when investee companies are in default, etc.</li> <li>• Matters relating to exercising voting rights on agendas which are not limited in laws in relation to disposal of non-performing assets among externally managed funds</li> </ul>	Occasionally	<ul style="list-style-type: none"> <li>• No. of members: 7</li> <li>• Chair: Managing Director of Risk Management &amp; Legal</li> <li>• Members: 3 internal members (Division Heads or Team Leads appointed by Chair) and 3 external experts</li> </ul>

## 2. Fund Management Process

### 2-1. Asset Allocation Policy

Pursuant to the National Pension Act, the Guideline for National Pension Fund Management, an investment policy statement, is prepared by the Minister of Health and Welfare, and then reviewed and decided by the National Pension Fund Management Committee (FMC) for implementation. The Guideline prescribes investment objectives, investment principles, organizational structure, functions and more.

As a fiduciary entrusted to manage the National Pension Fund in the interests of contributors and beneficiaries of the National Pension Plan as stipulated in the National Pension Act, National Pension Service (NPS) complies with the investment principles and asset allocation policies set out in the Guideline.

At NPS, investment is executed according to a five-year mid-term asset allocation plan and annual fund management plan approved by the FMC. The mid-term asset allocation plan which acts as a target allocation plan for the next five years, is established in consideration of expected returns and volatility by asset class as well as internal and external economic outlook such as Gross Domestic Product (GDP) and Consumer Price Index (CPI). Meanwhile, the annual fund management plan presents annual target allocations to each asset class as a strategic action plan that reflects portfolio status and market circumstances at home and abroad.

#### Fund Management Process

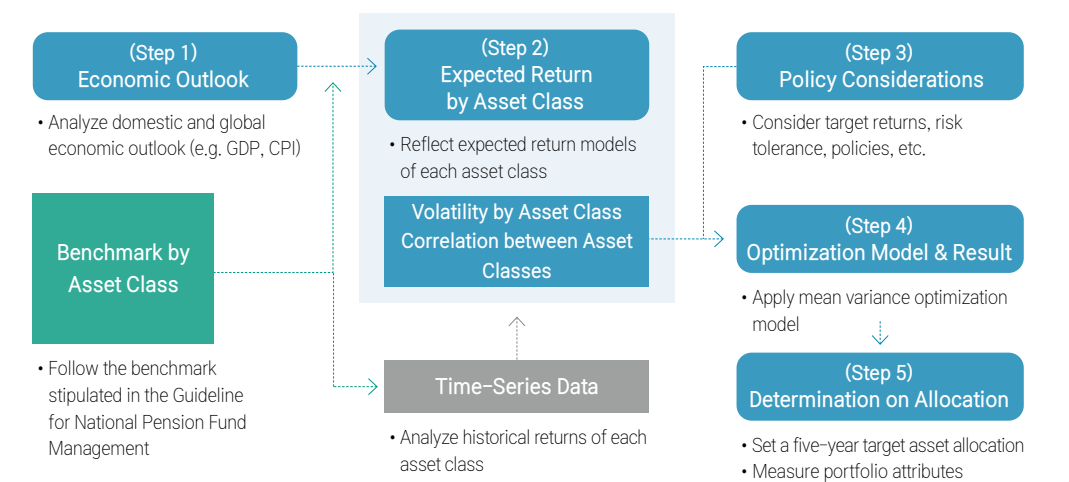


In line with the growing size of the Fund, the FMC sets out a five-year target return and risk tolerance, and determines target asset allocation in consideration of the mid-term outlook on the real economy and financial markets with an aim of improving the profitability and stability of the Fund. The Guideline for National Pension Fund Management defines a target return as 'real GDP growth rate + CPI inflation rate ± adjustments' and risk tolerance to be less than 15% of shortfall risk, which means the probability that a five-year cumulative return falls below a cumulative CPI inflation rate in the same period.

Target portfolio, approved by the FMC, refers to target asset allocation to be achieved in stages throughout the next five years. Ideally, it is advisable to re-balance its portfolio immediately after target asset allocation is determined through a mid-term asset allocation plan; however, given a set of constraints such as the Fund size, an annual fund management plan is prepared as an annual implementation portfolio.

At NPS, investment is executed by the National Pension Service Investment Management (NPSIM), a dedicated investment arm, in accordance with policies and guidelines approved by the FMC, and its portfolio is managed given the characteristics of each asset class. NPSIM sets forth a monthly investment plan after reflecting financial markets and economic circumstances, and then the plan is reviewed and approved by the Investment Committee, an internal investment decision-making body. However, in terms of alternative assets, such as infrastructure and real estate, the Alternative Investment Committee, composed of internal and external experts, makes investment decisions following investment feasibility analysis and preliminary risk assessment.

#### Mid-term Asset Allocation Plan Process



#### Range of Tolerance

	Domestic Equity	Domestic Fixed Income	Global Equity	Global Fixed Income	Alternatives
Strategic Asset Allocation (SAA) <sup>1)</sup>	±3.0	±4.5	±1.5	±0.5	±1.2
Tactical Asset Allocation (TAA)	±2.0	±4.0	±2.0	+2.0/-4.0	+1.2/-2.2
<b>Total</b>	<b>±5.0</b>	<b>±8.5</b>	<b>±3.5</b>	<b>+2.5/-4.5</b>	<b>+2.4/-3.4</b>

Notes: 1) When SAA is within the tolerance range, it is regarded to be within target asset allocation; however, rebalancing occurs when SAA deviates from the tolerance range.

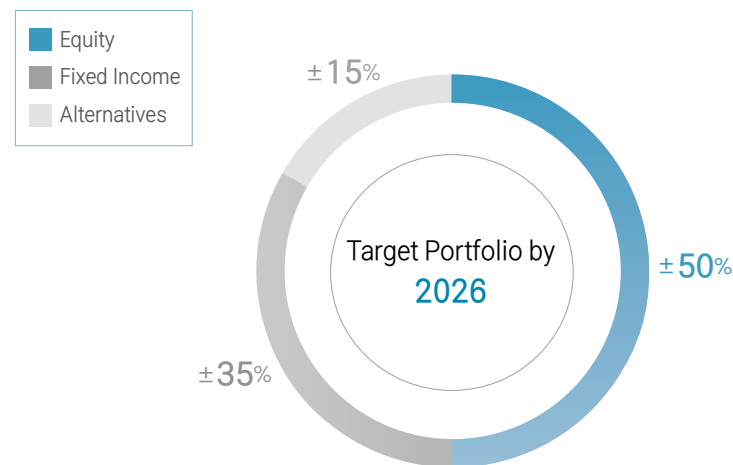
2) Range of Tolerance as of the end of 2021.

## 2-2. Asset Allocation Plan

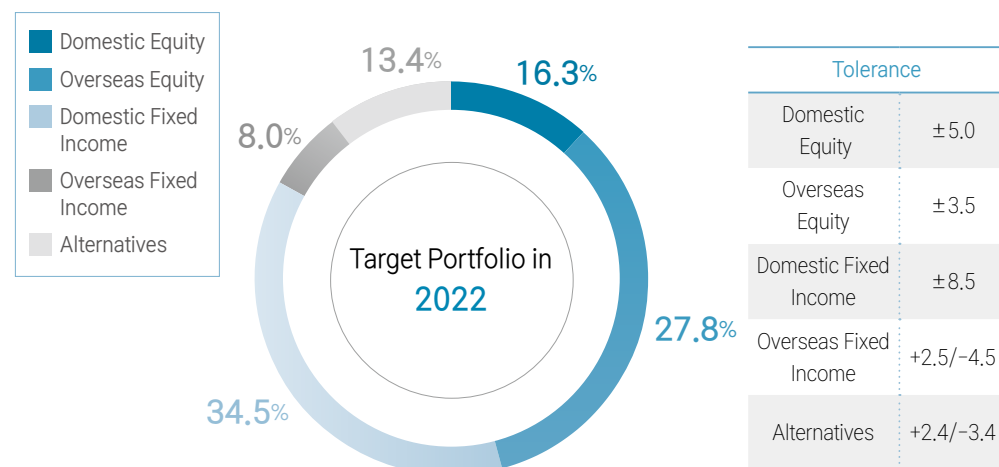
In 2021, the National Pension Fund Management Committee (FMC) presented a target return of 5.1% for the five-year period from 2022 to 2026 in consideration of projections on real GDP growth rate and CPI inflation rate. In addition, it developed an optimal asset allocation plan by forecasting volatility and correlations among asset classes on the basis of expected returns and time-series databases from a benchmark, as well as considering fund management policy directions.

According to the mid-term asset allocation plan, a target portfolio for the period from 2022 to 2026 was determined with  $\pm 50\%$  in Equity,  $\pm 35\%$  in Fixed Income and  $\pm 15\%$  in Alternative Assets. Furthermore, the FMC developed an annual fund management plan for the year 2022 by reflecting revenues and expenses of the National Pension Fund based on the target portfolio of the mid-term asset allocation plan. A target portfolio for the year 2022 was set with 16.3% in Domestic Equity, 27.8% in Overseas Equity, 34.5% in Domestic Fixed Income, 8.0% in Overseas Fixed Income and 13.4% in Alternatives.

2022-2026 Mid-term Asset Allocation Plan



2022 Annual Fund Management Plan



## Facilitation of the Operation of Alternative Investment Sub-Committee

The Alternative Investment Sub-Committee was created within NPSIM in 2019 to facilitate the decision-making and approval process for alternative assets that meet certain requirements. The Sub-Committee consists of internal members only, unlike the Alternative Investment Committee, and is designed to enhance the execution of alternative investments by removing some processes such as on-site due diligence.

At the outset, the Sub-Committee reviewed and decided on matters relating to (1) alternative assets worth less than US50\$ million, (2) co-investment made with funds committed by NPS, and (3) alternative assets on a no-fee no-carry basis. However, except for private equities, it was not feasible for infrastructure and real estate assets to meet such requirements. In this regard, the FMC approved a Plan to Facilitate the Operation of the Alternative Investment Sub-Committee in 2021, which eases the requirements.

Given the size of commitments to infrastructure and real estate investment is large, (1) the size of commitments requiring approval of the Sub-Committee is increased to less than US100\$ million; and (2) the scope is expanded to include derivatives from funds committed by NPS. Also, as it is unusual to source infrastructure and real estate investment on a no-free no-carry basis in the market, (3) the scope is expanded to include real assets with at least a 25% discount rate for management fees and carried interest in line with market practices.

Decision-Making Process

Process	Key Activities	Dept. in Charge [Alternative Investment Committee]	Dept. in Charge [Alternative Investment Sub-Committee]
Investment Proposal	• Explore new investment opportunities in accordance with an annual investment plan and submit investment proposals	Relevant Department	Relevant Department
Pre-Review	• Check if proposed investment opportunities comply with investment standards - Review GP's credit standing, asset type, return rate, investment conditions, restrictions, etc.	Relevant Department	Relevant Department
ODD	• Conduct on-site due diligence	Relevant Department	(N/A)
Feasibility Analysis	• Prepare investment proposals • Prepare an investment feasibility report • Prepare a risk review report • Prepare a compliance review report	Relevant Department	Relevant Department
		Third-party Advisor	(N/A)
		Risk Management & Legal Compliance	Risk Management & Legal Compliance
Alternative Investment (Sub-) Committee	• Vote on proposals	Relevant Department (Internal & External Members)	Relevant Department (Internal Members)
Contract Signing	• Review and conclude a contract	Relevant Department Risk Management & Legal Compliance	Relevant Department Risk Management & Legal Compliance
Investment Execution	• Execute investment	Relevant Department Investment Operation	Relevant Department Investment Operation

2-3. Investment Execution by Asset Class

At the National Pension Service (NPS), the National Pension Fund is managed in three areas – Financial Assets, Welfare Sector and Others. The Financial Assets include domestic equity, overseas equity, domestic fixed income, overseas fixed income, and alternative assets, etc. The purpose of asset class categorization is to diversify its investment portfolio to improve profitability and stability in fund management. To this end, NPS has continued to examine and implement further diversification.

NPS uses benchmarks for each asset class as a performance assessment indicator and guide for investment direction. As benchmarks imply investment direction and principles, the feasibility and validity are subject to constant review and enhancement. In this context, the benchmarks are reviewed on a yearly basis and may be changed upon approval of the National Pension Fund Management Committee (FMC) when necessary.

Benchmarks by Asset Class	
Asset Class	Benchmark Index
Equity	Domestic Equity: KOSPI
	Overseas Equity: MSCI AC World Index (ex Korea, Unhedged-to-KRW, customized tax rate) (Customized dividend tax rate is calculated based on actual dividend tax rate applicable to NPS)
Fixed Income	Domestic Fixed Income: Customized Index
	Overseas Fixed Income: NPS Customized Index (ex KRW, Partial Hedged (Other Currencies-USD), Unhedged (USD-KRW))
Alternatives	Domestic Private Equity: $(\text{KOSPI 3-Year Average Annualized Return} + 2.5\%) \times w1 + (\text{Domestic Fixed Income BM 3-Year Average Annualized YTM} + 1.5\%) \times (1 - w1)$
	Overseas Private Equity: Peer Group Index IRR
	Domestic Real Estate: $\text{IPD Korea Index} \times w2 + [\text{Domestic CPI Inflation Rate (real)} + 5\%] \times (1 - w2)$
	Overseas Real Estate: Weighted Average of IPD Country Index from Seven Countries
	Domestic Infrastructure: $[\text{Domestic CPI Inflation Rate (real)} + 4\%] \times w3 + [\text{Real Return of Existing Investment Assets} \times (1 - w3)]$
	Overseas Infrastructure: KRW Hedged Return of 「OECD CPI Inflation Rate (real) + 5%」
Hedge Fund: $\text{HFRI FoFs} \times 0.5 + [\text{U.S. Short-term Interest Rate (90 days T-bills)} + 4.5\%] \times 0.5$	

Notes: 1) w1 represents the weight of domestic private equities for the year.  
 2) w2 is set at 50% at the time of application and increased by 10%p year after year (IPD Korea Index only used since 2018).  
 3) w3 is an actual weight of asset class of newly committed investments from the point when the benchmark is applied.  
 4) Total return index is applied to performance assessment.  
 5) The benchmark index on alternative assets is used for performance assessment.

Investment Guideline by Asset Class	
Asset Class	Guideline
Domestic Equity	<ol style="list-style-type: none"> <li>Pursue long-term investment horizons and maximize returns within acceptable risk tolerance</li> <li>For internal management, construct investment universe, a pool of investable securities; form investment portfolio with the equities in the universe; conduct passive management from a mid- to long-term perspective</li> <li>For external management, diversify investment styles by utilizing diverse investment techniques of general partners; conduct active management</li> </ol>
Domestic Fixed Income	<ol style="list-style-type: none"> <li>Hold bonds to maturity and diversify investment portfolio by bond type, issuer sector, industry (corporate bond) and maturity structure to generate long-term stable returns</li> <li>Seek excess return (alpha) by adjusting duration within a certain range while considering an issuer's credit rating and spreads with risk-free bonds</li> <li>Submit to the FMC the total credit exposure for each issuer and group of bonds exposed to credit risk on a yearly basis</li> </ol>
Overseas Investment	<ol style="list-style-type: none"> <li>Seek to improve the efficiency of asset allocation by diversifying investment sources</li> <li>Improve investment techniques that help increase returns over the long term by strengthening partnerships with leading peers across the globe</li> <li>Expand exposure to overseas assets over the long-term horizon given future asset sales at the peak of the Fund for pension payments, and minimize adverse impacts of such asset sales on the domestic financial market</li> <li>Submit to the FMC the total FX exposure on a yearly basis</li> </ol>
Alternative Investment	<ol style="list-style-type: none"> <li>Seek to enhance the efficiency of fund management by using risk-return profiles of alternative assets different from traditional assets such as equity and fixed income</li> <li>Note that alternative assets include real estate, infrastructure, venture capital, corporate restructuring vehicle (CRV), private equity, hedge fund, natural resources development, tactical investment promotion program, etc.</li> <li>Set the annual commitment limit considering the fact that it is executed in stages over the commitment period</li> <li>Establish a separate decision-making body for alternative assets, Alternative Investment Committee, to enhance efficiency and expertise in investment decision-making</li> <li>Obtain advice from external experts or professional agencies when establishing detailed investment plans, executing investments and conducting post-investment management</li> <li>Make every effort to capture new investment opportunities</li> </ol>
Short-term Assets	<ol style="list-style-type: none"> <li>Note that short-term assets include idle assets held temporarily for the purpose of paying out pension benefits or investing in mid- to long-term assets.</li> <li>Keep Korean won-denominated short-term assets to a minimum, and invest in high-return securities for an investment period of up to three months, upon review of the stability and liquidity of such securities</li> <li>Manage short-term assets denominated in foreign currencies in a way to maintain the stability of foreign currency liquidity, and invest within US\$600 million of daily average balances of each quarter in consideration of effects on foreign exchange markets</li> </ol>
Securities Lending	<ol style="list-style-type: none"> <li>Conduct securities lending to the extent that ensures the stability in pursuit of excess return</li> </ol>

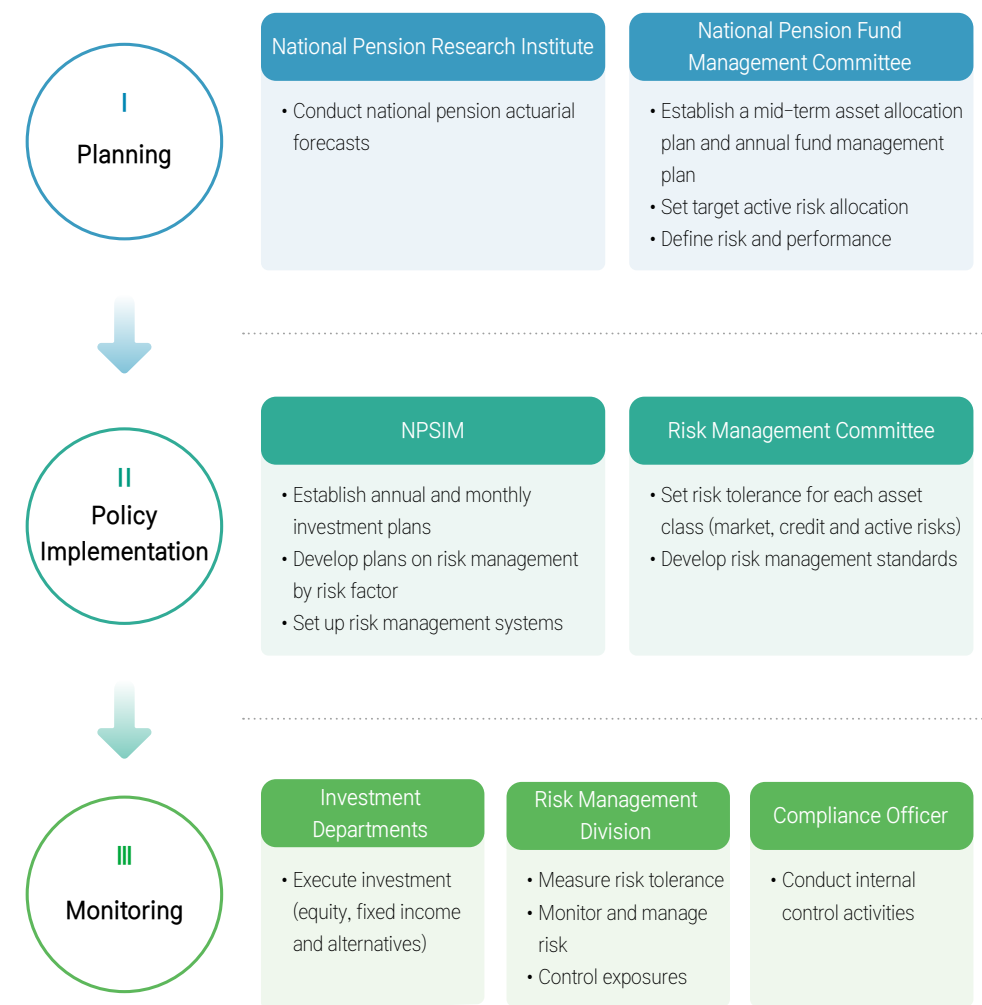
2-4. Risk Management

Amid rapidly growing uncertainties in economic and financial landscapes at home and abroad, the National Pension Service (NPS) focuses on a thorough risk management by bolstering risk management systems.

NPS closely manages and controls a wide range of risks that may affect the stability and profitability of the National Pension Fund, including market risk, credit risk, liquidity risk, operational risk and legal risk. In addition, NPS sets annual risk tolerance levels for the Fund and each asset class according to strategic asset allocation, and monitors them constantly. As investment returns are generated through adequate risk tolerance and risk management, NPS is fully committed to controlling risk in a way that refrains from being exposed to excessive risk beyond expected returns.

At NPS, there are multiple layers to its risk management system. Risk Management Division, a dedicated risk management team at NPSIM, manages investment risks; the Risk Management Committee, consisting of the CEO of NPS as Chair and external experts, controls risk associated with investment activities in a more efficient way; a Compliance Officer independently carries out internal control activities; audits are undertaken from time to time by an internal audit team, the Board of Audit Inspection, the National Assembly, etc.

Market Risk Management Process



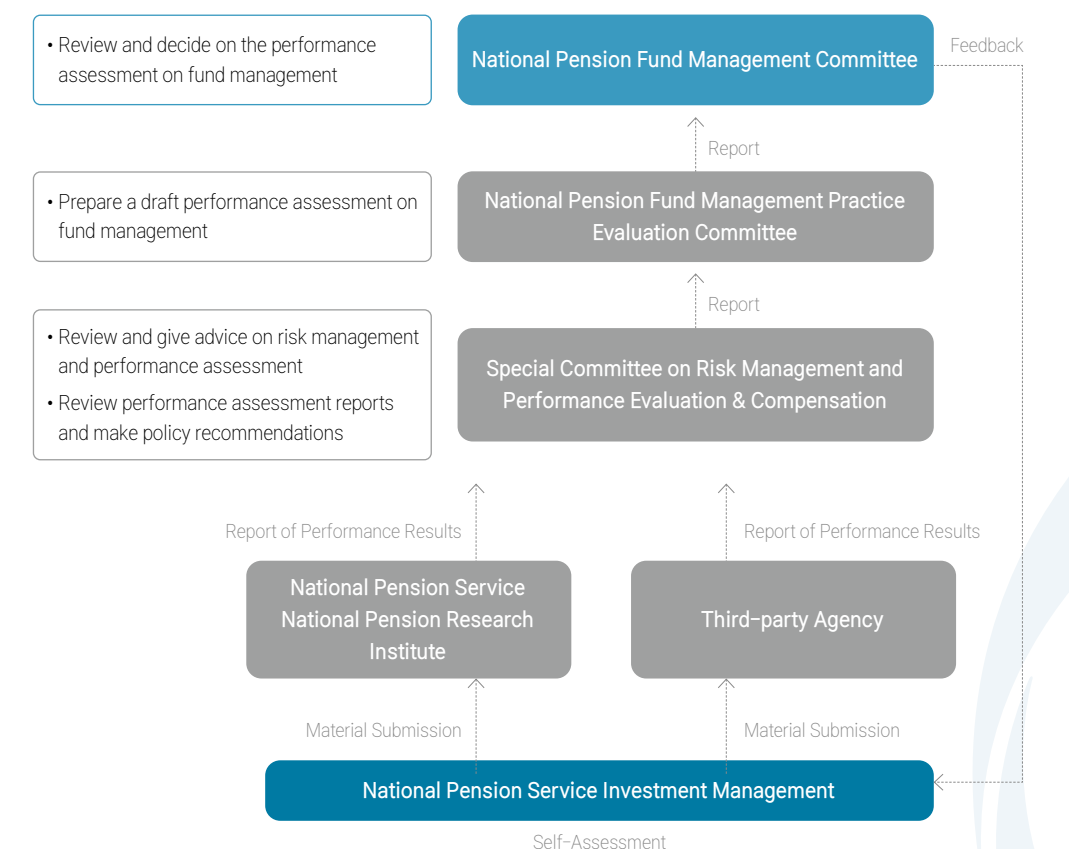
2-5. Performance Assessment

The objectives of performance assessment on fund management are to enhance public trust by disclosing performance results in an objective and transparent manner, as well as to improve and advance fund management practices using such results. Performance assessment is conducted on a yearly basis for a period of three years or longer, and includes quantitative comparative analysis on each benchmark and qualitative analysis including improvements in investment systems and risk management activities.

Performance assessment for a year commences with the development of performance assessment reports by both the National Pension Research Institute and a third-party assessment agency appointed by the Ministry of Health and Welfare. Once prepared, the reports are submitted to the Special Committee on Risk Management and Performance Evaluation & Compensation for review, and then to the National Pension Fund Management Practice Evaluation Committee for deliberation, then to the National Pension Fund Management Committee for approval. Through this process, the performance assessment is finalized around at the end of June in the following year.

Performance assessment on fund management is undertaken in compliance with the Global Investment Performance Standards (GIPS®). A time-weighted return is used to measure the performance of investment in principle, while a money-weighted return is used to measure the performance of the total Fund. In addition, a rate of return in book value may be utilized in parallel, depending on investment conditions of assets. All rates of returns are calculated after deducting actual transaction costs incurred during the period of performance assessment from total revenues including realized and unrealized gains and losses.

Performance Assessment Process



### 3. National Pension Service Investment Management

As part of efforts to cope with constantly changing financial and economic circumstances in an effective manner and manage the National Pension Fund in a more systematic and professional way, the National Pension Service Investment Management (NPSIM) was established as a dedicated investment arm of the National Pension Service (NPS). To achieve this, NPSIM focuses on attracting and retaining top talents with years of experience in finance and investment, including market analysis, portfolio management, trading, risk management.

At the beginning of its inception, NPS invested the Fund predominantly in the public sector and fixed income securities as the size was small and it was deposited as public capital. However, since the Fund was excluded from a compulsory deposit scheme following the Asian Financial Crisis in the late 1990s, the Fund has grown exponentially, triggering the need for professional investment and more exposure to financial assets. Against this backdrop, NPSIM was established in November 1999 with an aim of addressing rapidly evolving investment landscapes professionally and managing the Fund more efficiently.

In response to the sharp increase in Fund size, the emergence of diverse financial products and increasingly globalized investment landscape, NPSIM began investing in overseas assets in 2001 and portfolio diversification in 2003. In line with this, a number of investment professionals have been hired across all asset classes, including traditional assets – equity and fixed income – and alternatives – real estate, infrastructure, private equity, etc. while investment and risk management functions have been newly created and reorganized. At the same time, in keeping with its strategy to expand its exposure to overseas assets, overseas offices were set up in New York, London and Singapore in 2011, 2012 and 2015, respectively. The team of investment professionals across overseas offices monitors the trend of financial markets and builds a network with leading peers. Also, to gain local market access and source the best investment opportunities which require local knowledge, local investment professionals are employed as well.

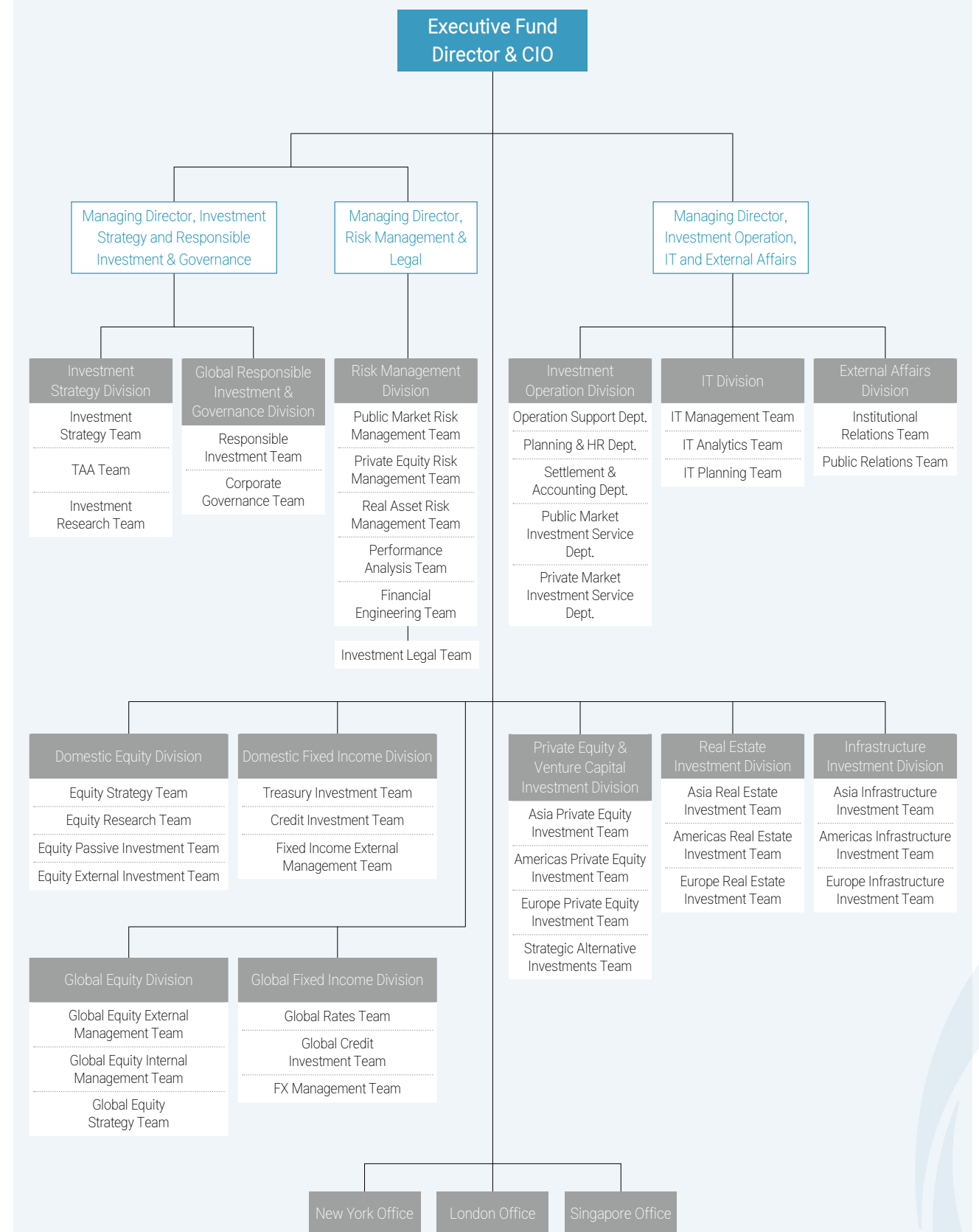
In 2021, NPSIM reorganized the Global Public Market Division, Alternative Investment functions and Risk Management Division in order to strengthen global investment capabilities. The Global Public Market Division was reorganized by asset class into Global Equity Division and Global Fixed Income Division, which was further segregated into Global Credit Investment Team, Global Rates Team and FX Management Team. In terms of alternative investment functions, the Strategic Alternative Investments Team was newly created under the Private Equity & Venture Capital Investment Division to search new strategies such as GP stakes and secondary markets. In addition, TAA team was newly established under the Investment Strategy Division, and the team performs tactical asset allocation overlay and controls externally managed multi-asset, which is adopted as a tactical program to enhance the execution of alternative investments. Furthermore, the Private Market Risk Management Team under the Risk Management Division was segregated into Private Equity Risk Management Team and Real Asset Risk Management Team to enhance expertise in risk management.

Given the expected challenges in attracting global talents in line with the growing Fund size and global exposure, NPS has implemented a professional development program called NPS WING program, short for 'to become World-class Investor to jump into New Growth.' Through a range of programs for both existing and newly hired portfolio managers, including career, leadership and professional development programs, for both existing and newly hired portfolio managers, NPS has established a system to retain the best talents for global investment.

Launched with just 40 staff in six teams, NPSIM has constantly expanded its organization to align with the growth of the Fund and portfolio diversification strategy. As of the end of 2021, NPSIM was composed of a CIO, three Managing Directors, 12 Divisions, one sub-division and three overseas offices with a total of 396 employees, including the CIO, 326 portfolio managers and 69 support staff.

#### NPSIM Organizational Chart

(as of December 31, 2021)



2021 NPF Annual Report

PART

# III

## INVESTMENT PORTFOLIO & PERFORMANCE

1. INVESTMENT PORTFOLIO
2. INVESTMENT PERFORMANCE
3. PERFORMANCE BY ASSET CLASS



# 1. Investment Portfolio

As of the end of 2021, the National Pension Fund was valued at KRW 948.7 trillion. As part of a strategy to increase the allocation to risky assets such as equity and alternative assets with a view to augmenting returns, the allocation to equity exceeded that of fixed income in 2021 for the first time in NPSIM's history.

The Fund is managed in three areas - Financial Assets, Welfare Sector and Others. 99.9% of the Fund is invested in Financial Assets, including equity, fixed income and alternatives, while the rest is used for the Welfare Sector and Others.

In Financial Assets, equity accounted for the largest share with KRW 422.4 trillion in assets under management as of the end of 2021, representing an increase of KRW 53 trillion compared to a year ago. Among them, domestic equity saw a decrease by KRW 10.9 trillion from the previous year to KRW 165.8 trillion while overseas equity increased by KRW 63.9 trillion year-over-year to KRW 256.6 trillion. In line with its strategy to seek diversification, NPS reduced the allocation to domestic fixed income and increased the allocation to risky assets such as equity, giving rise to the weight of equity exceeding that of fixed income as of the end of 2021.

The second largest share was fixed income with KRW 403.9 trillion in assets under management as of the end of 2021, representing an increase of KRW 32.9 trillion from a year ago. Among them, domestic and overseas fixed income increased by KRW 13.9 trillion and KRW 19 trillion to KRW 340 trillion and KRW 63.9 trillion, respectively. While the fixed income assets under management were up compared to the previous year in line with the growth of the Fund, the allocation to the asset class was decreased, especially in domestic fixed income with a 3.3%p decline.

In addition, the Fund is invested not only in traditional assets such as equity and fixed income, but also in alternative assets such as real estate, infrastructure and private equity. As of the end of 2021, alternative investment accounted for 12.6% of the total Fund, equivalent to KRW 119.3 trillion. Among them, KRW 25 trillion was invested in domestic real estate, infrastructure, venture capital and private equity, while KRW 94.3 trillion was invested in overseas real estate, infrastructure, private equity and hedge fund. Compared to the end of 2020, the allocation to alternative asset increased by 1.7%p, equivalent to KRW 28.6 trillion.

## Investment Status

(market value, KRW 100 million, %, %p)

	2021 End (A)		2020 End (B)		Difference (A-B)	
	Amount	Weight	Amount	Weight	Amount	Weight
<b>Total</b>	<b>9,487,194</b>	<b>100.0</b>	<b>8,337,276</b>	<b>100.0</b>	<b>1,149,917</b>	<b>0.0</b>
<b>Financial Assets</b>	9,481,060	99.9	8,331,384	99.9	1,149,676	0.0
<b>Equity</b>	4,224,324	44.5	3,694,474	44.3	529,850	0.2
(Domestic)	1,658,077	17.5	1,766,957	21.2	-108,880	-3.7
(Overseas)	2,566,248	27.0	1,927,517	23.1	638,730	3.9
<b>Fixed Income</b>	4,038,870	42.6	3,709,820	44.5	329,050	-1.9
(Domestic)	3,399,907	35.8	3,260,993	39.1	138,915	-3.3
(Overseas)	638,963	6.7	448,827	5.4	190,136	1.3
<b>Alternatives</b>	1,193,054	12.6	906,596	10.9	286,458	1.7
(Domestic)	250,328	2.6	247,153	3.0	3,175	-0.4
(Overseas)	942,726	9.9	659,443	7.9	283,282	2.0
<b>Short-term Assets</b>	24,811	0.3	20,493	0.2	4,318	0.1
<b>Welfare Sector</b>	2,005	0.02	1,800	0.02	205	0.0
<b>Others</b>	4,128	0.04	4,092	0.04	36	0.0

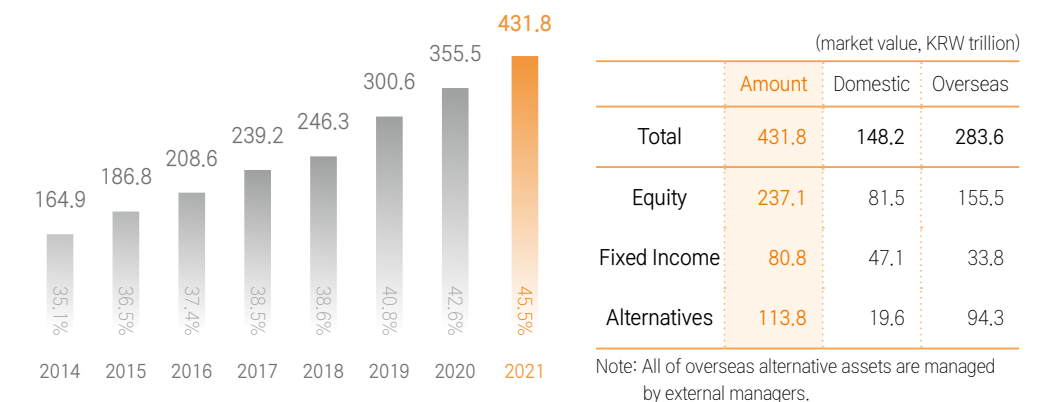
Notes: 1) Welfare sector includes a recreational facility for employees (Cheong Pung Resort), credit recovery support loan, and emergency loan for the elderly (NPS Silver Loan).  
 2) Others include company buildings and fund in custody.  
 3) Due to rounding off, difference may occur.

Meanwhile, NPS has harnessed external managers for some portion of the Fund to diversify risk and gain access to multiple different sources of return. Given the sheer size of the Fund, it is managed by both internal and external managers. The target range of external management by asset class is determined by the FMC, and NPS conducts external management for each asset class within the set range in consideration of asset characteristics, market conditions, GP's capabilities, etc. As of the end of 2021, externally managed assets were valued at KRW 431.8 trillion, a year-over-year increase of KRW 76.3 trillion, and external management accounted for 45.5% of the total Financial Assets, an increase of 2.9%p from a year ago.

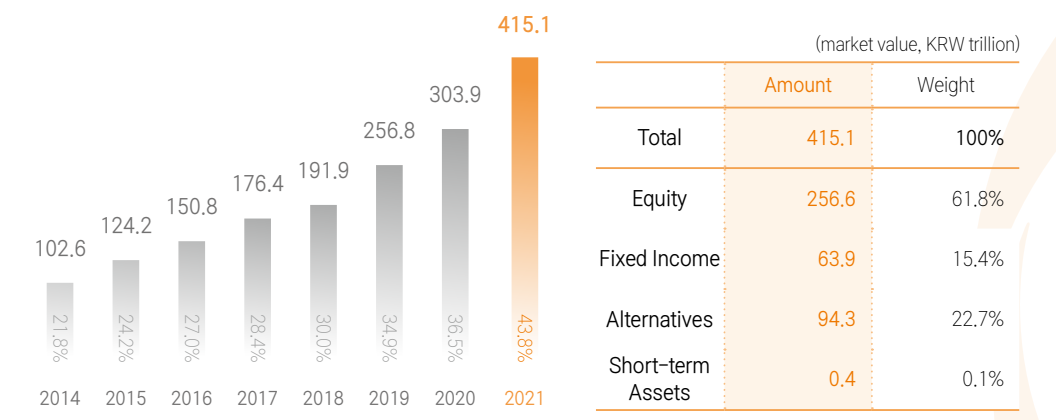
Furthermore, NPS has expanded global presence to increase returns and minimize the impact of the large amount of the Fund relative to the country's GDP on the domestic market. Since overseas investment was commenced with Korean bonds denominated in foreign currencies in 2001, NPS has gradually increased its exposure to overseas assets in term of types and size. Currently, NPS invests in a wide range of asset classes globally, including real estate, private equity, infrastructure, hedge fund.

As of the end of 2021, overseas investment stood at KRW 415.1 trillion, up KRW 111.2 trillion from the previous year, and it made up 43.8% of the total Financial Assets, an increase of 7.3%p from a year ago. The allocation to overseas assets will be further expanded to be around 55% of the total Financial Assets by 2025 according to a mid-term asset allocation plan.

## Growth of External Management



## Growth of Overseas Investment



## 2. Investment Performance

In 2021, National Pension Service (NPS) achieved a 10.77% return, equivalent to KRW 91.2 trillion. As of the end of 2021, the annualized return since the inception of the National Pension Fund in 1988 was 6.76%, with the cumulative investment income of KRW 530.8 trillion.

2021 was marked by high volatility in financial markets domestically and globally, driven by the spread of the COVID-19 variants, concerns over high inflation, rising interest rates and prolonged supply chain disruptions. Amid such unfavorable circumstances, NPS achieved a 10.77% return, equivalent to KRW 91.2 trillion, particularly backed by the strong performance of alternative and overseas equity assets based on buoyant stock markets and a rise in the USD/KRW exchange rate.

Stock prices sustained upward trends despite the ongoing spread of COVID-19, supported by forecasts of continued economic recovery, abundant liquidity driven by central banks in developed countries and rising vaccination coverage. Notably, overseas stock markets were robust on the back of swift economic recovery in developed countries and solid performance in the tech/growth and healthcare sectors.

In terms of fixed income, rising interest rates and heightened uncertainties, triggered by the emergence of the COVID-19 variants and concerns over global inflation, had an adverse impact on the investment performance. The overall returns of alternative assets were relatively high, propelled by soaring values of assets under management due to economic recovery and booming global stock markets. The main drivers of the positive outcome included an increase in the value of domestic and global private equity assets and gains from sales of domestic real estate assets.

The 2021 return was the second-highest in NPSIM's history, topped only by 11.31% recorded in 2019. A three-year average return exceeded 10%, indicating the Fund's stable performance in the wake of COVID-19. As of the end of 2021, the annualized return since the inception of the Fund in 1988 was 6.76%, with the cumulative investment income of KRW 530.8 trillion.

### • Money-weighted Return Formula

$$\text{Money-weighted Return} = \frac{\text{Investment Income}}{\text{Average Investment Balance} \times 100}$$

- Investment Income : Gain or Loss from Trading and Valuation, Dividend, Security Lending, Interest Income, etc.

- Average Investment Balance : A weighted average of the amount invested during the corresponding period.

Investment Performance		(money-weighted return, market value, KRW 100 million, %)							
	2021		3-Year (2019~2021)		5-Year (2017~2021)		Since Inception (1988~2021)		
	Investment Income	Return	Investment Income	Return	Investment Income	Return	Investment Income	Return	
<b>Total</b>	912,144	10.77	2,367,829	10.57	2,721,098	7.90	5,308,358	6.76	
<b>Public sector</b>	-	-	-	-	-	-	190,827	8.26	
<b>Financial Assets</b>	912,119	10.79	2,367,659	10.59	2,720,798	7.92	5,109,282	6.72	
<b>Equity</b>	694,677	19.22	1,864,598	20.65	1,940,889	14.42	2,555,242	11.01	
(Domestic)	109,746	6.73	721,584	17.55	769,932	11.89	1,150,815	8.71	
(Overseas)	584,932	29.48	1,143,014	23.24	1,170,957	16.77	1,404,427	14.05	
<b>Fixed Income</b>	-6,229	-0.16	183,764	1.73	350,659	2.09	1,868,242	4.09	
(Domestic)	-43,448	-1.30	119,497	1.26	275,848	1.82	1,697,419	4.04	
(Overseas)	37,218	7.09	64,267	5.56	74,811	4.56	170,823	4.75	
<b>Alternatives</b>	224,174	23.80	320,822	12.28	431,249	10.92	676,696	10.13	
(Domestic)	40,042	16.93	80,898	11.12	112,296	9.55	206,858	7.97	
(Overseas)	184,133	26.11	239,924	12.73	318,953	11.50	469,838	11.51	
<b>Short-term Assets</b>	467	1.10	863	0.85	1,642	1.03	16,169	3.39	
<b>Welfare Sector</b>	-38	-2.19	-100	-2.08	-142	-1.91	5,997	5.94	
<b>Others</b>	63	0.46	269	0.71	442	0.74	2,251	1.45	

Notes: 1) Investment income for a certain period refers to the total amount of investment income during the corresponding period.  
2) Return for a certain period refers to an average annualized return during the corresponding period.  
3) Investment in the Public Sector ended in 2000, and the invested capital before the year 2000 was collected at the end of 2005.

### • Time-weighted Return Formula

$$\text{Time-weighted Return} = [(1+R_1) \times (1+R_2) \times \dots \times (1+R_n)] - 1$$

- Time-weighted return (TWR) is a measure of the compound rate of growth in a portfolio, and used to compare the returns with their benchmark. The TWR is calculated by (1) calculating the return for each sub-period by subtracting the beginning balance of the period from the ending balance of the period and dividing the result by the beginning balance of the period; (2) creating a new sub-period for each period that there is a change in cash flow; (3) multiplying the return for each sub-period by each other, and subtracting the result by 1 to achieve the TWR.

- General & Administrative expenses (e.g. internal management fees and indirect costs) are not deducted from gain or loss.

National Pension Service (NPS) achieved a time-weighted return of 10.86% in Financial Assets in 2021, outperforming benchmarks for three consecutive years from 2019.

The best performing asset class in 2021 was overseas equities with a 29.77% return, backed by foreign exchange gains arising from a strong U.S. dollar, including a 19.38% increase in Global MSCI ACWI (ex-Korea, in USD terms) and a 8.96% rise in the USD/KRW exchange rate. Domestic equity recorded a 5.88% return, outperforming its benchmark by 0.06%p. The reason the return of domestic equity was lower than that of overseas equity was that the KOSPI 2021 ended 3.63% higher than at the end of 2020, driven by a combination of upward trends fueled by positive market sentiment in the first half and downward trends caused by rising interest rates and the spread of the COVID-19 variants in the second half.

The second best-performing asset class was alternatives with a 23.97% return. Alternative investments outperformed their benchmark by 3.16%p, significantly contributing to the 2021 excess return in Financial Assets. This outcome was possible on the back of a rise in the USD/KRW exchange rate and an increase in the value of assets under management, propelled by improved economic indicators, robust corporate earnings and booming global stock markets.

Domestic fixed income portfolio posted a -1.25% return due to a rise in market interest rates, including an 82.5bp increase of Korean 3-year treasury bonds, affected by soaring inflation and interest rate hikes. However, it outperformed its benchmark by 0.07%p, contributing to the excess return of Financial Assets. Overseas fixed income portfolio was affected negatively by a rise in market interest rates, including a 59.7bp increase of U.S. 10-year treasury bonds; however, the positive impact of strong U.S. dollar on return in KRW terms led the asset class to record a 7.26% return.

Investment Performance in Financial Assets				(time-weighted return, %, %p)						
		2021			3-Year Average (2019~2021)			5-Year Average (2017~2021)		
		Actual	BM	Gap	Actual	BM	Gap	Actual	BM	Gap
<b>Total</b>		10.86	10.82	0.04	10.59	10.09	0.50	7.54	7.21	0.33
<b>Equity</b>	<b>Total</b>	19.22	19.76	-0.54	20.78	20.10	0.69	13.11	12.65	0.47
	(Domestic)	5.88	5.81	0.06	17.04	15.84	1.20	10.97	10.23	0.74
	(Overseas)	29.77	30.64	-0.87	23.48	23.17	0.32	14.49	14.14	0.35
<b>Fixed Income</b>	<b>Total</b>	-0.14	-0.12	-0.01	1.83	1.77	0.06	2.14	2.10	0.04
	(Domestic)	-1.25	-1.33	0.07	1.32	1.23	0.09	1.84	1.79	0.05
	(Overseas)	7.26	7.93	-0.67	6.39	6.40	-0.01	4.70	4.70	0.00
<b>Alternatives</b>	<b>Total</b>	23.97	20.82	3.16	11.78	10.42	1.36	10.37	8.87	1.50
	(Domestic)	18.52	11.72	6.79	11.92	8.50	3.42	10.01	7.80	2.21
	Real Estate	23.88	12.78	11.10	15.86	9.58	6.29	12.25	8.25	4.00
	Infrastructure	7.39	6.74	0.65	5.57	5.88	-0.31	5.77	6.02	-0.25
	Private Equity	24.25	15.18	9.07	14.31	9.93	4.38	11.89	9.07	2.81
	(Overseas)	25.87	23.93	1.95	11.81	11.10	0.71	10.58	9.22	1.37
	Real Estate	18.04	17.11	0.93	7.61	8.88	-1.27	7.78	7.34	0.44
	Infrastructure	13.39	19.26	-5.87	7.48	9.75	-2.28	7.75	7.10	0.64
Private Equity	50.41	38.65	11.76	21.66	15.28	6.38	17.48	13.98	3.50	
Hedge Fund	17.08	14.82	2.26	9.48	9.05	0.42	4.77	5.28	-0.51	
Private Debt	10.23	8.96	1.28	-	-	-	-	-	-	

Note: Investment in private debt began in December 2019.

### 3. Performance by Asset Class

#### 3-1. Domestic Equity

National Pension Service (NPS) began investing in domestic equity in 1990, two years after the National Pension Fund was launched in 1988. Since then, the investment size has been increasing constantly in line with the growth of the Fund. As of the end of 2021, the domestic equity portfolio was valued at KRW 165.8 trillion, accounting for 17.5% of the total Fund. The allocation to domestic equity will be gradually reduced according to investment diversification strategy.

The domestic stock market showed an upward movement in the first half, supported by forecasts of global economic recovery and business performance improvement. However, in the second half, rising interest rates and weakening investor sentiment caused by the spread of COVID-19 led to a downward trend. KOSPI closed at 2,977.65 points on its final trading session in 2021, up 3.63% from a year ago, while KOSDAQ ended at 1033.98 points, up 6.77% year-over-year on the back of expanded participation by individual investors based on abundant liquidity.

At NPS, domestic equity investment is made through active and passive managements. Passive management is conducted by internal managers, while active management is carried out by both internal and external managers. Passive management is designed to equal the returns of a market index, while active management is aiming to proactively seek excess returns relative to a benchmark through investment diversification. As of the end of 2021, the allocations to passive and active managements in the domestic equity portfolio were 31.5% and 68.5%, respectively.

In the first half of 2021, as the allocation to domestic equity considerably exceeded the target allocation set by the National Pension Fund Management Committee (FMC) due to value increase in equity holdings driven by a rally in the domestic stock markets, the exceeded amount was collected. Amid unfavorable circumstances, including capital collection resulting from target allocation adjustment, change in certain benchmark, and integration to a GICS® system, the domestic equity portfolio generated a 5.88% return in 2021, outperforming its benchmark by 0.06%p.

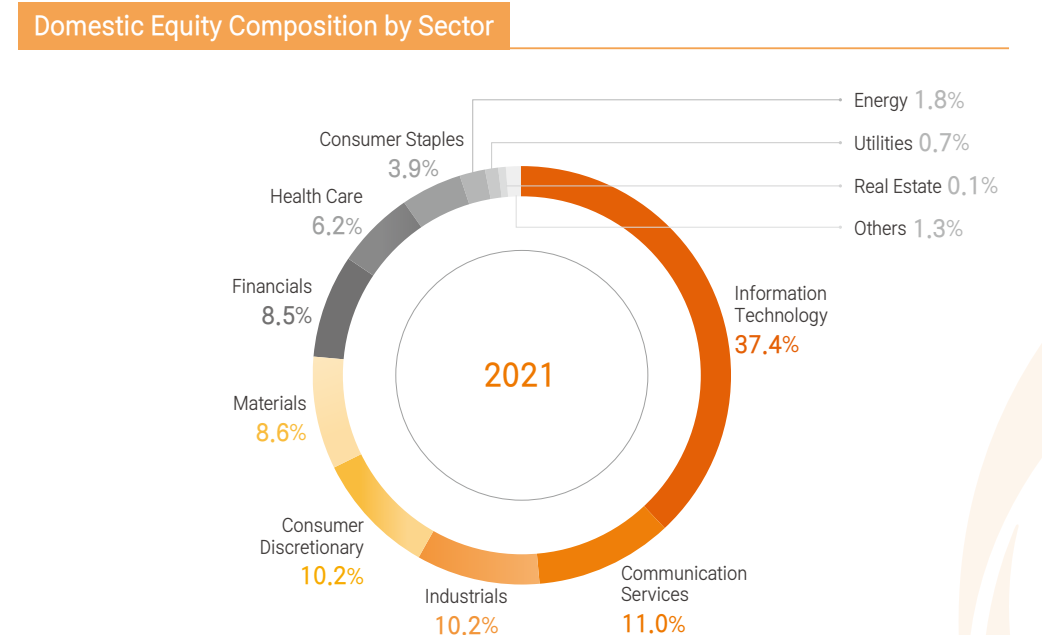
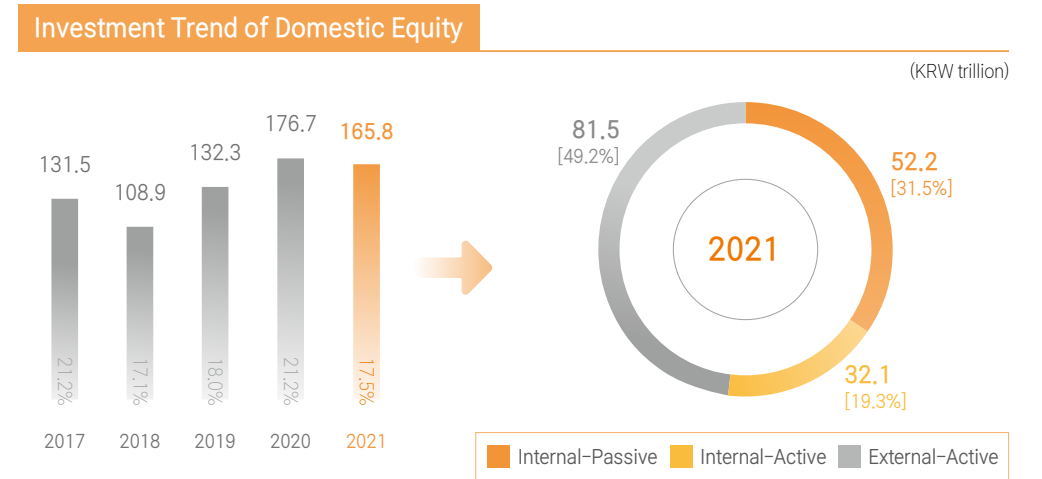
This achievement was mainly driven by high performance of active external management in robust stock markets where small- and middle-cap stocks outperformed large caps. Active external management had a 7.91% return, outperforming its benchmark by 2.81%p. Passive management and active internal management returned 4.03% and 3.97%, respectively, and all domestic equity assets outperformed their benchmarks.

Since 2021, the domestic equity portfolio has been broken down into 11 different sectors according to the Global Industry Classification Standard (GICS®) classification. The top four sectors – Information Technology, Communication Services, Industrials, and Consumer Discretionary – accounted for around 70%.

Return in Domestic Equity (%)		
	Time-weighted Return	BM
Annual Return in 2021	5.88	5.81
3-Year Average (2019~2021)	17.04	15.84
5-Year Average (2017~2021)	10.97	10.23

Fund in Domestic Stock Market (KRW trillion, %)						
	2021		2020		2019	
	Amount	Weight	Amount	Weight	Amount	Weight
KOSPI	157.5	7.4	169.8	8.6	126.7	8.6
KOSDAQ	6.4	1.4	5.4	1.4	3.7	1.5
<b>Total</b>	<b>163.9</b>	<b>6.4</b>	<b>175.2</b>	<b>7.4</b>	<b>130.4</b>	<b>7.6</b>

Notes: 1) Market value as of the end of the year  
2) Excluded unlisted equities, cash equivalents, preferred stocks, ETF, future options and foreign stocks



Notes: 1) Based on Global Industry Classification Standard (GICS®) classification  
2) Others include unclassified securities, cash holdings and futures

### 3-2. Overseas Equity

National Pension Service (NPS) began investing in overseas equity in 2002, one year after overseas investment was first commenced in 2001. Since then, the overseas equity exposure has been expanding constantly. As of the end of 2021, the overseas equity portfolio was valued at KRW 256.6 trillion, accounting for 27.0% of the total Fund. The portfolio saw the largest increase in investment size and weight compared to the previous year, and this trend will continue according to the mid-term asset allocation plan.

As of the end of 2021, equities in emerging markets traded lower year-to-date, affected by higher volatility than developed markets amid worsening U.S.-China trade conflict, strong U.S. dollar and uncertainties over economic growth. Developed markets, on the other hand, closed higher with upward trends, fueled by additional stimulus packages in major countries and improved corporate earnings despite a sharp drop in growth stocks and increase in volatility due to the spread of the COVID-19 variants, concerns over prolonged high inflation and accelerated interest rate hikes. Overall, a global equity index (MSCI ACWI ex-Korea in USD terms) recorded a 19.38% increase from a year ago.

At NPS, overseas equity investment is made through active and passive managements. Passive management is designed to seek stability and liquidity, while active management is aiming to achieve excess returns relative to risk through security selection. Passive management is carried out by both internal and external managers, whereas active management is undertaken by external managers. As of the end of 2021, the allocations to passive and active managements in the overseas equity portfolio were 43.6% and 56.4%, respectively.

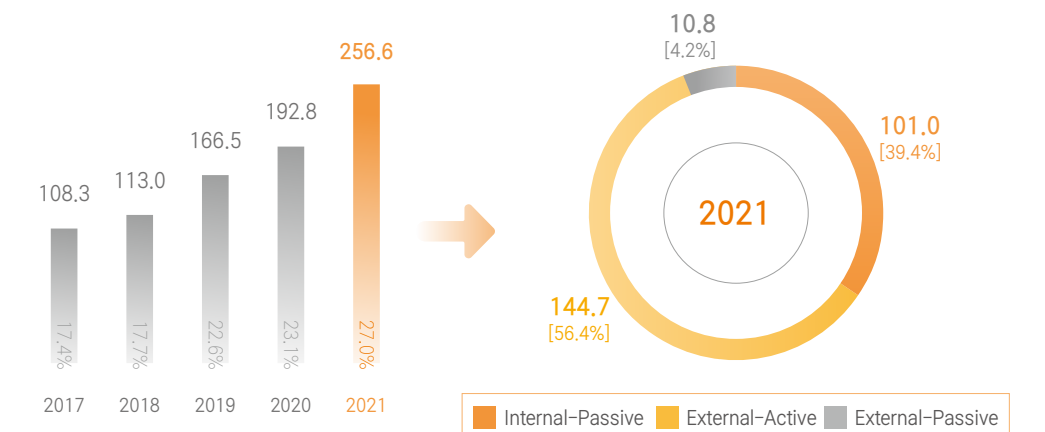
In 2021, there was a performance gap between emerging and developed markets. Passive internal management and active external management, both with large exposure to developed markets, returned 33.85% and 29.04%, respectively (in KRW terms). Passive external management, which focused mainly on emerging markets, generated a 7.23% return.

The total overseas equity portfolio recorded a 29.77% return in 2021, the highest return among the entire Financial Assets, supported by the strong U.S. dollar. The overseas equity portfolio recorded excess returns throughout the year, until growth stocks dropped sharply in the fourth quarter, leading to underperformance of active management funds and the total overseas equity portfolio.

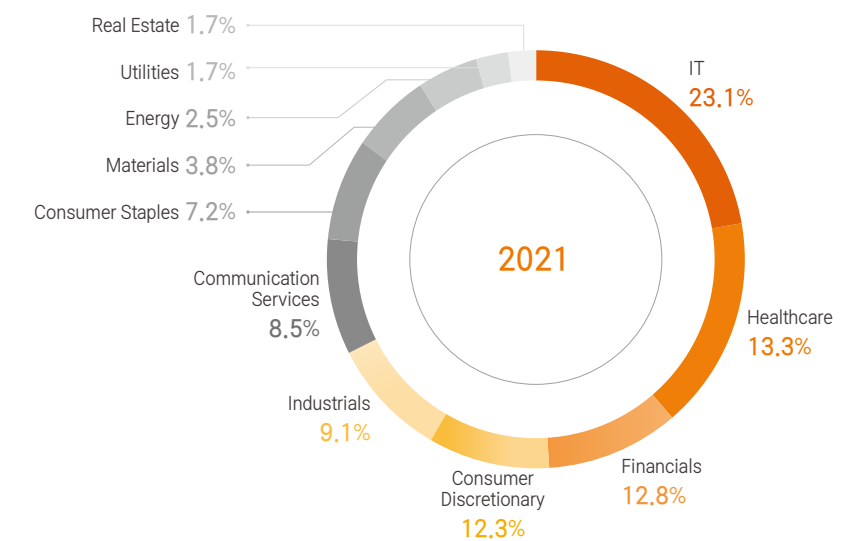
Meanwhile, overseas equity portfolio is broken down into 11 different sectors according to the Global Industry Classification Standard (GICS®) classification, and the IT sector had the biggest weight, similar to the previous year. By geography, North America marked 65.1%, followed by Europe 19.2%, Asia (including Japan) 13.4%, South America 0.7%, and Africa & Middle East 0.6%. Compared to 2020, the allocation to North America and Europe increased, while the rest of the world decreased.

Return in Overseas Equity (%)		
	Time-weighted Return	BM
2021	29.77	30.64
3-Year Average (2019~2021)	23.48	23.17
5-Year Average (2017~2021)	14.49	14.14

#### Investment Trend of Overseas Equity (KRW trillion)

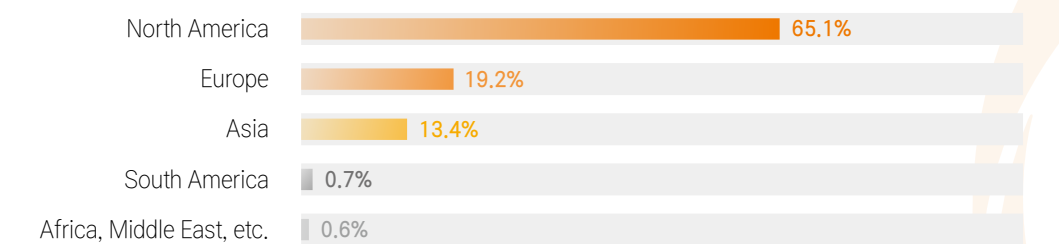


#### Overseas Equity Composition by Sector



Note: Including unclassified cash holdings, but not indicated

#### Overseas Equity Composition by Geography



Note: Including unclassified cash holdings, but not indicated

### 3-3. Domestic Fixed Income

National Pension Service (NPS) began investing in domestic fixed income in 1988 when the National Pension Fund was established. Since then, the investment size has been increasing constantly in line with the growth of the Fund. As of the end of 2021, the domestic fixed income portfolio was valued at KRW 340 trillion, accounting for 35.8% of the total Fund. The allocation to domestic fixed income will be reduced going forward according to the mid-term asset allocation plan.

In the first quarter of 2021, domestic market interest rates rose sharply in line with global rate hikes, driven by forecasts of continued economic recovery; however, in the second quarter, the interest rates were stable due to the resurgence of COVID-19. In the second half, the Bank of Korea raised interest rates twice in August and November to tackle high inflation and respond to economic recovery amid the resurgence of the virus variants, pushing the market interest rates to rise again. Investment in domestic fixed income continued to increase based on the growing pace of the Fund size, despite market interest rate hikes, relatively superior performance of equity assets, and reduction in mid-term target allocation to domestic fixed income.

At NPS, domestic fixed income investment is made through active and passive managements. Passive management is conducted by internal managers, while active management is undertaken by external managers. As of the end of 2021, the allocations to internal and external management in the domestic fixed income portfolio were 86.2% and 13.8%, respectively, which indicates the highest allocation to internal management compared to other asset classes.

The total domestic fixed income portfolio returned -1.25% in 2021. However, the return outperformed its benchmark by 0.07%p, achieving positive performance through optimal allocation of sectors and securities amid challenging circumstances caused by high inflation and rising base rates. This outcome exceeded the 2021 target excess return of 0.04%p. Passive internal management returned -1.29% while active external management returned -0.98%. Active external management achieved solid performance despite rising interest rates, on the back of relatively short maturities compared to passive internal management.

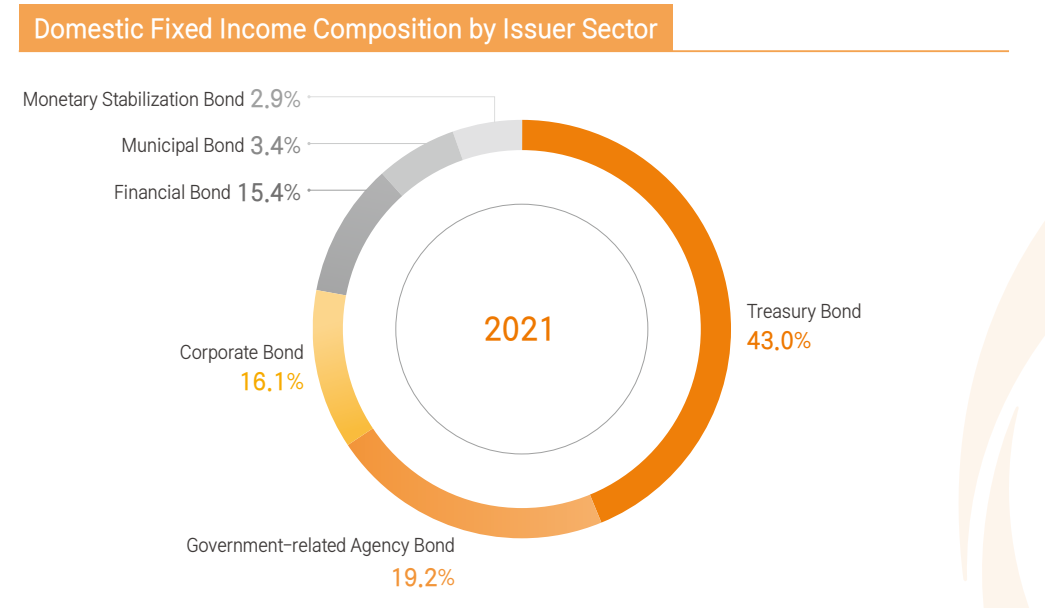
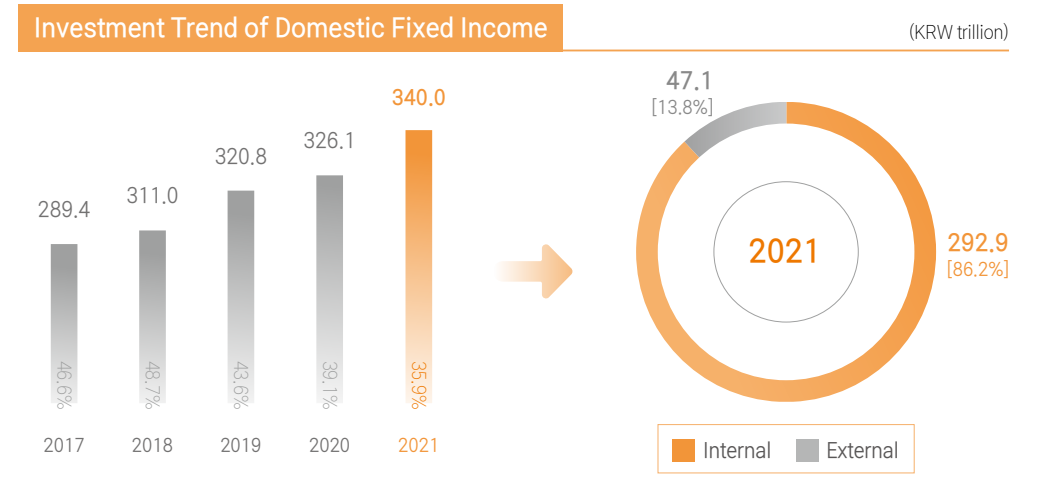
Meanwhile, the share of NPS investments in the domestic bond market decreased by 0.1%p from 13.3% in 2020 to 13.2% in 2021. The decline was due to the entire bond market growing at a faster pace than the inflows into the domestic fixed income portfolio. Compared to the average allocation ratio in the domestic bond market, the shares of treasury bonds, municipal bonds and government-related agency bonds were above the average, while those of monetary stabilization bonds, financial bonds and corporate bonds were below the average.

By issuer sector, treasury bonds accounted for the highest percentage, followed by government-related agency bonds, corporate bonds, financial bonds, municipal bonds and monetary stabilization bonds. Compared to the previous year, the allocations to treasury bonds, municipal bonds and financial bonds increased, while the shares of government-related agency bonds, monetary stabilization bonds and corporate bonds decreased.

Return in Domestic Fixed Income (%)		
	Time-weighted return	BM
2021	-1.25	-1.33
3-Year Average (2019~2021)	1.32	1.23
5-Year Average (2017~2021)	1.84	1.79

NPS Investments in Domestic Fixed Income Market (KRW trillion, %)						
	2021		2020		2019	
	Amount	Weight	Amount	Weight	Amount	Weight
<b>Total</b>	<b>338.0</b>	<b>13.2</b>	<b>311.2</b>	<b>13.3</b>	<b>301.2</b>	<b>14.4</b>
Treasury Bond	145.3	15.7	128.6	15.9	121.2	17.6
Municipal Bond	11.3	36.5	7.9	29.4	4.9	21.9
Government-related Agency Bond	65.0	17.5	61.6	17.3	60.2	18.2
Monetary Stabilization Bond	9.9	7.0	14.7	9.2	18.4	11.1
Financial Bond	52.0	9.1	47.3	8.9	46.3	10.0
Corporate Bond	54.5	10.4	51.2	11.0	50.1	12.1

Notes: 1) The value in the domestic fixed income market is calculated based on the balance of bonds, while NPS follows face value of holding securities.  
 2) Excluding short-term assets  
 3) MBS is considered as government-related bond; ABS as corporate bond; credit finance bond as financial bond.



### 3-4. Overseas Fixed Income

National Pension Service (NPS) began investing in overseas fixed income with Korean bonds denominated in foreign currencies in 2001 and commenced investing in securities issued by foreign entities through internal management in 2002. As of the end of 2021, the overseas fixed income portfolio was valued at KRW 64 trillion, up KRW 19 trillion year-over-year, and accounted for 6.7% of the total Fund. The allocation to overseas fixed income will continue increasing going forward according to the mid-term asset allocation plan.

Although market interest rates in major countries showed high volatility due to the expanded spread of COVID-19 and high inflation, the overseas fixed income market continued its upward trajectory. In the first quarter of 2021, U.S. 10-year treasury rate jumped sharply, triggered by the new Administration's proactive stimulus packages and decline in COVID-19 infections. However, the resurgence of the virus variants retraced most of the increase, affected by shrinking investor sentiment, higher preference for safe assets and low expectations over economic recovery. In the third quarter, market interest rates rose again, driven by concerns over high inflation, and interest rates in major countries in Europe moved in a similar pattern in the U.S. Amid such circumstances, the allocation to overseas fixed income increased 1.3%p from a year ago in accordance with the mid-term asset allocation plan.

Since the second half of 2020, the overseas fixed income portfolio has been divided into stable-income and high-income types. Both types are carried out on an active-style basis by internal and external managers. The stable-income type pursues active management largely in treasury and government-related bonds which feature relatively less volatility, while the high-income type seeks active management mainly in spread products to actively enhance returns. As of the end of 2021, the allocations to the stable-income and high-income types in the overseas fixed income portfolio were 49.8% and 50.2%, respectively.

By issuer sector, like domestic fixed income investment, treasury bonds made up the largest share of the overseas fixed income portfolio, followed by corporate, government-related, and securitized. By geography, North America composed the largest share, followed by Europe, Asia (including Japan) and South America. Compared to a year ago, the exposure to North America significantly increased, while the rest of the world, including Europe and Asia, saw a decrease.

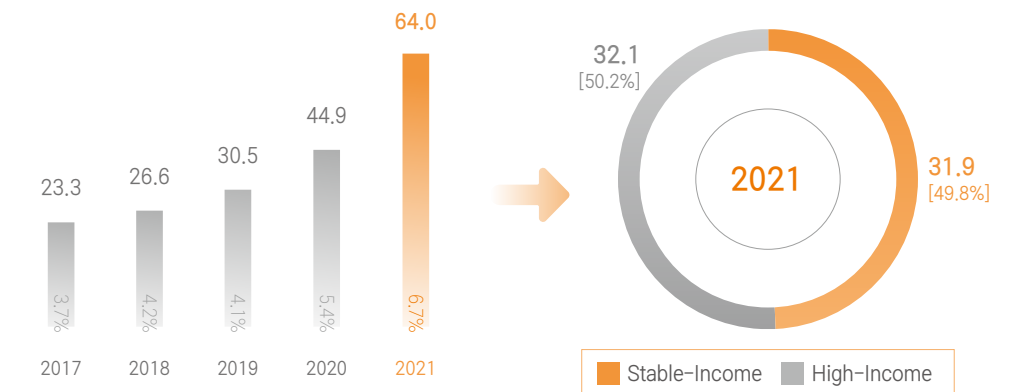
The total overseas fixed income portfolio returned 7.26% in 2021, backed by the positive impact of a constant rise in the USD/KRW exchange rate on returns in KRW terms. By type, the stable-income and high-income types returned 7.09% and 7.43%, respectively. However, higher market interest rates compared to the previous year amid heightened volatility in major countries caused the asset class to record a negative return in USD terms.

#### Return in Overseas Fixed Income

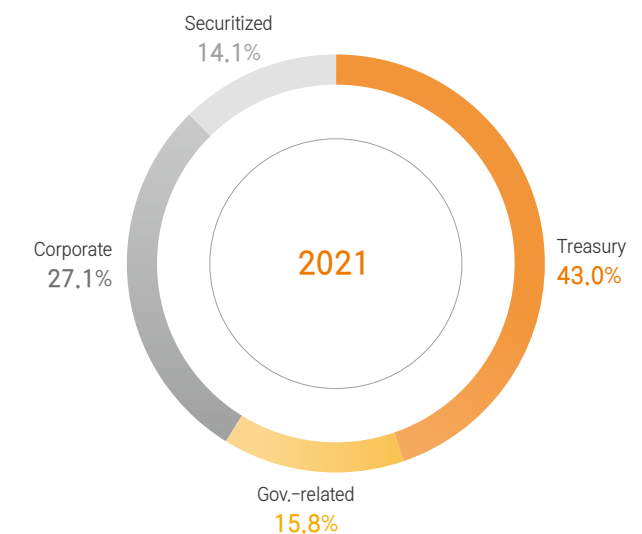
	Time-weighted Return	BM
2021	7.26	7.93
3-Year Average (2019~2021)	6.39	6.40
5-Year Average (2017~2021)	4.70	4.70

#### Investment Trend of Overseas Fixed Income

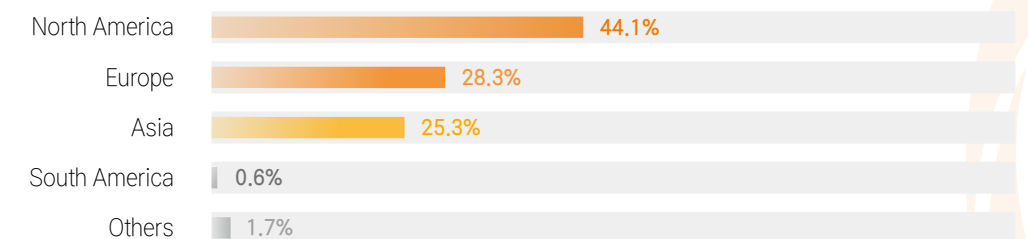
(KRW trillion)



#### Overseas Fixed Income Composition by Issuer Sector



#### Overseas Fixed Income Composition by Geography



### 3-5. Alternatives

National Pension Service (NPS) began investing in alternative assets in 2002 with domestic venture capital. Since then, its exposure to alternative assets has been constantly expanding to include domestic and overseas real estate, infrastructure and private equity, as well as overseas hedge funds. As of the end of 2021, the alternative investment portfolio was valued at KRW 119.3 trillion, up KRW 28.6 trillion year-over-year, and accounted for 12.6% of the total Fund. The allocation to alternative assets will be further increasing according to the mid-term asset allocation plan.

At NPS, the term of alternative assets is used to express assets which are not traditional assets like equity and fixed income. Alternative assets have risk-return profiles different from traditional assets, and help contribute to stable returns over the long-term horizon. In addition to alternative assets invested previously such as real estate, infrastructure, private equity and venture capital, NPS has expanded investment products and size with a focus on overseas assets to include hedge fund, private debt and multi-asset. As of the end of 2021, overseas alternative assets were valued at KRW 94.3 trillion, up KRW 28.3 trillion year-over-year, the second largest increase in Financial Assets, while domestic alternative assets stood at KRW 25 trillion, up KRW 300 billion from a year ago.

By asset class, private equity, including private debt and multi asset, accounted for 39.9% of the alternative portfolio, followed by real estate 31.9%, infrastructure 25.3%, and hedge fund 2.9%. By geography, domestic alternative assets made up 21.0% while overseas alternative assets composed 79.0%. In order to overcome the limitation of small domestic markets, capture new investment opportunities and maximize risk diversification, NPS has expanded its exposure to overseas alternative assets. As a result, the allocation to overseas alternative assets has been increasing constantly in the total alternative investment portfolio.

In 2021, domestic and overseas alternative assets achieved solid performance, outperforming their benchmarks, on the back of improved domestic main economic indicators and strong corporate earnings as well as robust global stock markets. Domestic alternative assets returned 18.52%, triggered by a boom in domestic real estate and equity markets, while overseas alternative assets returned 25.87%, driven by increasing value of alternative assets and gains from a rise in the USD/KRW exchange rate.

Backed by such achievements, the total alternative investment portfolio returned 23.97% in 2021, outperforming its benchmark by 3.16%p, the highest excess return in NPS's investment portfolio. Such highest outcome contributed largely to the entire excess return in Financial Assets. The recent three-year and five-year average return also surpassed their benchmarks, generating stable returns.

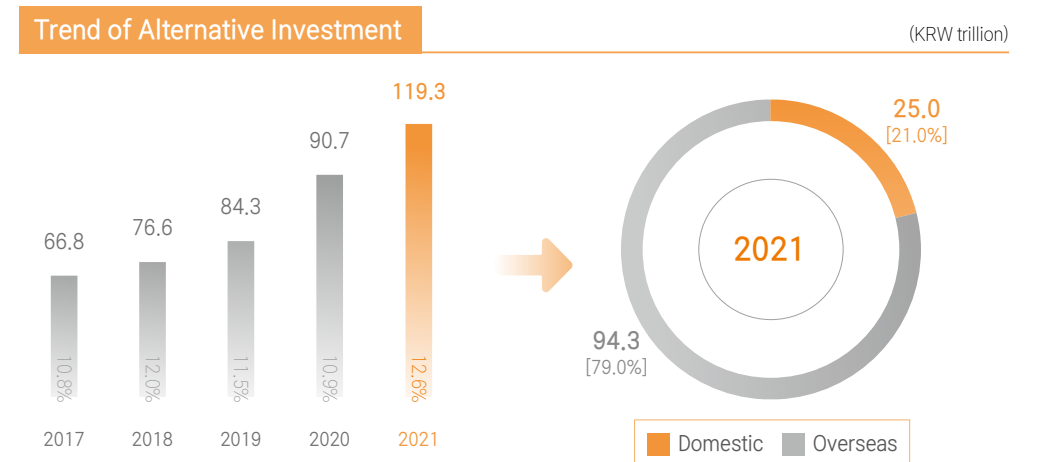
Meanwhile, in order to enhance capabilities in tactical asset allocation and diversify investment portfolio, NPS began investing in multi-asset through external managers. Multi-asset is a strategy aimed at pursuing excess returns by adjusting the weight of diverse asset classes, including equity, fixed income, currency and commodity to be different from benchmarks. As part of a strategy to expand investment products and size, NPS commenced investing in hedge fund in 2016, private debt in 2019 and multi-asset in 2021. In line with the mid-term asset allocation plan, the weight of alternative assets, which stood at 12.6% of Financial Assets in 2021 end, will be expanded to be around 15% by 2026 end.

	2021		3-Year Average (2019~2021)		5-Year Average (2017~2021)	
	Return	BM	Return	BM	Return	BM
Domestic	18.52	11.72	11.92	8.50	10.01	7.80
Overseas	25.87	23.93	11.81	11.10	10.58	9.22
<b>Total</b>	<b>23.97</b>	<b>20.82</b>	<b>11.78</b>	<b>10.42</b>	<b>10.37</b>	<b>8.87</b>

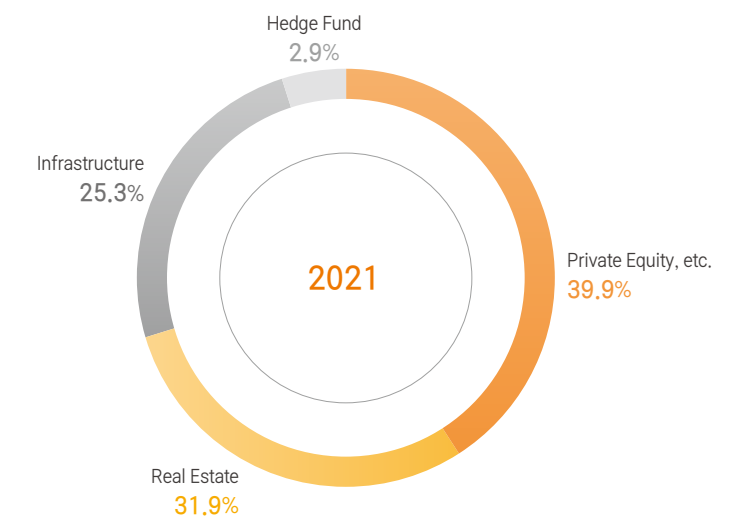
Note: For domestic assets, fair value at the end of fiscal year is reflected, while for overseas assets, fair value at the end of the third quarter is reflected.

	Total	Real Estate	Infra-structure	Private Equity	Hedge Fund	Tactical Program	
						Private Debt	Multi-asset
Appraised value	1,193,054	379,966	302,082	435,550	34,790	22,726	17,940
Domestic	250,328	65,960	75,568	108,801	-	-	-
Overseas	942,726	314,006	226,514	326,750	34,790	22,726	17,940

Note: Each asset is appraised with fair value.



#### Alternative Investment Composition by Asset Class



Note: Private equity, etc. include domestic venture capital, corporate restructuring companies, private equity funds, as well as overseas private equity funds, private debt and multi-asset.

3-5-1. Real Estate

As of the end of 2021, the real estate portfolio was valued at KRW 38 trillion, a combination of KRW 6.6 trillion in domestic assets and KRW 31.4 trillion in overseas assets. Real estate investments accounted for 31.9% of the total alternative investment portfolio, equivalent to 4.0% of the total Fund.

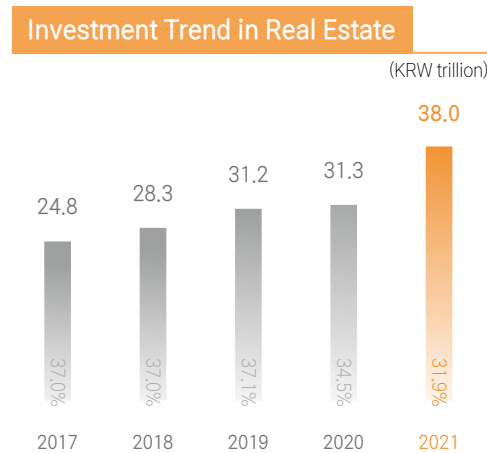
National Pension Service (NPS) began investing in domestic real estate in 2004 and overseas real estate in 2006. Since then, the size of the real estate portfolio has been growing largely with a focus on regions and sectors with strong fundamentals. NPS strives to build a stable basis for investment management mainly with core/core+ strategies and enhance returns through selective investments in value-add and opportunistic strategies. Also, it is on track to diversify its portfolio with a broader range of strategies such as build-to-core, secondary, platform, etc.

On the back of the government's monetary and fiscal stimulus packages, several factors including low interest rate environment, increased market liquidity and stricter regulations over the housing market drove a pent-up demand for commercial real estate investment in the domestic market. In particular, the value of office assets and the capital distribution of domestic properties increased. As for overseas real estate markets, fundraising status and transaction volume varied by region and sector. However, the overall recovery of overseas markets compared to a year ago was evident, and the value of prime offices, industrial and for-rent residential properties in major cities continued an upward trajectory amid a prolonged low interest rate environment.

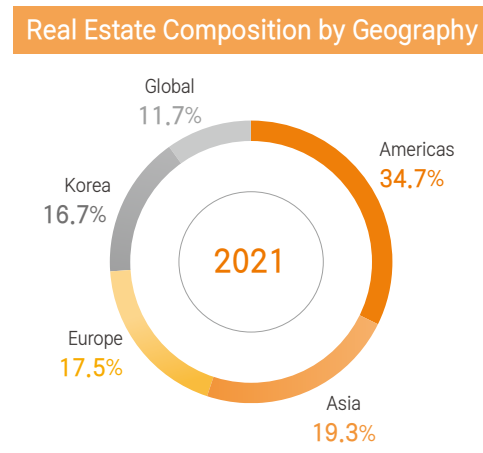
Under such circumstances, the domestic real estate portfolio returned 23.88%, which surpassed its 2020 all-time high, propelled by higher dividend income and the appreciation of fair value throughout the year. The overseas real estate portfolio returned 18.04%, supported by the capital appreciation of assets under management and a rise in the USD/KRW exchange rate. As a whole, the total real estate portfolio achieved a 18.97% return.

Return in Real Estate (time-weighted return, %)						
	2021		3-Year Average (2019~2021)		5-Year Average (2017~2021)	
	Return	BM	Return	BM	Return	BM
Domestic	23.88	12.78	15.86	9.58	12.25	8.25
Overseas	18.04	17.11	7.61	8.88	7.78	7.34
<b>total</b>	<b>18.97</b>	<b>16.30</b>	<b>9.16</b>	<b>9.05</b>	<b>8.59</b>	<b>7.56</b>

Note: For domestic assets, fair value at the end of fiscal year is reflected, while for overseas assets, fair value at the end of the third quarter is reflected.



Note: The weight is in alternative assets.



Note: Based on the balance of invested capital

3-5-2. Infrastructure

As of the end of 2021, the infrastructure portfolio was valued at KRW 30.2 trillion, a combination of KRW 7.6 trillion in domestic assets and KRW 22.7 trillion in overseas assets. Infrastructure investments accounted for 25.3% of the total alternative investment portfolio, equivalent to 3.2% of the total Fund.

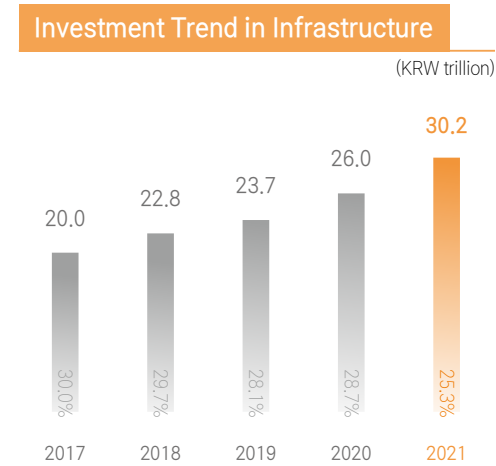
National Pension Service (NPS) began investing in domestic port BTO in 2005 and overseas infrastructure fund in 2007. Since then, the infrastructure portfolio has been diversified across sectors, including transportation, energy and digitalization. NPS strives to build a stable basis for investment management mainly through core/core+ strategies that offer stable cash flow and abundant co-investment opportunities, and diversify its portfolio with a broader range of strategies, such as value-add, mid-market, secondary, and joint collaboration with leading general partners and investors.

Throughout the year, the global infrastructure market partially recovered from COVID-19. However, asset values in airport, port and energy sectors did not recover to pre-pandemic levels, generating a relatively low increase in return compared to other alternative assets.

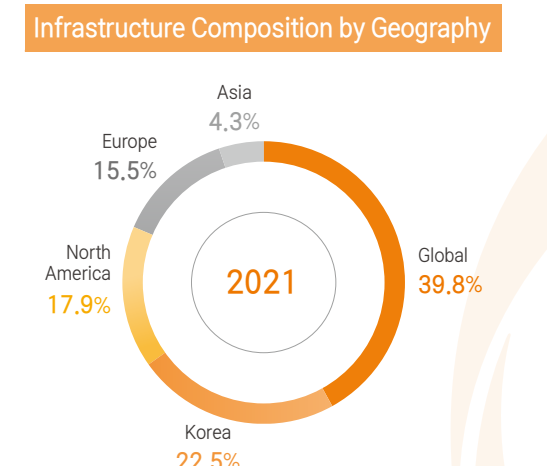
The domestic infrastructure portfolio returned 7.39%, supported by stable dividend and interest income as well as an increase in asset value, while the overseas infrastructure portfolio returned 13.39%, driven by the capital appreciation of assets under management and a rise in the USD/KRW exchange rate. As a whole, the total infrastructure portfolio achieved a 11.67% return, and the recent five-year average return outperformed its benchmark.

Return in Infrastructure (time-weighted return, %)						
	2021		3-Year Average (2019~2021)		5-Year Average (2017~2021)	
	Return	BM	Return	BM	Return	BM
Domestic	7.39	6.74	5.57	5.88	5.77	6.02
Overseas	13.39	19.26	7.48	9.75	7.75	7.10
<b>Total</b>	<b>11.67</b>	<b>15.54</b>	<b>6.81</b>	<b>8.49</b>	<b>7.10</b>	<b>6.92</b>

Note: For domestic assets, fair value at the end of fiscal year is reflected, while for overseas assets, fair value at the end of the third quarter is reflected.



Note: The weight is in alternative assets.



Note: Based on the balance of invested capital

3-5-3. Private Equity

As of the end of 2021, the private equity portfolio, including hedge fund and private debt, was valued at KRW 49.3 trillion, a combination of KRW 10.9 trillion in domestic assets and KRW 38.4 trillion in overseas assets. Private equity investments accounted for 39.9% of the total alternative investment portfolio, equivalent to 5.2% of the total Fund.

At the National Pension Service (NPS), private equity assets are classified largely into private equity fund, private debt and hedge fund. To diversify its portfolio, NPS began investing in domestic venture capital, overseas hedge fund, and overseas private debt in 2002, 2016, and 2019, respectively. Through a wide range of strategies such as traditional buyout, credit/distressed, secondary, venture/growth and co-investment, NPS has formed a well-balanced private equity portfolio.

In 2021, robust global stock markets, driven by increasing liquidity and positive investor sentiment due to monetary policies worldwide to fight against the pandemic, had an upward impact on the private equity market with increased transaction volume and asset value. In addition, venture investment markets at home and abroad experienced exponential growth in line with the increasing demand for digital transformation.

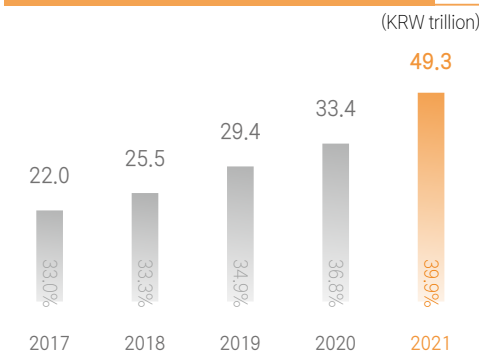
The domestic private equity fund portfolio returned 24.25%, supported by strong performance in venture capital investment resulting from the record growth of the domestic venture capital investment market, while the overseas private equity fund portfolio returned 50.41%, propelled by value increase of assets under management and gains from exchange rate movements. As a whole, the private equity fund portfolio achieved a 42.33% return. Meanwhile, the private debt portfolio recorded a 10.23% return, affected by exchange rate gains like other alternative assets, while the hedge fund portfolio achieved a 17.08% return, triggered by fee reduction through an increase in single hedge funds. The hedge fund portfolio achieved excess returns for two years in a row after outperforming its benchmark in 2020 for the first time.

Return in Private Equity

		2021		3-Year Average (2019~2021)		5-Year Average (2017~2021)	
		Return	BM	Return	BM	Return	BM
Private Equity Fund	Domestic	24.25	15.18	14.31	9.93	11.89	9.07
	Overseas	50.41	38.65	21.66	15.28	17.48	13.98
	<b>Total</b>	<b>42.33</b>	<b>31.21</b>	<b>19.39</b>	<b>13.64</b>	<b>15.68</b>	<b>12.38</b>
Hedge Fund		17.08	14.82	9.48	9.05	4.77	5.28
Private Debt		10.23	8.96	-	-	-	-

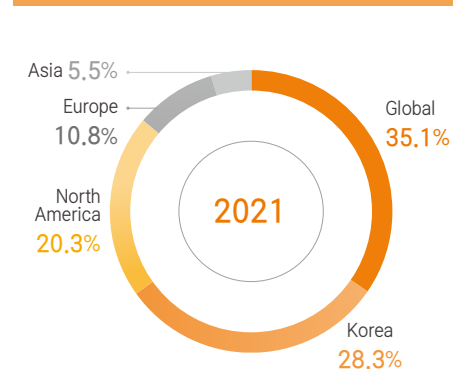
Note: 1) Private debt investment began in December 2019.  
2) For domestic assets, fair value at the end of fiscal year is reflected, while for overseas assets, fair value at the end of the third quarter is reflected.

Investment Trend in Private Equity



Notes: 1) Private equity portfolio includes hedge fund and private debt.  
2) The weight is in alternative assets.

Private Equity Composition by Geography



Notes: 1) Excluding hedge fund  
2) Based on the balance of invested capital

Key Alternative Assets Across the Globe



# IV

## Responsible Investment & Governance



1. Stewardship Activities and Responsible Investment
2. Key Activities
3. Looking Ahead

# 1. Stewardship Activities and Responsible Investment

## 1-1. Overview

As a long-term investor aiming to protect and enhance the value of assets under management, the National Pension Service (NPS) is obliged to fulfill its fiduciary duty to act in the best interests of contributors and beneficiaries of the National Pension Plan. To this end, NPS conducts stewardship activities, including responsible investment and the exercise of shareholder rights, to achieve long-term and stable returns.

In January 2015, the grounds for integrating environmental, social, and governance (ESG) factors into investment decision-making were set out through the amendments to the National Pension Act. In July 2018, NPS adopted Responsible Investment & Governance Principles, or Stewardship Code, and enacted the Guideline for Responsible Investment & Governance to establish systems for stewardship activities.

### Legal Basis

#### National Pension Act

##### Article 102 (Management and Operation of Fund)

(4) Where the Minister of Health and Welfare manages and operates the Fund pursuant to paragraph (2) 3, he/she may take into account environmental, social, and governance factors related to investment targets, to achieve a long-term and stable revenue.

#### Guideline for National Pension Fund Management

##### Article 4 (Investment Principles)

5. Sustainability: To fulfill its fiduciary duty, particularly in consideration of environmental, social and governance (ESG) factors, to enhance the sustainability of assets under managements.

##### Article 17-2 (Principles on Responsible Investment & Governance)

In a bid to enhance transparency and independence of stewardship activities and improve long-term returns, NPS shall refer to the Korea Stewardship Code, "Principles on the Stewardship Responsibilities of Institutional Investors," and implement stewardship activities according to the Responsible Investment & Governance Principles approved by the National Pension Fund Management Committee.

#### Guideline for Responsible Investment & Governance

##### Article 3 (Basic Principles)

NPS shall implement stewardship activities:

- (1) With the objective of increasing assets under management;
- (2) In good faith in the best interests of current and former contributors and current beneficiaries of the National Pension Plan;
- (3) In a direction that contributes to enhancing long-term shareholder value;
- (4) By integrating environmental, social and governance (ESG) factors into investment analysis to create sustainable value over the long term;
- (5) Including responsible investment and the exercise of shareholder rights, in accordance with the Guideline for National Pension Fund Management, the Guideline for Responsible Investment & Governance, and Responsible Investment & Governance Principles.

## 1-2. Key Principles

National Pension Service (NPS) may incorporate environmental, social and governance (ESG) factors into investment decision-making. NPS manages and invests the National Pension Fund in compliance with the investment principles laid down in the Guideline for National Pension Fund Management. In order to achieve stable growth of the Fund, NPS conducts responsible investment and exercises shareholder rights.

Key policies relating to responsible investment and the exercise of shareholder rights are determined by the National Pension Fund Management Committee (FMC), and general principles and specific standards on responsible investment and the exercise of shareholder rights are approved by the Special Committee on Responsible Investment & Governance. As decided by the FMC and the Special Committee, NPS undertakes responsible investment by integrating ESG factors into investment decision-making and managing ESG-related focus areas for domestic and overseas equity and fixed income. In addition, NPS exercises shareholder rights by voting on listed shares, selecting companies in focus lists, sending open letters, initiating litigation, etc.

### Key Principles & Activities

#### Responsible Investment Principles

- (1) Achieve long-term and stable returns
- (2) Implement RI according to the Guideline for Responsible Investment & Governance
- (3) Implement RI on equity and fixed income assets
- (4) Incorporate non-financial factors, including environmental, social and governance (ESG) into investment decision-making
- (5) Conduct shareholder engagement with investee companies
- (6) Consider RI when selecting and assessing external managers
- (7) Encourage investee companies to publicly disclose ESG-related information
- (8) Enhance capabilities and expertise in RI
- (9) Regularly report RI activities

#### Responsible Investment & Governance Principles or Stewardship Code

- (1) Formulate and publicly disclose Stewardship Activities Policy
- (2) Formulate and publicly disclose Conflict of Interest Prevention Policy
- (3) Regularly monitor investee companies
- (4) Formulate a guideline for stewardship activities and conduct shareholder engagement
- (5) Formulate and publicly disclose Voting Right Policy, and publicly disclose voting results and reasons for each vote
- (6) Regularly report stewardship activities
- (7) Enhance capabilities and expertise in effective implementation of stewardship activities

#### Guideline for National Pension Fund Management

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

Responsible investment and exercise of shareholder rights shall be undertaken,

- (1) With the objective of increasing assets under management;
- (2) In good faith in the best interests of contributors and beneficiaries of the National Pension Plan;
- (3) In a direction that contributes to increasing shareholder value over the long run;
- (4) In compliance with standards, process and methods as stipulated in the Guideline for Responsible Investment & Governance approved by the National Pension Fund Management Committee; and
- (5) By NPS in principle. However, certain matters shall be determined by the Special Committee on Responsible Investment & Governance following NPS's analysis. Such matters include ( i ) matters deemed difficult for NPS to make a decision in relation to the exercise of voting and shareholder rights; ( ii ) matters requested by at least one third of incumbent members of the Special Committee based on the likelihood of having a significant impact on long-term shareholder value; ( iii ) matters relating to the selection of companies subject to confidential dialogues; ( iv ) matters relating to selection of companies subject to confidential or public Focus List; ( v ) matters relating to shareholder proposal (excluding shareholder proposals defined in Article 154(1) of the Enforcement Decree of the Financial Investment Services and Capital Market Act); ( vi ) matters relating to sending open letters, etc.
- (6) NPS may delegate the decision of voting direction to external managers.

**Guideline for Responsible Investment & Governance**  
**Article 4 (Stewardship Activities)**

(1) NPS may conduct confidential dialogues with investee companies across equities and fixed income portfolios and implement responsible investment, including:

1. Integration of non-financial factors, including environmental, social and governance (ESG) into investment decision-making;
2. ESG-related focus areas, etc.

(2) NPS may conduct confidential dialogues with investee companies across listed equities portfolio and exercise shareholder rights, including:

1. Voting;
2. Conducting confidential dialogues, selecting confidential and public focus list, sending open letters, sending shareholder proposals, etc. in relation to focus areas;
3. Conducting confidential dialogues, sending open letters, sending shareholder proposal, etc. in relation to unexpected concerns;
4. Initiating litigation

### 1-3. Milestones of Stewardship Activities

National Pension Service (NPS) began responsible investment (RI) with externally managed domestic RI funds in September 2006. Since then, NPS has been committed to taking part in RI activities. In June 2009, NPS joined the Principles for Responsible Investment (PRI). In 2015, ways to promote dialogues with companies on dividend policy for domestic equity were developed to formulate a reasonable dividend policy. In November of the same year, an ESG Evaluation System for domestic equity was established. In 2016, an ESG Information Sharing Platform was built to provide ESG-related information to portfolio managers so that ESG aspects can be integrated into an investment decision-making process.

Notably, in July 2018, the National Pension Fund Management Committee (FMC) adopted the Responsible Investment & Governance Principles, or Stewardship Code, and overhauled an existing voting guideline to enact the Guideline for Responsible Investment & Governance. In November 2019, a Plan to Facilitate Responsible Investment was formulated to lay the foundation for applying RI to a broader range of asset classes. In the following month, a Guideline for Active Ownership for Domestic Equity was developed to expand the scope of shareholder engagement. In July 2020, an annual Responsible Investment & Governance Report was issued as part of a National Pension Fund Annual Report to publicly disclose NPS's stewardship activities in a transparent manner. In November 2020, a Guideline for ESG Integration Strategies for Domestic Equity was devised to apply enhanced and expanded ESG Integration Strategies to internally managed domestic equity.

In May 2021, negative screening was adopted in line with the announcement of the National Pension Fund Management Committee on phasing out of coal (Exclusion of coal mining and coal-fired power industries). In June, a Guideline for ESG Integration Strategies for Internally Managed Domestic Fixed Income was developed to apply ESG integration strategies to domestic fixed income (corporate bond). In December, a Guideline for Responsible Investment on Composition and Operation of Boards of Directors was issued to enhance the predictability on NPS's direction of major responsible investment activities by sharing such information with investee companies, and to help investee companies voluntarily run their corporate governance.

### Milestones of Stewardship Activities

Sept. 2006	Launched externally managed domestic RI Funds
Jun. 2009	Joined the Principles for Responsible Investment (PRI)
Jun. 2015	Formulated ways to promote dialogues with companies on dividend policy for domestic equity
Nov. 2015	Established an ESG Evaluation System for domestic equity
Apr. 2016	Added a provision on Responsible Investment to the Guideline for National Pension Fund Management (Investment Policy Statement)
Dec. 2016	Established an ESG Information Sharing Platform for domestic equity
Jul. 2017	Developed an ESG Controversial Issues Evaluation System for domestic equity
Sept. 2017	Applied ESG Integration to internally managed domestic equity
Jul. 2018	Adopted Responsible Investment & Governance Principles (Stewardship Code)  Amended Voting Guideline to enact a Guideline for Responsible Investment & Governance
Jan. 2019	Developed a Guideline for Stewardship Activities for Domestic Equity
Feb. 2019	Decided on the disclosure scope of voting direction prior to shareholder meetings
Nov. 2019	Established a Plan to Facilitate Responsible Investment and adopted RI Principles  Added a new principle of Sustainability to investment principles set out in the Guideline for National Pension Fund Management
Dec. 2019	Formulated a Guideline for Active Ownership for Domestic Equity
Jul. 2020	Amended the Guideline for Stewardship Activities for Domestic Equity
Sept. 2020	Developed ways to improve materiality assessment procedures and standards on unexpected concerns
Nov. 2020	Developed a Guideline for ESG Integration Strategies for Domestic Equity
May 2021	Adopted Negative Screening
Jun. 2021	Formulated a Guideline for ESG Integration Strategies for Internally Managed Domestic Fixed Income
Dec. 2021	Issued a Guideline for Responsible Investment on Composition and Operation of Boards of Directors  Formulated ways to consider RI factors when selecting and monitoring external managers in domestic and overseas equity and fixed income

## 2. Key Activities

### 2-1. ESG Investing

#### (1) ESG Evaluation

National Pension Service (NPS) has developed its own proprietary ESG Evaluation System to analyze investment targets' exposures to non-financial factors, including environmental, social and governance (ESG) aspects, in a systematic manner. Using the system, ESG evaluation is conducted twice a year for all listed companies on KOSPI and KOSDAQ 150, KOSDAQ listed companies in which NPS's shareholding ratio is over 5%, issuers of domestic corporate bonds, and listed companies that issued non-corporate bonds. The ESG Evaluation System is composed of 61 ESG indicators in 14 categories that affect enterprise value from an ESG perspective. Considering the characteristics of each industry, different weighting per industry is applied to each category when calculating ESG score and rating.

Following the evaluation, ESG information, including ESG evaluation results, is provided to portfolio managers in internally managed domestic equity and fixed income through the ESG Information Sharing Platform to harness the information during the investment decision-making process, along with financial factors. NPS will continue to improve and upgrade the ESG Evaluation Systems, including ESG indicators, in consideration of internal and external circumstances.

#### (2) ESG Monitoring & Materiality Assessment

NPS monitors ESG-related issues which may affect enterprise value, and conducts materiality assessments with a focus on the severity to identify the potential impact of such issues on both enterprise and shareholder value. The result of materiality assessments, NPS's shareholding ratio in a company, and a company's weight in NPS portfolio are comprehensively considered to adjust ESG evaluation results or align with shareholder engagement.

In case that a company is linked to shareholder engagement for unexpected concerns based on the result of a materiality assessment, the company may be selected for confidential dialogues according to the process and standards as stipulated in the Guideline for Stewardship Activities for Domestic Equity.

#### (3) ESG Integration

Since 2017, NPS has adopted ESG integration strategies to internally managed active domestic equity. In November 2020, the strategies were expanded to include internally managed passive domestic equity, and a Guideline for ESG Integration Strategies for Domestic Equity, which presents enhanced implementation measures, was established to apply ESG Integration Strategies to the entire internally managed domestic equity. In addition, in June 2021, the Guideline for ESG Integration Strategies was amended to include internally managed domestic fixed income portfolio (corporate bond).

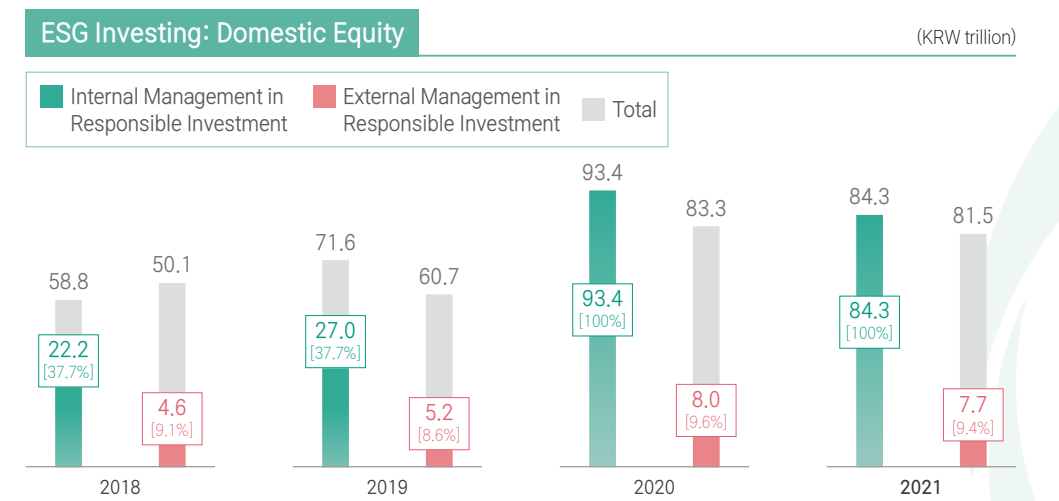
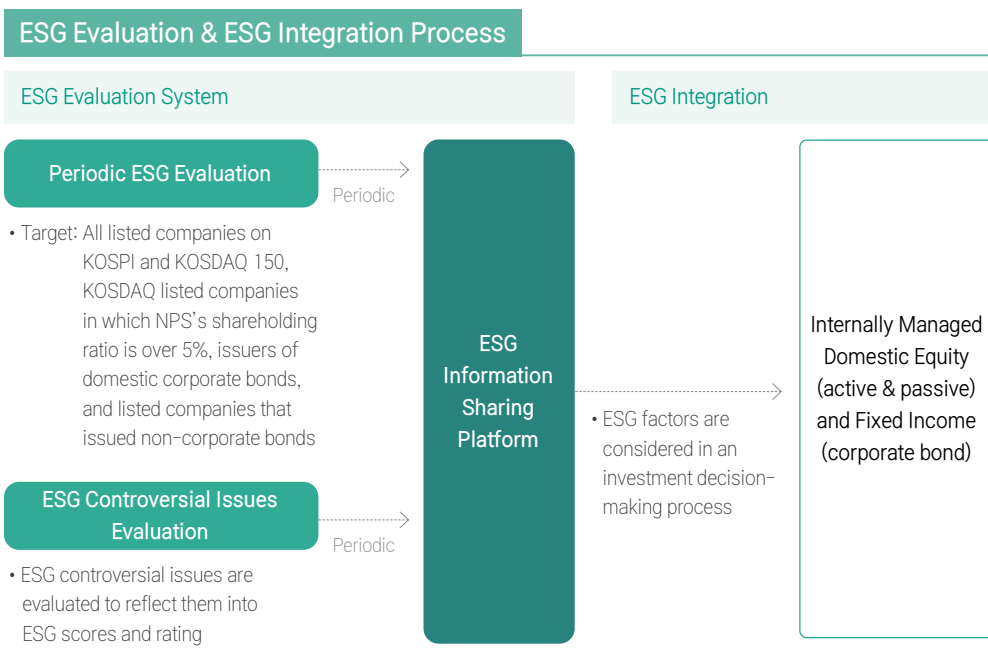
Accordingly, in-house portfolio managers in domestic equity examine ESG-related information when new securities are to be investment universe. If such securities are placed under the second lowest ESG rating, portfolio managers provide written opinions and attach an ESG report in a review report. Moreover, when examining investment universe, securities placed under the second lowest ESG rating are checked to identify whether they are included above their benchmarks. If it is observed that securities under the lowest ESG rating are added above their benchmarks, the reason and investment opinions are reviewed and such securities are constantly monitored. As for internally managed domestic fixed income (corporate bond), in-house portfolio managers examine ESG-related information and conduct thorough reviews on an issuer with a low ESG rating, when considering adding new securities to investment universe or investing in new securities.

#### (4) Externally Managed RI Funds

NPS manages externally managed RI funds as one of the externally managed domestic equities. As of the end of 2021, the RI funds were managed by nine external managers, and the total assets under management were valued at approximately KRW 7.7 trillion. The funds follow an internally developed benchmark, the NPS-FnGuide Responsible Investment Index, considering the unique characteristics of externally managed RI funds.

In selecting external managers for RI funds, NPS takes into account a range of aspects such as expertise, ethics, investment strategies, investment process and compliance with investment guideline. Once selected, external managers may implement diverse responsible investment strategies.

As of the end of 2021, the domestic equity portfolio considering ESG factors amounted to KRW 92 trillion, a combination of KRW 84.3 trillion in internal management and KRW 7.7 trillion in externally managed RI funds.



### 2-2. Negative Screening

In November 2019, the National Pension Fund Management Committee (FMC) decided on an additional review of the necessity, application scope and process of negative screening while formulating a Plan to Facilitate Responsible Investment. In February 2021, the FMC decided to review the adoption of negative screening in relation to climate change first. In May 2021, the FMC announced the adoption of negative screening on industries related to coal mining and coal-fired power in response to climate change, and decided to prepare an action plan through commissioned research.

In line with the decision, NPS commissioned research to analyze the application scope, standards and selection method of the target industry in December 2021 as a preparation stage for the adoption of negative screening. Going forward, the FMC will decide on the action plan of negative screening based on the result of research and opinions from diverse stakeholders.

### 2-3. Responsible Investment in External Management

Since November 2020, NPS has required external managers of RI funds to submit a responsible investment report, and used such reports as a way of monitoring external managers. In addition, in December 2021, an additive grading system was developed to consider responsible investment factors, including the existence of RI policies and guidelines in place, when selecting external managers of domestic and overseas equity and fixed income portfolio. Moreover, NPS monitors external managers by obtaining responsible investment reports to identify their ESG practices.

### 2-4. Voting

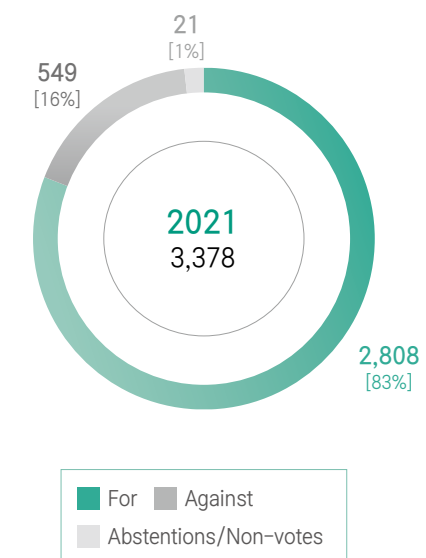
National Pension Service (NPS) exercises its voting rights in listed companies in good faith and in the best interests of the contributors and beneficiaries of the National Pension Plan according to the National Finance Act and the Guideline for National Pension Fund Management. Voting is conducted in accordance with the Guideline for Responsible Investment & Governance which stipulates voting standards, procedures and methods, as well as by referring to an outside agency specializing in proposal analysis, to vote in a professional and faithful manner.

NPS's Committees, including the Investment Committee, deliberate and decide on matters concerning voting activities based upon NPS's shareholding ratio and a company's weight in NPS portfolio. However, voting directions of certain agendas are determined by the Special Committee on Responsible Investment & Governance, ( i ) when NPS requests the Special Committee to determine voting direction as it deems difficult for NPS to make a decision, or ( ii ) when over one-third of the Special Committee's incumbent members requests NPS to refer an issue to the Committee as it deems to have a significant impact on shareholder value over the long term. In addition, in a shareholder meeting in March 2020, the National Pension Fund Management Committee (FMC) decided to delegate voting rights of some holdings to external managers according to the Guideline for Proxy Voting Practices of External Managers.

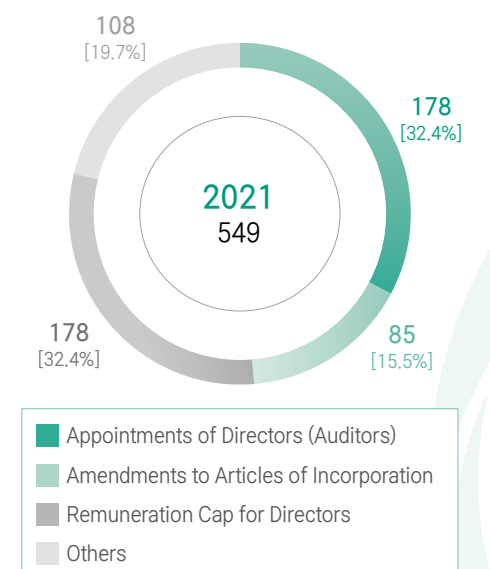
NPS discloses shareholder voting activities and the reasons for voting against, including applicable provisions in guidelines, within 14 days after a shareholder meeting is held. However, voting direction of certain agendas can be disclosed before a shareholder meeting, including ( i ) agendas of a company where NPS's shareholding ratio is more than 10% or its weight is more than 1% in NPS portfolio, and ( ii ) agendas whose voting direction is determined by the Special Committee. In 2021, 119 shareholder meetings disclosed voting directions prior to the meetings.

Throughout the year, NPS participated in 773 shareholder meetings for domestic equities and voted on 3,378 agendas: 2,808 for (83.1%), 549 against (16.3%) and 21 abstentions/non-votes (0.6%). Reasons for voting against included appointment of directors or auditors (178, 32.4%), amendments to articles of incorporation (85, 15.5%), remuneration cap for directors (178, 32.4%) and others (108, 19.7%).

2021 Voting Results



Reasons for Voting Against



## 2-5. Shareholder Engagement

With an aim of achieving long-term and stable returns, National Pension Service (NPS) selects key focus areas and conducts shareholder engagement. Key focus areas include a dividend policy, remuneration cap for directors, violation of rules and regulations, repetitive vote against and ESG rating downgrade. Moreover, NPS undertakes shareholder engagement for unexpected ESG-related concerns which may harm enterprise and shareholder value. The shareholder engagement is carried out on a step-by-step basis, from selection of a company subject to confidential dialogue and selection of confidential/public focus list to shareholder proposal, according to the Guideline for Stewardship Activities for Domestic Equity.

NPS formulated the Guideline for Active Ownership for Domestic Equity in December 2019 to enhance enterprise value and undertake shareholder engagement in a transparent and fair manner. The focus of the Guideline is not on participation in management affairs, but on enhancing shareholder and enterprise value by developing improvement measures through sufficient dialogues with companies in relation to focus areas and unexpected concerns. When an issue requiring shareholder engagement occurs, NPS seeks to check the facts and have sufficient dialogues with companies. Only when it is difficult to see improvements in a company, is active ownership engagement conducted.

Stewardship Activities on Focus Areas and Unexpected Concerns		
	Focus Areas	Unexpected Concerns
Objectives	To enhance shareholder value and long-term profitability	
Activities	Request a company to make improvements on focus areas	Request a company to make improvements on unexpected concerns
Conduct Dialogue	<ul style="list-style-type: none"> <li>• <b>(Targets)</b> Companies falling under the criteria for focus areas, among companies with NPS's shareholding ratio exceeding 5% or portfolio weight exceeding 1%</li> <li>• <b>(Activities)</b> Set up an amicable communication framework to encourage a company to establish action plans and countermeasures to enhance shareholder value</li> <li>* In principle, it is conducted confidentially. However, an open letter is sent if no willingness to make improvements is shown, such as refusing a dialogue.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>(Targets)</b> Companies selected for confidential dialogue by the Special Committee through a materiality assessment when an ESG-related controversial issues arises</li> <li>• <b>(Activities)</b> Set up an amicable communication framework to encourage a company to establish action plans and countermeasures to enhance shareholder value</li> <li>* In principle, it is conducted confidentially. However, an open letter is sent if no willingness to make improvements is shown, such as refusing dialogue.</li> </ul>
Select Confidential / Public Focus List	<ul style="list-style-type: none"> <li>• <b>(Targets)</b> Companies showing no improvements despite a series of dialogues</li> <li>• <b>(Activities)</b> Designate a company as focus list and continuously encourage it to make improvements</li> <li>* In principle, it is conducted confidentially. However, if no improvements are made until a year end, the Special Committee decides whether to publicly disclose a focus list</li> </ul>	N/A
Conduct Active Ownership	<ul style="list-style-type: none"> <li>• <b>(Target)</b> Companies showing no improvements despite a series of dialogues</li> <li>• <b>(Activities)</b> Make shareholder proposal, etc. after reviewed by the Special Committee and approved by the FMC in accordance with the Guideline for Active Ownership</li> <li>* As for issues relating to dividend policy and remuneration cap for directors, shareholder proposal (non-participatory management) is made first after decided by the Special Committee.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>(Target)</b> Companies showing no improvements despite a series of dialogues</li> <li>• <b>(Activities)</b> Make shareholder proposal, etc. after reviewed by the Special Committee and approved by the FMC in accordance with the Guideline for Active Ownership</li> </ul>

## 3. Looking Ahead

### 3-1. ESG Investing

National Pension Service (NPS) formulated a Plan to Facilitate Responsible Investment in November 2019 as part of efforts to enhance long-term returns by increasing market trust as public pension fund and minimizing investment risks. In line with this plan, NPS has developed a roadmap to facilitate RI activities.

NPS has enhanced its ESG Integration strategies for internally managed active domestic equity by limiting the investment weight of securities with the lowest ESG rating up to their benchmark. The strategy will apply to internally managed passive domestic equity going forward. In addition, commissioned research has been conducted to expand the scope of the ESG integration strategies, which included domestic fixed income in 2021, to further apply to overseas equity and fixed income. Based on the research results, the ESG integration strategies will be amended and implemented, considering the characteristics and investment styles such as asset classes.

Moreover, NPS will request securities companies in business with NPS to include ESG information in their company analysis reports in order to create an environment where the quality and level of disclosure of ESG-related information are improved. Furthermore, NPS will scale up its capabilities and expertise in responsible investment by strengthening a global network with global pension funds and bolstering manpower engaging in stewardship activities in overseas offices.

### 3-2. Exercise of Shareholder Rights

NPS has announced its plan to expand shareholder engagement in the domestic equity portfolio from the current focus on governance to include environmental and social factors and to undertake shareholder engagement for the overseas equity portfolio. To this end, ways to add climate change and industrial safety to focus areas on the domestic equity portfolio are under review by conducting commissioned research. Once such measures are approved by the FMC, NPS will undertake associated stewardship activities after amending relevant guidelines, etc. As for the overseas equity portfolio, NPS carried out commissioned research to benchmark best practices of leading peers and will develop ways to implement shareholder engagement in consideration of the research result and investment characteristics of overseas equity.

NPS has already developed the Guideline for Stewardship Activities for Domestic Equity which lays out specific standards for shareholder's derivative suits and damage claim suits with an aim of contributing to increasing shareholder value over the long-term horizon. Since the first half of 2021, standards on derivative suit in relation to domestic equity have been under development. From 2022 onward, NPS will select companies subject to a derivative suit by reviewing applicable case types, damage costs, limitations of a claim for damages, and then file a lawsuit to effectively prevent the management of a company from impairing enterprise value and help maximize shareholder value over the long run.



# APPENDIX



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

# 1. 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, 2021 and December 31, 2020, 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, 2021 and 2020 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.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 Daejoo*

Seoul, Korea  
February 16, 2022

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.

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## Statements of Financial Position

As of December 31, 2021 and 2020

(In Korean Won)

	2021	2020
<b>Assets</b>		
<b>I. Current Assets</b>	<b>₩ 236,680,756,798,176</b>	<b>₩ 216,799,636,899,891</b>
1. Cash and cash equivalents	1,491,030,022,224	1,559,373,737,526
2. Short-term financial instruments	15,400,000,000,000	13,415,000,000,000
(1) Bank deposits	15,400,000,000,000	13,415,000,000,000
3. Short-term investment securities	217,181,069,513,805	199,554,010,005,858
(1) Debt securities	31,946,445,064,942	32,825,352,615,364
a. Government bonds	10,494,932,429,303	7,330,256,593,626
b. Public bonds	59,957,658,055	-
c. Municipal bonds	1,397,066,462,862	639,262,146,445
d. Special bonds	2,760,461,966,191	3,735,120,741,199
e. Financial bonds	3,524,770,703,302	7,647,490,677,908
f. Credit financial bonds	2,253,222,142,856	1,940,967,622,826
g. Corporate bonds	8,040,165,871,050	10,217,145,526,945
h. Foreign bonds	2,426,126,332,693	825,331,962,125
i. Electronic short-term bonds	989,741,498,630	489,777,344,290
(2) Equity securities	185,234,624,448,863	166,728,657,390,494
a. Domestic stocks	84,279,445,853,980	93,376,618,206,845
b. Foreign stocks	100,955,178,594,883	73,352,039,183,649
4. Other receivables	2,175,345,846,628	1,988,856,664,396
(1) Accrued interest income	1,892,744,060,672	1,804,369,804,189
(2) Accrued other income	106,712,911,044	79,558,342,337
(3) Other accounts receivable	190,802,216,296	105,601,275,038
Allowance for other accounts receivable	(14,913,341,384)	(672,757,168)
5. Short-term loans	335,243,351,492	280,932,184,306
(1) Short-term loans	337,983,813,504	314,012,387,835
Allowance for bad debts	(2,704,819,329)	(33,080,203,529)
6. Other current assets	98,068,064,027	1,464,307,805
(1) Derivatives	60,853,409,188	1,137,397,891
(2) Prepaid income taxes	37,214,654,839	326,909,914
<b>II. Investments</b>	<b>711,781,677,283,850</b>	<b>616,549,995,204,740</b>
1. Long-term financial instruments	20,000,000,000	-
(1) Bank deposits	20,000,000,000	-
2. Long-term investment securities	707,275,277,901,725	611,615,548,988,088
(1) Debt securities	274,936,585,014,490	255,509,524,967,820
a. Government bonds	121,413,981,907,564	115,930,866,776,106
b. Public bonds	890,186,604,190	1,210,838,932,636
c. Municipal bonds	8,860,549,801,381	6,681,231,676,656
d. Special bonds	53,056,346,945,449	52,597,830,548,687
e. Financial bonds	20,681,744,181,295	20,630,841,662,539
f. Credit financial bonds	9,443,631,797,568	8,083,699,343,814

	2021	2020
<b>Assets</b>		
g. Corporate bonds	32,929,386,291,361	30,065,898,932,242
h. Foreign bonds	27,660,757,485,682	20,308,317,095,140
(2) Equity securities	432,338,692,887,235	356,106,024,020,268
a. Domestic discretionary contract assets	128,595,537,770,326	127,611,498,011,605
b. Foreign discretionary contract assets	191,102,749,122,833	143,097,098,462,921
c. Stocks	4,107,144,792,696	3,921,951,037,323
d. Equity investments	11,837,508,653,969	10,882,324,601,846
e. Beneficiary certificates	5,214,374,754,959	5,544,374,292,616
f. Foreign equity securities	91,481,377,792,452	65,048,777,613,957
3. Long-term loans	4,486,399,382,125	4,934,446,216,652
(1) Long-term loans	4,519,923,379,750	4,962,173,518,496
Allowance for bad debts	(33,523,997,625)	(27,727,301,844)
<b>III. Property, plant and equipment</b>	<b>17,534,856</b>	<b>20,291,663</b>
1. Fixtures, fittings and office equipment, gross	22,589,000	22,589,000
Accumulated depreciation	(5,054,144)	(2,297,337)
<b>IV. Other non-current assets</b>	<b>577,939,932,834</b>	<b>583,434,215,187</b>
1. General business accounting assets	384,801,518,145	410,468,484,064
2. Welfare business accounting assets	193,138,414,689	172,965,731,123
<b>Total assets</b>	<b>₩ 949,040,391,549,716</b>	<b>₩ 833,933,086,611,481</b>
<b>Liabilities</b>		
<b>I. Current liabilities</b>	<b>283,515,906,613</b>	<b>169,415,745,014</b>
1. Derivatives	47,917,939,531	115,694,355,715
2. Other accounts payable	230,205,555,631	47,865,944,274
3. Accrued expenses	4,542,880,351	3,409,204,846
4. Income received in advance	-	245,735,252
5. Withholdings	849,531,100	-
6. Other deposits received	-	2,200,504,927
<b>II. Other non-current liabilities</b>	<b>37,517,096,820</b>	<b>36,041,142,380</b>
1. Security deposits received from NPS	37,517,096,820	36,041,142,380
<b>Total liabilities</b>	<b>321,033,003,433</b>	<b>205,456,887,394</b>
<b>Net assets</b>		
<b>I. Basic net assets</b>	<b>335,261,900</b>	<b>335,261,900</b>
<b>II. Reserve and surplus</b>	<b>711,442,492,916,212</b>	<b>649,553,897,590,227</b>
1. Reserve for national pension benefits	426,618,608,609,846	402,215,181,885,076
2. Surplus	284,823,884,306,366	247,338,715,705,151
<b>III. Net asset adjustments</b>	<b>237,276,530,368,171</b>	<b>184,173,396,871,960</b>
1. Accumulated gain on investment securities valuation	237,329,667,804,138	184,246,666,876,708
2. Other changes in net assets	(53,137,435,967)	(73,270,004,748)
<b>Total net assets</b>	<b>948,719,358,546,283</b>	<b>833,727,629,724,087</b>
<b>Total liabilities and net assets</b>	<b>₩ 949,040,391,549,716</b>	<b>₩ 833,933,086,611,481</b>

## Statements of Financial Operation

For the years ended December 31, 2021 and 2020

(In Korean Won)

	2021	2020
<b>I. Net program cost</b>	<b>₩ 600,909,935,736</b>	<b>₩ 571,047,199,928</b>
1. Program(A): Pension Service		
(1) Gross cost	54,113,221,464,378	51,755,319,140,298
(2) Revenue	(53,550,314,839,689)	(51,226,384,937,281)
(3) Net program cost	562,906,624,689	528,934,203,017
2. Program(B): Buildings and Welfare		
(1) Gross cost	59,297,674,524	63,269,291,358
(2) Revenue	(21,294,363,477)	(21,156,294,447)
(3) Net program cost	38,003,311,047	42,112,996,911
<b>II. Management and operating expense</b>	<b>58,507,883,227</b>	<b>58,998,133,993</b>
1. Transfers for management and operating	58,507,883,227	58,998,133,993
<b>III. Non-allocated expenses</b>	<b>4,279,798,245,883</b>	<b>5,046,933,843,961</b>
1. Commission expense	19,151,935,204	15,085,605,895
2. Bad debt expense	22,763,909,389	2,792,901,409
3. Loss on valuations	48,014,184,746	117,368,097,272
(1) Loss on derivative valuation	47,917,939,531	115,694,355,715
(2) Loss on foreign currency translation	96,245,215	1,673,741,557
4. Loss on disposition of assets	2,238,833,180,468	2,799,057,091,524
(1) Loss on disposition of short-term investment securities	1,297,347,196,332	2,397,346,933,645
(2) Loss on disposition of long-term investment securities	941,485,984,136	401,710,157,879
5. Assets impairment loss	100,354,736,250	-
6. Taxes and dues	80,738,373,478	99,055,177
7. Depreciation expense	2,756,807	2,297,337
8. Other expenses	1,769,939,169,541	2,112,528,795,347
(1) Loss on foreign currency transactions	1,029,848,832,868	775,239,756,688
(2) Loss on derivative transactions	643,070,082,804	1,251,530,579,037
(3) Miscellaneous	97,020,253,869	85,758,459,622
<b>IV. Non-allocated revenues</b>	<b>42,414,185,666,061</b>	<b>22,680,335,738,085</b>
1. Interest income	6,797,801,315,911	6,915,570,339,677
(1) Interest income on financial instruments	215,906,706,880	230,899,020,968
(2) Interest income on bonds	6,170,104,650,567	6,284,274,793,877
(3) Interest income on loans	411,789,958,464	400,396,524,832
2. Gain on valuations	62,670,441,822	1,153,103,663
(1) Gain on derivative valuation	60,853,409,188	1,137,397,891
(2) Gain on foreign currency translation	1,817,032,634	15,705,772
3. Gain on disposition of assets	25,830,788,334,245	8,769,572,899,257
(1) Gain on disposition of short-term investment securities	14,239,994,456,425	4,209,353,999,248
(2) Gain on disposition of long-term investment securities	11,590,793,877,820	4,560,218,900,009
4. Other income	9,722,925,574,083	6,994,039,395,488
(1) Dividend income	6,990,410,541,801	5,470,167,390,571
(2) Gain on foreign currency transactions	951,431,327,308	842,234,144,409

	2021	2020
(3) Gain on derivative transactions	1,623,188,978,381	597,778,225,996
(4) Reversal of allowance for doubtful accounts	33,063,333,107	2,912,182,415
(5) Reversal of impairment loss on assets	33,333,334,400	16,666,667,200
(6) Miscellaneous income	91,498,059,086	64,280,784,897
<b>V. Net operating cost</b>	<b>(37,474,969,601,215)</b>	<b>(17,003,356,560,203)</b>
<b>VI. Non-exchange revenue</b>	<b>10,199,000,000</b>	<b>10,177,000,000</b>
1. Other financing and transfers	10,199,000,000	10,177,000,000
<b>VII. Net operating results</b>	<b>₩ (37,485,168,601,215)</b>	<b>₩ (17,013,533,560,203)</b>

## Statements of Changes in Net Assets

For the years ended December 31, 2021 and 2020

(In Korean Won)

	Basic Net Assets	Reserve and Surplus	Net asset Adjustments	Total Net Assets
<b>Prior Year</b>				
<b>I. Net assets at January 1, 2020</b>	<b>₩ 335,261,900</b>	<b>₩ 606,977,283,159,124</b>	<b>₩ 129,676,225,672,788</b>	<b>₩ 736,653,844,093,812</b>
1. Reported amount	335,261,900	606,977,283,159,124	129,676,225,672,788	736,653,844,093,812
<b>II. Operating results</b>	-	<b>(17,013,533,560,203)</b>	-	<b>(17,013,533,560,203)</b>
<b>III. Adjustments</b>	-	<b>25,563,080,870,900</b>	<b>54,497,171,199,172</b>	<b>80,060,252,070,072</b>
1. Gain on investment securities valuation	-	-	54,512,256,244,514	54,512,256,244,514
2. Other increase in net assets	-	25,563,080,870,900	(15,085,045,342)	25,547,995,825,558
<b>IV. Net assets at December 31, 2020</b>	<b>₩ 335,261,900</b>	<b>₩ 649,553,897,590,227</b>	<b>₩ 184,173,396,871,960</b>	<b>₩ 833,727,629,724,087</b>
<b>Current Year</b>				
<b>I. Net assets at January 1, 2021</b>	<b>₩ 335,261,900</b>	<b>₩ 649,553,897,590,227</b>	<b>₩ 184,173,396,871,960</b>	<b>₩ 833,727,629,724,087</b>
1. Reported amount	335,261,900	649,553,897,590,227	184,173,396,871,960	833,727,629,724,087
<b>II. Operating results</b>	-	<b>(37,485,168,601,215)</b>	-	<b>(37,485,168,601,215)</b>
<b>III. Adjustments</b>	-	<b>24,403,426,724,770</b>	<b>53,103,133,496,211</b>	<b>77,506,560,220,981</b>
1. Gain on investment securities valuation	-	-	53,083,000,927,430	53,083,000,927,430
2. Other increase in net assets	-	24,403,426,724,770	20,132,568,781	24,423,559,293,551
<b>IV. Net assets at December 31, 2021</b>	<b>₩ 335,261,900</b>	<b>₩ 711,442,492,916,212</b>	<b>₩ 237,276,530,368,171</b>	<b>₩ 948,719,358,546,283</b>

## 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, 2021, the total billed pension contributions were KRW 688,788,335 million. Of this contributions, KRW 681,173,854 million was collected and KRW 7,614,481 million (1.1%) was not collected as of December 31, 2021. The uncollected amount was not recognized as revenue. The accumulated billed pension contributions for workplace based insured persons are KRW 589,410,935 million and the accumulated uncollected amount is KRW 2,371,899 million (0.4%). The accumulated billed pension contributions for individually regional based insured persons are KRW 99,377,400 million and the accumulated uncollected amount is KRW 5,242,582 million (5.3%).

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) Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Items of property, plant and equipment are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses. Property, plant and equipment are depreciated on a straight-line basis over estimated useful lives. The estimated useful lives of the NPF's property, plant and equipment are as follows:

	Estimated useful lives
Fixtures, fittings and office equipment	8, 11 years

**(10) 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 1,185.5 to USD 1.00 on December 31, 2021, as announced by Seoul Money Brokerage Service.

**(11) 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. Key Statistics**

(KRW 100 million, person)

	2017	2018	2019	2020	2021
<b>Total Fund (market value)</b>	<b>6,216,422</b>	<b>6,387,811</b>	<b>7,366,538</b>	<b>8,337,276</b>	<b>9,487,194</b>
<b>Financial Assets</b>	<b>6,210,182</b>	<b>6,382,168</b>	<b>7,360,790</b>	<b>8,331,384</b>	<b>9,481,060</b>
Domestic Equity	1,315,200	1,089,138	1,322,609	1,766,957	1,658,077
Domestic Fixed Income	2,894,009	3,109,927	3,207,512	3,260,993	3,399,907
Overseas Equity	1,082,794	1,129,610	1,665,277	1,927,517	2,566,248
Overseas Fixed Income	232,740	265,874	304,622	448,827	638,963
Alternatives	668,173	766,195	842,952	906,596	1,193,054
Short-term Assets	17,273	21,426	17,819	20,493	24,811
<b>Welfare Sector</b>	<b>1,433</b>	<b>1,446</b>	<b>1,663</b>	<b>1,800</b>	<b>2,005</b>
<b>Others</b>	<b>4,806</b>	<b>4,196</b>	<b>4,085</b>	<b>4,092</b>	<b>4,128</b>

	2017	2018	2019	2020	2021
<b>Total Fund (book value)</b>	<b>5,271,788</b>	<b>5,655,446</b>	<b>6,063,088</b>	<b>6,493,363</b>	<b>7,110,127</b>
<b>Revenues</b>	<b>6,907,927</b>	<b>7,505,543</b>	<b>8,147,514</b>	<b>8,841,382</b>	<b>9,756,896</b>
Contributions	4,842,429	5,286,164	5,764,165	6,276,336	6,811,739
Investment Income	2,058,573	2,212,350	2,376,172	2,557,805	2,937,800
Government Subsidies, etc.	6,925	7,029	7,177	7,241	7,357
<b>Expenses</b>	<b>1,636,139</b>	<b>1,850,097</b>	<b>2,084,426</b>	<b>2,348,019</b>	<b>2,646,770</b>
Pension Benefits	1,562,474	1,770,000	1,997,644	2,254,185	2,545,552
General & Administrative Expenses	73,665	80,097	86,782	93,834	101,217

	2017	2018	2019	2020	2021
<b>Pension Contributors</b>	<b>21,824,172</b>	<b>22,313,869</b>	<b>22,216,229</b>	<b>22,107,028</b>	<b>22,347,586</b>
Workplace-based Insured	13,459,240	13,817,963	14,157,574	14,320,025	14,580,825
Individually Insured	7,691,917	7,694,885	7,232,063	6,898,118	6,827,009
Voluntarily Insured, etc.	673,015	801,021	826,592	888,885	939,752
<b>Beneficiaries</b>	<b>4,692,847</b>	<b>4,769,288</b>	<b>5,163,110</b>	<b>5,588,154</b>	<b>6,070,124</b>
Old-Age Pension	3,706,516	3,778,824	4,090,497	4,468,126	4,894,452
Disability Pension	75,486	75,734	77,872	78,079	77,726
Survivor Pension	693,141	724,132	792,774	841,817	892,195
Lump-sum Allowance	217,704	172,598	201,967	200,132	205,751

### 3. FMC Meetings

Session (Date)	No.	Proposal	Result
1 <sup>st</sup> (Jan. 29)	1	Revision in Tactical Currency Composition Adjustment Limit (Proposal)	Resolved
	2	Revision in 2021 Fund Management Plan (Proposal)	
	3	Summary of Minutes of 2020 10th FMC Meeting (Proposal)	Reported
	4	Report of 2021 Target Active Risk Allocation Result per Asset Class	
	5	National Pension Fund Status as of Nov. 30, 2020 (Preliminary Estimate)	
	6	2021 FMC Operation Plan (Proposal)	
2 <sup>nd</sup> (Feb. 24)	1	2020 National Pension Fund Settlement (Proposal)	Resolved
	2	Summary of Minutes of 2021 1st FMC Meeting (Proposal)	Reported
	3	Actions Taken and Ways Forward for the Plan to Facilitate Responsible Investment (Proposal)	
	4	Review Result on Proposed Agenda by FMC Members	
	5	National Pension Fund Status as of Dec. 31, 2020 (Preliminary Estimate)	
3 <sup>rd</sup> (Mar. 26)	1	Review of Fund Target Weight Retention Strategy (Re-balancing) (Proposal) (Confidential)	Rediscussed
	2	Summary of Minutes of 2021 2nd FMC Meeting (Proposal)	Reported
	3	Ways to Improve Asset Allocation (Confidential)	
	4	National Pension Fund Management Special Committee Operation Plan (Proposal)	
	5	Report of Operation Status of Special Committee on Responsible Investment & Governance (Proposal)	
	6	National Pension Fund Status as of Jan. 31, 2021 (Preliminary Estimate)	
4 <sup>th</sup> (Apr. 9)	1	Review of Fund Target Weight Retention Strategy (Re-balancing) (Proposal) (Confidential)	Resolved
	2	Amendments to the Guideline for National Pension Fund Management (Proposal)	2 <sup>nd</sup> proposal Resolved
5 <sup>th</sup> (Apr. 30)	1	Ways to Facilitate the Operation of the Alternative Investment Sub-Committee	Resolved
	2	Ways to Adopt Negative Screening in Response to Climate Change (Confidential)	Rediscussed
	3	Summary of Minutes of 2021 3rd FMC Meeting (Proposal)	Reported
	4	Summary of Minutes of 2021 4th FMC Meeting (Proposal)	
	5	Interim Report of Mid-term Asset Allocation Plan Status (2022~2026) (Confidential)	
	6	National Pension Fund Status as of Feb. 28, 2020 (Preliminary Estimate)	
6 <sup>th</sup> (May 28)	1	Ways to Adopt Negative Screening (Proposal)	Amended Proposal Resolved
	2	Mid-term Asset Allocation Plan (2022~2026) (Proposal) (Confidential)	Resolved

Session (Date)	No.	Proposal	Result
6 <sup>th</sup> (May 28)	3	2022 Fund Management Plan (Proposal)	1 <sup>st</sup> proposal Resolved
	4	Summary of Minutes of 2021 5th FMC Meeting (Proposal)	Reported
	5	National Pension Fund Status at Mar. 31, 2021 (Preliminary Estimate)	
7 <sup>th</sup> (Jul. 2)	1	2020 Fund Management Performance Assessment (Proposal)	Resolved
	2	2020 NPSIM Performance-based Incentive (Proposal)	
	3	Revision in 2021 Fund Management Plan (Proposal)	
	4	Summary of Minutes of 2021 6th FMC Meeting (Proposal)	
	5	National Pension Fund Status as of Apr. 30, 2021 (Preliminary Estimate)	
8 <sup>th</sup> (Aug. 25)	1	Adjustments of Range of Externally Managed Overseas Fixed Income (Proposal)	Resolved
	2	Summary of Minutes of 2021 7th FMC Meeting (Proposal)	Reported
	3	Guide to the Composition and Operation of Boards of Directors	
	4	National Pension Fund Status as of Jun. 30, 2021 (Preliminary Estimate)	
9 <sup>th</sup> (Dec. 3)	1	Revision in 2021 Fund Management Plan (Proposal)	Resolved
	2	Summary of Minutes of 2021 8th FMC Meeting (Proposal)	Reported
	3	Ways to Improve Asset Allocation System (Confidential)	
	4	Status of Commissioned Research on Preparation for Range and Standards of Coal Mining and Coal-fired Power Industries	
	5	Guideline for Responsible Investment on Composition and Operation of Boards of Directors	
	6	2020 FMC Activity Report	
	7	National Pension Fund Status as of Sept. 30, 2021 (Preliminary Estimate)	
10 <sup>th</sup> (Dec. 24)	1	2022 Target Excess Return (Proposal)	
	2	Amendments to Guideline for Responsible Investment & Governance (Proposal)	Rediscussed
	3	Summary of Minutes of 2021 9th FMC Meeting (Proposal)	Reported
	4	National Pension Fund Status as of Oct. 31, 2021 (preliminary estimate)	

2021 NPF Annual Report

Attachment



# 2021 Responsible Investment & Governance Report



# 1. Responsible Investment

## 1-1 What is Responsible Investment?

National Pension Service (NPS) conducts responsible investment (RI) in line with its RI strategies in order to achieve long-term and stable returns. At NPS, responsible investment is categorized in two ways: ESG Incorporation and Active Ownership. ESG incorporation is a way to consider environmental, social and governance (ESG) factors in investment decision-making, and Active Ownership is involved in voting and constructive dialogues to improve ESG-related risk management and enhance enterprise value.

ESG Incorporation is conducted in three approaches: ESG Integration, Screening and Thematic. ESG Integration considers both financial factors and non-financial factors, including ESG; Screening uses filters to determine which companies, sectors or industries are eligible or ineligible to be included in a portfolio; Thematic approach seeks to achieve risk-adjusted return and ESG outcomes all together. Active Ownership includes the exercise of voting rights at shareholder meetings and shareholder engagement including dialogues and shareholder proposals.

NPS Responsible Investment Scheme			
PRI	Definition	Adoption on Status	Remarks
<b>1. ESG Incorporation</b>			
① ESG Integration	• Consider financial factors and non-financial factors, including ESG, in decision-making	Adopted	• ESG rating is considered for internally managed equity and fixed income (corporate bond)
② Screening	• Include (positive screening) or exclude (negative screening) certain industries which are considered positive or negative from an ESG perspective	To be adopted	• An action plan on negative screening is under development in line with the FMC's announcement of a coal phase-out
③ Thematic	• Pursue risk-adjusted returns and ESG outcomes all together	Not yet	-
<b>2. Active Ownership</b>			
④ Voting	• Exercise a voting rights at shareholder meetings	Adopted	• NPS votes on domestic and overseas equity
⑤ Engagement	<ul style="list-style-type: none"> <li>• Shareholder engagement (non-participatory management): Dialogue with companies (confidential dialogue, confidential/public focus list)</li> <li>• Shareholder engagement (participatory management): shareholder proposal, etc. (after publicly disclosing focus list)</li> <li>• Litigation: Shareholder derivative suit, damage claim suit, etc.</li> </ul>	Adopted	• Dialogues are conducted with companies in relation to focus areas and unexpected concerns in domestic equity portfolio

## 1-2 Legal Basis

The legal grounds for responsible investment (RI) to incorporate environmental, social and governance (ESG) factors into investment decision-making have been put in place since January 2015 through amendments to the National Pension Act. In line with this, a new provision on the implementation of RI was added to the Guideline for National Pension Fund Management in April 2016. NPS's stewardship code, Responsible Investment & Governance Principles and related guidelines were amended and enacted in July 2018 to form a legal basis for the exercise of shareholder rights. In December 2019, a Guideline for Active Ownership was enacted as detailed implementation measures to exercise shareholder rights in a broader manner. In November 2019, a Plan to Facilitate Responsible Investment was formulated to add a new principle of Sustainability to the existing five investment principles – Profitability, Stability, Public Benefit, Liquidity and Independence.

### Legal Basis for Responsible Investment

#### National Pension Act

##### Article 102 (Management and Operation of Fund)

(4) Where the Minister of Health and Welfare manages and operates the Fund pursuant to paragraph (2) 3, he/she may take into account environmental, social, and governance factors related to investment targets, to achieve a long-term and stable revenue.

#### Guideline for National Pension Fund Management

##### Article 4 (Investment Principles)

5. Sustainability: To fulfill its fiduciary duty, particularly in consideration of environmental, social and governance (ESG) factors, to enhance the sustainability of assets under managements

### 1-3 Responsible Investment Policies

National Pension Service (NPS) conducts responsible investment in the best interests of contributors and beneficiaries of the National Pension Plan with the objective of achieving stable growth of the National Pension Fund. To this end, NPS has adopted Responsible Investment Principles (RI Principles) and Responsible Investment & Governance Principles, or Stewardship Code; has considered non-financial factors, such as environmental, social and governance (ESG) factors, in accordance with standards, methods and procedures set out in the Guideline for Responsible Investment & Governance when managing and investing the Fund; has exercised shareholder rights to pursue independence and transparency.

#### Responsible Investment Policies

##### Guideline for National Pension Fund Management

###### Article 17 (Responsible Investment)

(1) Where the Fund is administered and managed by means of the trading and lending of securities, environmental, social and governance (ESG) aspects may be taken into consideration in investment decisions, in order to deliver long-term stable returns. The principles of responsible investment shall be prescribed in Attached Table 4.

###### Article 17-2 (Principles on Responsible Investment & Governance)

In a bid to enhance transparency and independence of stewardship activities and improve long-term returns, NPS shall refer to the Korea Stewardship Code, 'Principles on the Stewardship Responsibilities of Institutional Investors,' and implement stewardship activities according to the Responsible Investment & Governance Principles approved by the National Pension Fund Management Committee.

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

Responsible investment and exercise of shareholder rights shall be undertaken,

- (1) With the objective of increasing assets under management;
- (2) In good faith in the best interests of the contributors and beneficiaries of the National Pension Plan;
- (3) In a direction that contributes to increasing shareholder value over the long run;
- (4) In compliance with standards, process and methods as stipulated in the Guideline for Responsible Investment & Governance approved by the FMC.

##### Responsible Investment Principles

- (1) Achieve long-term and stable returns
- (2) Implement RI according to the Guideline for Responsible Investment & Governance
- (3) Implement RI on equity and fixed income assets
- (4) Incorporate non-financial factors, including environmental, social and governance (ESG) into investment decision-making
- (5) Conduct shareholder engagement with investee companies
- (6) Consider RI when selecting and assessing external managers
- (7) Encourage investee companies to publicly disclose ESG-related information
- (8) Enhance capabilities and expertise in RI
- (9) Regularly report RI activities

##### Responsible Investment & Governance Principles or Stewardship Code

- (1) Formulate and publicly disclose Stewardship Activities Policy
- (2) Formulate and publicly disclose Conflict of Interest Prevention Policy
- (3) Regularly monitor investee companies
- (4) Formulate a guideline for stewardship activities and conduct shareholder engagement
- (5) Formulate and publicly disclose Voting Right Policy, and publicly disclose voting results and reasons for each vote
- (6) Regularly report stewardship activities
- (7) Enhance capabilities and expertise in effective implementation of stewardship activities

##### Guideline for Responsible Investment & Governance

**PART 1 (General Provisions):** Objective, Scope, Basic Principles, Details of Stewardship Activities, Key Decision Makers

**PART 2 (Responsible Investment):** Targets, Non-financial Factors (ESG), Incorporation Methods

**PART 3 (Exercise of Shareholder Rights)**

- Voting (Targets, Basic Principles, Detailed Standards, etc.)
- Stewardship Activities on Focus Areas (Confidential Dialogue, Confidential/Public Focus List, Open Letter, Shareholder Proposal, etc.)
- Stewardship Activities on Unexpected Concerns (Targets, Compliance Standards)

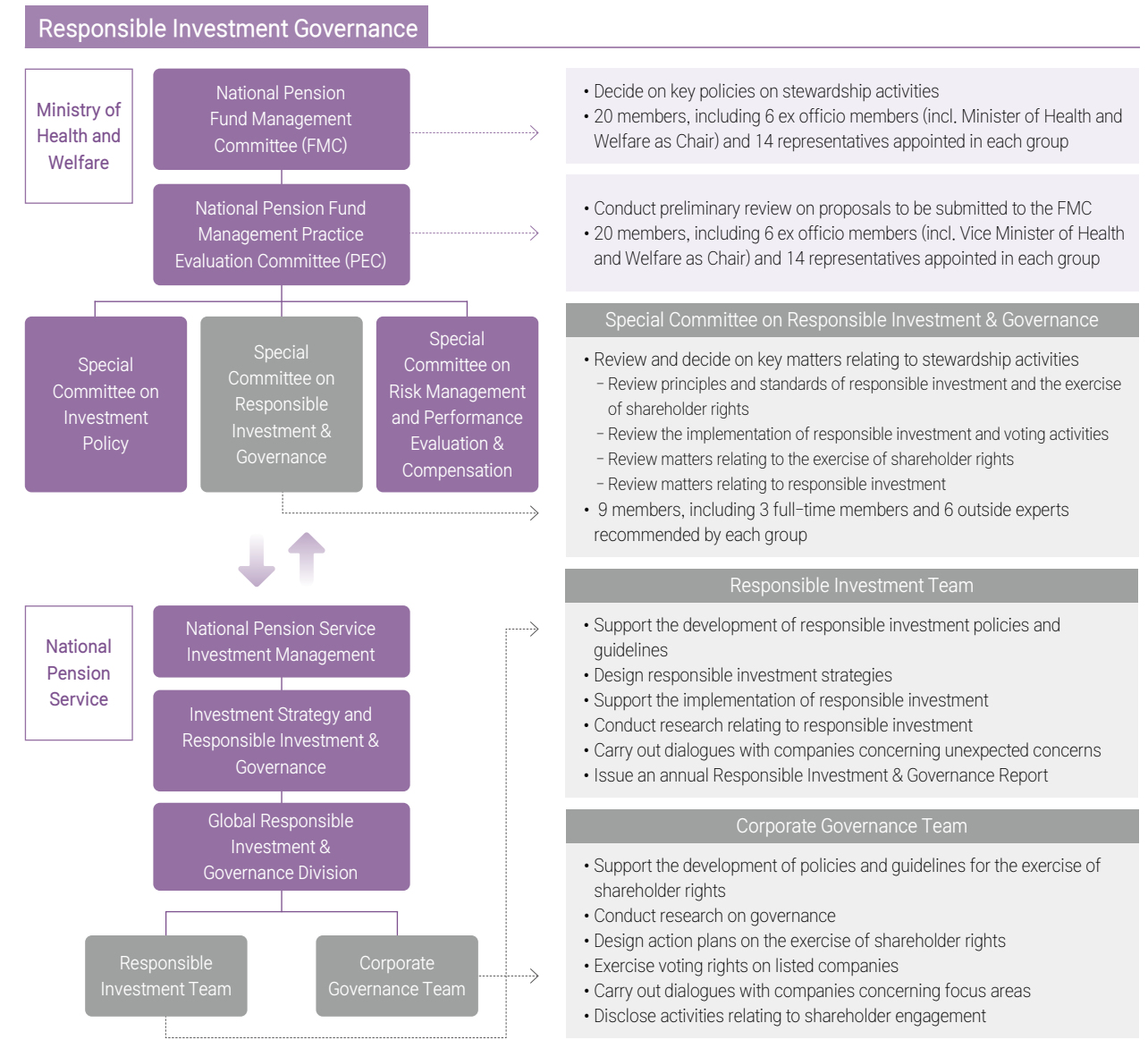
**PART 4 (Disclosure and Reporting, etc):** Notification and Announcement, Disclosure and Reporting, Stewardship Activities Report, Internal Control, Capacity Building, etc.

Attached Tables: Detailed Voting Criteria for Domestic and Overseas Equity Portfolio, Disclosure Forms for Voting Results, Selection Criteria for Focus Areas

### 1-4 Responsible Investment Governance

National Pension Service (NPS) conducts responsible investment in accordance with policies approved by the National Pension Fund Management Committee (FMC), the highest decision-making body. The Special Committee on Responsible Investment & Governance, consisting of full-time expert advisors and external experts, supports the FMC in decision-making on responsible investment activities, as well as reviews and decides on key matters concerning ESG incorporation and exercise of shareholder rights.

At NPS, the Global Responsible Investment & Governance Division is in charge of the implementation of responsible investment. The division, comprised of 17 members as of the end of 2021, has two teams: Responsible Investment Team and Corporate Governance Team. The Responsible Investment Team supports the development of responsible investment policies and guidelines; maps out responsible investment strategies and action plans that help fund managers consider ESG integration in investment decision-making; conducts research, including ESG evaluation and ESG controversial issues monitoring; and carries out ESG-related shareholder engagement. Meanwhile, the Corporate Governance Team supports the development of policies and guidelines for the exercise of shareholder rights; formulates action plans; conducts research on governance; exercises voting rights on listed companies; carries out dialogues with companies concerning focus areas.



### FMC Meetings on Responsible Investment in 2021

No	Date	Agenda
2	Feb. 24	Actions Taken and Ways Forward for the Plan to Facilitate Responsible Investment (Proposal)
3	Mar. 26	Report of Operation Status of Special Committee on Responsible Investment & Governance (Proposal)
5	Apr. 30	(Rediscussed) Ways to Adopt Negative Screening in Response to Climate Change (Confidential)
6	May 28	Ways to Adopt Negative Screening (Proposal)
8	Aug. 25	Guide to the Composition and Operation of Boards of Directors
9	Dec. 3	Status of Commissioned Research in Preparation for Range and Standards of Coal Mining and Coal-fired Power Industries
		Guideline for Responsible Investment on Composition and Operation of Boards of Directors
10	Dec. 24	(Rediscussed) Amendments to Guideline for Responsible Investment & Governance (Proposal)

### Meetings of Special Committee on Responsible Investment & Governance in 2021

No	Date	Agenda
1	Jan. 5	Voting Direction on Agendas at Extraordinary Meeting of Shareholders of Korean Air
2	Jan. 21	Selection of Companies Subject to Confidential Dialogues on Unexpected Concerns (Proposal)
		Selection of Companies Subject to Materiality Assessment on Unexpected Concerns (Proposal)
		Report on the Result of a Periodic ESG Evaluation in the Second Half of 2020
		Report on Voting Standards for Excess Dividends
		Report on Voting Cases for Overseas Equity
3	Feb. 5	Actions Taken and Ways Forward for the Plan to Facilitate Responsible Investment
		Review of Proposals by Members of FMC on Shareholder Proposal for Appointment of Outside Directors of a Company NPS Invests in (Proposal)
4	Feb. 9	Report on Voting Cases for Overseas Equity
		Selection of Multiple Advisory Agencies on Exercise of Voting Rights (Proposal)
5	Feb. 16	Review of Proposals by Members of FMC on Shareholder Proposal for Appointment of Outside Directors of a Company NPS Invests in (Proposal)
		Review of Proposals by Members of FMC on Shareholder Proposal for Appointment of Outside Directors of a Company NPS Invests in (Proposal)
6	Feb. 19	Selection of Companies Subject to Confidential Dialogues List on Unexpected Concerns (Proposal)
		Selection of Companies Subject to Materiality Assessment on Unexpected Concerns (Proposal)
		Selection of Companies Subject to Materiality Re-Assessment on Unexpected Concerns (Proposal)
		Review on Voting of Full-time Auditors
		Report on Emergency Plan for General Meeting in March (Proposal)
7	Mar. 9	Report on Revised Emergency Plan for General Meeting in March (Proposal)
		Plans for Confidential Dialogues on Unexpected Concerns (Proposal)
		Voting Direction on Agendas at General Meeting of Shareholders of POSCO (Proposal)
		Selection of Companies Subject to Confidential Dialogues on Concerns over Violation of Rules and Regulations (Proposal)
		Inspection of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Dividend Policies (Proposal)
8	Mar. 16	Inspection of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Repetitive Vote Against (Proposal)
		Inspection of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Remuneration Cap for Directors (Proposal)
		Inspection of Improvement Status of Companies in Confidential Focus List and Selection of Public Focus List on Remuneration Cap for Directors (Proposal)
		Inspection of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Repetitive Vote Against (Proposal)
		Inspection of Improvement Status of Companies in Confidential Focus List and Selection of Public Focus List on Repetitive Vote Against (Proposal)
8	Mar. 16	Voting Direction on Agendas at General Meeting of Shareholders of Samsung C&T (Proposal)
		Voting Direction on Agendas at General Meeting of Shareholders of Hite Jinro (Proposal)
		Voting Direction on Agendas at General Meeting of Shareholders of Mando (Proposal)
		Agendas Requested by Three Members of the Special Committee to be referred to the Special Committee
		Report on Details in Stewardship Activities and the Results of Regular Review on Proxy Voting

No	Date	Agenda
9	Mar. 18	Voting Direction on Agendas at General Meeting of Shareholders of Hyosung Holdings (Proposal)
		Voting Direction on Agendas at General Meeting of Shareholders of OCI (Proposal)
		Voting Direction on Agendas at General Meeting of Shareholders of KT&G (Proposal)
10	Mar. 23	Inspection of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Remuneration Cap for Directors (Proposal)
		Voting Direction on Agendas at General Meeting of Shareholders of Woori Financial Group (Proposal)
		Voting Direction on Agendas at General Meeting of Shareholders of Shinhan Financial Group (Proposal)
		Voting Direction on Agendas at General Meeting of Shareholders of KB Financial Group (Proposal)
		Voting Direction on Agendas at General Meeting of Shareholders of NH Investment & Securities (Proposal)
		Voting Direction on Agendas at General Meeting of Shareholders of Hanjin KAL (Proposal)
		Voting Direction on Agendas at General Meeting of Shareholders of Korean Air (Proposal)
		Voting Direction on Agendas at General Meeting of Shareholders of CJ Logistics (Proposal)
		Voting Direction on Agendas at General Meeting of Shareholders of Hanjin (Proposal)
		Voting Direction on Agendas at General Meeting of Shareholders of Kumho Petrochemical (Proposal)
11	Mar. 26	Voting Direction on Agendas at General Meeting of Shareholders of SK Hynix (Proposal)
		Voting Direction on Agendas at General Meeting of Shareholders of Hankook & Company (Proposal)
		Voting Direction on Agendas at General Meeting of Shareholders of Hankook Tire & Technology (Proposal)
		Plans for Confidential Dialogues on Unexpected Concerns (Proposal)
12	Apr. 21	Inspection of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Dividend Policies (Proposal)
		Ways to Adopt Negative Screening in Response to Climate Change
13	May 18	Process to Request for Discussion on Voting Agendas for Domestic Equity (Proposal)
		Selection of Companies Subject to Confidential Dialogues on Concerns over Violation of Rules and Regulations (Proposal)
		Selection of Companies Subject to Confidential Dialogues on Unexpected Concerns (Proposal)
		Selection of Companies Subject to Materiality Assessment on Unexpected Concerns (Proposal)
		Ways to Adopt Negative Screening in Response to Climate Change (Confidential)
14	Jun. 17	Report on Progress of Selection of Multiple Advisory Agencies on Exercise of Voting Rights
		Upgrade of ESG Evaluation System for Domestic Equity (Proposal)
		Inspection of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Dividend Policies (Proposal)
		Standard on Derivative Suit for Domestic Equity (Proposal)
		Enhancement of Standard on Materiality Assessment on Unexpected Concerns (Proposal)
15	Jul. 23	Report on Voting Cases for Domestic Equity
		Report on National Pension Fund Responsible Investment & Governance Report (Proposal)
		Amendments to Guideline for ESG Integration Strategies (Proposal)
		Report on Details in Stewardship Activities and the Results of Regular Review on Proxy Voting
		Decision on Cases Subject to Derivative Suit for Domestic Equity (Proposal)
16	Sept. 14	Inspection of Improvement Status of Companies Subject to Confidential Dialogues on Concerns over Violation of Rules and Regulations (Proposal)
		Inspection of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List concerning Dividend Policies (Proposal)
		Inspection of Improvement Status of Companies Subject to Confidential Dialogues on Dividend Policies (Proposal)
		Inspection of Improvement Status of Companies Subject to Confidential Dialogues on Remuneration Cap for Directors (Proposal)
		Inspection of Improvement Status of Companies Subject to Confidential Dialogues on Repetitive Vote Against (Proposal)
16	Sept. 14	Re-report on Enhancement of Standard on Materiality Assessment on Unexpected Concerns (Proposal)
		Ways to Select Focus Areas Relating to Environmental and Social Aspects
		Selection of Companies Subject to Confidential Dialogues on Concerns over Violation of Rules and Regulations (Proposal)
		Voting Direction on Agendas at Extraordinary Meeting of Shareholders of SK Innovation (Proposal)
		Interim Report on Confidential Dialogue on Unexpected Concerns
16	Sept. 14	Report on Details in Stewardship Activities and the Results of Regular Review on Proxy Voting

### Milestones of Stewardship Activities

No	Date	Agenda
17	Oct. 8	Selection of Focus Areas Relating to Environmental and Social Aspects (Proposal)
		Emergency Measures Relating to Exercise of Voting Rights (Proposal)
		Amendments to Guideline for Responsible Investment & Governance (Proposal)
		Report on Voting Cases for Overseas Equity
18	Oct. 26	Report on the Result of Periodic ESG Evaluation for Domestic Equity and Fixed Income for the First Half of 2021
		Voting Direction on Agendas at Extraordinary Meeting of Shareholders of SK Materials (Proposal)
		Amendments to Guideline for Responsible Investment & Governance (Proposal) [Re-deliberation]
19	Nov. 5	Selection of Companies Subject to Materiality Assessment on Unexpected Concerns (Proposal)
		Selection of Companies Subject to Confidential Dialogue on Unexpected Concerns (Proposal)
		Inspection of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on ESG Rating Downgrade (Proposal)
		Inspection of Improvement Status of Companies Subject to Confidential Dialogues on Concerns over Violation of Rules and Regulations (Proposal)
		Inspection of Improvement Status of Companies in Confidential Focus List and Selection of Public Focus List on Dividend Policies (Proposal)
20	Nov. 25	Selection of Companies Subject to Confidential Dialogues on ESG Rating Downgrade (Proposal)
		Inspection of Improvement Status of Companies Subject to Confidential Dialogues on Concerns over Violation of Rules and Regulations
		Selection of Case Candidates Subject to Derivative Suit (Proposal)
		Report on Details in Stewardship Activities and the Results of Regular Review on Proxy Voting
		Status of Commissioned Research in Preparation for Range and Standard on Coal Mining and Coal-fired Power Industries (Appendix)
		Guideline for Responsible Investment on Composition and Operation of Boards of Directors (Reference)
21	Dec. 7	Amendments to Guideline for Stewardship Activities for Domestic Equity (Proposal)
		Amendments to Guideline for ESG Integration Strategies (Proposal)
		Report on the Development of Ways to Implement ESG Integration Strategies and Stewardship Activities for Overseas Securities
22	Dec. 17	Inspection of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Dividend Policies (Proposal)
		Inspection of Improvement Status of Companies Subject to Confidential Dialogues on Concerns over Violation of Rules and Regulations
		Re-Selection of Case Candidates Subject to Derivative Suit (Proposal)
		Improvement of Score Reduction Methods for ESG Controversial Issues (Proposal)

Sept. 2006	Launched externally managed domestic RI funds
Jun. 2009	Joined the Principles for Responsible Investment (PRI)
Dec. 2009	Added a provision on Responsible Investment to Voting Guideline
Mar. 2013	Created Responsible Investment Team under the Investment Strategy Division
Jun. 2015	Formulated ways to promote dialogues with companies on dividend policy for domestic equity
Nov. 2015	Adopted new benchmark for externally managed domestic RI funds Established an ESG Evaluation System for domestic equity
Apr. 2016	Added a provision on Responsible Investment to Guideline for National Pension Fund Management (Investment Policy Statement)
Dec. 2016	Established an ESG Information Sharing Platform for domestic equity
Jul. 2017	Developed an ESG Controversial Issues Evaluation System for domestic equity
Sept. 2017	Applied ESG Integration to internally managed domestic equity
Jul. 2018	Adopted Responsible Investment & Governance Principles (Stewardship Code) Amended Voting Guideline to enact a Guideline for Responsible Investment & Governance
Jan. 2019	Expanded and reformed Responsible Investment Team into Global Responsible Investment & Governance Division (consisting of Responsible Investment Team and Corporate Governance Team) Developed a Guideline for Stewardship Activities for Domestic Equity
Feb. 2019	Decided on the disclosure scope of voting direction prior to shareholder meetings
Sept. 2019	Joined the International Corporate Governance Network (ICGN) Joined the Asian Corporate Governance Association (ACGA)
Nov. 2019	Established a Plan to Facilitate Responsible Investment and adopted RI Principles Added a new principle of Sustainability to investment principles set out in the Guideline for National Pension Fund Management Developed a Guideline for Proxy Voting Practices of External Managers Formulated ways to grant additive scores to companies with Stewardship Code in place when selecting and assessing external managers
Dec. 2019	Formulated a Guideline for Active Ownership for Domestic Equity
Jul. 2020	Issued an annual Responsible Investment & Governance Report Amended the Guideline for Stewardship Activities for Domestic Equity
Sept. 2020	Developed ways to improve materiality assessment procedures and standards on unexpected concerns
Nov. 2020	Developed a Guideline for ESG Integration Strategies for Domestic Equity Joined the Asia Investor Group on Climate Change (AIGCC)
May 2021	Adopted Negative Screening
Jun. 2021	Formulated a Guideline for ESG Integration Strategies for Internally Managed Internally Managed Domestic Fixed Income
Dec. 2021	Issued a Guideline for Responsible Investment on Composition and Operation of Boards of Directors Formulated ways to consider RI factors when selecting and monitoring external managers in domestic and overseas equity and fixed income

#### 1-5 Stewardship Activities Milestones

National Pension Service (NPS) began responsible investment (RI) with externally managed domestic RI funds in September 2006. Since then, NPS has been committed to taking part in a range of RI activities. In June 2009, NPS joined the Principles for Responsible Investment (PRI). In March 2013, Responsible Investment Team was created under the Investment Strategy Division to bring together all the voting rights that had been exercised separately by domestic and overseas equity investment teams, thereby paving the road towards adopting stewardship activities. In 2015, ways to promote dialogues with domestic listed companies on dividend policies were developed. In November of the same year, an ESG Evaluation System for Domestic Equity was established. In 2016, an ESG Information Sharing Platform was built to provide ESG-related information to portfolio managers so that ESG aspects can be integrated into an investment decision-making process.

In July 2018, Responsible Investment & Governance Principles, or Stewardship Code, was adopted. In January 2019, Responsible Investment Team was expanded and reformed into the Global Responsible Investment & Governance Division, consisting of Responsible Investment Team and Corporate Governance Team. In November 2019, a Plan to Facilitate Responsible Investment was formulated to lay the foundation for applying RI activities to more assets in the portfolio. In December 2019, a Guideline for Active Ownership for Domestic Equity was developed to expand the scope of shareholder engagement. In July 2020, an annual Responsible Investment & Governance Report was issued to disclose stewardship activities in a transparent manner. In November 2020, a Guideline for ESG Integration Strategies for Domestic Equity was devised to apply enhanced and expanded ESG Integration Strategies to the internally managed domestic equity portfolio. In May 2021, negative screening was adopted in line with the announcement of the National Pension Fund Management Committee on phasing out of coal (Exclusion of coal mining and coal-fired power industries).

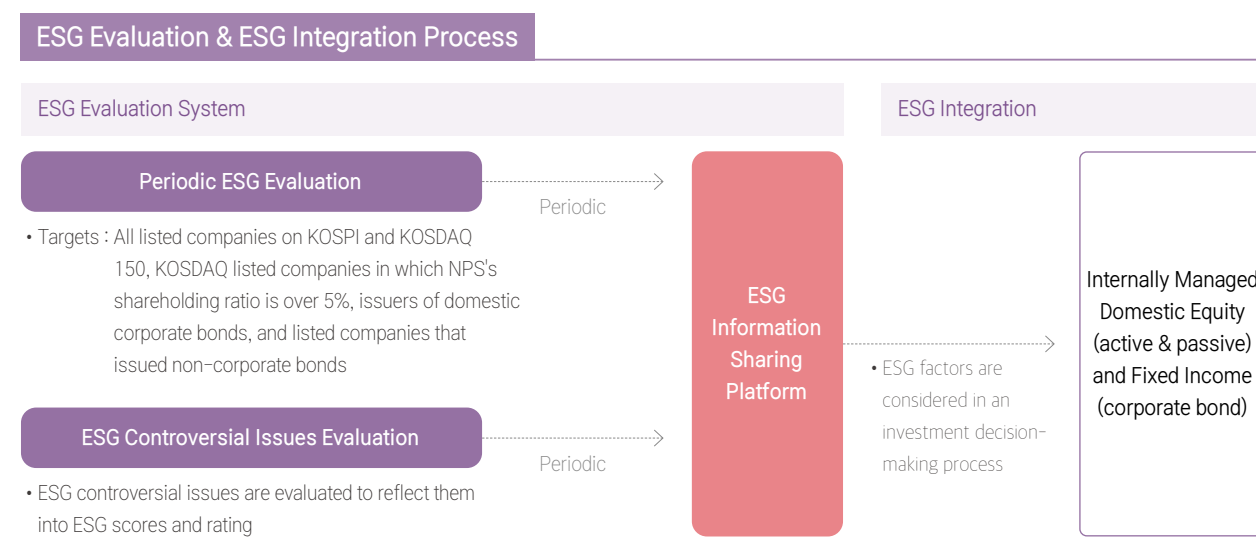
In June 2021, a Guideline for ESG Integration Strategies for Internally Managed Domestic Fixed Income was developed to apply ESG integration strategies to domestic fixed income (corporate bond). In December 2021, a Guideline for Responsible Investment on Composition and Operation of Boards of Directors was issued to enhance the predictability on NPS's direction of responsible investment activities by sharing such information with investee companies, and to help investee companies voluntarily run their corporate governance.

## 2. Responsible Investing

### 2-1 ESG Integration

National Pension Service (NPS) has been committed to laying the groundwork for the implementation of ESG Integration Strategies for a long period of time. Beginning with the development of an ESG Evaluation System for domestic equity in November 2015, NPS has developed an internal research system on ESG-related information and designed research strategies. Such systems and strategies are harnessed for internally managed domestic equity and fixed income (corporate bond). In line with a Plan to Facilitate Responsible Investment approved by the National Pension Fund Management Committee (FMC) in November 2019, the application scope has been gradually expanded.

At NPS, ESG integration is materialized through ESG evaluation. NPS implements ESG Integration strategies by incorporating ESG factors, coupled with financial factors, into an investment decision-making process for internally managed domestic equity and fixed income (corporate bond) using its internal ESG evaluation system.



#### (1) Periodic ESG Evaluation

NPS has developed its proprietary ESG Evaluation System to analyze a investment targets' exposure to non-financial factors, including environmental, social and governance (ESG) aspects, in a systematic manner. Using the system, ESG evaluation is conducted twice a year for all listed companies on KOSPI and KOSDAQ 150, KOSDAQ listed companies in which NPS's shareholding ratio is over 5%, issuers of domestic corporate bonds, and listed companies that issued non-corporate bonds. The ESG Evaluation System is composed of 61 ESG indicators in 14 categories that affect enterprise value in terms of ESG. Considering the characteristics of each industry, different weighting per industry is applied to each category to calculate ESG score and rating.

Based on commissioned research conducted in the second half of 2020 on the improvement of ESG evaluation system for domestic equity and the establishment of ESG evaluation system for domestic fixed income, NPS reinforced the ESG evaluation system for domestic equity and adopted an ESG evaluation system for domestic fixed income in 2021. NPS will continue to improve and upgrade ESG Evaluation Systems, including ESG indicators, in consideration of internal and external circumstances.

### ESG Evaluation System for Domestic Equity

	Item (14)	ESG Evaluation Indicator (61)
Environmental	Climate Change	Greenhouse Gas Emissions Management System, Carbon Emissions, Energy Consumption, Voluntarily Determined Contributions
	Environmental Impact Management	Environment Management System Certification, Environment Management Objective, Clean Production Management, Water Consumption, Chemical Consumption, Air Pollution, Waste Emissions
	Green Products Development	Green Product Development Activities, Green Patents, Green Product Certification, Product Environmental Improvement
Social	Human Resources Management and Human Rights	Wage, Investment in Human Resources, Employment, Family-friendly Corporate Culture, Years of Service, Human Rights, Labor Practices
	Industrial Safety	Health and Safety System, HSE Team, HSE Management System Certification, Designation of Workplace with Frequent Incidents
	Fair Trade	Counterparty Selection Process, Compliance with Fair Trade, Partner Company Support Activities, Violation of Subcontracting Law, Behaviors Undermining Fair Trade
	Product Safety and Consumer Protection	Product Safety System, Product Safety System Certification, Product Safety Accident, Consumer Complaint Center, Consumer Centered Management Certification
	Information Protection	Information Protection System, Information Protection System Certification, Information Leakage
Governance	Shareholder Right Enhancement	Management Protection System, Shareholder Opinion Collection System, Disclosing Date of Shareholder Meeting, Recent 3-year Dividend
	Composition and Operation of Board of Directors	Separation of CEO and BOD Chair, Independence of BOD, Composition of Outside Directors, Diversity of BOD Composition, BOD Activities, Director Remuneration Policy
	Committee under BOD	Compensation Committee, Outside Director Candidate Recommendation Committee, ESG Committee
	Audit System	Outside Director Ratio in Audit Committee, Ratio of Auditor (Member) with Long Tenure, Audit to Non-Audit Service Fee Ratio
	Affiliation Risk	Affiliation Contingent Liability to Net Assets, Affiliation Sales Ratio, Affiliation Purchase Ratio
	Internal Control and Compliance	Internal Control and Compliance Systems, Anti-Bribery Management System Certification, Violation of Internal Control and Compliance

As of the end of 2021, 950 domestic listed companies were evaluated and rated as follows:

2021 ESG Evaluation Result (Equity)						
AA	A	BB	B	C	D	Total
78 (8.2%)	158 (16.6%)	234 (24.6%)	318 (33.5%)	157 (16.5%)	5 (0.5%)	950 (100.0%)

As for fixed income securities, 1,031 domestic listed companies, issuers of domestic corporate bonds, and listed companies that issued non-corporate bonds were evaluated and rated as follows:

2021 ESG Evaluation Result (Fixed income)						
AA	A	BB	B	C	D	Total
92 (8.9%)	174 (16.9%)	251 (24.3%)	339 (32.9%)	167 (16.2%)	8 (0.8%)	1,031 (100.0%)

Following the evaluations, ESG information, including ESG evaluation results, is provided to portfolio managers in internally managed domestic equity and fixed income through the ESG Information Sharing Platform to be utilized during an investment decision-making process along with financial factors. In case the result of ESG evaluation falls below a certain level, shareholder engagement is conducted after undertaking qualitative analysis, etc. Details in shareholder engagement in relation to ESG rating downgrade are available in 2-5. Shareholder Engagement below.

### (2) ESG Monitoring & Materiality Assessment

NPS monitors ESG-related issues and incidents which may affect enterprise value according to Responsible Investment & Governance Principles and the Guideline for Responsible Investment & Governance, and conducts materiality assessments with a focus on the severity<sup>1)</sup> to identify the potential impact of such issues on shareholder and enterprise value. The result of materiality assessments, NPS's shareholding ratio and a company's weight in NPS portfolio are comprehensively considered to adjust ESG evaluation results or align with shareholder engagement.

In 2021, NPS conducted materiality tests on 31 ESG-related issues. As a result, ESG evaluation results for two companies were adjusted, and such information was provided to portfolio managers in internally managed domestic equity and fixed income.

At the same time, in case that a company is linked to shareholder engagement for unexpected concerns based on the result of a materiality assessment, the company may be selected for confidential dialogues according to the process and standards as stipulated in the Guideline for Stewardship Activities for Domestic Equity. Details in shareholder engagement in relation to unexpected concerns are available in 2-5. Shareholder Engagement below.

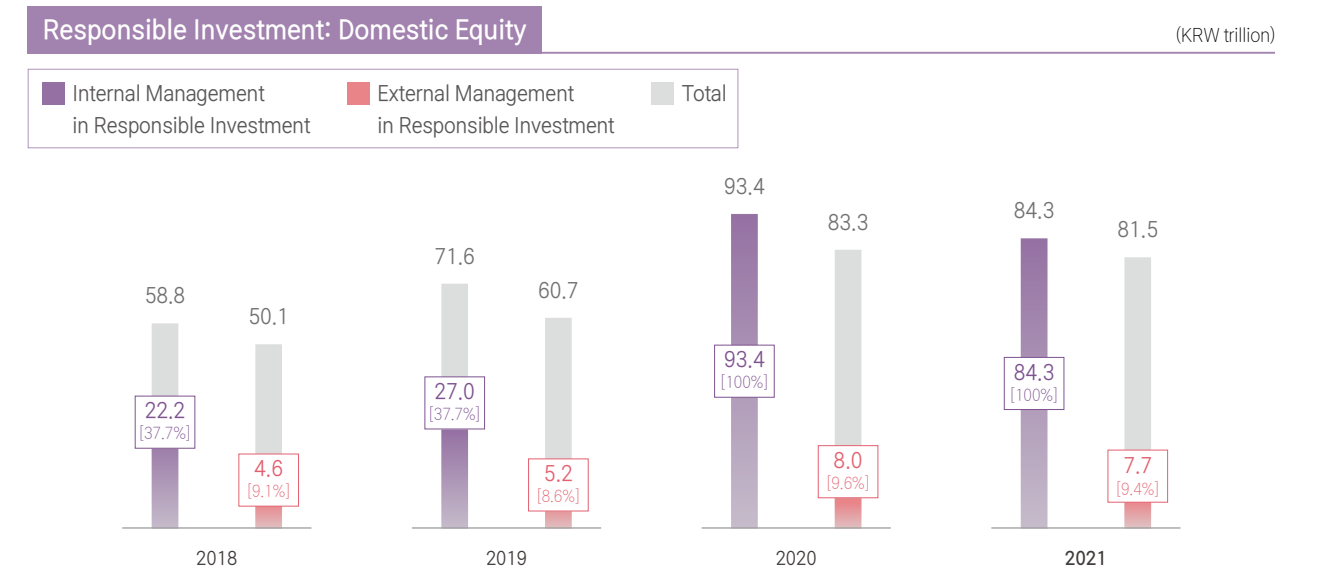
### (3) ESG Integration

Since 2017, NPS has adopted ESG integration strategies to internally managed active domestic equity. In November 2020, the strategies were expanded to include internally managed passive domestic equity, and a Guideline for ESG Integration Strategies for Domestic Equity, which presents enhanced implementation measures, was established to apply ESG Integration Strategies to the entire internally managed domestic equity. In addition, the Guideline for ESG Integration Strategies was amended to include internally managed domestic fixed income (corporate bond). Accordingly, in-house portfolio managers in domestic equity examine ESG-related information when new securities are to be added to investment universe. If such securities are placed under the second lowest ESG rating, portfolio managers provide written opinions and attach an ESG report in an examination report. Moreover, when examining investment universe, securities placed under the lowest ESG rating are checked to identify whether they are included above their benchmarks<sup>2)</sup>. If it is observed that securities with the lowest ESG rating are added above their benchmarks, the reason and investment opinions are reviewed and such securities are constantly monitored. As for internally managed domestic fixed income (corporate bond), in-house portfolio managers examine ESG-related information and conduct thorough reviews on an issuer with a low ESG rating, when considering adding new securities to investment universe or investing in new securities.

1) Severity is assessed in consideration of damage size, loss size, loss period and frequency.  
 2) Securities under Rating D or below are not permitted to outweigh their benchmarks (This rule has applied to internally managed active domestic equity in 2021 and will apply to internally managed passive domestic equity in 2022).

### (4) Externally Managed RI Funds

NPS manages externally managed RI funds as one of the externally managed domestic equities. As of the end of 2021, the RI funds were managed by nine external managers, and the total assets under management were valued at approximately KRW 7.7 trillion. The funds follow an internally developed benchmark, the NPS-FnGuide Responsible Investment Index, considering the unique characteristics of externally managed RI funds. In selecting external managers for RI funds, NPS takes into account a range of aspects such as expertise, ethics, investment strategies, investment process and compliance with the investment guideline for RI funds. Once selected, external managers may conduct diverse responsible investment strategies.



### 2-2 Negative Screening

In November 2019, the National Pension Fund Management Committee (FMC) decided on an additional review of the necessity, application scope and process of negative screening while formulating a Plan to Facilitate Responsible Investment. In February 2021, the FMC decided to review the adoption of negative screening in relation to climate change first. In May 2021, the FMC announced the adoption of negative screening on industries related to coal mining and coal-fired power in response to climate change, and decided to prepare an action plan through commissioned research.

In line with the decision, NPS commissioned research to analyze the application scope, standards and selection method of the target industry in December 2021 as a preparation stage for the adoption of negative screening. Going forward, the FMC will decide on an action plan of negative screening based on the result of research and opinions from diverse stakeholders.

### 2-3 Responsible Investment in External Management

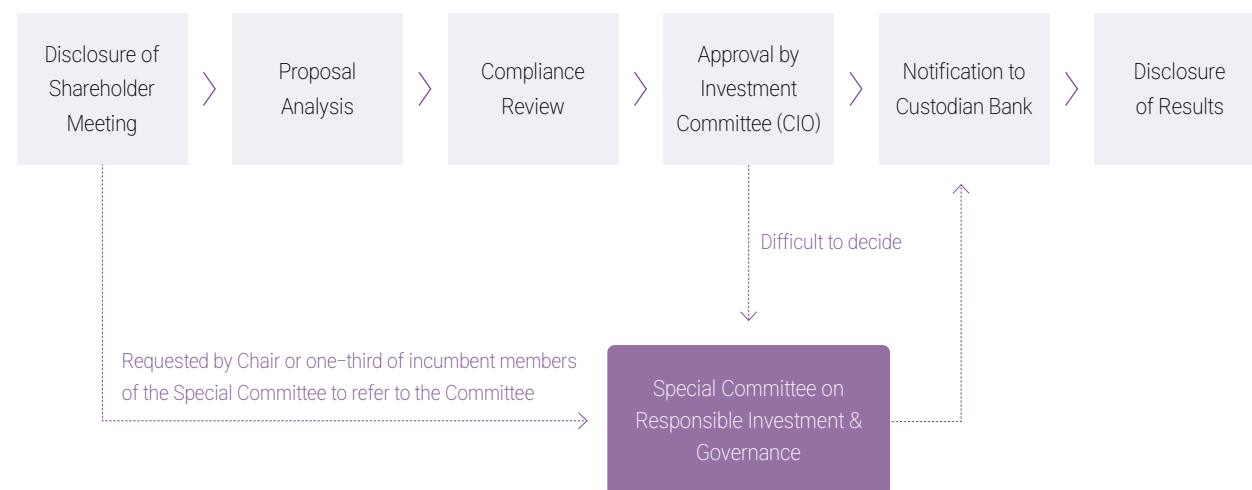
Since November 2020, NPS has required external managers of RI funds to submit a responsible investment report, and used such reports as a way of monitoring external managers. In addition, in December 2021, an additive grading system was developed to consider responsible investment factors, including the existence of RI policies and guidelines in place, when selecting external managers of domestic and overseas equity and fixed income portfolio. Moreover, NPS monitors external managers by obtaining responsible investment reports to identify their ESG practices.

### 2-4 Voting

#### (1) Standard and Process

National Pension Service (NPS) exercises its voting rights in listed companies in good faith and in the best interests of contributors and beneficiaries of the National Pension Plan according to the National Finance Act and the Guideline for National Pension Fund Management. Voting is conducted in accordance with the Guideline for Responsible Investment & Governance which stipulates voting standards, procedures and methods, as well as by referring to an outside agency specializing in proposal analysis, to vote in a professional and faithful manner.

#### Voting Process



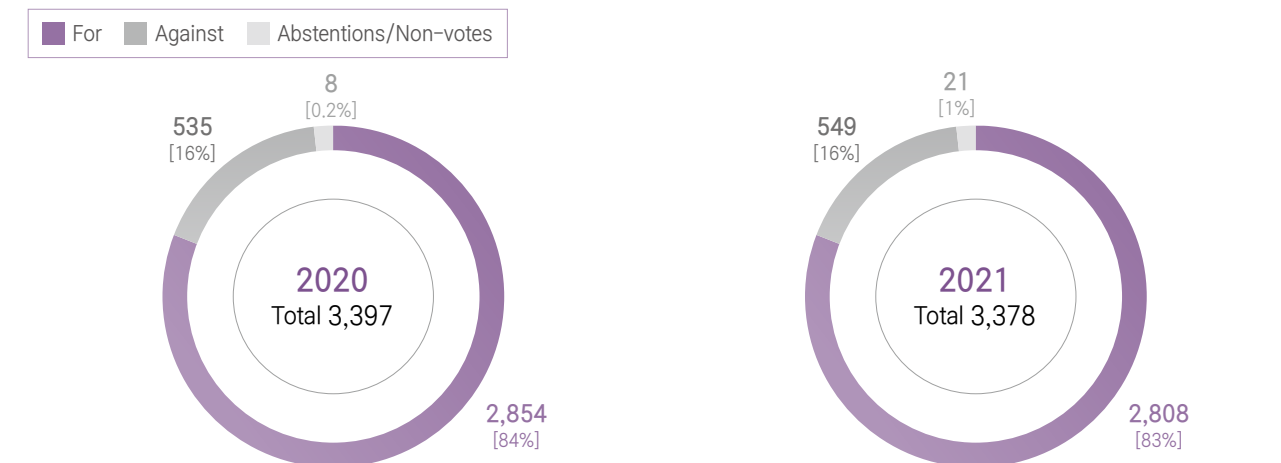
NPS's Committees, including the Investment Committee, deliberate and decide on matters concerning voting activities based upon NPS's shareholding ratio and a company's weight in NPS portfolio. However, voting directions of certain agendas are determined by the Special Committee on Responsible Investment & Governance, ( i ) when NPS requests the Special Committee to determine voting direction as it deems difficult for NPS to make a decision, or ( ii ) when over one-third of the Special Committee's incumbent members requests NPS to refer an issue to the Committee as it deems to have a significant impact on shareholder value over the long term. In addition, in a shareholder meeting in March 2020, the National Pension Fund Management Committee (FMC) decided to delegate voting rights of some holdings to external managers according to the Guideline for Proxy Voting Practices of External Managers.

#### (2) Disclosure and Status

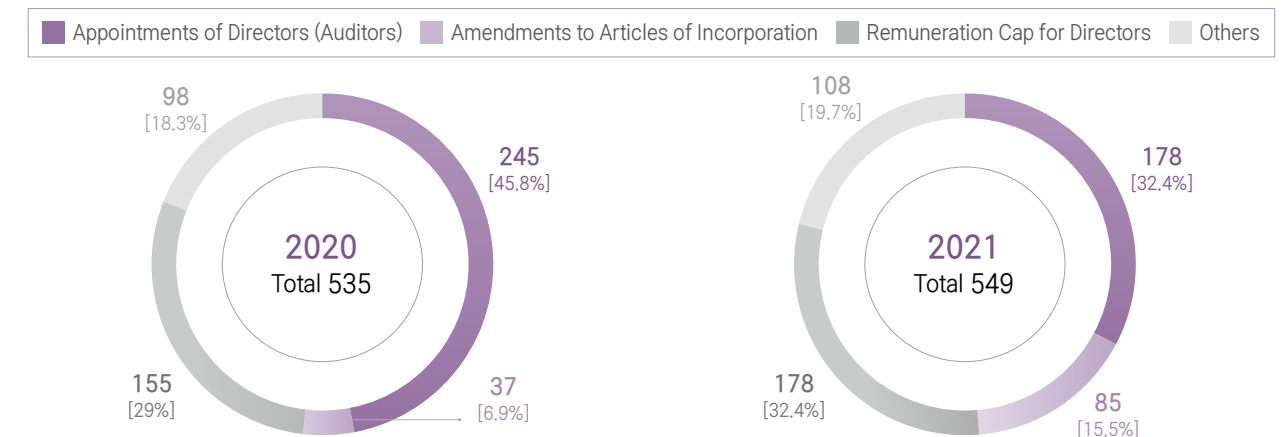
NPS discloses the results of shareholder votes and specific reasons for voting against, including applicable provisions in guidelines, within 14 days after a shareholder meeting is held. However, voting direction of certain agendas can be disclosed before a shareholder meeting, including ( i ) agendas of a company where NPS's shareholding ratio is more than 10% or its weight is more than 1% in NPS portfolio, and ( ii ) agendas whose voting direction is determined by the Special Committee. In 2021, 119 shareholder meetings disclosed voting directions prior to the meetings.

Throughout the year, NPS participated in 773 shareholder meetings for domestic equities and voted on 3,378 agendas.

#### Voting Results



#### Reasons for Voting Against



### 2021 Voting Activities

#### ① Approval of Financial Statement

Regarding Company A which failed to pay out dividends, National Pension Service (NPS) voted For approval of its financial statement in consideration of continuous net debt status and decline in cash and cash equivalents for the recent five years.

As for Company B which paid out dividends despite a net loss in the period, NPS voted For approval of its financial statement in consideration of its cashflow, cash equivalents, and operating profits generated at a constant level every year (March 2021).

With regard to an agenda on the approval for a financial report of Company C (including Statement of Appropriation of Retained Earnings) in which the BOD proposal and shareholder proposal were competing, NPS voted For the shareholder proposal in consideration of the company's financial soundness, cash holdings, free cash flow, comparison with peer firms in the same industry, etc.

In regard to approval for a statement of appropriation of retained earnings of Company D in which the BOD proposal and shareholder proposal were competing, NPS voted For BOD proposal in consideration of the dividend policy disclosed by the Company, its financial status, comparison with peer firms in the same industry, etc.

#### ② Appointment of Directors and Auditor (Audit Committee Members)

NPS voted Against appointments of an outside director in Company E, who was employed in the company as a full-time employee within the recent five years; a full-time employee in Company F, who was employed in a major customer company within the recent five years; an outside director in Company G, who directly served as an advisor to the Company (March 2021).

In addition, NPS voted Against an appointment of an inside director in Company H which was given legal sanction from the Fair Trade Commission due to illegal assistance and undue benefits, as the person was considered to have impaired enterprise value and infringed on shareholder interest; and an outside director in Company I which was given legal sanction on mis-selling of financial products, as the person was considered to have neglected duty of oversight when enterprise value and shareholder interest were impaired (March 2021).

#### ③ Amendments to Articles of Incorporation

NPS voted Against amendments to Articles of Incorporation of Company J, which deleted a provision concerning written ballot; Company K, which newly created delegation regulations on bond-issuing and failed to indicate regulations on after-action reporting (March 2021).

#### ④ Approval for Remuneration Cap for Directors

NPS voted Against the proposal for remuneration cap for directors in Company L as the amount of remuneration and business performance were not aligned based on the review of remuneration information, while NPS voted For the proposal for remuneration cap for directors in Company M as the amount of remuneration and business performance seemed to be aligned based on submitted information including severance pays the company provided (March 2021).

## 5. Shareholder Engagement

National Pension Service (NPS) has adopted the Responsible Investment & Governance Principles, or Stewardship Code, to fulfill its fiduciary duty to improve long-term profitability and stability, as well as to enhance independence and transparency in the exercise of shareholder rights. Through such endeavors, the scope of the exercise of shareholder rights has been expanded to address remuneration cap for directors and legal violation, and shareholder rights have been conducted in accordance with standards and procedures of the Guideline for Responsible Investment & Governance and the Guideline for Stewardship Activities for Domestic Equity.

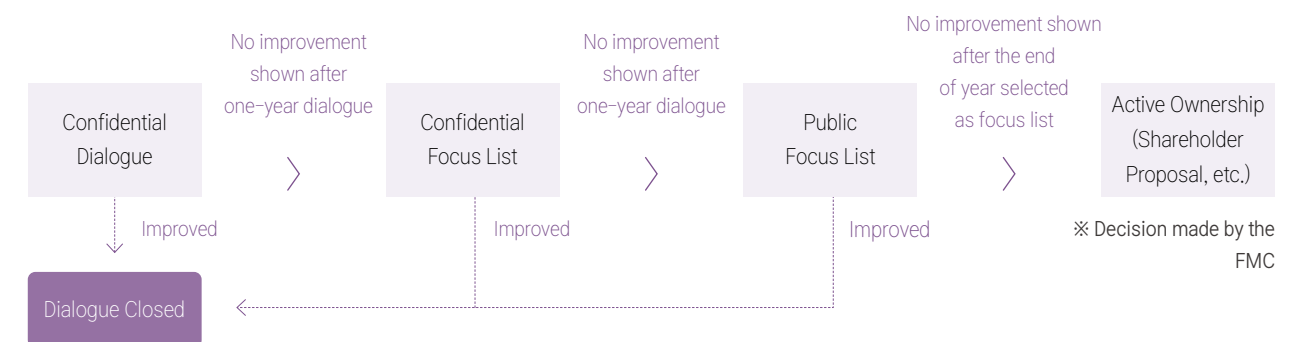
Meanwhile, at the outset, NPS adopted shareholder rights which do not engage in management affairs<sup>3)</sup> first in consideration of concerns over potential intervention and short swing profit. Afterwards, the exercise of shareholder rights in management affairs was allowed only upon approval from the National Pension Fund Management Committee (FMC). A case in point was the shareholder proposal on limiting the powers of directors of Hanjin KAL to help enhance its shareholder value, based on concerns over damage to shareholder value due to the deviant behaviors of management of Korean Air Lines and Hanjin KAL<sup>4)</sup> (February 2019). In line with the increasing call for enhancing predictability and transparency as well as alleviating concerns over intervention in management and autonomy, NPS developed the Guideline for Active Ownership in December 2019, which describes principles, standards and procedures of active ownership activities in a transparent manner. NPS remains committed to conducting shareholder engagement according to relevant guidelines and by doing so, NPS aims to encourage companies to voluntarily establish their own measures to improve shareholder value.

### (1) Shareholder Engagement in Focus Areas

With an aim of achieving long-term and stable returns, NPS selects key focus areas and conducts shareholder engagement. Key focus areas include a dividend policy, remuneration cap for directors, violation of rules and regulations, repetitive vote against and ESG rating downgrade.

Shareholder engagement on focus areas is undertaken in stages according to the Guideline for Stewardship Activities for Domestic Equity, including selection of focus list, confidential dialogue, selection of confidential focus list, selection of public focus list and shareholder proposal. If a company in focus list fails to show improvement even after a series of shareholder engagement, NPS may exercise its voting rights for associated agendas or appointment of directors at a shareholder meeting, or send open letters.

#### Shareholder Engagement Process on Focus Areas



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

3) It refers to a shareholder right that virtually has an impact on a company, including shareholder proposal in relation to appointment of directors.

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

### Standards in Selection of Companies Subject to Focus Area

<b>Dividend Policy</b>	In case a company lacks a reasonable dividend policy or fails to pay out dividend in accordance with a reasonable dividend policy
<b>Remuneration Cap for Directors</b>	In case a shareholder interest is infringed as a remuneration cap, which is not aligned with the company's remuneration and business performance, is proposed
<b>Violation of Rules and Regulations</b>	In case a company falls into the followings based on objective facts, such as investigations by authorities: ① Embezzlement or breach of trust ② Provision of illegal assistance to related parties or another company (Illegal assistance) ③ Provision of undue benefits to related parties (Undue benefits)
<b>Repetitive Vote Against</b>	In case a company fails to make improvements despite NPS's repetitive votes against at shareholder meetings
<b>ESG Rating Downgrade</b>	In case a company's ESG rating falls by more than two ratings to below Grade C

#### ① Dividend Policy

NPS selects a list of companies subject to confidential dialogues among companies failing to pay out dividend or lacking a reasonable dividend policy. In 2021, NPS sent letters to and conducted dialogues with 30 companies on dividend policies. By forming an amicable communication channel, NPS encouraged such companies to voluntarily set out dividend policy and communicate with the market, rather than proposing specific dividend figures or levels. As a result, the companies disclosed a reasonable dividend policy on the Data Analysis, Retrieval & Transfer (DART) of Financial Supervisory Service (FSS) and their websites, giving rise to an increase in the predictability of investors on dividend payouts.

NPS conducted confidential dialogues with representatives of Company N and Company O, including the board of directors and management, to discuss about dividend policies as well as the process and intention of NPS's shareholder engagement. Prior to the dialogues, the companies lacked dividend policies, but through the confidential dialogues, they agreed with the necessity and intention of the establishment of a dividend policy. As a result, the companies publicly disclosed specific dividend calculation standards. Company N disclosed, "Basic dividend is KRW 1,000: shareholder return shall be maintained to a minimum while using 5-10% of free cash flow as additional resources for dividend," and Company O disclosed the amount of the next three-year expected dividend and calculation criteria - Dividend is subject to change considering management environment including changes in the business environment and investment plan. Such disclosure of dividend policies helped investors clearly understand the companies' decision-making standards on dividends, and laid the groundwork for enhancing the predictability of the companies' dividends.

#### ② Remuneration Cap for Directors

NPS selects companies subject to confidential dialogues in consideration of actual remuneration relative to remuneration cap, among companies against which NPS voted at the recent shareholder meeting with a reason of excessive actual remuneration at odds with business performance. In 2021, NPS sent letters to and conducted dialogues with 12 companies. By forming an amicable communication channel, NPS encouraged such companies to develop action plans that help enhance shareholder value. As a result, the companies made voluntary improvements to the remuneration cap for directors by establishing the Remuneration Committee and adjusting the remuneration cap.

NPS conducted confidential dialogues with representatives of companies, including the board of directors and management, as to agendas relating to concerns over a large gap between remuneration cap and actual remuneration, and the process and intention of NPS's shareholder engagement. The companies agreed with the intention of confidential dialogues on remuneration cap as well as such concerns. As a result, Company P composed the entire members of the Remuneration Committee with outside directors to enhance transparency and appropriateness of remuneration of the management, as well as newly created a short-term compensation policy. Company Q adjusted the remuneration cap, which was excessive relative to actual remuneration

#### ③ Violation of Rules and Regulations

NPS selects companies subject to confidential dialogues among companies which may damage enterprise value or impair shareholder interest due to embezzlement, breach of trust, illegal assistance or undue benefits based on the fact such as investigations by authorities or law enforcement. In 2021, NPS sent letters to and conducted dialogues with 26 companies. By forming an amicable communication channel, NPS encouraged such companies to develop action plans that help enhance shareholder value.

NPS selected companies subject to confidential dialogues on concerns over violation of rules and regulations on a quarterly basis, and conducted confidential dialogues even on unresolved issues in the past such as issues whose ruling is not finalized by the Supreme Court. NPS undertook confidential dialogues with representatives of Company R, including the board of directors and management, to inform them of intention and procedures of NPS's shareholder engagement in relation to management embezzlement, and to check facts, measures taken and improvement measures concerning alleged violation of rules and regulations. As a result, Company R enhanced its compliance program with the Code of Ethics and improved the operation of the Audit Committee and Remuneration Committee. In addition, NPS conducted confidential dialogues with Company S which was given sanction from the Fair Trade Commission due to illegal assistance. Company S established company-wide measures that prevent recurrence in relation to fair trade by adopting Compliance Officer and Compliance System through the resolution of the Board of Directors.

#### ④ Repetitive Vote Against

NPS selects companies subject to confidential dialogues in consideration of the number of voting against, room for improvement and holding weight of companies in which NPS voted against more than twice with the same reason among agendas relating to the appointment of directors and auditor within the recent five years. In 2021, NPS sent letters to and conducted dialogues with 11 companies to build consensus on the reason for voting against in line with the Guideline for Responsible Investment & Governance and encourage them to formulate action plans that help enhance shareholder value. As a result, the companies made improvements by implementing action plans.

NPS conducted confidential dialogues with representatives of companies, including the board of directors and management, on the intention and procedure of NPS's shareholder engagement and reasons for repeatedly voting against (Company T: a full-time employee of a company with major interest within the recent five years, Company U: negligence on the duty of oversight). Companies agreed with the intention of confidential dialogues on repetitive votes against. As a result, Company T enhanced the independence of outside directors, while Company U established measures preventing recurrence through sufficient understanding and dialogues.

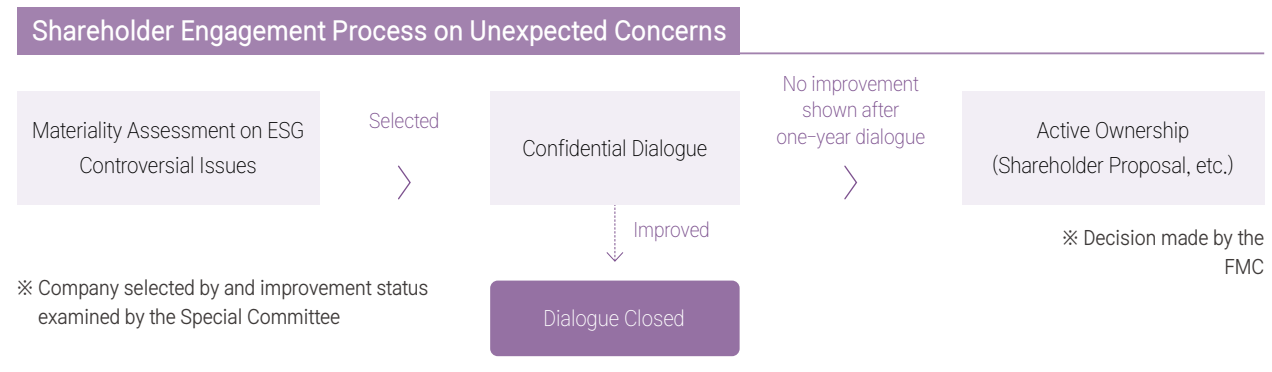
⑤ ESG Rating Downgrade

NPS selects companies subject to confidential dialogues based on a qualitative assessment of the reason for downgrading and NPS's asset exposures, among domestic listed companies whose ranking drop by more than two ratings to Rating C or D. In 2021, NPS sent letters to and conducted dialogues with one company, formed an amicable communication channel, and encouraged the company to develop action plans that help enhance shareholder value. As a result, the company made improvements such as enhanced disclosure, development of improvement measures and implementation of action plans.

NPS selected Company V to conduct confidential dialogues in relation to the ESG rating downgrade, and conducted dialogues with representatives of the company, including the board of directors and management for nearly one year. During the period, NPS explained the intention and procedure of NPS's shareholder engagement and the reason for selection, and Company V agreed with the intention of the confidential dialogue, developed countermeasures and took action. Specifically, Company V formulated policies and teams in relation to industrial safety, and improved internal control systems. In addition, the company set up a mechanism to obtain shareholder opinions and enhanced the disclosure of ESG-related information, such as green house gas emissions.

(2) Shareholder Engagement on Unexpected Concerns

With an aim of delivering long-term profitability and enhancing shareholder value, NPS fosters shareholder engagement in unexpected concerns in relation to environmental, social and governance (ESG) when concerns over damage to enterprise value or shareholder interest arise. According to the Guideline for Stewardship Activities for Domestic Equity, NPS conducts shareholder engagement in companies with ESG controversial issues<sup>5)</sup> in stages - conducting materiality assessments, selecting companies subject to confidential dialogues, and making shareholder proposal. If no improvement is made despite a series of shareholder engagement, it is linked with voting on appointment of directors and auditors at a shareholder meeting. If it deems that no willingness is shown to make improvements, including refusing confidential dialogues, an open letter may be sent to such companies.



In 2021, NPS sent letters to and conducted materiality assessments on 31 companies as to a variety of ESG controversial issues including investigations by authorities, violation of environmental laws and casualties occurring at workplace. Based on the result of materiality assessments and letters, NPS selected two companies subject to confidential dialogues. NPS has continued to monitor ESG controversial issues on investee companies.

5) Including issues and incidents that have impact on enterprise value

(3) Active Ownership

NPS formulated the Guideline for Active Ownership in December 2019 to enhance enterprise value and undertake shareholder engagement in a transparent and fair manner. The focus of the Guideline is not on participation in management affairs, but on enhancing shareholder and enterprise value by developing improvement measures through sufficient dialogues with companies in relation to focus areas and unexpected concerns. When an issue requiring shareholder engagement occurs, NPS seeks to check the facts and has sufficient dialogues to address issues according to the Guideline for Responsible Investment & Governance. Only when it is difficult to see improvements in a company, is active ownership engagement conducted.

Active Ownership Activities	
	Activities
Target Company	• Companies that do not make improvements, among companies in public focus list and companies subject to confidential dialogue in relation to unexpected concerns
Engagement Standards	• It is on a case-by-case basis in consideration of a range of factors including industrial characteristics, internal conditions, the feasibility of shareholder proposals, cost-effectiveness and implications for the market
Selection Process	• The Special Committee on Responsible Investment & Governance decides on companies that show no improvements, reviews the need for and contents of a shareholder proposal, and reports it to the National Pension Fund Management Committee (FMC). - The FMC decides the need for and contents of a shareholder proposal based on the review of the Special Committee.
Shareholder Proposal	• The FMC makes a final decision on the contents of a shareholder proposal within an applicable range of the Commercial Act and the Financial Investment Service and Capital Market Act.

(4) Litigation

NPS may make a shareholder derivative suit or damage claim suit in accordance with the standards and procedures of the Guideline for Stewardship Activities for Domestic Equity, with a view to contributing to maximizing shareholder value over the long term. NPS does not exercise any influence on investee companies or directors, nor file a claim to meet the request of other shareholders. NPS takes legal action considering the possibility of winning and cost effectiveness, and only when conditions are met for litigation and such action would contribute to maximizing shareholder value over the long term.

### 3. Global Investor Network for Responsible Investment

National Pension Service (NPS) became a signatory to the Principles for Responsible Investment (PRI)<sup>6)</sup> in June 2009, a global network of investors that have publicly demonstrated their commitments to responsible investment, and has submitted PRI Transparency Reports since 2016.

In order to implement the Responsible Investment & Governance Principles (Stewardship Code) and enhance related capabilities, NPS joined two investor-led organizations dedicated to corporate governance and investor shareholder engagement in September 2019 – the International Corporate Governance Network (ICGN)<sup>7)</sup> and Asian Corporate Governance Association (ACGA)<sup>8)</sup> Moreover, NPS joined the Asia Investor Group on Climate Change (AIGCC)<sup>9)</sup> an initiative to enhance awareness on climate change, expand a network and encourage action among institutional investors in Asia about the risk and opportunities associated with climate change and low carbon investing. Going forward, NPS will remain committed to ramping up its capacity and expertise in environmental, social and governance (ESG), as well as expanding its network with global pension funds and assets managers.

#### Global Network for Responsible Investment



6) The Principles for Responsible Investment (PRI) is a global initiative launched by UNEP financial Initiatives and the UN Global Compact in collaboration with financial institutions as an international network of investors working together to put its six Principles for Responsible Investment into practice. As of March 2021, the PRI has 3,826 signatories with total assets under management of around KRW 154,638 trillion.

7) The International Corporate Governance Network (ICGN) is the world's largest investor-led organization to promote effective standards of corporate governance and provide a range of research and networks. The ICGN has more than 800 members from 45 countries as of December 2021.

8) The Asian Corporate Governance Association (ACGA) is an independent membership organization dedicated to enhancing financial environment ecosystem including corporate governance practice throughout Asia, and conducts analysis in rules and regulations on corporate governance. The ACGA has 114 members from 19 countries as of the end of 2021.

9) The Asia Investor Group on Climate Change (AIGCC) is launched to encourage action among Asia's asset owners and financial institutions about the risk and opportunities associated with climate change and low carbon investing and provide capacity for investors to share best practices and to collaborate on investment activities, credit analysis, and policy engagement. As of the end of 2021, the AIGCC has 57 members, including pension funds, asset managers and relevant organization.

### 4. Looking Ahead

#### 1. ESG Investing

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

##### (1) Expand RI Coverage in Portfolio

NPS has enhanced its ESG Integration strategies for internally managed active domestic equity by limiting the investment weight of securities with the lowest ESG rating up to their benchmark. The strategy will apply to internally managed passive domestic equity going forward. Moreover, based on the result of commissioned research conducted in 2021, NPS will develop ways to apply ESG integration strategies to overseas equity and fixed income, taking into account the investment styles of such asset classes.

##### (2) Develop Phased Action Plans on Negative Screening<sup>10)</sup> (Coal Phase-out)

The National Pension Fund Management Committee (FMC) announced phasing out of coal to reduce carbon emissions under the recognition of the necessity of risk management in line with the increasing severity of climate change and the importance of ESG investment principles, triggered by the spread of COVID-19 and more stringent regulations on carbon emission worldwide, including carbon tax. Following this, the FMC further announced that it will stop investing in new coal-fired power plants at home and abroad, and conducted commissioned research to develop a detailed action plan on negative screening. Going forward, the Committee will decide on the action plan of negative screening based on the result of research and opinions from diverse stakeholders, and NPS will implement such measures according to the decision made by the FMC.

##### (3) Create Foundation to Promote Responsible Investment

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

Moreover, by requesting capital market participants such as partner securities firms to include ESG information in their company analysis reports, NPS will create an environment where the quality and level of disclosure of ESG-related information are improved.

10) Negative screening is one of the investment strategies referring to the process of screening certain sectors, industries or companies out of an investment portfolio when they are considered unsuitable or harmful from environmental, social and governance (ESG) perspective.

## 2. Exercise of Shareholder Rights

The National Pension Fund Management Committee (FMC) has announced its plan to diversify its shareholder engagement from its current focus on governance to include environmental and social factors, and to expand the scope of dialogue strategies to overseas equity by implementing the Plan to Facilitate Responsible Investment. Accordingly, NPS will implement the decision made by the FMC on a step-by-step basis, and furthermore make a derivative suit according to the Guideline for Stewardship Activities for Domestic Equity and the standards for derivative suit.

### (1) Expand the Scope of Shareholder Engagement

The FMC decided to expand engagement strategies when developing a Plan to Facilitate Responsible Investment. In line with this, NPS announced that it will expand shareholder engagement in the domestic equity portfolio and conduct shareholder engagement for overseas equity portfolio as well. To this end, ways to add climate change and industrial safety to focus areas on the domestic equity portfolio are under review by conducting commissioned research. Once such measures are approved by the FMC, NPS will undertake associated stewardship activities after amending relevant guidelines, etc. As for the overseas equity portfolio, NPS carried out commissioned research to benchmark best practices of leading peers, and will develop ways to implement shareholder engagement in consideration of the research result and investment characteristics of overseas equity.

	As Is	To Be (Proposal)
Domestic Equity	<ul style="list-style-type: none"> <li>• Focus Areas centered on Governance</li> <li>① Dividend Policy</li> <li>② Remuneration Cap for Directors</li> <li>③ Violation of Rules and Regulations (Embezzlement, Breach of Trust, etc.)</li> <li>④ Repetitive Vote Against</li> <li>⑤ ESG Rating Downgrade</li> </ul>	<ul style="list-style-type: none"> <li>• Focus Areas with Environmental and Social Factors added</li> <li>① Dividend Policy</li> <li>② Remuneration Cap for Directors</li> <li>③ Violation of Rules and Regulations (Embezzlement, Breach of Trust, etc.)</li> <li>④ Repetitive Vote Against</li> <li>⑤ ESG Rating Downgrade</li> <li>⑥ Climate Change (Proposal)</li> <li>⑦ Industrial Safety (Proposal)</li> </ul>
Overseas Equity	<ul style="list-style-type: none"> <li>• No Focus Area</li> <li>• No Guideline for Stewardship Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Development of Implementation Methods of Shareholder Engagement</li> <li>• Enacting Guideline for Stewardship Activities for Overseas Equity</li> </ul>

### (2) Initiate Shareholder Derivative Suit

NPS has developed the Guideline for Stewardship Activities for Domestic Equity which stipulates specific standards on shareholder derivative suits and damage claim suits with an aim of contributing to increasing shareholder value over the long-term horizon. Since the first half of 2021, standards on shareholder derivative suits in relation to domestic equity have been under development.

Going forward, NPS will select companies subject to a derivative suit by reviewing applicable case types, damage costs and the statue of limitation of damage claim, and file a suit to effectively prevent the management of a company from impairing enterprise value and help maximize shareholder value over the long run.

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

Since July 2018 when the National Pension Fund Management Committee (FMC) reviewed and decided on a Plan to Adopt Responsible Investment & Governance Principles, NPS has exercised shareholder rights on focus areas and unexpected concerns in accordance with the Guideline for Responsible Investment & Governance and relevant guidelines, and exercised voting rights using an enhanced internal system and electronic ballot system. Going forward, NPS will faithfully exercise voting and shareholder rights in accordance with the Guideline for Responsible Investment & Governance and relevant guidelines, and constantly review the necessity of amendments to and improvements in such guidelines.

## 5. Stewardship Activities Statistics

### 1. Voting Activities in Domestic Equity

National Pension Service (NPS) voted on a total of 3,378 agendas in 773 shareholder meetings for domestic equity holdings in 2021, including 2,808 for (83.1%), 549 against (16.3%) and 21 abstentions/non-vote (0.6%). The reasons behind 549 votes against included the appointment of directors and auditors (178, 32.4%), amendments to articles of incorporation (85, 15.5%), remuneration cap for directors (178, 32.4%) and others (108, 19.7%).

① Votes Cast						
Year	No. of Companies	No. of Shareholder Meetings	No. of Votes Cast	Voting Result		
				For (Weight)	Against (Weight)	Abstention /non-vote (Weight)
2021	1,208	773	3,378	2,808 (83.13%)	549 (16.25%)	21 (0.62%)
2020	1,033	854	3,397	2,854 (84.01%)	535 (15.75%)	8 (0.24%)
2019	1,059	767	3,278	2,647 (80.75%)	625 (19.07%)	6 (0.18%)

### ② Reasons for Voting Against

Reason	2019		2020		2021	
	Number	Weight (%)	Number	Weight (%)	Number	Weight (%)
Appointment of Directors and Auditors	251	40.2	245	45.8	178	32.4
Amendments to Articles of Incorporation	95	15.2	37	6.9	85	15.5
Remuneration Cap for Directors	242	38.7	155	29.0	178	32.4
Others	37	5.9	98	18.3	108	19.7
<b>Total</b>	<b>625</b>	<b>100.0</b>	<b>535</b>	<b>100.0</b>	<b>549</b>	<b>100.0</b>

### ③ Reasons for Voting Against Appointment of Directors and Auditors

Reason	2019		2020		2021	
	Number	Weight (%)	Number	Weight (%)	Number	Weight (%)
Long Service (10+ years)	52	20.7	33	13.5	22	12.4
Full-time Employee in the company, affiliate or a company in important relationship within the recent five years	58	23.1	77	31.4	45	25.3
Poor Attendance in the Board (75% or below)	15	6.0	24	9.8	15	8.4
Excessive Dual Office Holding	34	13.5	43	17.5	31	17.4
Negligence on Duty of Oversight	16	6.4	10	4.1	19	10.7
Others	76	30.3	58	23.7	46	25.8
<b>Total</b>	<b>251</b>	<b>100.0</b>	<b>245</b>	<b>100.0</b>	<b>178</b>	<b>100.0</b>

## 2. Shareholder Engagement Activities

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

In 2021, NPS undertook 293 shareholder engagement activities, including sending letters and conducting dialogues, with 145 companies.

Shareholder Engagement Activities									
Item	Engaged Companies		Letters Sent		Dialogues Conducted		Total (Letters and Dialogues)		
	2020	2021	2020	2021	2020	2021	2020	2021	
Dividend Policy	31	30	40	41	27	20	67	61	
Remuneration Cap for Director	12	12	12	12	20	29	32	41	
<b>Focus Areas</b>									
Violation of Rules and Regulations	25	26	37	36	19	39	56	75	
Repetitive Vote Against	11	11	11	11	14	16	25	27	
ESG Rating Downgrade	2	1	2	1	3	5	5	6	
<b>Unexpected Concerns</b>									
	28	65	35	76*	5	7	40	83	
<b>Total</b>	<b>109</b>	<b>145</b>	<b>137</b>	<b>177</b>	<b>88</b>	<b>116</b>	<b>225</b>	<b>293</b>	

\* Including unexpected concerns and the number of letters sent

# Guide to the Website

National Pension Service (NPS) publicly discloses investment-related information in a transparent manner so that such information is easily accessible to pension contributors, beneficiaries and stakeholders. For more details on asset composition and return, please visit the NPSIM website at <http://fund.nps.or.kr>.

## STEP 1

Visit the NPSIM's website at <http://fund.nps.or.kr>.



## STEP 2

Click on the Publications icon.



## STEP 3

Search Information.



This Annual Report is published to provide the reader with a comprehensive information on investment status, investment performance, etc. Some information may differ slightly from other materials due to different cutoff dates, or require further explanation due to absence in this report. This report reflected the result of the investment performance assessment on the National Pension Fund for the period of 2021, approved by the National Pension Fund Management Committee. Details are available on the websites of the Ministry of Health and Welfare at [www.mohw.go.kr](http://www.mohw.go.kr) and NPSIM at [fund.nps.or.kr](http://fund.nps.or.kr).

\* Investment performance assessment for a year is finalized by approval from the National Pension Fund Management Committee at the end of June in the following year.



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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.

