

2020 NATIONAL PENSION FUND ANNUAL REPORT



2020 NATIONAL PENSION FUND ANNUAL REPORT



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2020 NPF Responsible Investment & Governance Report



CEO's Message

Kim Yong-Jin

Chairperson and Chief Executive Officer of 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 31 December 2020.

Launched in 1988, the National Pension Plan has become a robust safety net of Korea to serve approximately 22.11 million pension participants and 5.59 million beneficiaries, and its fund is now valued at KRW 834 trillion as of the end of 2020, making it the world's third largest public pension fund. As a statutory plan sponsor of the social security scheme, NPS plays a pivotal role in stabilizing and promoting not only public livelihoods, but the national economy and welfare system as a whole. Given its great importance, a broad range of stakeholders give heed to how the Fund is managed.

As of the end of 2020, the Fund reached KRW 833.7 trillion in value, most of which was managed in financial investments, including equities, fixed income investments, and alternatives. Despite the economic uncertainty caused by the COVID-19 pandemic, we achieved an annual return of 9.70% or KRW 72.1 trillion in 2020 alone. Moreover, we generated stable returns over a long horizon as indicated by the annualized return since inception at 6.27%, equivalent to KRW 439.6 trillion.

The standout performance has hinged chiefly on our steadfast pursuit of portfolio diversification strategies to explore untapped profitable investment opportunities and minimize investment risk. In late 2020, oversea assets made up 36.5% of the Fund, up KRW 47.1 trillion from a year ago, amounting to KRW 303.9 trillion.

Given the steep growth in size, the Fund is expected to increase to KRW 1,000 trillion and KRW 1,700 trillion by 2024 and 2041, respectively, presumably having an increasing impact on the national economy and global financial markets for years to come.

In order to ensure effective portfolio diversification in line with the swiftly increasing fund size, we set out an overarching overseas investment master plan in 2020, and have since made multifaceted efforts to have enhanced systems in place for risk management and investment operation to this end. As part of strategies to have the capacity to conduct in-house preliminary risk analysis, we formulated ways to invest according to its own Country Risk Index, while creating new senior positions in areas of Investment Strategy, Risk Management and Investment Operation to ramp up the efficiency and expertise in fund management

We, as a long-term institutional investor, have been devoted to its fiduciary obligation to incorporate environmental, social, and governance (ESG) factors in investment decision-making. In July 2018, we adopted the Responsible Investment & Governance Principles, or Stewardship Code, for the first time among domestic public pension funds. In 2020, the scope of responsible investment (RI) activities, which had focused mainly on externally managed domestic equity RI funds, was expanded to all of the internally managed domestic equities. In parallel, NPS has constantly strived to create an environment that underpins RI activities and to encourage external managers to enhance their RI capabilities.

As a public pension fund and one of Korea's largest pension investment managers, NPS remains committed to delivering its corporate social responsibility, advancing its stewardship activities in stages according to its RI facilitation plan and proxy voting rights roadmap, and ensuring stable returns in the long term for our pension participants and beneficiaries.

Thank you.



CIO's Message

Ahn Hyo-Joon

Executive Fund Director and Chief Investment Officer of National Pension Service

National Pension Service Investment Management (NPSIM) is a dedicated fund management unit designed to effectively cope with rapidly changing financial and economic landscapes, as well as manage and invest the National Pension Fund (NPF) in more systematic and professional manners.

NPSIM, which had just six teams and 40 employees at its launch in 1999, has now evolved into a global investor consisting of a CIO, three Managing Directors, 11 Divisions, one sub-division, and three overseas offices as of the end of 2020, thanks to its investment diversification strategies and considerable growth in its fund size.

In order to further deliver strong returns and manage risk appropriately, NPS has diversified its portfolio to include not only equities and fixed income investments, but also alternatives - real estate, infrastructure, private equity funds - at home and abroad, and to add new assets class such as foreign hedge funds and private debt in its portfolio.

2020 was a challenging year for global financial markets as a whole with higher volatility than ever before due to the rapid spread of COVID-19. Amid these circumstances, NPS generated an annual return of 9.72% or KRW 72.1 trillion in its financial investments alone on the back of a quick stock market recovery.

This performance is the result of our unwavering efforts to diversify its portfolio to expand its investments in both overseas and risky assets. The allocation to overseas investments was increased to 36.5% in late 2020 from 12.6% in late 2010 while the allocation to domestic fixed income investments was reduced to 39.1% from 66.6% in the same period.

We believe that the next ten years will be the golden time for NPS to be able to proactively make investments without the burden on liquidity. Taking this opportunity, NPS has developed an overarching overseas investment master plan, including asset allocation strategies and risk management, to maximize investment returns by overcoming the small size of the domestic market relative to its sheer fund size and further promoting overseas investments.

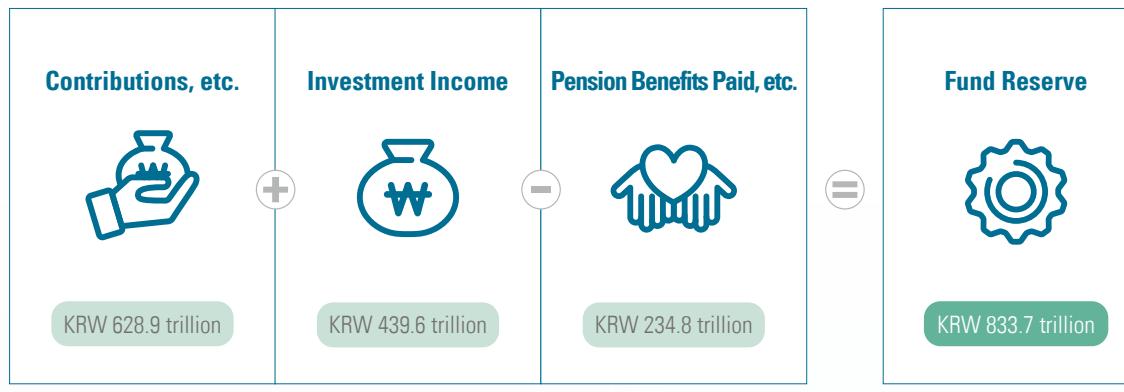
Moreover, considering increasing foreign exchange exposure driven by the expansion of overseas investments, NPS has improved its FX management system to proactively address exchange rate fluctuations by adjusting currency allocation in its overseas portfolio.

Recognizing its role as a fiduciary that manages the Fund and invests in the best interest of pension participants and beneficiaries, NPS will step up its effort to achieve the highest return through investment diversification strategies. Furthermore, as a long-term investor, NPS will do its utmost to seek stable returns in the long term by integrating ESG factors in investment decisions and minimizing associated risks.

Thank you.

2020 Fund At A Glance

Fund Status

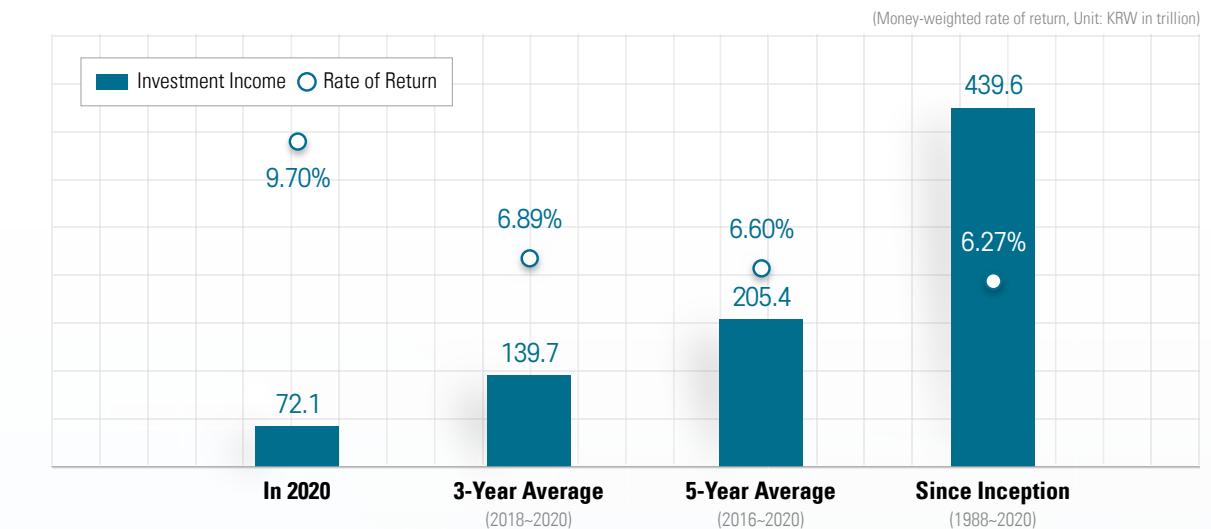


Revenues

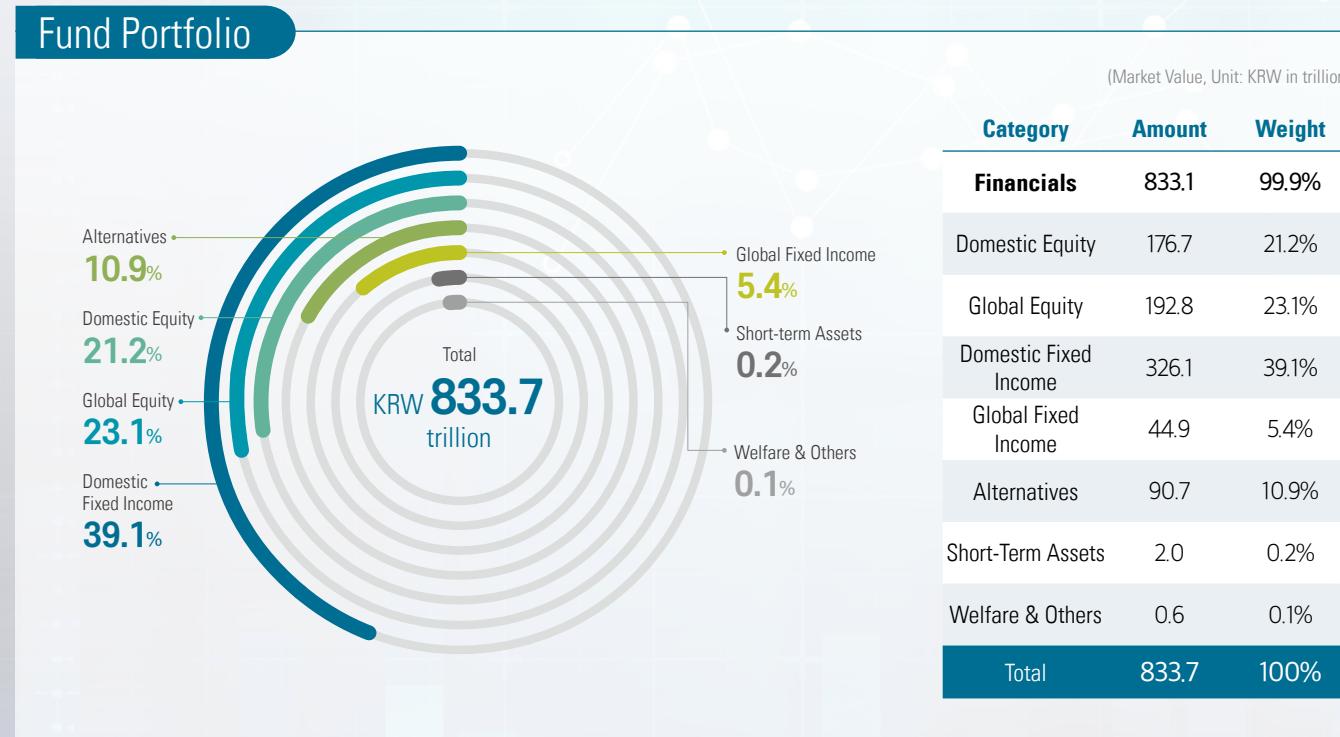
Expenses

Total

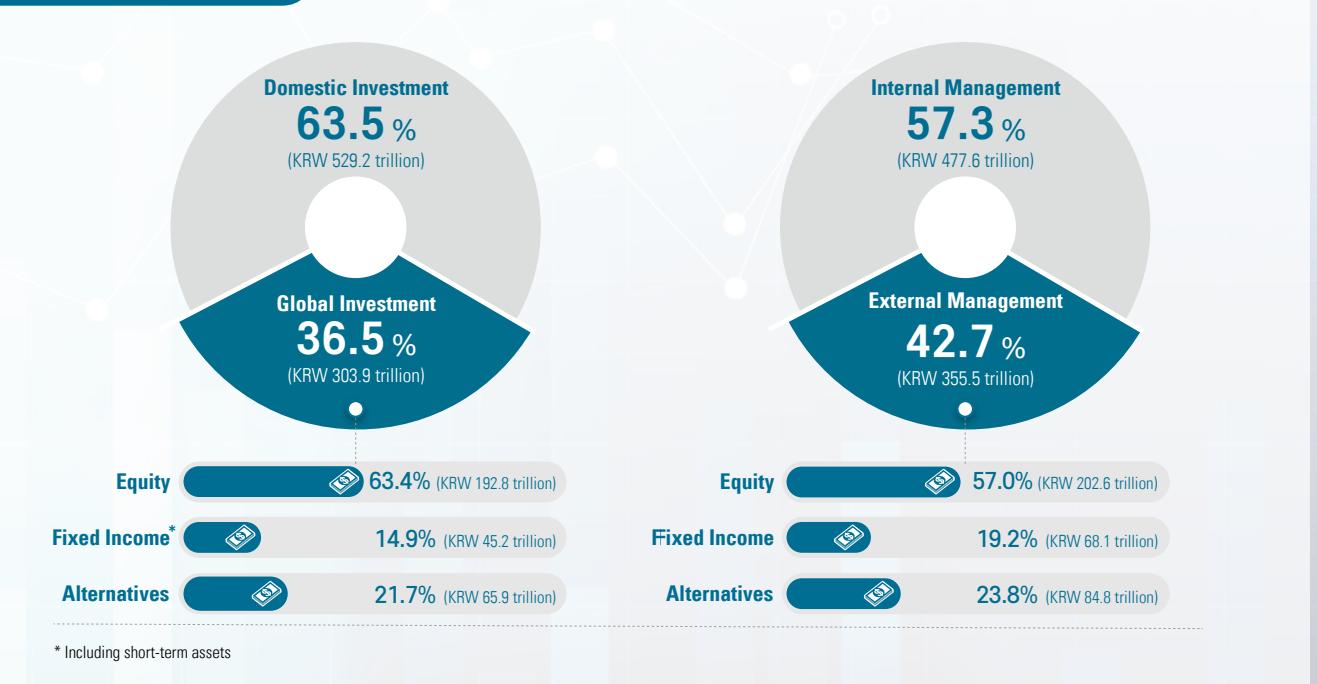
Fund Performance



Fund Portfolio

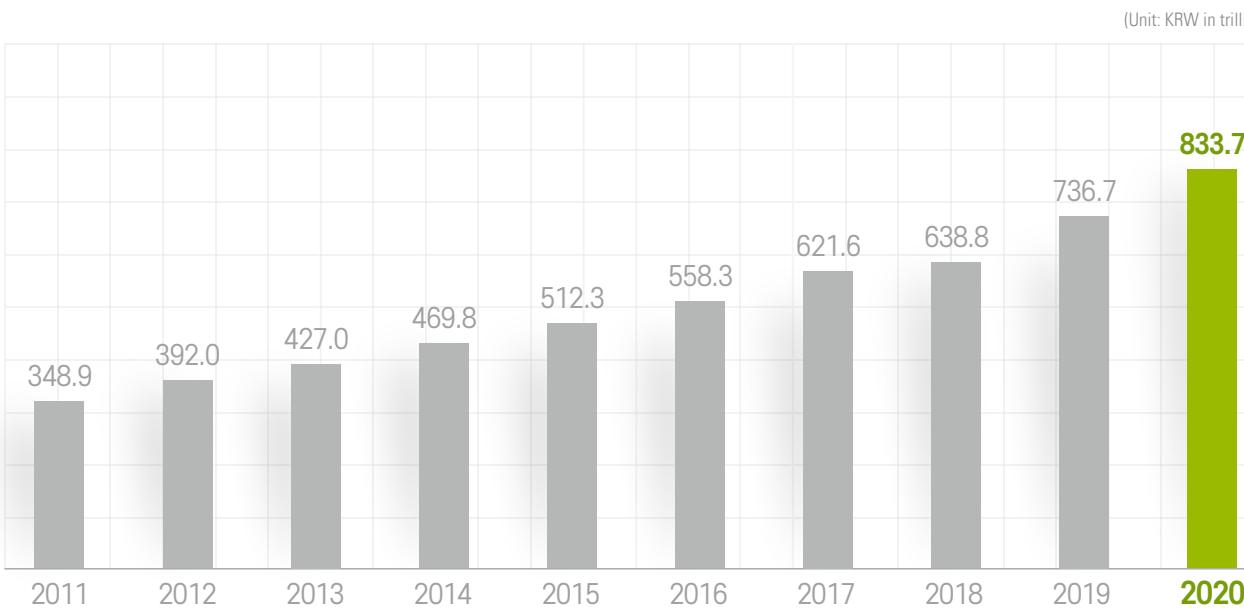


Portfolio Breakdown



Fast Facts about Fund Growth

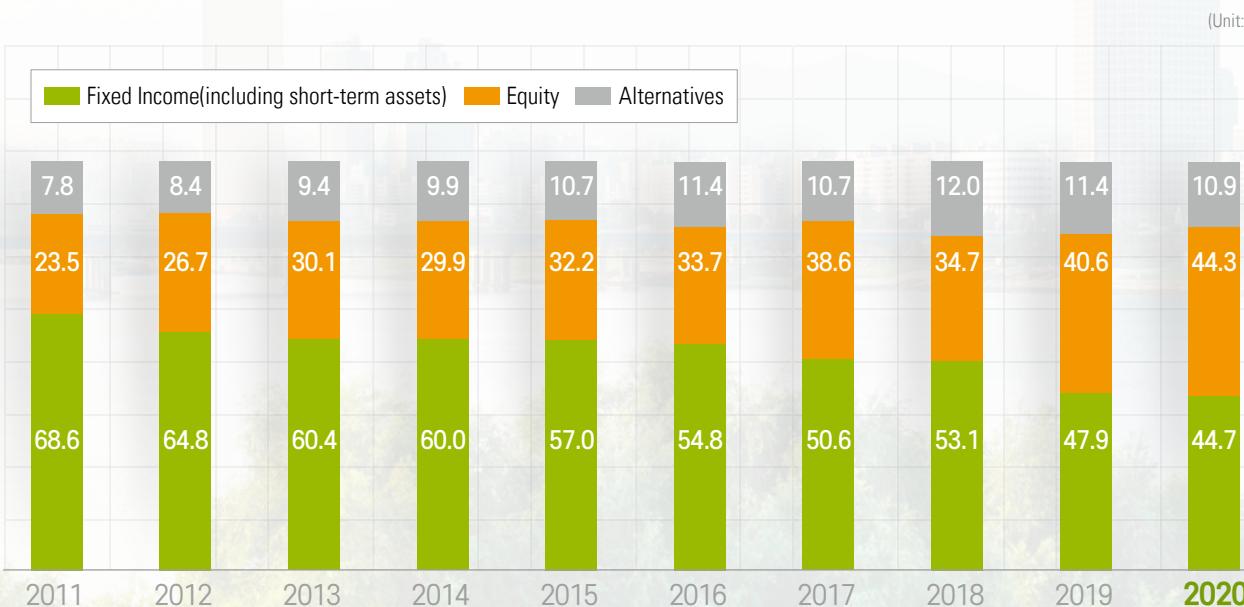
Fund Reserve



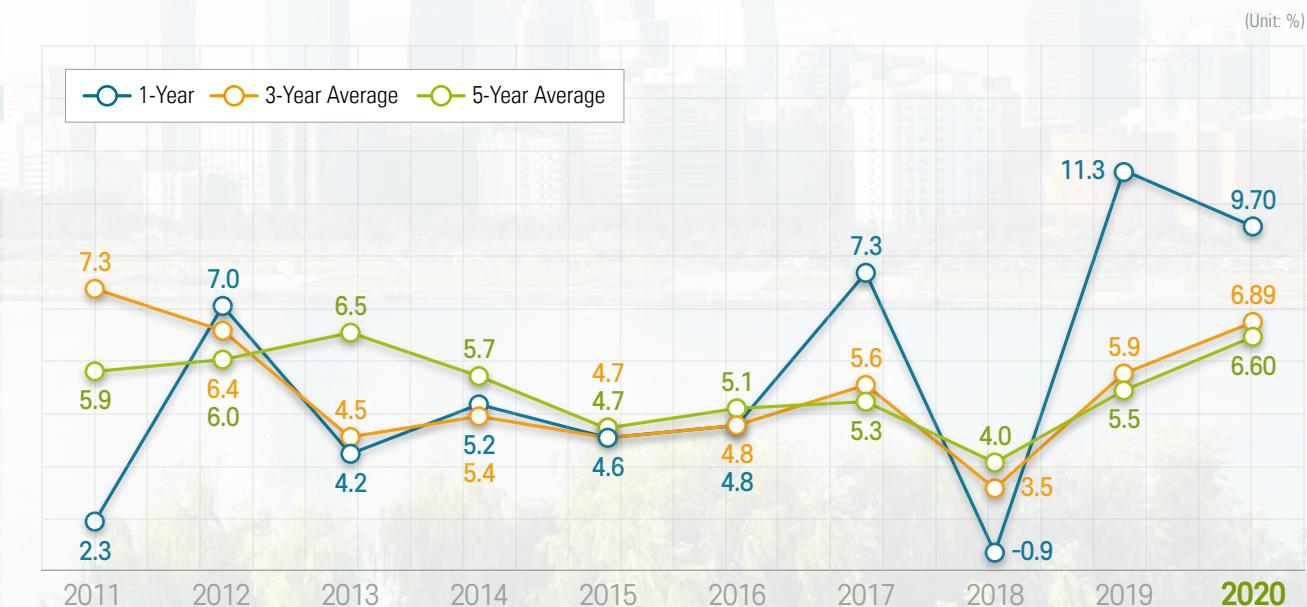
Investment Results



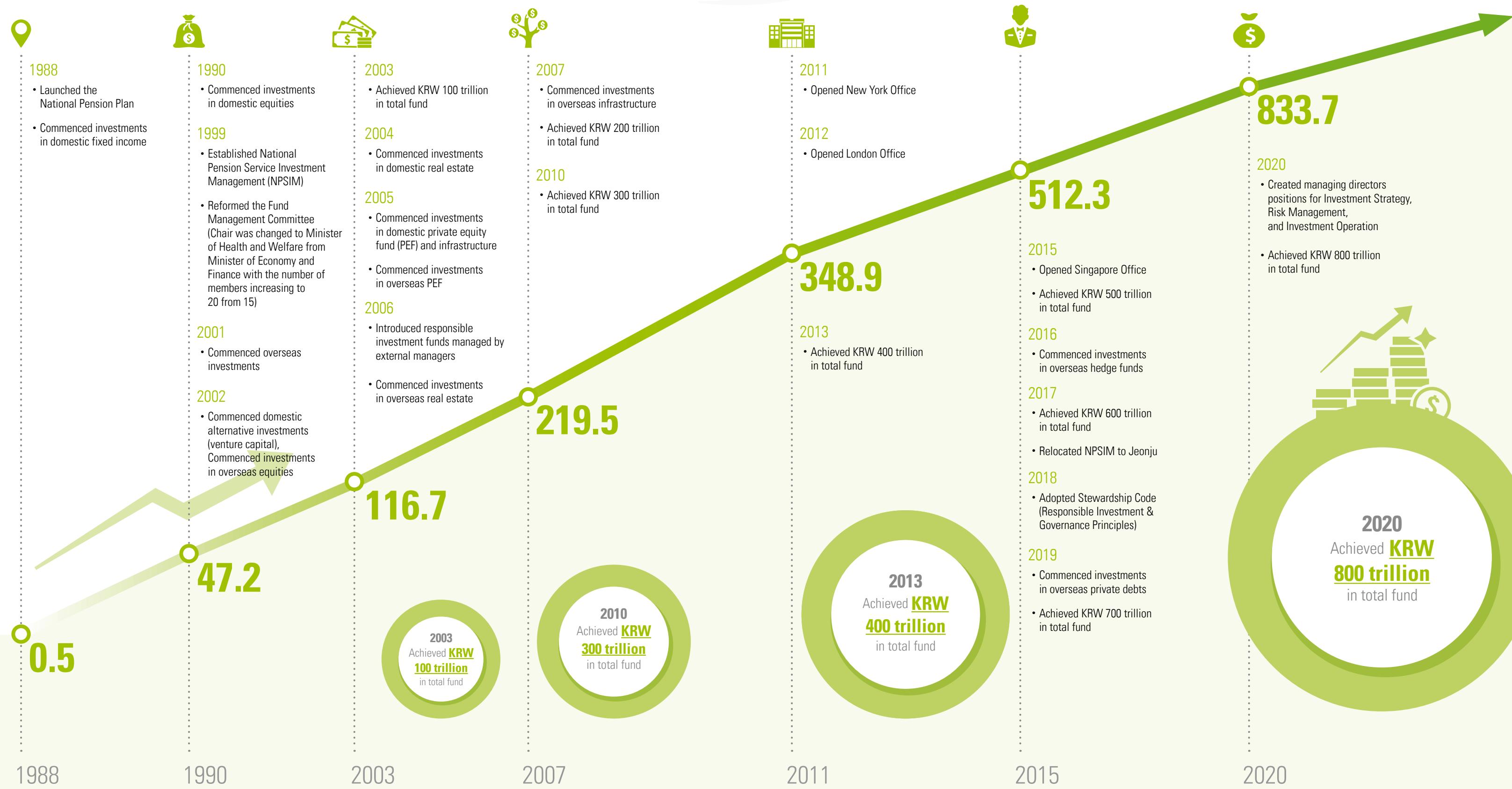
Asset Allocation



Investment Return



History of National Pension Fund





**2020
National Pension Fund
Annual Report**

**I.
Introduction of
National
Pension Fund**

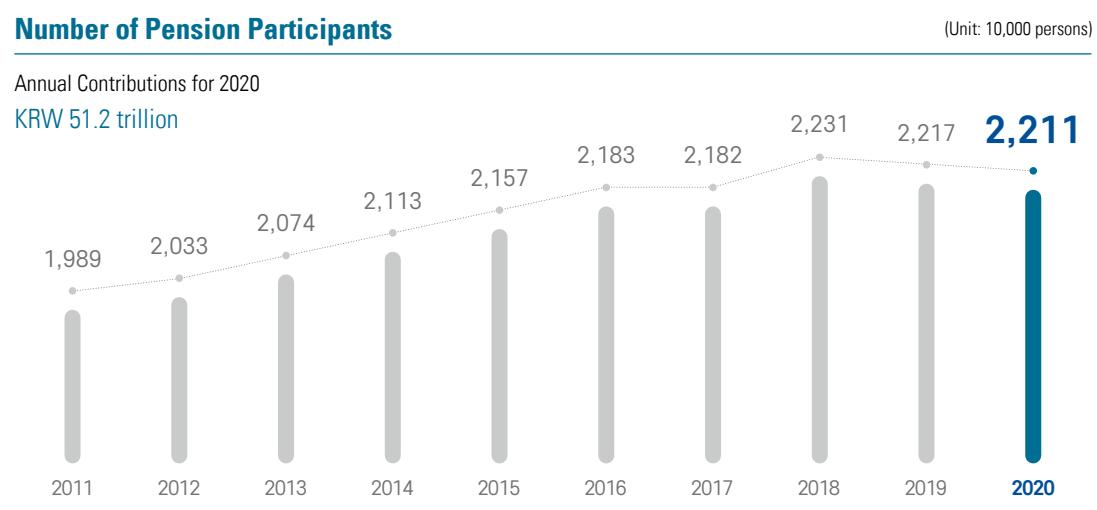
1. National Pension Plan
2. National Pension Fund

1. National Pension Plan

The National Pension Plan serves as a prime social security program that contributes to the stabilization of public livelihoods and the promotion of national welfare by providing old-age, disability, survivor's benefits.

As part of Korea's Social Security Programs aimed at stabilizing the livelihoods of the people, the National Pension Scheme is composed of Old-Age Pension, Disability Pension, and Survivor Pension. The Old-Age Pension benefits pension participants who are not engaged in income-earning activities after retirement. The Survivor Pension benefits bereaved family members of a deceased pension participant or beneficiary. The Disability Pension benefits pension participants who have a physical or mental disability due to sickness or injury.

The Plan was first implemented in January 1988 to cover employers or employees aged between 18 and 60 at a workplace of 10 or more employees. Its coverage has since been expanded in stages to cover every individual in the country as of April 1999, unleashing an era of "Pensions for All." Along with the National Health Insurance, Employment Insurance, and Industrial Accident Compensation Insurance, the National Pension now acts as a leading social security benefit in the country with more than 22.11 million pension participants and 5.59 million beneficiaries of the pension benefits as of the end of 2020.



Types of Pension Participants

	Mandatory Workplace-Based Participants Employers and employees (including foreigners)		Mandatory Individually Participants Those who are not workplace-based participants such as the self-employed, farmers or fishers
	Operational Voluntarily Participants Those who are insured voluntarily although their subscription is not mandatory (i.e. full-time housewives, students under the age of 27)		Operational Voluntarily and Continuously Participants Those who are current or former participants, and wish to continue their pension contributions past the age of 60

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

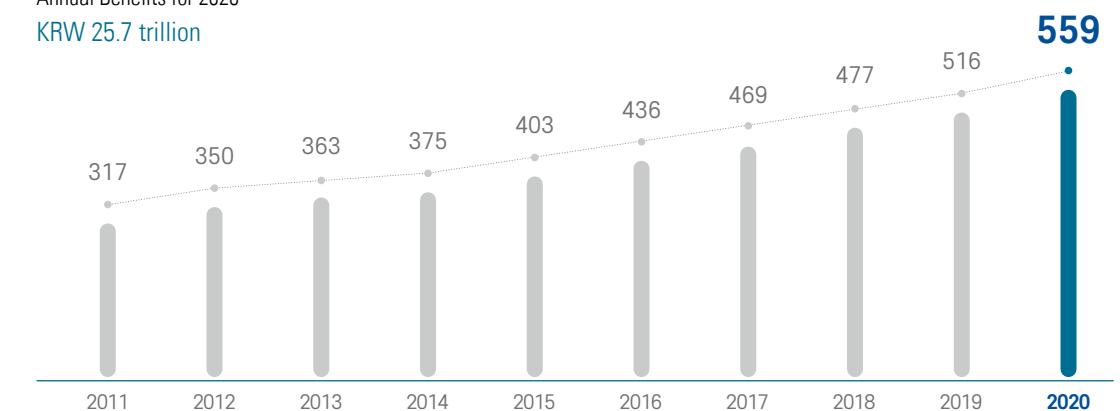
As of the end of 2020, NPS has a headquarters and 109 regional offices, Disability Assessment Center, National Pension Research Institute, and five call centers. The headquarters consists of 15 divisions, two sub-divisions, three centers, Digital Innovation Headquarters, National Pension Service Investment Management (NPSIM), and Compliance Office. Among them, NPSIM takes charge of administering and managing the National Pension Fund that finances the payments of pension benefits.

Number of Pension Beneficiaries

(Unit: 10,000 persons)

Annual Benefits for 2020

KRW 25.7 trillion



Types of Benefits



Old-Age Pension

The Old-Age Pension is paid monthly for a lifetime to those whose participation period is 10 years or more when they reach age 62 or make less or no income.

※ For those born 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 provided to a person who meets participation period requirements at the time of the first treatment of disease or injury and has a physical or mental disability even after being treated for associated disease or injury. The pension is paid according to the level of disability.



Survivor Pension

The Survivor Pension is provided to the bereaved family members of a deceased pension participant or beneficiary if the family meets pension recipient requirements.

About the National Pension Service

NPS Organizational Structure

Total employees: 7,125 (as of December 31, 2020)

Headquarters | 15 Divisions, 2 sub-divisions, 3 centers, Digital Innovation Headquarters, NPSIM, Compliance Office
Regional Offices | 109 regional offices, Disability Assessment Center, National Pension Research Institute, 5 call centers

Purpose of Establishment

National Pension Service was established in 1987 in an effort to contribute to the stabilization of public livelihoods and promotion of public welfare by providing old-age, disability, survivor's pension benefits.

Value System



Vision

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

Mission

To contribute to the stable livelihood of pension participants with sustainable pension benefits and welfare services

Core values

Inclusiveness and Happiness, Responsibility and Trust, Fairness and Innovation

Mission Statement

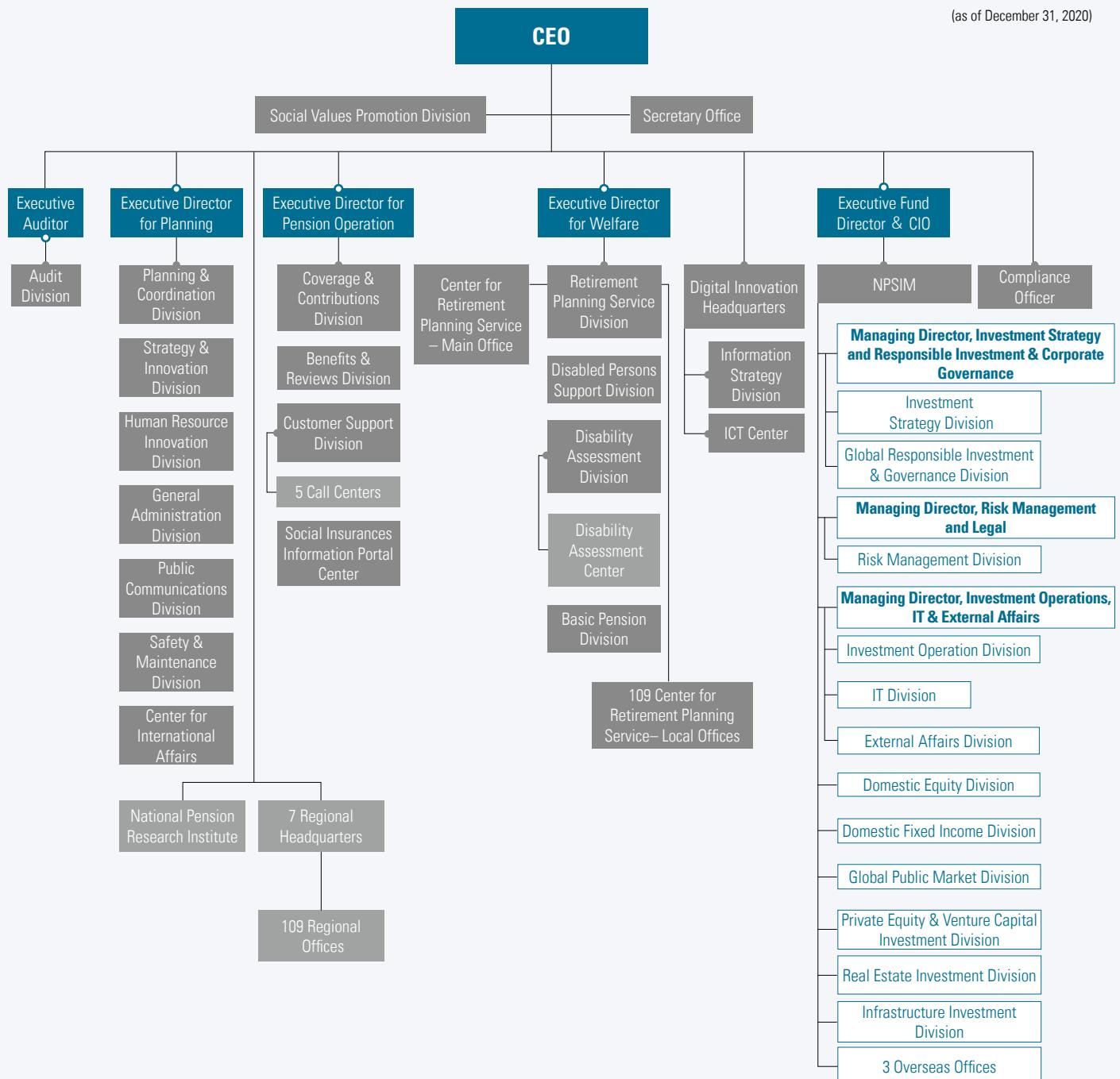
"Pension for All that Makes Everyone Happy"

National Pension Service will do its utmost to make the National Pension Benefits all and bring hope for the future.



NPS Organizational Chart

(as of December 31, 2020)



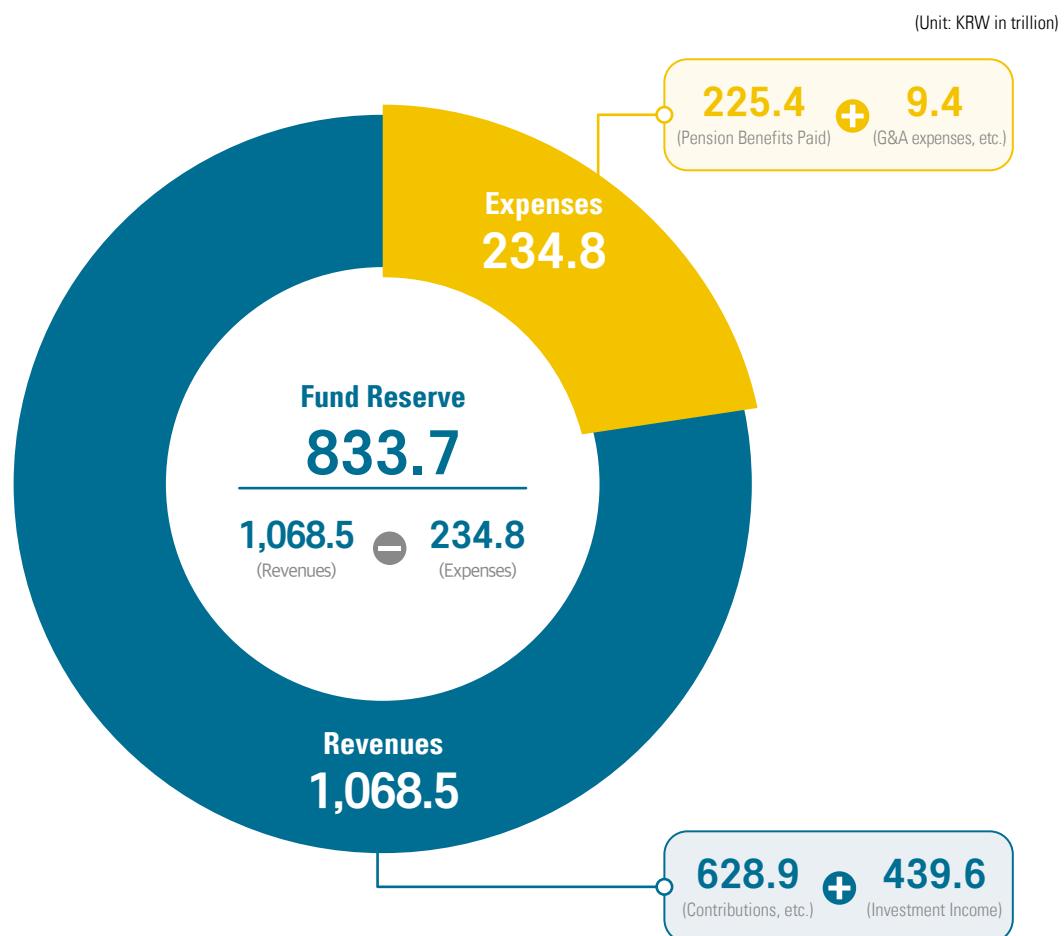
2. National Pension Fund

The National Pension Fund (NPF) is a reserve fund to secure financial resources necessary for national pension services and payments of pension benefits under Article 101 of the National Pension Act.

The Fund is the amount after all expenses, including pension benefits paid and administrative expenses, are deducted from total revenues, including contributions and investment income. At the end of 2020, the Fund reached KRW 833.7 trillion after subtracting KRW 234.8 trillion in expenses from KRW 1,068.5 trillion in revenues, a combination of cumulative contributions of KRW 628.9 trillion and cumulative investment income of KRW 439.6 trillion.

As outlined in the Fund Management Guidelines approved by National Pension Fund Management Committee (FMC), the Fund is mainly composed of Financials, Welfare, and Others. At the end of 2020, the Financial portfolio was invested in equities, fixed income and alternative assets, amounting to KRW 833.1 trillion or 99.9% of the Fund, while Welfare and Other sectors stood at KRW 0.6 trillion or 0.1%.

Fund Status



At the end of 1988 when the National Pension Scheme was first launched, the Fund's market value was KRW 527.9 billion. Since its inception, NPS has evolved as one of the global public pension funds with its assets of KRW 833.7 trillion in the Fund. Cumulative investment income stood at KRW 439.6 trillion, representing around 52.7% of the Fund.

The Fund is managed with an aim of maximizing returns to ensure its fiscal stability necessary to pay pension benefits over the long run. To this end, National Pension Service has managed and invested the Fund based in compliance with the six investment principles: Profitability, Stability, Public Benefit, Liquidity, Sustainability and Investment Independence.

Investment Principles



Profitability

Achieve the highest return to lessen burdens on pension participants, especially for future generations



Stability

Invest within acceptable risk and volatility



Public Benefit

Consider the spillover effect of fund management activities on the national economy and domestic financial markets as the National Pension Fund plays a pivotal role in providing benefits to all plan participants and makes up a very large portion of the national economy



Liquidity

Consider liquidities to ensure payments of pension benefits, and take preemptive action to minimize shock from disposal of assets on domestic financial markets



Sustainability

Translate fiduciary duty into investment activities in consideration of ESG (environmental, social and governance) factors



Investment Independence

Comply with the aforementioned principles and refrain from compromising such investment principles for other purposes

A close-up photograph of a person's hands holding a white tablet. The screen of the tablet displays a group of stylized human figures, each with a glowing orange head and body, arranged in a row. The background is dark, and there are small, scattered glowing particles around the figures.

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II. Fund Administration and Management System

- 1. Fund Governance
- 2. Fund Management Process
- 3. National Pension Service
Investment Management

1. Fund Governance

As outlined in Article 102 of the National Pension Act, the Minister of Health and Welfare oversees the administration and management of the National Pension Fund (NPF). Key matters on fund management are decided by the National Pension Fund Management Committee (FMC) whose chair is the Minister of Health and Welfare. In addition, to acquire expertise in decision making processes, the National Pension Fund Management Practice Evaluation Committee, along with three Special Committees, have been established under the FMC.

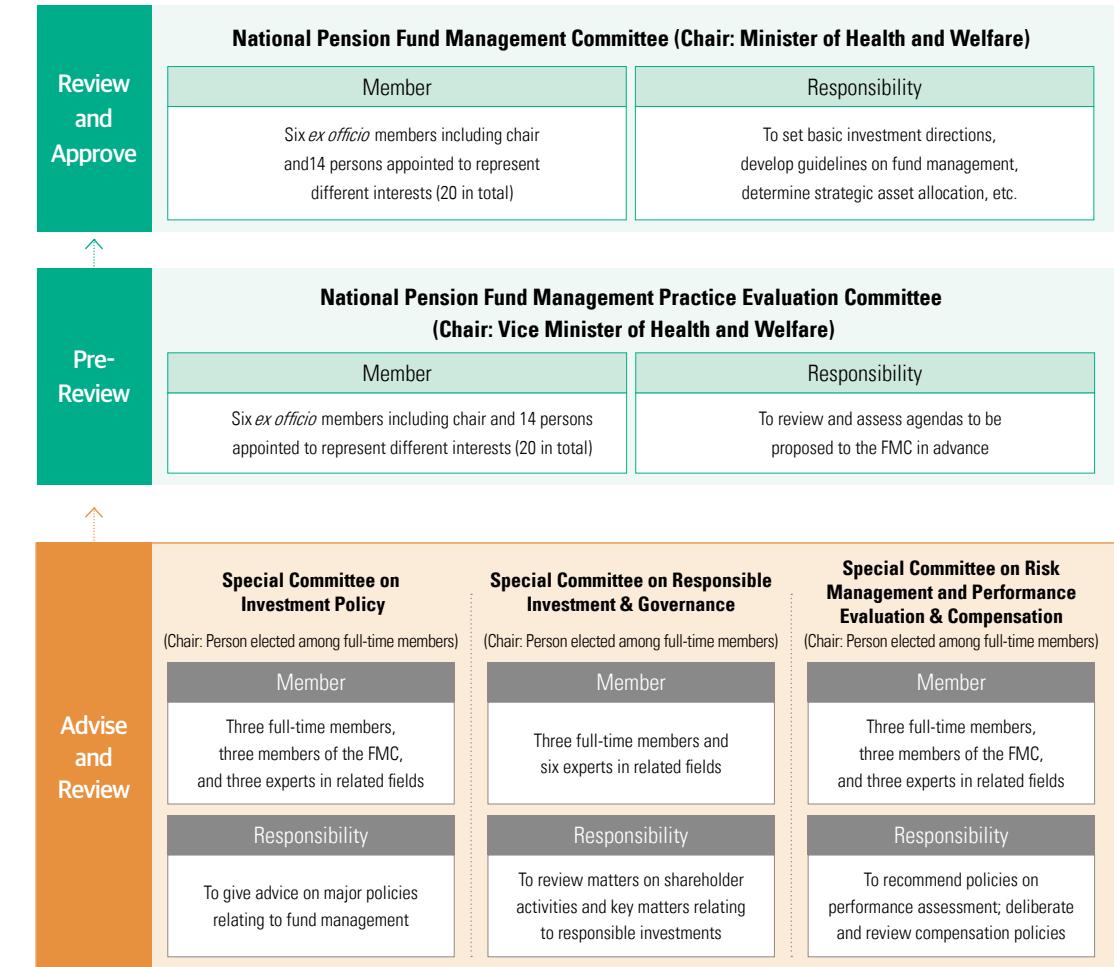
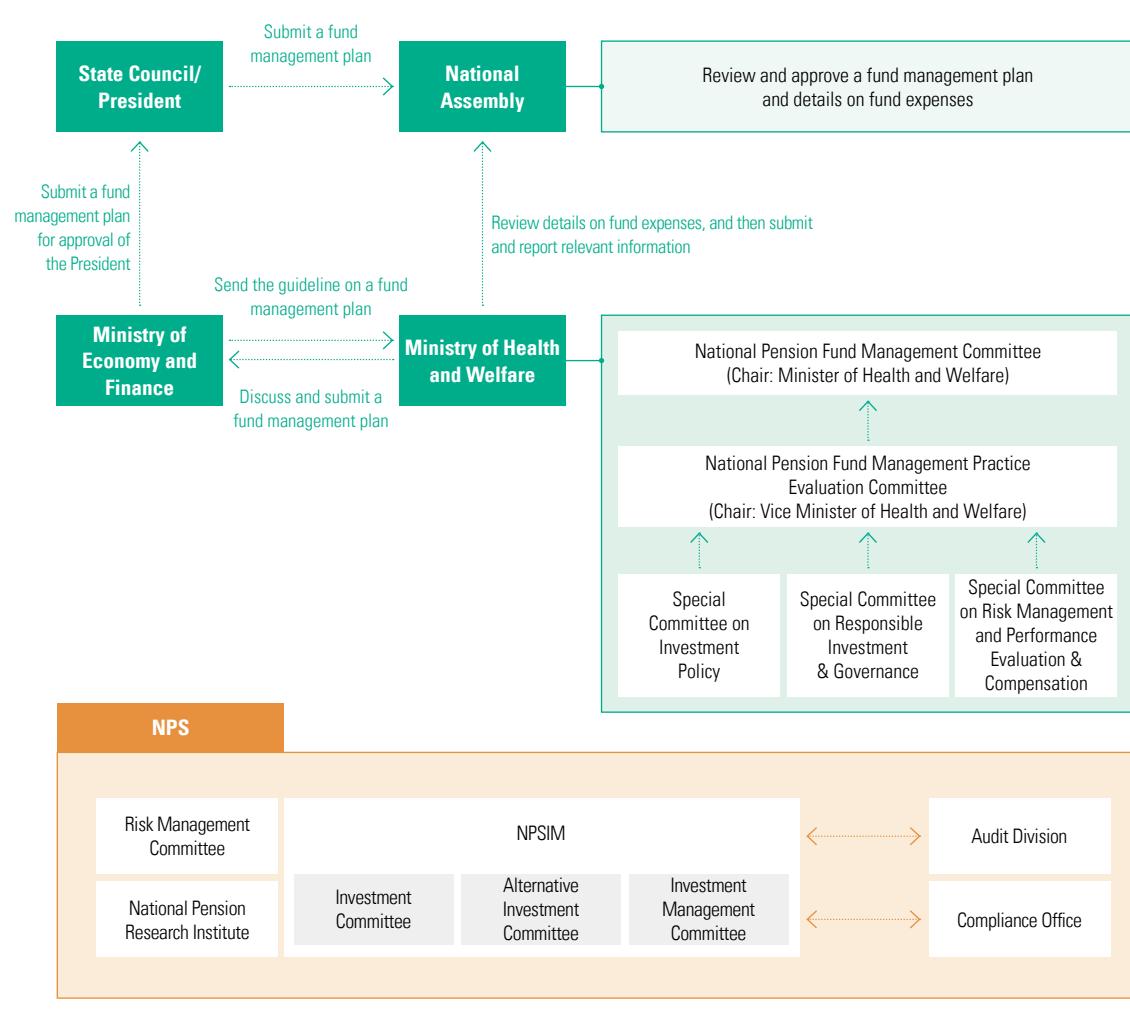
According to the National Pension Act, the Minister of Health and Welfare has set up the FMC as the highest decision making body on fund management. The FMC reviews and approves matters relating to fund management guidelines, annual management plans, performance assessment, etc. The Minister of Health and Welfare oversees activities relating to fund investment, and entrusts the implementation of such activities solely to National Pension Service (NPS). To facilitate systematic and professional administration and management, NPS has formed the National Pension Service Investment Management (NPSIM) that conducts a range of investment activities, including tactical asset allocation, investment execution, market monitoring, and portfolio management. Meanwhile, the Minister of Health and Welfare sets out a fund management plan annually, which is to be reviewed by FMC and the State Council and then approved by the President. Following this, the plan is submitted to the National Assembly for final approval.

Established under Article 103 of the National Pension Act, the FMC is comprised of 20 members, including six *ex officio* members – the Minister of Health and Welfare as chair, CEO of NPS, and four vice ministers of relevant ministries –, 12 persons who are representing employers, employees, and individually insured participants appointed to enhance transparency of fund management, and two external experts with knowledge and experience in national pension. The FMC convene meetings at least four times per year to review and decide on matters relating to fund management guidelines, mid- to long-term asset allocation plans, annual fund management plans, risk management, performance assessment, compensation, etc.

In order to promote expertise and efficiency in decision making processes, National Pension Fund Management Practice Evaluation Committee (PEC) is established under the FMC as a sub-committee pursuant to Article 104 of the National Pension Act. Consisting of accountants, lawyers and other external experts in economics, business management, and financial fields, the PEC assists the FMC in reviewing agendas to be proposed to the FMC in advance and providing technical and professional advice. The PEC includes six *ex officio* members – Vice Minister of Health and Welfare as chair and five government officials –, 12 persons representing employers, employees, and individually insured participants, and two experts in related fields

Governing Bodies for Fund Management

Fund Management Governance



※ As of January 2020, full-time expert members are appointed in accordance with the amendment to the Enforcement Decree of the National Pension Act.

Under Article 80-3 of the Enforcement Decree of National Pension Act, the FMC runs 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 examine and assess matters to be reviewed and approved by the FMC in advance. Each Special Committee is comprised of nine members, including three full-time expert members, and one of who serves as chair of the committees.

In order to enhance expertise and representation in decision making processes, full-time expert members are appointed in accordance with the amendment to the Enforcement Decree of National Pension Act as of January 2020. Organizations of employers, employees, and individually insured participants recommend an expert for each committee, and those selected are entrusted as full-time members, who serve as chairs of the Special Committees.

The Special Committee on Investment Policy reviews and provides policy recommendation on matters relating to annual fund management plans, fund investment standards and investment, development of new investment policies, changes in existing investment policies, etc. The Special Committee on Responsible Investment & Governance examines and determines key matters relating to stewardship activities, including responsible investments and exercise of shareholder rights in listed companies pursuant to relevant rules and regulations, and reports the results to the FMC. The Special Committee on Risk Management and Performance Evaluation & Compensation provides policy recommendation in relation to risk management, performance assessment, and compensation as well as reviews and assesses performance bonus percentages for employees of NPSIM.

Moreover, NPS operates the Risk Management Committee, Investment Committee, Alternative Investment (Sub-) Committee, and Investment Management Committee to foster expertise in each area and improve transparency in the decision-making process in accordance with NPS Fund Management Guidelines and Regulations.

The Risk Management Committee is comprised of CEO of NPS as chair, CIO of NPS, and five to seven external experts. The Committee reviews and approves matters relating to key risk management prior to investment execution. After investments are made, it obtains reports on investment status and recommends corrective actions when appropriate.

The Investment Committee consists of CIO of NPS as chair, three Managing Directors or Division Heads, and eight members including fund management-related Division Heads or team heads appointed by chair. The Committee reviews and approves all investment guidelines and plans by asset class.

The Alternative Investment Committee serves as a decision-making body separately established to strengthen efficiency and expertise in decision making on alternative investments, and constitutes CIO of NPS as chair, three internal members (excluding Heads of Divisions involved in projects subject to deliberation), and three external experts. The Committee reviews and approves investment decisions and changes in alternative investments. At the same time, a separate Alternative Investment Sub-Committee has been operating since 2019 to simplify decision-making procedures. The Sub-committee is comprised of a Division Head of NPSIM appointed by CIO, as chair, relevant team heads, and heads of overseas offices. Those involved in projects subject to deliberation are excluded.

The Investment Management Committee includes Managing Director of Risk Management & Legal as chair, three internal members, and three external experts, and reviews key matters relating to follow-up management of invested assets. The Committee's review result is not subject to approval, but to present associated agendas, including the deliberation result, to the Investment Committee or Alternative Investment Committee.

For details on the committees under the Ministry of Health and Welfare such as FMC, PEC, and Special Committees, please refer to the website of the MoHW at www.mohw.go.kr.

NPS Committees

	Roles and Responsibilities	Meetings	Membership
Risk Management Committee	<ul style="list-style-type: none"> • Provide basic guidelines on risk management • Define risk appetite and determine acceptable risk tolerance levels • Develop and implement risk management systems • Identify and assess appropriate risk management for new investment assets or methodologies • Review other matters considered necessary to be assessed at meetings by the Chair 	Periodically (more than 4 times a year), Occasionally	<ul style="list-style-type: none"> • Number of members : 7 to 9 • Chair : CIO of NPS • Member: CIO of NPS and 5 to 7 external experts
Investment Committee	<ul style="list-style-type: none"> • Review and approve annual and monthly investment plans • Review guidelines on selection and management of investee companies • Review other matters considered necessary by the Chair 	Periodically (monthly) Occasionally	<ul style="list-style-type: none"> • Number of members: 12 • Chair: CIO of NPS • Member: 3 Managing Directors or Division Heads appointed by CIO in Investment Strategy, Risk Management, and Investment Operation Division, and 8 members from fund management-related Division Heads or team heads appointed by CIO
Alternative Investment (Sub-) Committee	<ul style="list-style-type: none"> • Make a decision and revision on investments in certain alternative investments • Review other matters considered necessary by the Chair 	Occasionally	<ul style="list-style-type: none"> • Number of members: 7 • Chair : CIO of NPS • Member: 3 internal members (Either Managing Director of Investment Strategy or Head of Investment Strategy Division, either Managing Director of Risk Management & Legal or Head of Risk Management Division, 1 Division Head from divisions which are not associated with corresponding projects), and 3 external experts ※ External expert pool is created in four areas - infrastructure, real estate, private equities, and natural resource. ※ Chair of Alternative Investment Sub-Committee is appointed by CIO among Division Heads in NPSIM (excluding division heads associated with corresponding projects).
Investment Management Committee	<ul style="list-style-type: none"> • Review and assess matters relating to disposal of investment assets when a company declares bankruptcy • Review matters relating to exercising a voting right on cases which are not covered by applicable laws in relation to disposal of non-performing assets of external funds 	Occasionally	<ul style="list-style-type: none"> • Number of members : 7 • Chair : Managing Director of Risk Management & Legal • Member: 3 internal members (Division Heads or team heads of NPSIM appointed by Chair), and 3 three external experts

2. Fund Management Process

2-1 Asset Allocation

Under the National Pension Act, the Minister of Health and Welfare has formulated a National Pension Fund Management Guideline stipulating investment policies and implemented the guideline upon review and approval of the Fund Management Committee (FMC). As an investment policy statement, the guideline includes fund management objectives and principles as well as organizational structure and roles and responsibilities.

Entrusted as a fiduciary of asset management under the National Pension Act, NPS complies with the fund management principles and asset allocation policies in the Guideline.

NPS executes investments in line with a five-year mid-term asset allocation plan and annual asset allocation plan approved by the FMC. The mid-term asset allocation plan sets out targets for the next five years considering expected return and volatility by asset class as well as internal and external economic outlook and indicators such as Gross Domestic Product (GDP) and Consumer Price Index (CPI). The annual asset allocation plan presents target allocations by asset class as a strategic implementation target portfolio which reflects portfolio status and investment market conditions at home and abroad.

In order to improve the profitability and stability of the Fund given its sheer size, the FMC lays out five-year target returns and risk tolerance levels in consideration of mid-term outlook for real economy and financial markets, and draws up target allocations for each asset class to this end. According to the Fund Management Guideline, a target return is defined as 'real GDP growth rate + CPI growth rate ± adjustments', and risk tolerance level is limited to less than 15% of shortfall risk, which refers to the probability that a five-year cumulative return falls below a cumulative CPI rate in the same period.

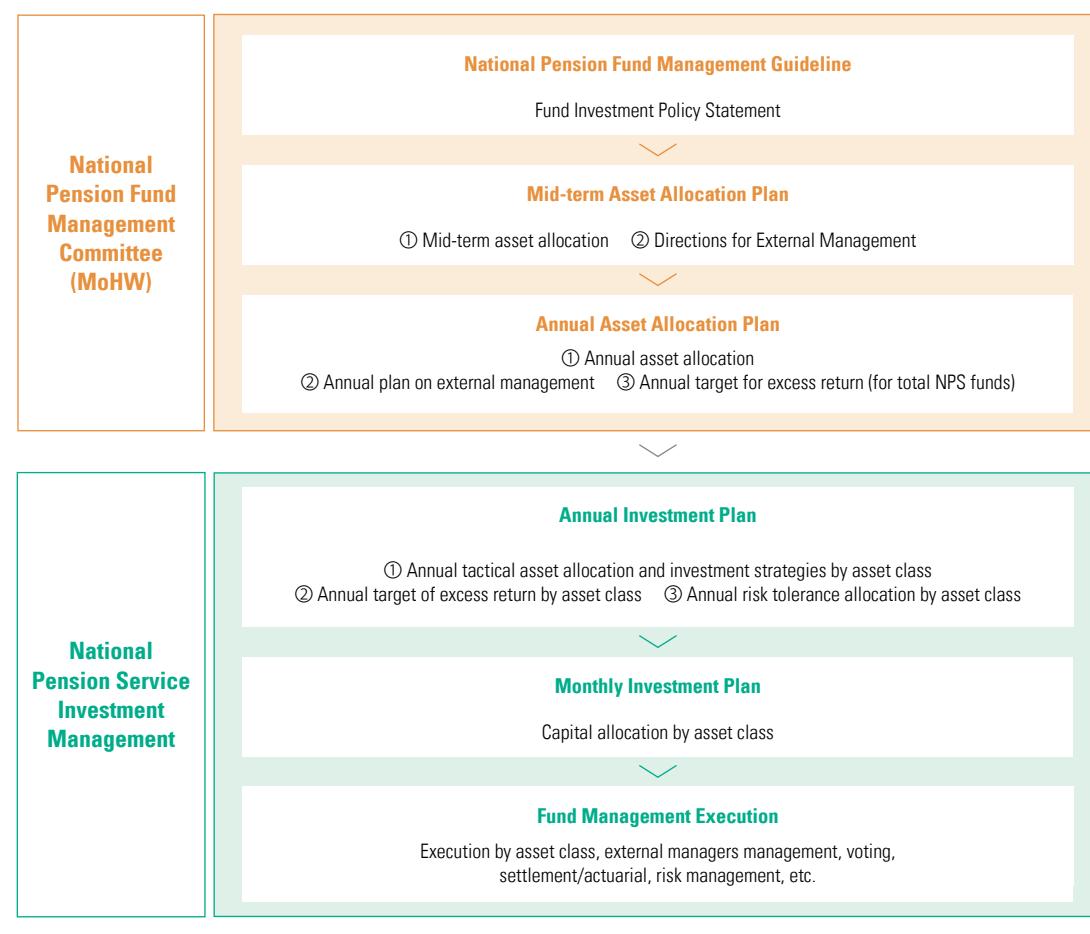
Target portfolio, approved by the FMC, indicates target asset allocations to be achieved in stages throughout the next five years. In theory, it is advisable to rebalance its portfolio immediately after a mid-term asset allocation plan is developed; however, given realistic constraints driven by its fund size, an annual fund management plan is formulated as an annual target implementation portfolio.

National Pension Service Investment Management (NPSIM), a dedicated unit for fund management, executes investments under the regulatory frameworks and guidelines decided by the FMC, and manages its investment portfolio in consideration of attributes of each asset class.

In addition, NPSIM establishes a monthly investment management plan reflecting financial markets and economic conditions, which is to be reviewed and approved by the Investment Committee, an internal decision-making body.

However, in terms of alternative asset investments such as domestic and overseas infrastructure or real estate, the Alternative Investment Committee, consisting of external experts, makes investment decisions after conducting investment feasibility analysis and preliminary risk assessment.

Fund Management Process



Mid-term Asset Allocation Process

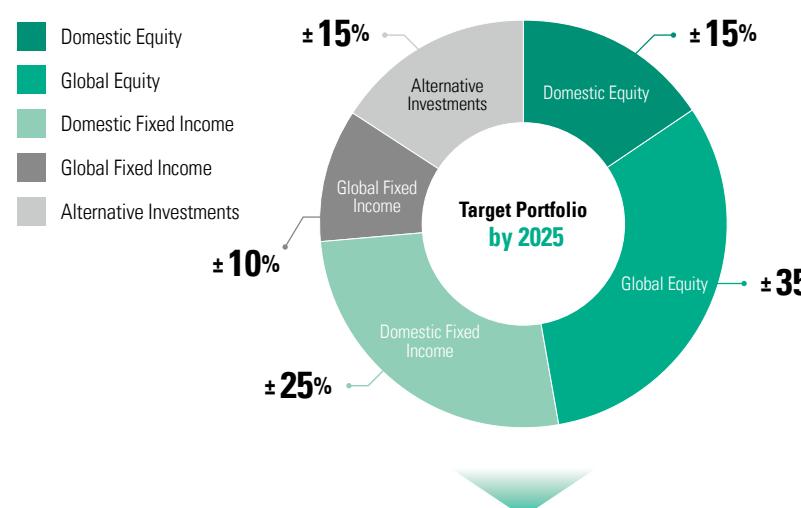


2-2 Mid-term and Annual Asset Allocation Plans

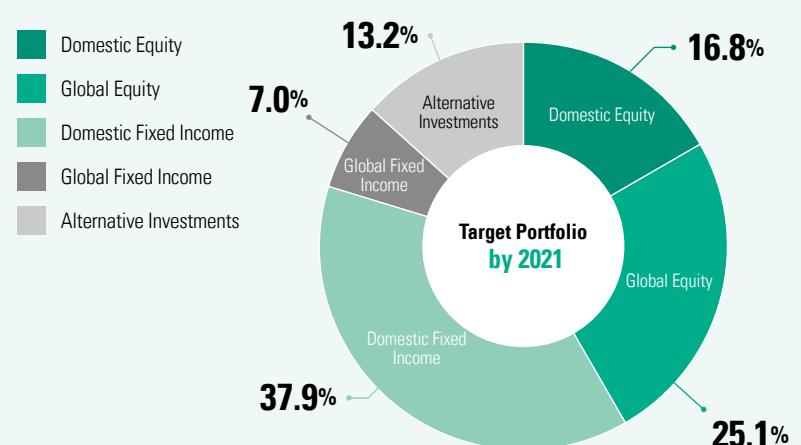
In 2020, the National Pension Fund Management Committee (FMC) set a target return of 5.2% for the period of 2021 to 2025 in consideration of economic outlook such as real GDP and CPI growth rates. Moreover, volatility and correlations among asset classes are drawn from expected return for each asset class and time-series market data based on benchmark indexes, while optimal asset allocation plans are mapped out given external factors such as fund management policy direction.

According to the Mid-term Asset Allocation Plan, a target portfolio for the period from 2021 to 2025 is set with allocations of ±15% for Domestic Equity, ±35% for Global Equity, ±25% for Domestic Fixed Income, ±10% for Global Fixed Income, and ±15% for Alternative Investments. Furthermore, the FMC has established an annual asset allocation plan for the year 2021 by reflecting revenues and expenses and based on mid-term target allocations for each asset class. A target portfolio for the year 2021 is set with allocations of 16.8% for Domestic Equity, 25.1% for Global Equity, 37.9% for Domestic Fixed Income, 7.0% for Global Fixed Income, and 13.2% for Alternative Investments.

2021-2025 Mid-term Asset Allocation Plan



Annual Asset Allocation Plan



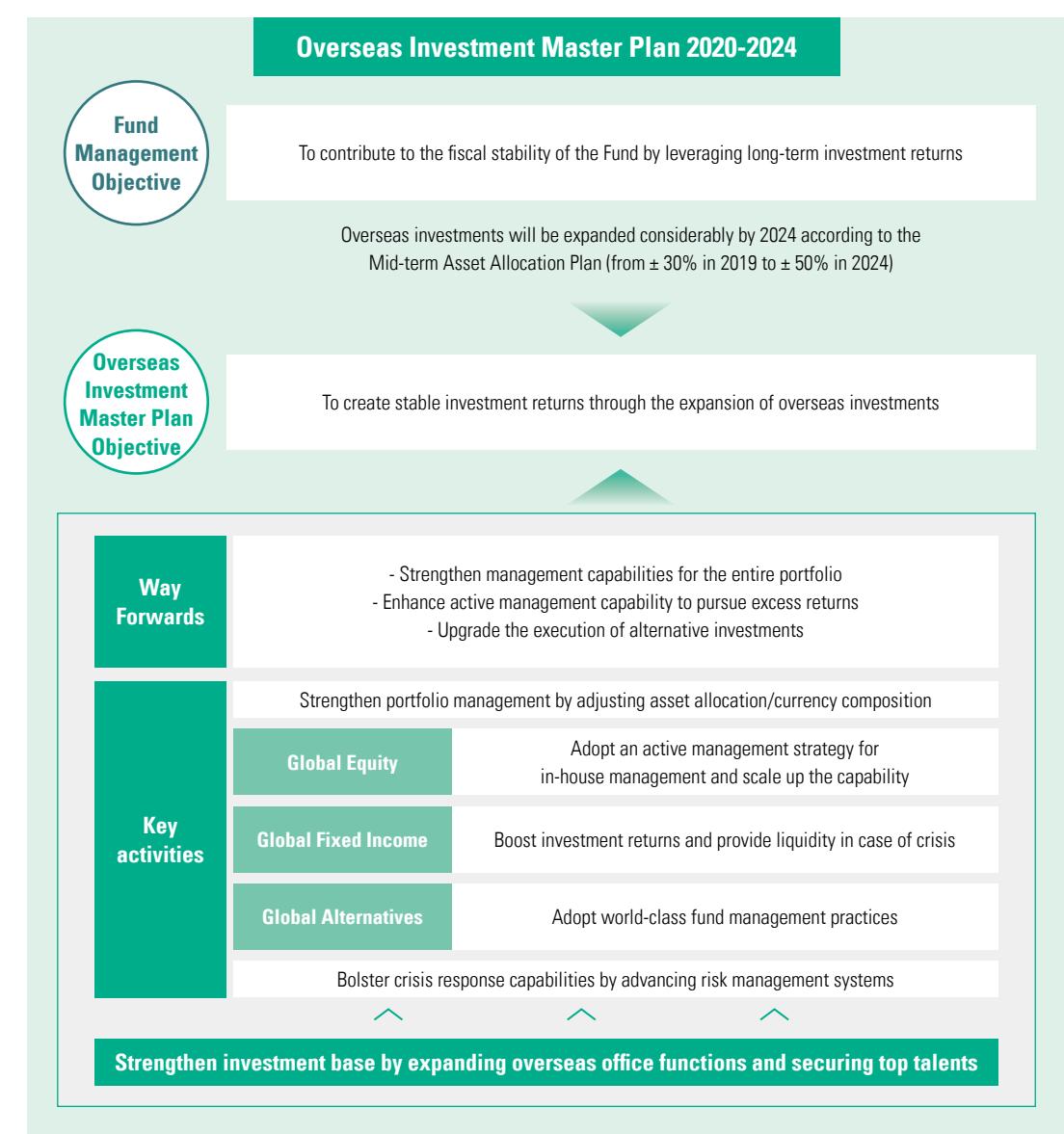
Allocation Range (%p)	
Domestic Equity	±5.0
Global Equity	±3.5
Domestic Fixed Income	±8.5
Global Fixed Income	+2.5/-4.5
Alternative Investments	+2.4/-3.4

Overseas Investment Master Plan

At the end of 2020, NPS's overseas assets totaled KRW 303.9 trillion, accounting for 36.5% of the total investments. NPS is in the growth stage which can pursue proactive fund management with sufficient liquidity driven by revenues outnumbering pension benefit payments. In this context, NPS continues to expand overseas investments in order to overcome investment limits in the domestic market given the considerable size of its fund, improve stability through portfolio diversification, and minimize market shock after disposal of invested assets.

As it is forecast that NPS's overseas assets will be expanded massively to 50% by 2024, there has been an increasing call for establishing a master plan for overseas investments, including asset class-specific strategies and risk management, as well as securing ample talents and infrastructure to facilitate the implementation. In this regard, NPS has formulated and implemented an overarching Overseas Investment Master Plan 2020-2024.

Moreover, considering that increasing overseas assets may lead to rise in the portfolio's foreign exchange exposure and cause currency fluctuations to have an impact on the performance of fund management, foreign exchange management systems are advanced to proactively manage foreign exchange risks by adjusting currency allocation in its overseas portfolio.



2-3 Investments by Asset Class

The National Pension Fund is managed mainly composed of Financials, Welfare, and Others in accordance with the Fund Management Guideline. The financial portfolio is categorized into Domestic Equity, Global Equity, Domestic Fixed Income, Global Fixed Income, Alternative Investments, and other financial instruments. The purpose of investing in a wide range of asset classes is to diversify investment portfolios and improve profitability and stability in fund management. Such investment diversification strategies are constantly reviewed and accordingly implemented.

NPS sets a benchmark index for each asset class to use as a guide for investments and an indicator for performance assessment. As the benchmark index is a summary of investment direction and principles, its feasibility and validity are subject to consistent review and upgrade. In this context, benchmark indexes are reviewed yearly and can be changed upon approval by the National Pension Fund Management Committee (FMC) when appropriate.

Benchmark by Asset Class

	Asset class	BM Index
Equity	Domestic Equity	KOSPI
	Global Equity	MSCI AC World Index(ex Korea, Unhedged-to-KRW)
Fixed Income	Domestic Fixed Income	Customized Index
	Global Fixed Income	NPS Customized Index (ex KRW, Partial hedged (other currencies-USD), Unhedged (USD-KRW))
Alternatives	Domestic Private Equity	(KOSPI 3-year average annual return+2.5%)×w1 + (Domestic Fixed Income BM 3-year average annual YTM + 1.5%)×(1 - w1)
	Global Private Equity	Peer Group Index IRR
	Domestic Real Estate	IPD Korea Index × w2 + [Domestic CPI growth rate (real) + 5%] × (1 - w2)
	Global Real Estate	A weighted average of IPD Country Indices (seven countries)
	Domestic Infrastructure	[Domestic CPI growth rate (real) + 4%] × w3 + [Existing investments' real return (%) × (1 - w3)]
	Global Infrastructure	KRW hedged return (%) of [OECD CPI growth rate (real) + 5%]
	Hedge Fund	HFRI FoFs × 0.5 + [U.S. short-term interests (90-day T-bills) + 4.5%] × 0.5

Note.1) w1 means the weight of domestic private equities for the year.

2) w2 is initially set at 50% and increased 10%p every year (IPD Korean Index being used from 2018).

3) w3 means the actual weight of newly committed investments in the asset class from when the benchmark was applied.

4) The Total Return Index is applied in performance assessment.

5) The benchmark indexes for alternative investments are for performance assessment.

Guidance for Investment by Asset Class

Domestic Equity

- ① Leverage long-term investment horizon and achieve the highest return within acceptable risk
- ② Form an investment universe, develop investment portfolio with equities in the universe, execute investments based on the portfolio, and pursue passive management in the mid- to long-term for internal management
- ③ Utilize a range of investment techniques used in other institutional investors and pursue active management for external management

Domestic Fixed Income

- ① Hold fixed income investments to maturity and diversify investment portfolio by bond type, issuer, industry (credits), and maturity structure to generate a stable, long-term return
- ② Consider issuers' credit ratings and spreads with risk-free bonds while generating excess return by adjusting duration within a given range
- ③ Annually submit the 'total credit exposures' of bonds by issuer and industry to the FMC (NPS)

Global Investments

- ① Improve efficiencies in asset allocation by diversifying investment portfolio
- ② Advance investment techniques in the long term by strengthening partnerships with renowned institutional investors across the globe
- ③ Expand overseas investments in a way to minimize negative impacts of asset liquidation on the domestic financial market and in consideration of possible depletion of the pension fund reserves when NPS reaches a maturity stage to pay benefits
- ④ Annually submit the total FX exposures to the FMC (NPS)

Alternative Investments

- ① Enhance the efficiency of fund management by using different risk-return profiles from traditional assets such as equities and fixed income investments
- ② Note that alternative investments refer to investments in real estate, infrastructure, venture capital, corporate restructuring vehicle (CRV) investment, private equities, hedge funds, and natural resource development
- ③ Allocate annual commitment limits considering the fact that it is executed in stages over the commitment period
- ④ Establish a separate decision-making body, Alternative Investment Committee, to enhance efficiency and expertise in decision making
- ⑤ Take into account advices from external experts or professional agencies when establishing detailed investment plans, executing investments, and conducting follow-up managements
- ⑥ Make utmost efforts to explore untapped profitable investment opportunities

Short-Term Assets

- ① Note that short-term assets refer to idle assets held temporary for the purpose of paying pension benefits or investing in mid-to-long term assets
- ② Minimize investments in Korean won denominated short-term assets and pursue investments in high-return securities with an investment period of less than 3 months after reviewing stability and liquidity
- ③ Manage short-term assets denominated in foreign currencies to maintain stable foreign currency liquidity and invest within US\$ 600 million of daily average balances of each quarter in consideration of the effects on foreign exchange markets

Securities Lending

- ① Conduct securities lending within the range of ensuring stability in search of excess return

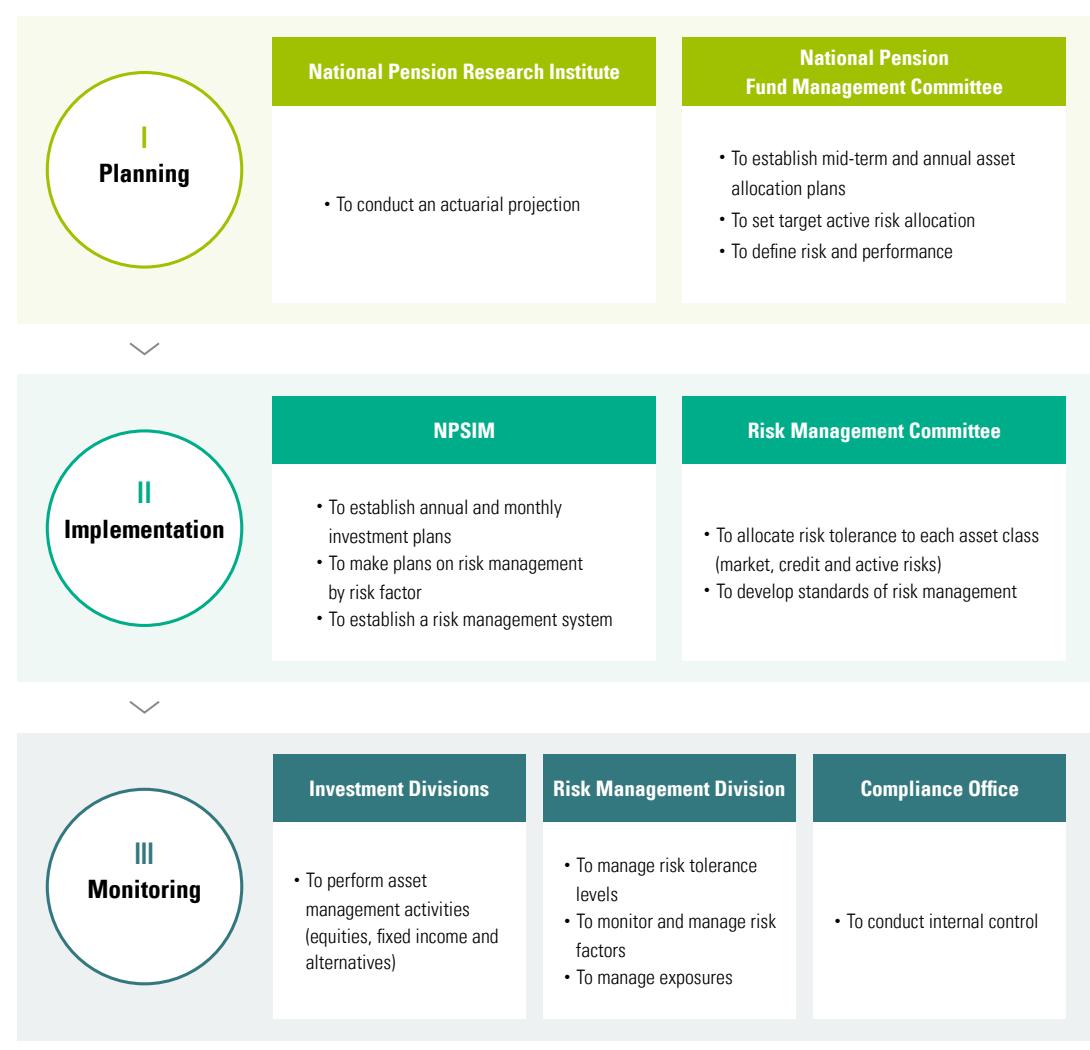
2-4 Risk Management

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

NPS thoroughly manages and controls a wide range of risks that may affect stability and profitability of the Fund, including market risk, credit risk, liquidity risk, operational risk, and legal risk. NPS also sets annual risk tolerance levels for the total fund and each asset class according to the strategic asset allocation plan and monitors them constantly. As investment return is generated through adequate risk tolerance and risk management, NPS makes an effort to refrain from being exposed to excessive risks beyond expected returns.

NPSIM has a dedicated risk management division, Risk Management Division, to manage investment risks. To reduce risks associated with fund management activities in an efficient way, Risk Management Committee (RMC), consisting of CEO of NPS as chair and external experts, is established. In addition, an independent Compliance Office is set up to take charge of internal control on fund management. Aside from this, NPS is subject to internal and external audits, including its internal audit team, independent auditors, Board of Audit Inspection, and the National Assembly.

Market Risk Management Process



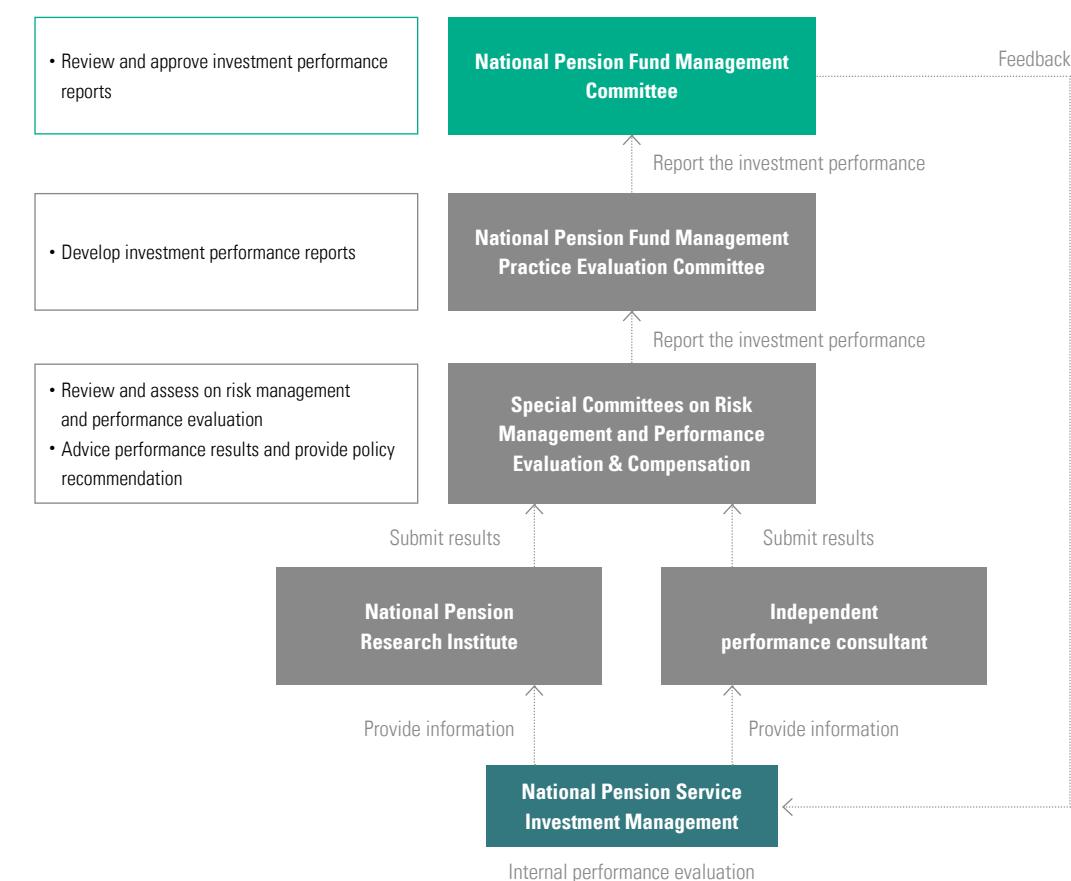
2-5 Performance Assessment

The objectives of performance assessment for fund management are to enhance public trust through the disclosure of performance results, and to improve and advance performance using such results. The assessment is conducted every year for a period of 3 years or longer, which includes not just quantitative analysis relative to benchmark, but also qualitative analysis, including improvements in fund management systems and risk management practices.

The performance assessment starts with the development of performance reports by the National Pension Research Institute (NPRI) and an independent performance consultant appointed by the Ministry of Health and Welfare. Once prepared, the reports are submitted to the Special Committees on Risk Management and Performance Evaluation & Compensation for review, and to the National Pension Fund Management Practice Evaluation Committee for review, and then to the National Pension Fund Management Committee (FMC) for approval. Through this process, the reports are finalized around in June in the following year.

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

Performance Assessment



3. National Pension Service Investment Management

Established as a dedicated body to conduct fund management activities under National Pension Service (NPS), National Pension Service Investment Management (NPSIM) aims to cope with constantly changing financial and economic circumstances in an effective manner, and manage and invest funds in more systematic and professional ways. To this end, NPSIM has secured top talents with years of experience in financial investments, including market analysis, portfolio management, trading, risk management, etc.

At the beginning of its inception, fund managements were conducted primarily in the public sector and fixed income investments as most funds were deposited as public capital given the small size of the Fund. However, after the Asian financial crisis in the late 1990s, the Nation Pension Fund (NPF) was excluded from a compulsory deposit scheme, and the Fund has since seen a significant increase in size. This triggered the need for professional management and investment expansion to financial areas. In line with this, NPSIM was established in November 1999 with an aim of addressing rapidly evolving investment landscapes professionally and managing the Fund more efficiently.

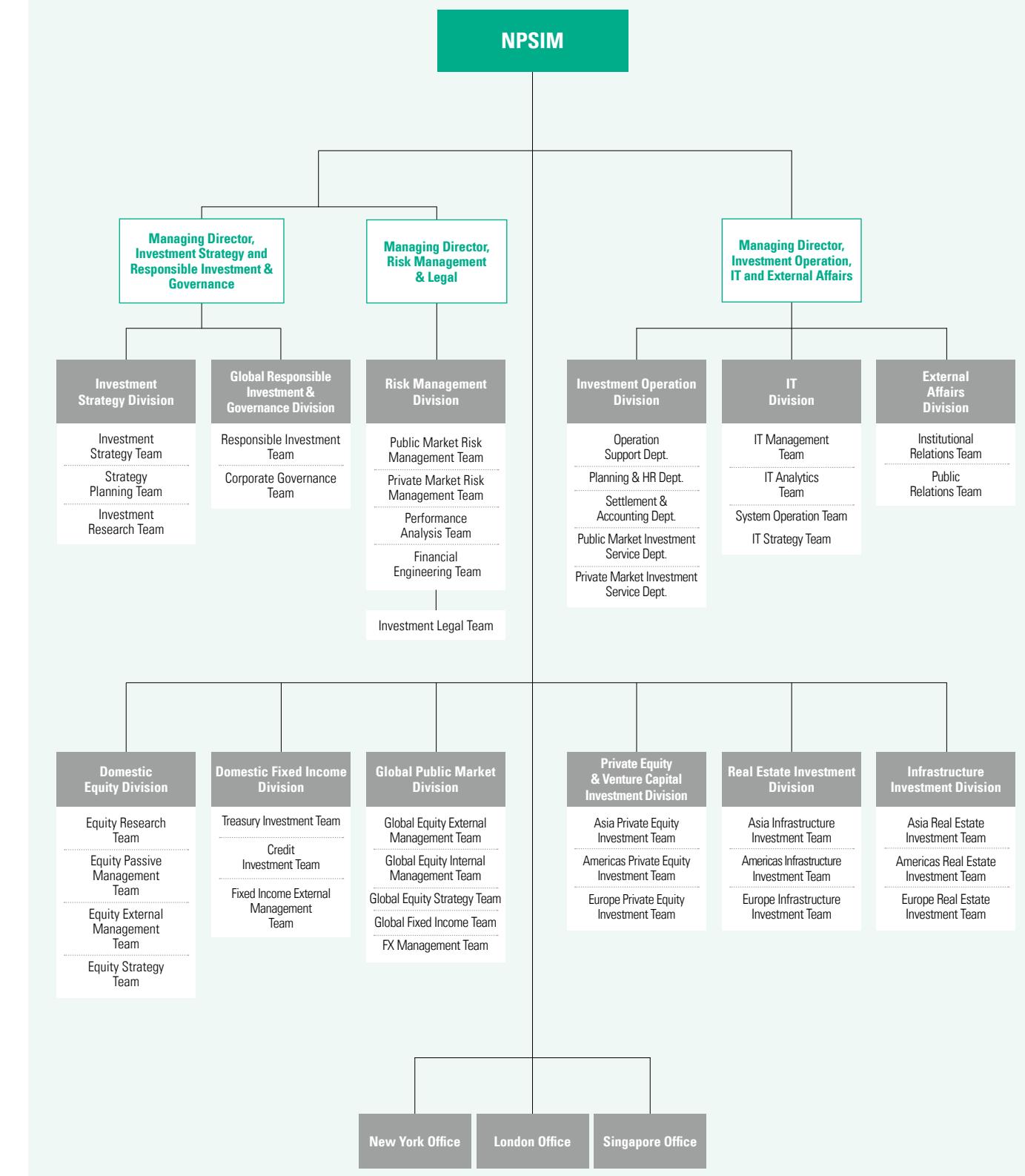
In response to changes in the fund management landscape, including sharp increase in the size of the Fund, emergence of a wide range of new financial products, and increasingly globalized investment environment, NSPIM began foreign investments and portfolio diversification in 2001 and 2003, respectively, to secure stable returns; a number of in-house investment professionals have been hired for each asset class, in both traditional asset classes, including equities and fixed incomes, and alternative asset classes, including real estate, infrastructure and private equity funds; investment-specific and risk management organizations have been newly created and segmented. At the same time, in line with the expansion of investment regions across the globe, overseas offices were launched in New York, London, and Singapore in 2011, 2012, and 2015, respectively. Notably, the Singapore office was open to expand investments in emerging markets such as Asia, Australia, and India.

In 2020, NPSIM conducted restructuring to enhance its efficiency and expertise. Three senior management posts were created – Managing Director of Investment Strategy and Responsible Investment & Governance, Managing Director of Risk Management & Legal, and Managing Director of Investment Operation, IT and External Affairs – in an effort to enable CIO to focus more on decision making about investments and to be able to obtain professional support from each field. In addition, an Alternative Investment Division was reorganized from two teams – domestic and overseas – to three teams by region – Asia, Americas, and Europe – to preemptively address rapidly changing investment landscapes and bolster its expertise in oversea alternative investments in each region.

NPSIM, which started with six teams and 40 employees, has been constantly expanding the number of employees and the size of its organization in keeping with increasing size of the Fund and portfolio diversification strategies. At the end of 2020, NPSIM was comprised of CIO, three Managing Directors, and 11 divisions, 1 sub-divisions, and three overseas offices with a total of 360 employees, including a CIO, 288 portfolio managers and 71 back-office staffs.

NPSIM Organizational Chart

(as of December 31, 2020)





**2020
National Pension Fund
Annual Report**

**III.
Fund Portfolio
and Performance**

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

1. Investment Portfolio Overview

NPS generated KRW 833.7 trillion in assets as of the end of December 2020, and has constantly expanded its portfolio into overseas investments, equities, and alternatives in accordance with a mid- to long-term fund management direction for diversification.

NPS manages its fund mainly in Financials, Welfare, and Others. In 2020, Financials made up 99.9% of the total Fund while Welfare and Others accounted for 0.01%. The Financial portfolio, which constituted the largest portion of the total Fund, consists of equities, fixed income, and alternative investments.

Fixed income investments, the most invested asset class, were valued at KRW 371 trillion in 2020, an increase of KRW 19.8 trillion from the previous year. Of them, domestic and global fixed income investments were valued at KRW 326.1 trillion and KRW 44.9 trillion, respectively, a year-on-year growth of KRW 5.3 trillion and KRW 14.4 trillion, respectively. Due to an increase in the size of the Fund, the amount invested in fixed income investments was increased, but the weight was reduced in the entire portfolio. In particular, NPSIM lowered allocations of domestic fixed income investments to diversify investment portfolio with overseas investments and alternatives. As a consequence, the weight of domestic fixed income investments was decreased to below 40% at the end of 2020.

Investments in equities, the second-most invested asset class, were valued at KRW 369.4 trillion in 2020, an increase of KRW 70.7 trillion from the previous year. Of them, domestic and global equities investments were valued at KRW 176.7 trillion and KRW 192.8 trillion, respectively, a year-on-year growth of KRW 44.4 trillion and KRW 26.2 trillion, respectively. The decline in domestic fixed income allocations driven by investment diversification led to an increase not only in equity investments, but also in the weight of equity investments by 3.7%p to 44.3% in 2020 from a year ago. The weights between equity investments and fixed income investments differ only 0.2%p.

In addition to conventional assets such as fixed income and equities, NPS also invested in alternative investments, including real estate, infrastructure, and private equities. Alternative investments were valued at KRW 90.7 trillion or 10.9% of the Fund at the end of 2020. The alternative Investments portfolio represented KRW 24.7 trillion in investments in domestic real estate,

Investment Portfolio

(Market value, Unit: KRW 100 million, %, %p)						
	2020 End (A)		2019 End (B)		Difference (A-B)	
	Amount	Weight	Amount	Weight	Amount	Weight
Total	8,337,276	100.0	7,366,538	100.0	970,738	0.0
Financials	8,331,384	99.9	7,360,790	99.9	970,594	0.0
Equity	3,694,474	44.3	2,987,885	40.6	706,589	3.7
(Domestic)	1,766,957	21.2	1,322,609	18.0	444,348	3.2
(Global)	1,927,517	23.1	1,665,277	22.6	262,241	0.5
Fixed Income	3,709,820	44.5	3,512,134	47.7	197,685	-3.2
(Domestic)	3,260,993	39.1	3,207,512	43.5	53,481	-4.4
(Global)	448,827	5.4	304,622	4.1	144,205	1.3
Alternatives	906,596	10.9	842,952	11.4	63,644	-0.5
(Domestic)	247,153	3.0	247,971	3.4	-818	-0.4
(Global)	659,443	7.9	594,981	8.1	64,462	-0.2
Short-Term Assets	20,493	0.2	17,819	0.2	2,675	0.0
Welfare¹⁾	1,800	0.02	1,663	0.02	137	0.0
Other²⁾	4,092	0.0	4,085	0.1	7	-0.1

Note.1) Welfare sector includes a resort for pension member's welfare (Cheongpung Resorts), loans for credit recovery, and emergency loans for the elderly (NPS Silver Loan).

2) Other sector includes company buildings and deposits.

infrastructure, venture capital, private equities funds, etc. as well as KRW 65.9 trillion in overseas real estate, infrastructure, private equities, hedge funds, etc. Alternative investments saw an increase of KRW 6.4 trillion in value, but a fall of 0.5%p in weight.

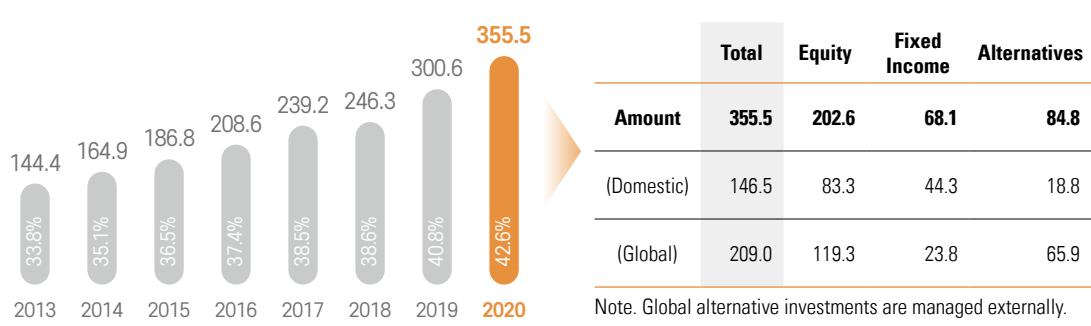
Meanwhile, NPS harnessed external management for some portion of the Fund to achieve risk reduction and diversify revenue sources. Given the sheer size of the Fund, it is managed both internally and externally. As for external management, each asset class's target allocation is approved by the FMC, and within the set target, investments are managed by investment type in consideration of asset characteristics, market conditions, and asset managers' capabilities. At the end of 2020, the value of external management stood at KRW 355.9 trillion, a year-on-year increase of KRW 54.9 trillion. The weight of external management in Financials made up 42.6% in 2020, a rise of 1.8%p from the previous year.

Furthermore, NPS expanded overseas investments to improve returns and minimize impact on the domestic market due to its excessive funds relative to the size of the country's economy. Since NPS began investments in Korean bonds denominated in foreign currencies in 2001, overseas investments have been diversified and increased by asset class. Currently, NPS is investing overseas in a wide range of products, including real estate, private equities, infrastructure, and hedge funds.

In 2020, overseas investments increased by KRW 47.1 trillion to KRW 303.9 trillion from a year ago, and the weight in Financials was increased to 36.5%, a year-on-year increase of 1.6%p. NPSIM plans to further ramp up overseas investments up to around 55% of the Fund by 2025 according to the mid-term asset allocation plan.

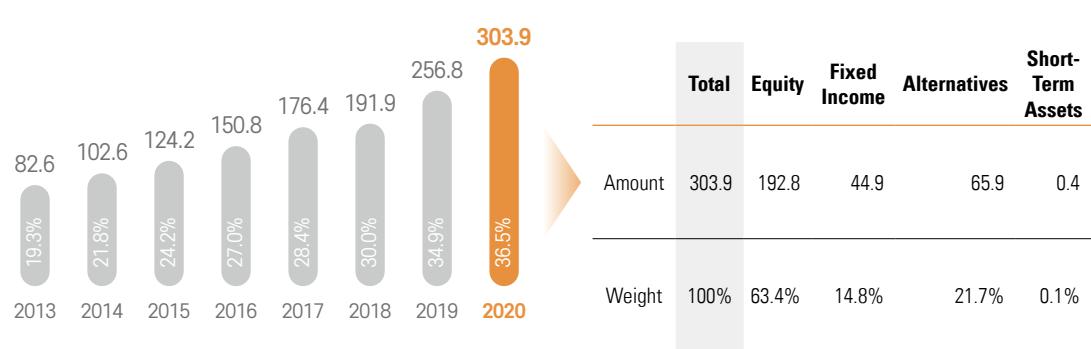
External Management

(As of the end of 2020, Market value, Unit: KRW in trillion)



Overseas Investments

(As of the end of 2020, Market value, Unit: KRW in trillion)



2. Investment Performance

National Pension Service generated an annual return of 9.70% and investment income of KRW 72.1 trillion in 2020, making an average annual return of 6.27% and cumulative investment income of KRW 439.6 trillion since the inception of the National Pension Fund.

In 2020, domestic and global financial markets experienced higher volatility than ever before due to concerns over global economic downturn caused by the COVID-19 pandemic. Amid this circumstance, NPS generated a money-weighted return of 9.70% and a return of KRW 72.1 trillion based on strong performance driven by swift recovery of the stock market.

In early 2020, stock market witnessed a dramatic drop due to concerns over economic downturn triggered by COVID-19. However, on the back of the U.S.'s quantitative easing measures, major countries' stimulus packages and enhanced business performance, expectations of economic normalization were heightened, leading to rapid increase in investment returns.

In terms of fixed income investments, COVID-19 induced decline in global economic growth rate, and each country's fiscal and monetary policies gave rise to lower interest rates and higher valuation gains. Alternative investments made positive contributions to increasing the total investment returns of the Fund on the basis of stable interest, dividend incomes and an increase in the value of assets.

Fueled by decent performance in 2020, the mid- to long-term return remained at a stable level. From the inception in 1988 to late 2020, NPS recorded an average annual return of 6.27% and cumulative investment income of KRW 439.6 trillion with 6.89% and 6.6% in 3-year and 5-year average returns, respectively.

Investment Performance								
(Money-weighted rate of return, Market value, Unit: KRW 100 million, %)								
	2020		3-Year (2018-2020)		5-Year (2016-2020)		Since Inception (1988~2020)	
	Investment Income	Return	Investment Income	Return	Investment Income	Return	Investment Income	Return
Total	721,437	9.70	1,397,013	6.89	2,054,393	6.60	4,396,213	6.27
Public	-	-	-	-	-	-	190,827	8.26
Financials	721,405	9.72	1,396,782	6.90	2,054,069	6.61	4,197,163	6.21
Equity	653,082	21.36	877,820	11.15	1,377,709	11.94	1,860,565	9.49
(Domestic)	468,600	34.89	390,240	10.26	713,583	12.30	1,041,069	8.99
(Global)	184,482	10.76	487,581	11.97	664,126	11.58	819,495	10.23
Fixed Income	48,031	1.39	342,541	3.45	413,554	2.62	1,874,471	4.49
(Domestic)	53,762	1.74	305,284	3.37	366,974	2.54	1,740,867	4.50
(Global)	-5,731	-1.61	37,256	4.26	46,580	3.49	133,604	4.36
Alternatives	21,079	2.38	177,448	7.54	264,163	7.37	452,522	7.89
(Domestic)	24,153	9.87	59,235	8.23	84,471	7.29	166,816	7.07
(Global)	-3,075	-0.48	118,214	7.23	179,692	7.41	285,706	8.46
Short-term Asset	-17	-0.06	1,071	1.24	1,805	1.22	15,702	3.61
Welfare	-46	-2.90	-82	-1.87	-121	-1.73	6,036	6.09
Others	78	0.63	312	0.89	445	0.79	2,188	1.55

Note.1) Investment income is calculated by adding up all of the income during a specific period of time.

2) Return refers to an average annual return during a specific period of time.

3) No new investment has been made in the public sector since 2000, and investments made beforehand were fully withdrawn at the end of 2005.

• Money-Weighted Rate of Return Formula

Money-Weighted Rate of Return = Investment Income ÷ Average investment balance x 100

- Investment Income: Gains or losses on any investment purchased, dividends, lending income, interest, etc.

- Average investment balance: A weighed average of average investment principal amount during a specific period of time.

NPS recorded a time-weighted rate of return of 9.58% in the financial portfolio in 2020, enabling all asset classes to outperform their benchmarks.

In the financial portfolio, the highest return was generated by domestic equity at 34.66%, outperforming its benchmark by 1.21%p, while global equity generated a return of 10.22%, outperforming its benchmark by 1.41%p. Such achievements were driven by strong recovery in domestic and global stock markets with increases of KOSPI by 30.75% and MSCI ACWI (ex-Korea, USD) by 15.84% in 2020 alone.

The second highest return was produced by alternative assets at 2.57%, an increase of 1.00%p relative to its benchmark. Notably, domestic alternative investments surpassed the benchmark by 3.24%p, while foreign alternative investments exceeded the benchmark by 0.36%p.

In terms of fixed income investments, due to decreases of a Korea 3-year treasury bond yield by 38.5bp and the U.S. 10-year treasury bond yield by 100.4bp, domestic and global fixed income investments yielded 1.71% and 0.19%, respectively. Despite relatively significant drop in interest rates, global fixed income generated lower returns than those of domestic fixed income investments due to weakened Korean won against the U.S. dollar standing at -6.0% all year around in 2020. Nevertheless, global fixed income investments generated an excess return of 0.72%p relative to its benchmark, while domestic fixed income investments recorded an excess return of 0.13%p.

Investment Performance in the Financial Portfolio

(Time-weighted rate of return, Market value, Unit: %, %p)

		2020			3-Year Average (2018-2020)			5-Year Average (2016-2020)		
		NPS	BM	Difference	NPS	BM	Difference	NPS	BM	Difference
Total	9.58	8.59	0.99	6.54	6.29	0.25	6.31	6.02	0.29	
Equity	20.76	19.33	1.43	9.26	8.82	0.44	10.83	10.30	0.53	
	Domestic	34.66	33.45	1.21	7.96	7.42	0.55	10.92	10.11	0.82
Fixed Income	10.22	8.81	1.41	11.06	10.62	0.44	10.80	10.50	0.29	
	Total	1.43	1.25	0.18	3.47	3.38	0.09	2.57	2.52	0.05
Alternatives	1.71	1.59	0.13	3.35	3.27	0.09	2.47	2.42	0.05	
	Domestic	0.19	-0.53	0.72	5.39	5.23	0.15	4.06	4.01	0.05
Real Estate	2.57	1.57	1.00	8.07	7.43	0.64	7.76	6.71	1.04	
	Real Estate	10.48	7.23	3.24	8.60	6.82	1.77	7.52	6.68	0.85
Infrastructure	15.63	8.72	6.90	10.40	7.21	3.19	9.12	7.22	1.90	
	Infrastructure	3.21	4.64	-1.44	6.22	6.61	-0.38	5.69	6.07	-0.38
Private Equity	12.69	8.42	4.27	9.05	6.65	2.40	7.79	6.88	0.91	
	Private Equity	12.69	8.42	4.27	9.05	6.65	2.40	7.79	6.88	0.91
Hedge Funds	-0.04	-0.40	0.36	8.16	7.94	0.22	8.09	6.91	1.18	
	Hedge Funds	-4.36	-0.62	-3.74	6.27	7.03	-0.75	6.70	5.88	0.82
Private Debt	-1.47	-0.08	-1.38	7.61	7.52	0.09	7.88	5.25	2.63	
	Private Debt	6.63	-0.59	7.22	11.36	9.62	1.74	10.63	9.96	0.67

Note. Investments in hedge funds began in November 2016 and private debt in December in 2019.

• Time-Weighted Rate of Return Formula

Time-Weighted Rate of Return = $\left[\left(1+R_1\right) \times \left(1+R_2\right) \times \dots \times \left(1+R_n\right) \right]^{-1}$

- When calculating time-weighted rate of return (TWR), cash flows mark the beginning of a new period. The TWR refers to a geometric mean return over a specific time period and is used to compare portfolio's return with a benchmark.

- Administrative expenses (i.e. internal investment fees, indirect costs, etc.) are not deducted from gain/loss amounts.

3. Portfolios by Asset Class

3-1. Domestic Equity

Since NPS began to invest in domestic equities in 1990, two years after its inception, the size of the investments has been growing and expanding thanks to portfolio diversification strategies. At the end of 2020, domestic equity investments were valued at KRW 176.7 trillion or 21.2% of the total NPS fund, an increase of KRW 44.4 trillion year on year.

During the first quarter of 2020, the worldwide spread of COVID-19 caused investor sentiment to weaken and stock prices in Korea to plunge. However, starting in late March, the stock market quickly rebounded, and experienced high volatility. At the end of 2020, the benchmark Korea Composite Stock Price Index (KOSPI) closed at 2,876.47 points, up 30.75 % from the final closing a year ago, while KOSPI 200 closed with an increase of 32.51% year on year. Such circumstances drove up stock valuation, thereby leading to an increase of allocations of domestic equities in the portfolio of NPS by 3.2%p compared to the previous year's figure.

Domestic equity investments were managed in two strategies: active and passive managements. Some of the active management was outsourced to external managers, while passive management was carried out 100% internally. In 2020, the weights of active and passive managements represented 66.9% and 33.1%, respectively.

Despite challenging market conditions with higher volatility caused by the shock of the COVID-19 pandemic on the markets, an increase in liquidity in private investors and ban on short selling, NPS achieved decent performance through optimal sector allocation and security selection. Domestic equity investments generated a time-weighted return of 34.66%, outperforming its benchmark by 1.21%p in 2020. Annualized returns for three-year and five-year periods also outperformed each benchmark.

Looking into its sub-portfolio performance, passive managements generated a return of 35.93%, an increase of 0.59%p relative to the benchmark, while active-internal and active-external managements generated returns of 34.03% and 34.06%, respectively.

Meanwhile, manufacturing represented 69.8% of the domestic equities portfolio coverage in 2020. Aside from manufacturing, other sectors were invested, including financial sector, consumer services, retail, telecommunications, construction, electricity & gas, and transportation & warehousing.

Return on Domestic Equity

	Return	Benchmark
Annual Return for 2020	34.66	33.45
3-Year Average (2018-2020)	7.96	7.42
5-Year Average (2016-2020)	10.92	10.11

(Time-weighted rate of return, Unit: %)

NPS Investments in Domestic Stock Markets

(Unit: KRW in trillion, %)

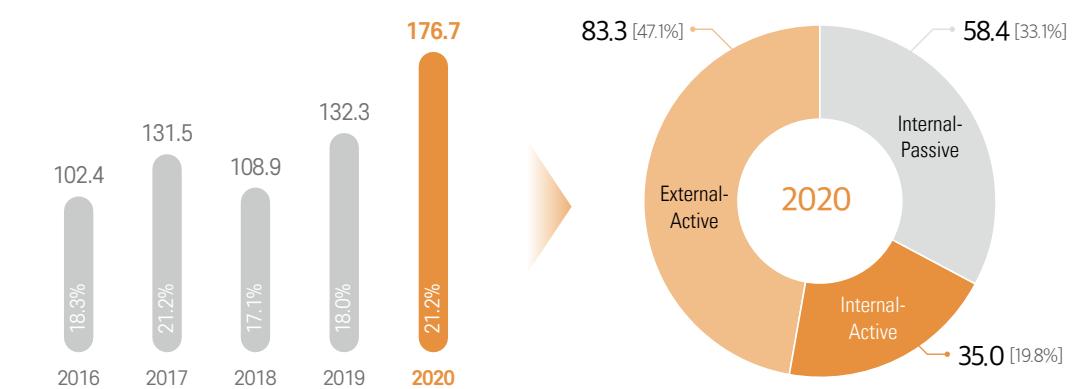
	2020		2019		2018	
	Amount	Weight	Amount	Weight	Amount	Weight
Total	175.2	7.4	130.4	7.6	107.5	6.8
KOSPI	169.8	8.6	126.7	8.6	104.7	7.8
KOSDAQ	5.4	1.4	3.7	1.5	2.8	1.2

Note.1) The amount is a market value at the end of the year.

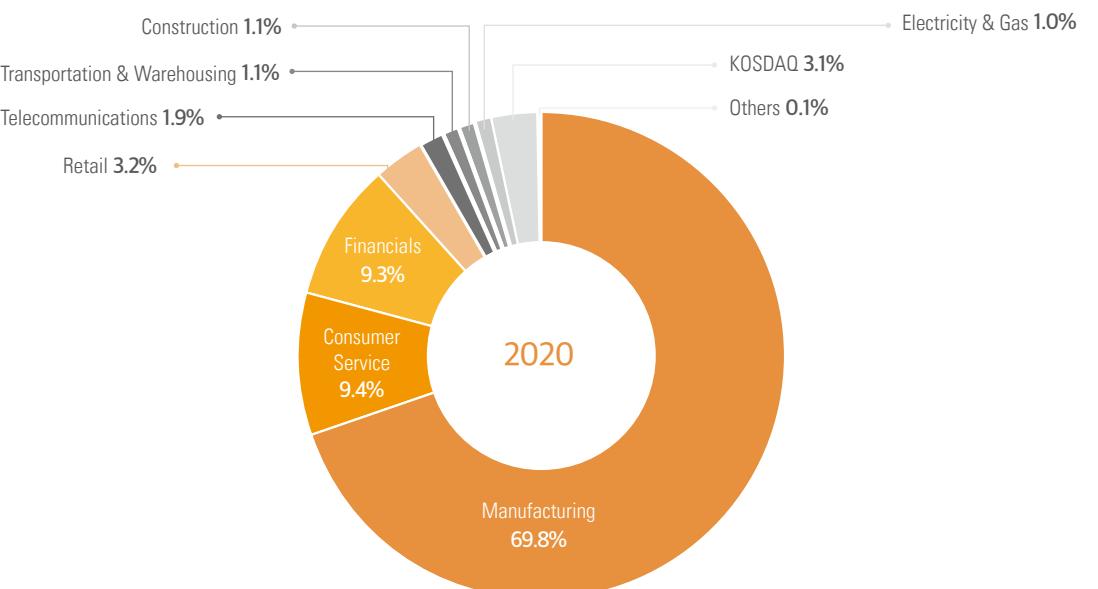
2) This data does not contain unlisted equities, cash equivalents, preferred stocks, ETF, future options, and foreign stocks.

Trend of Domestic Equity

(Unit: KRW in trillion)



Domestic Equity by Sector



Note. Global Industry Classification Standard is used to define sectors.

3-2. Global Equity

NPS began to invest in overseas equities in 2002, one year after overseas investments were commenced with Korean bonds denominated in foreign currencies in 2001. Since then, NPS has expanded its overseas investments. In 2020, global equities investments were valued at KRW 192.8 trillion or 23.1% of the total fund, an increase of KRW 26.2 trillion year on year.

Global stock markets in 2020 were influenced by a mix of negative and positive factors. Negative factors include languishing real economy triggered by COVID-19 while positive factors comprised pandemic-induced stimulus packages and monetary easing policies in major countries. The MSCI ACWI (ex Korea, USD) showed high volatility all year around in 2020, but it was closed at a steep increase of 15.54% for the year.

In developed countries which implemented active policy response to the spread of the pandemic, high-growth tech stocks showed swift price recovery. An increase in global liquidity and low interest rates prompted investor sentiment to improve, resulting in a rise of stock prices in emerging markets.

Global equities investments were managed in two strategies: active and passive managements. The active management is to pursue a higher risk-adjusted excess return mainly through securities selection while the passive management is to seek stable return and liquidity provision. The active management was conducted by external managers while the passive management was carried out both internally and externally. In 2020, the weights of active and passive investments represented 56.9% and 43.1%, respectively.

In 2020, due to weakened dollar, return in Korean won terms were lower compared with return of 17.31% in dollar terms. However, global equity investments generated a time-weighted return of 10.22% in 2020, outperforming its benchmark by 1.47%p. By portfolio strategy, active managements generated the highest return of 10.69%, while the passive-internal and passive-external managements generated returns of 9.84% and 7.65%, respectively. Active managements achieved a positive excess return relative to the benchmark by selecting appropriate mixes of securities and investment products in high-volatility markets while passive internal managements also achieved a positive excess return relative to the benchmark mainly in developed countries. Passive external managements, which were conducted largely in emerging markets, generated a return slightly lower than its benchmark.

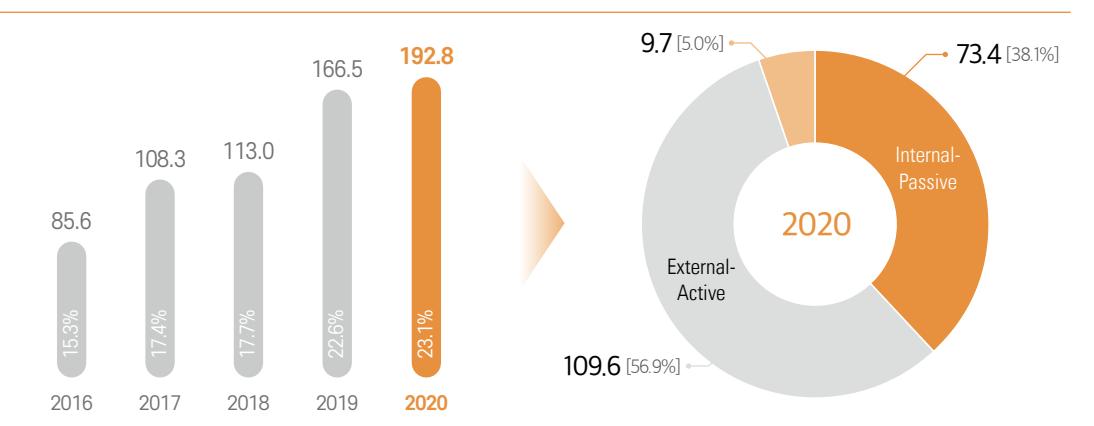
Global equity investments were conducted mostly in IT sector (21.1%) and other sectors, including consumer discretionary, financial sector, etc. By region, investments in North America accounted for 60.9%, 18.2% in Europe, 18.0% in Asia, 1.1% in South America, and 0.7% in a mix of Africa, Middle East, and others. Compared to the previous year, North America and Asia saw a slight increase while the rest witnessed a slight decline.

Return on Global Equity

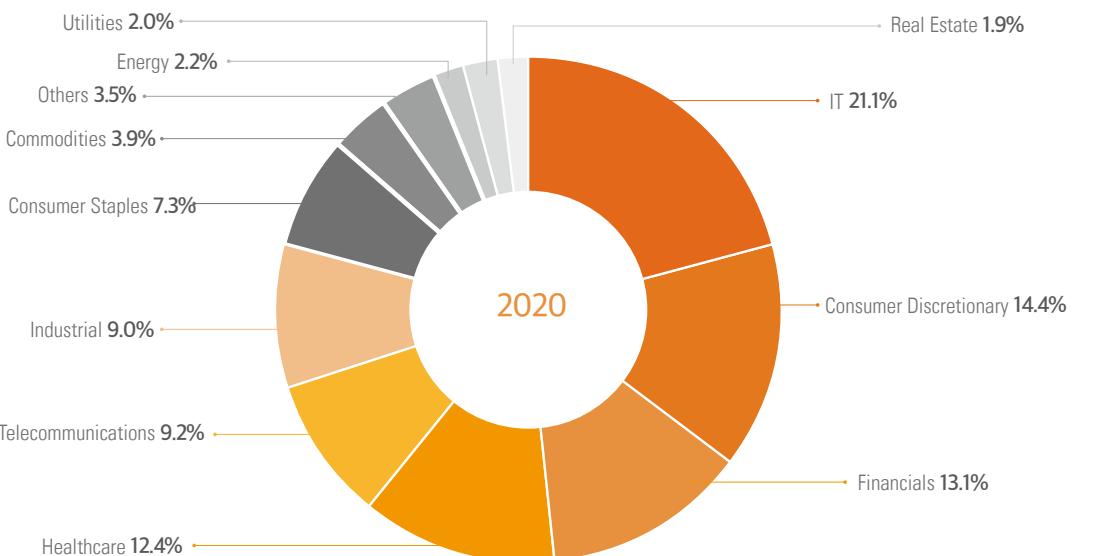
(Time-weighted rate of return, Unit: %)

	Return	Benchmark
Annual Return for 2020	10.22	8.81
3-Year Average (2018-2020)	11.06	10.62
5-Year Average (2016-2020)	10.80	10.50

Trend of Global Equity



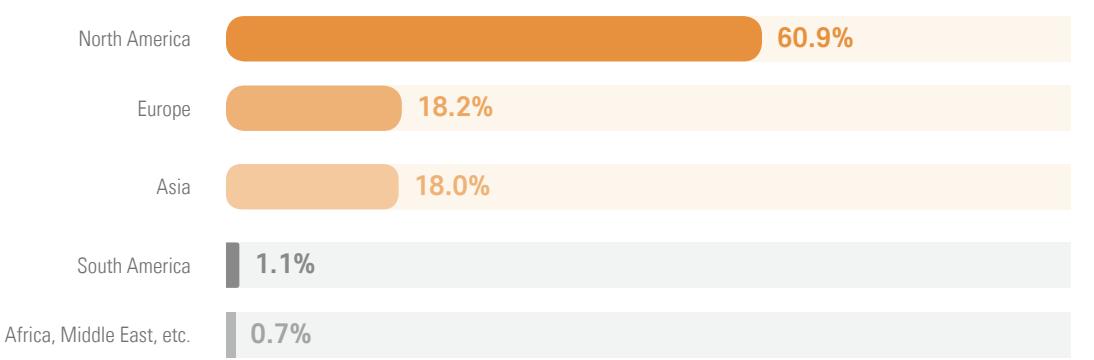
Global Equity by Sector



Note.1) Global Industry Classification Standard is used to define sectors.

2) Others refer to non-classified sectors.

Global Equity by Region



3-3. Domestic Fixed Income

NPS began to invest in domestic fixed income in 1988 when the National Pension Fund was first launched. With the Fund growing in size, the amount of investments in domestic fixed income has constantly increased. At the end of 2020, domestic fixed income investments were valued at KRW 326.1 trillion or 39.1% of the total fund, an increase of KRW 5.3 trillion year on year.

In the first half of 2020, Korea Treasury bond yields declined sharply due to domestic economic slowdown, strong preference over safe assets, and monetary policy strategies by major central banks triggered by the COVID-19 shock. However, in the second half, the yields were increased due to expectations of more Treasury bonds to be issued on the back of vaccine development and expansionary fiscal policies at home and abroad. In 2020, the allocation to domestic fixed income investments decreased 4.4% from a year ago as the target allocation to domestic fixed income was reduced in the mid- to long-term asset allocation plan with an aim of improving returns from the financial portfolio.

Domestic fixed income investments were managed in two strategies: passive-style internal management and active-style external management. In 2020, the weights of external and internal management represented 13.6% and 86.4%, respectively.

The internal management generated a return of 1.68%, achieving an excess return of 0.11%p relative to its benchmark while the external management generated a return of 1.91%, an increase of 0.21%p relative to its benchmark. In 2020, yield spread and interest rate volatility remained high all year around; however, through optimal sector allocation and security selection, both internal and external managements generated positive excess returns. As a whole, domestic fixed income investments generated a time-weighted return of 1.71%, an increase of 0.13%p relative to its benchmark.

Meanwhile, the share of NPS investments in the South Korean bond market was reduced to 13.3%, down 1.1%p from 14.4% in the previous year. The decline was due to the entire bond market growing at a faster pace than an increase of the amount invested by NPS as its mid- to long-term target allocation to domestic fixed income was decreased.

In 2020, domestic fixed income portfolio made up 41.3% in Korea Treasury bonds, the largest portion, and 19.8% in government-related bonds, 16.4% in corporate bonds, 15.2% of financial bonds, 4.7% of monetary stabilization bonds, and 2.5% of municipal bonds. Compared to the previous year, the allocation to Korea Treasury bonds and municipal bonds were slightly increased while government-related bonds, monetary stabilization bonds, financial bonds, and corporate bonds were slightly decreased.

Return on Domestic Fixed Income

(Time-weighted rate of return, Unit: %)

	Return	Benchmark
Annual Return for 2020	1.71	1.59
3-Year Average (2018-2020)	3.35	3.27
5-Year Average (2016-2020)	2.47	2.42

NPS Investments in Domestic Bond Markets

(Unit: KRW in trillion, %)

	2020		2019		2018	
	Amount	Weight	Amount	Weight	Amount	Weight
Total	311.2	13.3	301.2	14.4	295.3	15.0
Korea Treasury bonds	128.6	15.9	121.2	17.6	122.0	19.0
Municipal bonds	7.9	29.4	4.9	21.9	3.5	15.8
Gov-related bonds	61.6	17.3	60.2	18.2	60.8	18.5
Monetary Stabilization bonds	14.7	9.2	18.4	11.1	17.8	10.4
Financial bonds	47.3	8.9	46.3	10.0	42.1	9.4
Corporate bonds	51.2	11.0	50.1	12.1	49.1	13.3

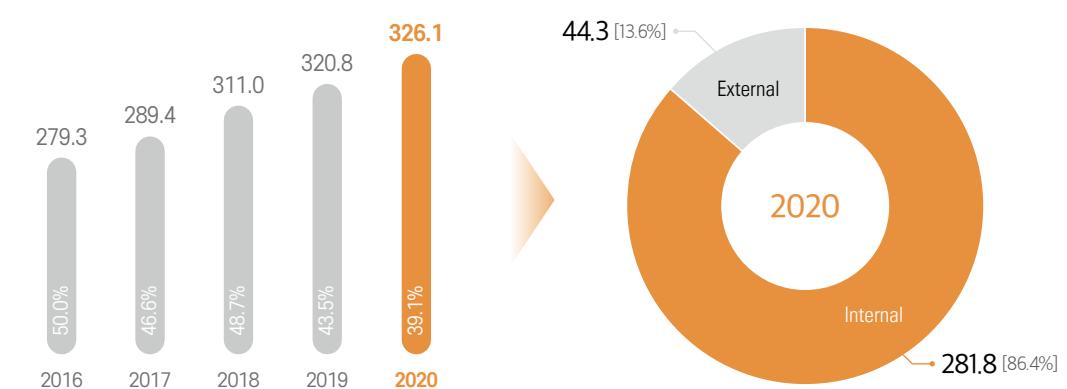
Note.1) Market value refers to outstanding issued bonds while the value of bonds invested by NPS is based on book value.

2) Short-term assets are excluded in the table.

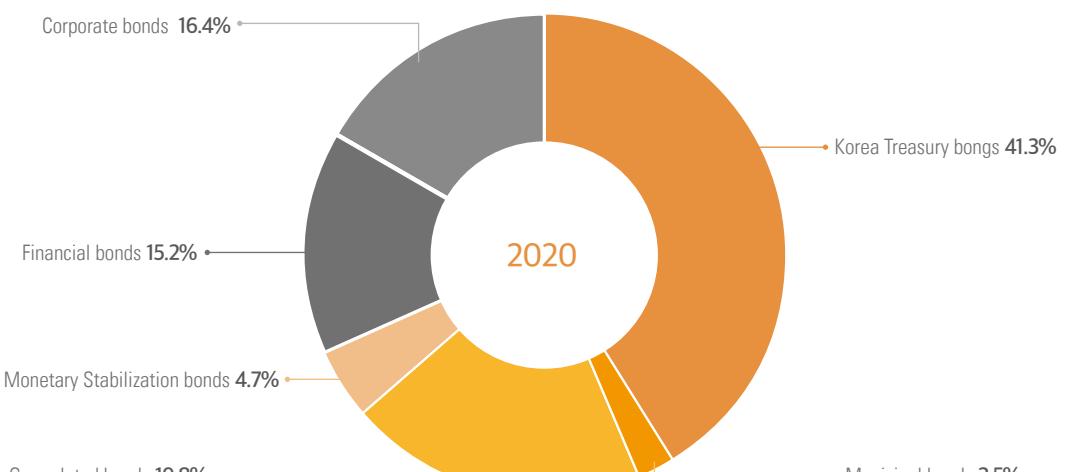
3) MBS is categorized into government-related; ABS into corporates; and credit finance bonds into financials.

Trend of Domestic Fixed Income

(Unit: KRW in trillion)



Domestic Fixed Income Portfolio



3-4. Global Fixed Income

NPS began to invest in global fixed income in 2001, starting with investments in Korean bonds denominated in foreign currencies. At the end of 2020, global fixed income investments were valued at KRW 44.9 trillion or 5.4% of the total NPS fund, an increase of KRW 14.4 trillion year on year.

Major central banks reduced their base rates in response to COVID-19, and low interest rates continued until the third quarter of 2020. Afterwards, interest rates rebounded in the U.S. fueled by a mix of several factors: preference over risky assets due to an increase in liquidity and expectations of economic recovery, eased uncertainty over the U.S. presidential election, and vaccine rollout. Amid these circumstances, global fixed income investments saw a rise, driven by valuation gains from new investments and return. The allocation to global fixed income investments increased 1.3%p year on year.

Global fixed income investments had been managed internally and externally, both of which pursued an active style of investing; however, as of the second half of 2020, the investment scheme was reformed into two types: low-risk investments and high-yield investments. Low-risk investments are to pursue active investments largely in government bonds and treasuries which are relatively less volatile, while high-yield investments are to seek higher returns from active investments mostly in credit bonds. In global fixed income investments, internal management and external management represented 47.0% and 53.0%, respectively. By investment scheme, low-risk and high-yield investments accounted for 52.3% and 47.7%, respectively.

In terms of return, in the first half of 2020, internal and external managements generated returns of 8.71% and 7.68%, respectively, while in the second, low-risk and high-yield managements generated returns of -8.69% and -6.02%, respectively. In dollar terms, returns of low-risk and high-yield managements recorded 0.74% and 3.68%, respectively; however, due to weak dollar, returns in Korean won recorded negative returns. In the midst of a fall in interest rates in major countries due to the pandemic, internal managements, which expanded duration gap, saw an excess return of 0.42%p in the first half. In the second half, high-yield investments experienced an excess return of 0.85%p thanks to enhanced credits performance caused by reduced credit spread and risks exposed to enterprises.

As a whole, global fixed income investments generated a time-weighted return of 0.19%, an increase of 0.72%p relative to its benchmark. This figure was 0.22%p above a target excess return set for global fixed income investments in 2020, and the achievement was possible due to low interest rates in the U.S. driven by the COVID-19 pandemic-induced quantitative easing policies, leading to a strong fixed income market.

In 2020, global fixed income portfolio consisted of treasury bonds at 47.9%, the largest portion, followed by corporate bonds, government-related bonds, securitized bonds, and others. By region, the portfolio was allocated into 38.6% in North America, 28.8% in Europe, 27.1% in Asia, 1.4% in South America, and 4.1% in others. Compared to the previous year, the allocation to Europe was slightly reduced while allocations to Asia and other regions were slightly increased.

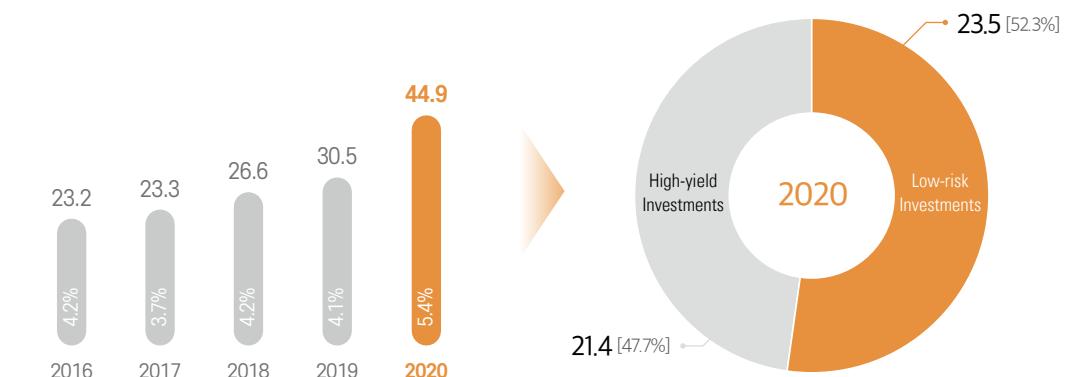
Return on Global Fixed Income

(Time-weighted rate of return, Unit: %)

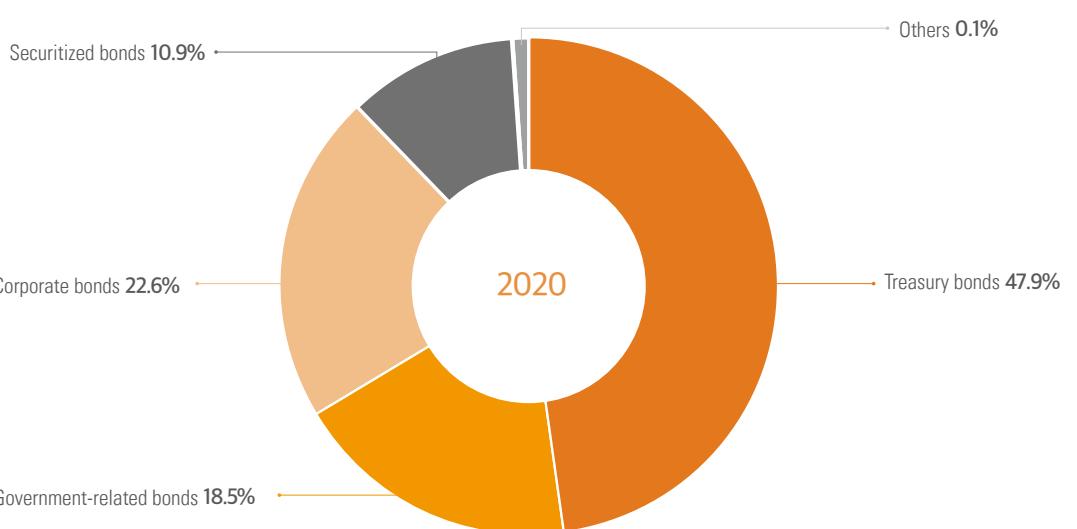
	Return	Benchmark
Annual Return for 2020	0.19	-0.53
3-Year Average (2018-2020)	5.39	5.23
5-Year Average (2016-2020)	4.06	4.01

Trend of Global Fixed Income

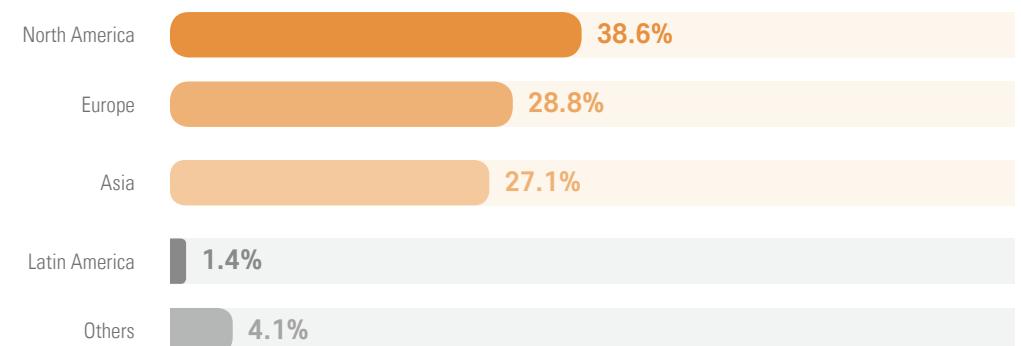
(Unit: KRW in trillion)



Global Fixed Income by Sector



Global Fixed Income by Region



3-5. Alternative Investments

Since NPS began to invest in alternative assets in 2002, the size and type of the investments have been expanded thanks to portfolio diversification strategies. At the end of 2020, alternative investments, including domestic and global real estate, infrastructure, private equity, and overseas hedge funds, were valued at KRW 90.7 trillion or 10.9% of total fund, an increase of KRW 6.4 trillion year on year.

Considering the fact that alternative investments, as non-traditional asset classes, have unique risk-return profiles and can offer stable income over a long-term horizon, NPS has diversified its portfolio through increases in overseas investments and alternative investments. At the end of 2020, investments in domestic alternative assets were valued at KRW 24.7 trillion or 27.3% of the total alternative investments, a decrease of KRW 80 billion year on year, while investments in overseas alternative assets were valued at KRW 65.9 trillion or 72.7% of the total alternative investments, an increase of KRW 6.4 trillion year on year.

By sector, private equities, including hedge funds, made up the largest alternative asset class at 36.8%, followed by real estate at 34.5%, and infrastructure at 28.7%. In terms of an increase of investments compared to a year ago, private equities investments saw the largest growth with KRW 3.9 trillion while investments in infrastructure and real estate jumped to KRW 2.3 trillion and 80 billion, respectively.

In 2020, travel restrictions imposed during the COVID-19 pandemic, coupled with low interest rates set by central banks across the globe, disrupted overseas investments, leading to inflow of investments into the domestic market and a rise in liquidity. In such favorable domestic real estate markets, NPS sold its non-core assets. Backed by high dividend yields, including an increase of fair market value and gains on sale of property, NPS recorded an all-time high time-weighted return of 15.63% in domestic real estate investments. Domestic infrastructure investments generated a return of 3.21% based on stable dividend and interest incomes amid low interest rates. Domestic private equity investments saw a return of 12.69%, an increase of 6.02% from a year ago thanks to an increase of fair market value caused by boom in domestic stock markets as well as growth of domestic venture markets, mainly in bio health, medical, and IT service sectors. As a whole, domestic alternative investments achieved the highest return in five years with a time-weighted return of 10.48%, an increase of 3.24% relative to its benchmark.

Contrary to domestic alternative investments, overseas alternative investments were affected adversely, especially in real estate and infrastructure valuations. Although overseas real estate and infrastructure generated positive returns, due to Korean won's rise in value, they recorded negative returns in Korean won. However, in the case of private equity investments, sufficient liquidity and boom in the stock market recovered swiftly drove the fair market value to rise, generating a decent return of 6.63% in spite of negative effects of foreign exchange. Hedge funds also saw a sharp rise and recorded a positive excess return relative to the benchmark for the first time since 2016. Private debt funds, which NPS began to invest in December 2019 as part of a strategy to ramp up returns from Alternative investments, generated a return of 9.49% thanks to favorable market conditions despite COVID-19. As a whole, global alternative investments outperformed its benchmark by 0.36% in the face of unfavorable foreign exchange effect caused by the appreciation of Korean currency against U.S. dollar as well as the COVID-19 crisis.

Alternative investments recorded a time-weighted return of 2.57% in total, an increase of 1.00% relative to the benchmark. Most sectors outperformed their benchmarks, except for domestic infrastructure, overseas real estate, and overseas infrastructure. Moreover, the 3-year and 5-year average annual returns also outperformed their benchmarks and achieved stable performance.

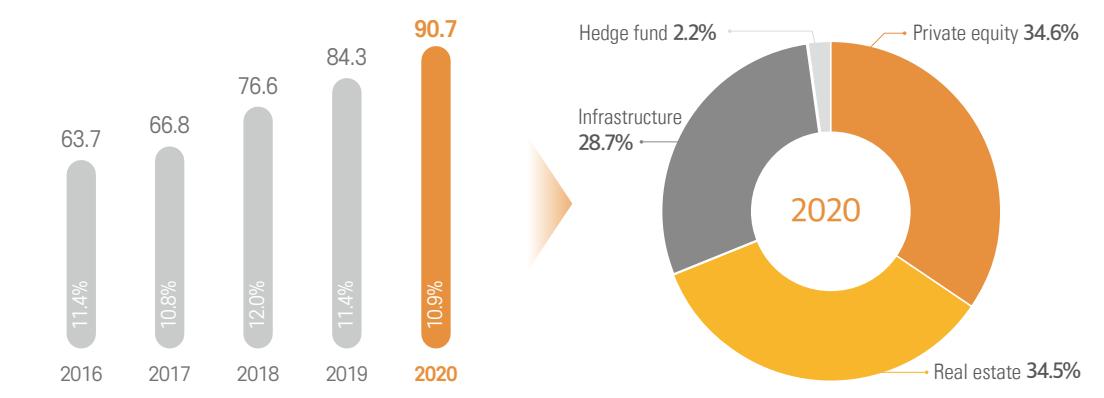
Return on Alternative Investments

(Time-weighted rate of return, Unit: KRW 100 million, %)

Sector	2020			3-Year Average (2018-2020)		5-Year Average (2016-2020)	
	Valuation	Return	BM	Return	BM	Return	BM
Domestic	Real estate	66,731	15.63	8.72	10.40	7.21	9.12
	Infrastructure	77,861	3.21	4.64	6.22	6.61	5.69
	Private equity	102,560	12.69	8.42	9.05	6.65	7.79
Sub-total		247,153	10.48	7.23	8.60	6.82	7.52
Global	Real estate	246,474	-4.36	-0.62	6.27	7.03	6.70
	Infrastructure	181,886	-1.47	-0.08	7.61	7.52	7.88
	Private equity	206,055	6.63	-0.59	11.36	9.62	10.63
	Hedge fund	20,061	2.06	1.48	4.97	6.02	-
	Private debt fund	4,967	9.49	-1.30	-	-	-
Sub-total		659,443	-0.04	-0.40	8.16	7.94	8.09
Total		906,596	2.57	1.57	8.07	7.43	7.76
Note. Investments in hedge funds began in November 2016 and private debt in December in 2019.							

Trend of Alternative Investments

(Unit: KRW in trillion)



3-5-1 Real Estate

NPS began to invest in domestic real estate in 2004 and overseas real estate in 2006, and since then, real estate investments have been expanded by region and by sector. NPS has focused mainly on core/core+ to form a stable management basis, made selective investments in value-add and opportunistic real estate to enhance its asset values, and diversified its investment strategies with build-to-core, secondary, debt, etc.

As of the end of 2020, investments in real estate were valued at KRW 31.3 trillion, an increase of KRW 6.3 trillion from KRW 25 trillion in 2016. Real estate made up 34.5% of the total alternative investments and around 3.8% of the total fund.

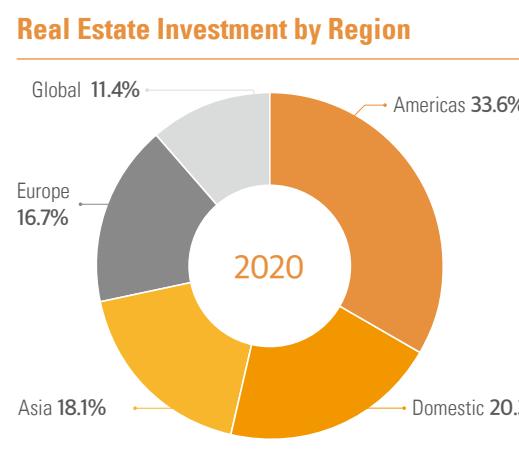
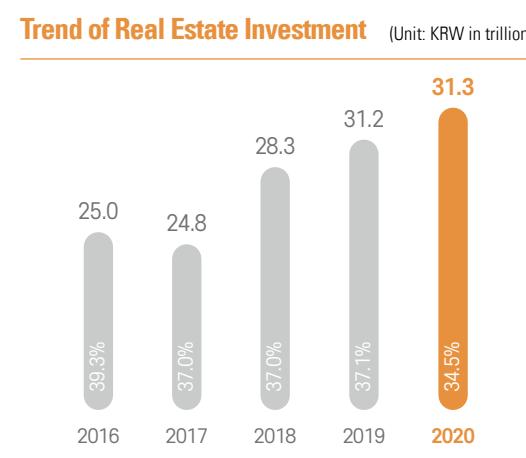
In 2020, NPS overhauled its real estate investment process following the integration of domestic and overseas assets. In response to ever-changing investment environment and increasing market volatility, NPS utilized region- and sector-specific managers and invested large sums of money in a single fund to expand its portfolio. Moreover, NPS strengthened its strategic partnership with global pension funds and insurance companies to increase investment stability and expand its market forces, and constantly strove to establish a stable and long-term portfolio by carrying out project investments in developed countries through build-to-core strategies.

3-5-2 Infrastructure

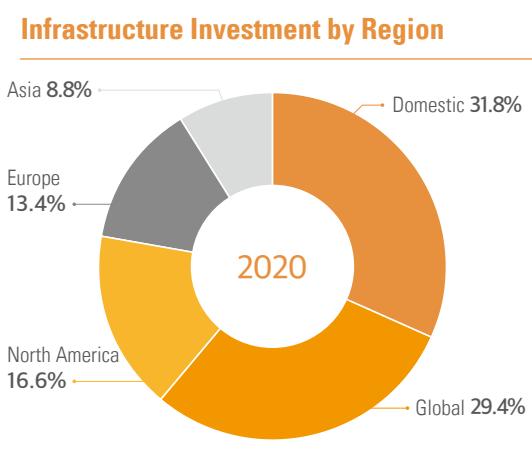
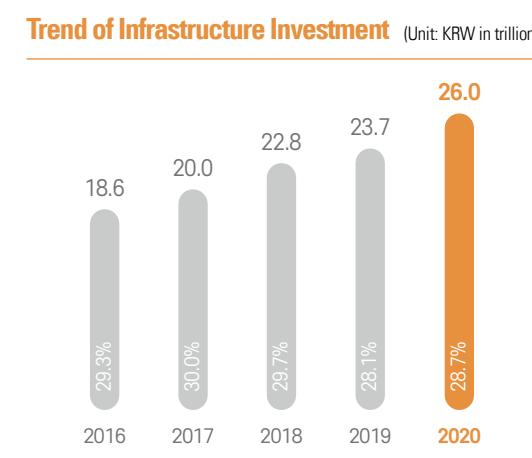
NPS began to invest in domestic port BTO in 2005 and overseas infrastructure funds in 2007, and since then, NPS has established its portfolio in diversified sectors such as transportation, energy, and digitization at home and abroad. NPS has invested mainly in core/core+ which creates stable cash flow and sufficient joint investment opportunities, and diversified its portfolio through a range of strategies, including value-add, mid-market, and secondary investments as well as in collaboration with major managers and investors.

As of the end of 2020, investments in infrastructure were valued at KRW 26 trillion, an increase of KRW 7.4 trillion from KRW 18.6 trillion in 2016. Infrastructure made up 28.7% of the total alternative investments and around 3.1% of the total fund.

In 2020, NPS executed new commitments mostly in overseas investments to ensure stable profit increase. NPS invested in infrastructure in India for the first time and expanded its investments in the region by exploring new managers specializing in the region. Moreover, NPS untapped investment opportunities in prime assets through joint investment in overseas projects with global pension funds.



Note. The weight refers to a real estate investment ratio from alternative investments.



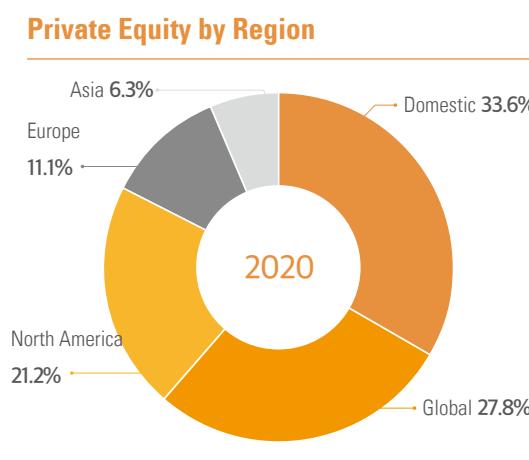
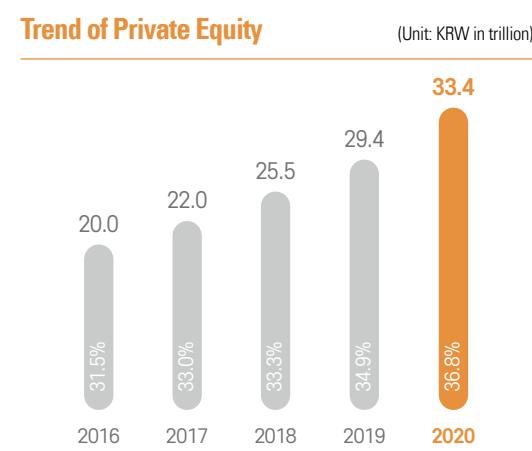
Note. The weight refers to an infrastructure investment ratio from alternative investments.

3-5-3 Private Equity

NPS began to invest in domestic venture capitals in 2002, hedge funds in 2016, and overseas private debt through strategic management acceleration program in 2019. Since then, NPS has continued to diversify its portfolio. NPS has established a well-balanced portfolio through a range of strategies, including conventional buyout, credit/distressed, secondary, venture/growth, co-investment, etc.

As of the end of 2020, investments in private equity were valued at KRW 33.4 trillion, an increase of KRW 13.4 trillion from nearly KRW 20 trillion in 2016. Private equity investment made up 36.8% of the total alternative investments and around 4.0% of the total fund.

In 2020, NPS stepped up co-investments by establishing strategic partnerships with outstanding managers with track record of continuous investment activities and stable performance. Furthermore, a candidate manager pool program was introduced to enhance the selection process and partner with external managers with outstanding performance. As such, NPS has continued to strive to increase returns in a stable manner.



Note.1) The weight refers to a private equity ratio from alternative investments.
2) Private equity includes hedge funds, etc.

Global Alternative Investments





**2020
National Pension Fund
Annual Report**

**IV.
Responsible
Investment and
Governance**

1. Stewardship Activities and Responsible Investment
2. Key Activities
3. Way Forwards

1. Stewardship Activities and Responsible Investment

1-1 Stewardship Activities Overview

As a long-term investor aiming to protect and enhance the value of assets under management, National Pension Service (NPS) is obliged to exercise its fiduciary duty of managing and investing pension contributions paid by plan participants. In this context, NPS conducts stewardship activities, including responsible investment and exercise of shareholder rights, to achieve long-term and stable returns.

A clear legal basis for responsible investment to incorporate environmental, social, and governance (ESG) factors into investment decisions has been in place since the amendment to the National Pension Act in January 2015. Furthermore, Responsible Investment & Governance Principles (Stewardship Code) and the Guideline on Responsible Investment & Governance were enacted in July 2018 to establish specific standards for stewardship activities.

Legal Basis

National Pension Act

Article 102(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 and revenue. <Newly inserted on Jan. 28, 2015>

National Pension Fund Management Guideline

Article 4 (Investment Principles) 5. Principle of Sustainability

Investment activities shall be performed in good faith with a view to improving sustainability of assets under management by incorporating environmental, social and governance factors into investment decision processes.

Article 17-2 (Responsible Investment and Governance Principles)

NPS shall adopt the Korea Stewardship Code, or Principles on the Stewardship Responsibility of Institutional Investors, and implement the Responsible Investment and Governance Principles approved by the Fund Management Committee, in order to promote transparency and independence of stewardship activities carried out by NPS.

Guideline on Responsible Investment & Governance

Article 3 (Basic Principles)

- (1) NPS shall implement its stewardship activities with an objective of achieving stable growth of assets under management.
- (2) NPS shall faithfully implement its stewardship activities in good faith in the best interests of current and former pension participants and beneficiaries of the National Pension Fund.
- (3) NPS shall implement its stewardship activities in a way to contribute to increasing investment value.
- (4) NPS shall implement its stewardship activities by taking into account environmental, social, and governance factors related to investment targets, to achieve long-term and stable returns.
- (5) NPS shall implement its stewardship activities, including exercise of shareholder rights, in accordance with the Responsible Investment and Governance Guideline and the Principles approved by the Fund Management Committee.

1-2 Key Principles

National Pension Service (NPS) may incorporate ESG considerations throughout the entire portfolio management process. NPS manages and invests its assets according to its investment principles including profitability, stability, and sustainability, while making responsible investments and exercising shareholder rights toward achieving stable growth of the Fund.

Key policies relating to responsible investment and the exercise of shareholder rights are determined by the National Pension Fund Management Committee (FMC) while general principles and detailed standards are developed by the Special Committed on Responsible Investment & Governance. As determined by the FMC, NPS makes responsible investment by integrating ESG factors into domestic and overseas equities and fixed income investments as well as managing key ESG-related issues. In addition, NPS exercises shareholder rights, including voting rights on listed equities, focus list, open letters, shareholder proposals, litigation, etc.

Key Principles & Stewardship Activities

Principles on Responsible Investment (RI)

- (1) Achieve long-term and stable returns
- (2) Implement RI according to the Guideline on Responsible Investment & Governance
- (3) Implement RI in equities and fixed income investments
- (4) Incorporate non-financial factors, including environmental, social, and governance (ESG), into investment decision
- (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) Improve capabilities and expertise in RI
- (9) Regularly monitor RI activities

Stewardship Code, or Principles on Responsible Investment & Governance

- (1) Formulate and publicly disclose a policy for implementing stewardship responsibilities
- (2) Formulate and publicly disclose a policy for avoiding conflicts of interest
- (3) Regularly monitor investee companies
- (4) Formulate internal guidelines and conduct shareholder engagement
- (5) Formulate and publicly disclose a voting policy, and publicly disclose voting Formulate and publicly disclose a voting policy, and publicly disclose voting
- (6) Regularly report stewardship activities
- (7) Enhance the capabilities and expertise required to fulfill stewardship responsibilities

National Pension Fund Management Guideline

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

- ① NPS engages in responsible investment practice and exercises shareholder rights to achieve stable growth of its assets.
- ② NPS engages in responsible investment practice and exercises shareholder rights in good faith in the best interests of pension participants and beneficiaries of the National Pension Plan.
- ③ NPS engages in responsible investment practice and exercises shareholder rights in a way of enhancing shareholder value.
- ④ NPS complies with the Responsible Investment and Governance Guideline approved by the Fund Management Committee in terms of standards, methodologies, and procedures relating to responsible investment and exercise of shareholder rights.
- ⑤ NPS engages in responsible investment practice and exercises shareholder rights in principle. However, the Special Committee on Responsible Investment & Governance makes decision, using the analysis of NPSIM, on certain matters, including issues deemed hard for NPS to make voting decision and implement shareholder rights, issues deemed to have a long-term impact on shareholder value and requested by over a third of the committee's registered members, and issues relating to confidential dialogue, public and non-public focus list, shareholder proposals (excluding shareholder proposals stipulated in Article 154-1 of Enforcement Decree of Financial Investment Services and Capital Markets), and open letters.
- ⑥ NPS may delegate the decision of voting direction to external managers.

Guideline on Responsible Investment & Governance

Article 4 (Stewardship Activities)

- ① NPS may conduct confidential dialogue on domestic and overseas equities and fixed income investments, and implement responsible investment, including
 1. Non-financial factor consideration, including environmental, social, and governance; and
 2. Key management issues in relation to ESG, etc.
- ② NPS may conduct confidential dialogue on retained listed stocks and exercise shareholder rights, including
 1. Voting;
 2. Conducting confidential dialogue, selecting non-public and public focus list, issuing open letters, submitting shareholder proposals, etc. on key management issues;
 3. Conducting confidential dialogue, selecting non-public and public focus list, issuing open letters, submitting shareholder proposals, etc. on unexpected concerns; and
 4. Initiating litigation

1-3 Milestones of Stewardship Activities

After the launch of externally managed domestic responsible investment (RI) funds in September 2006, NPS joined the Principles for Responsible Investment (PRI), a global network of investors that have publicly demonstrated their commitment to responsible investment, in June 2009. NPS set a plan to promote engagement with locally listed companies in 2015, with an aim of formulating a reasonable dividend policy, and in November in the same year, an ESG Evaluation System for domestic equities was formed. Following this, NPS built an internal IT system that provides ESG related information to its portfolio managers.

In July 2018, NPS adopted the Responsible Investment & Governance Principles, or Stewardship Code, while developing the Guideline on Responsible Investment & Governance by reforming an existing Voting Right Guideline to describe activities required to fulfill stewardship responsibilities. In November 2019, NPS devised a Plan to Facilitate Responsible Investment to apply responsible investment to a broader range of assets, while drawing up the Guideline on Active Ownership for Domestic Equities in the following month to expand the scope of shareholder engagement. In July 2020, an Annual Report on Responsible Investment & Governance separately issued was published as part of a National Pension Fund Annual Report to publicly disclose stewardship activities carried out by NPS, and in November, the Guideline on ESG Integration Strategies for Domestic Equities was developed to incorporate ESG factors into internally managed domestic equities.

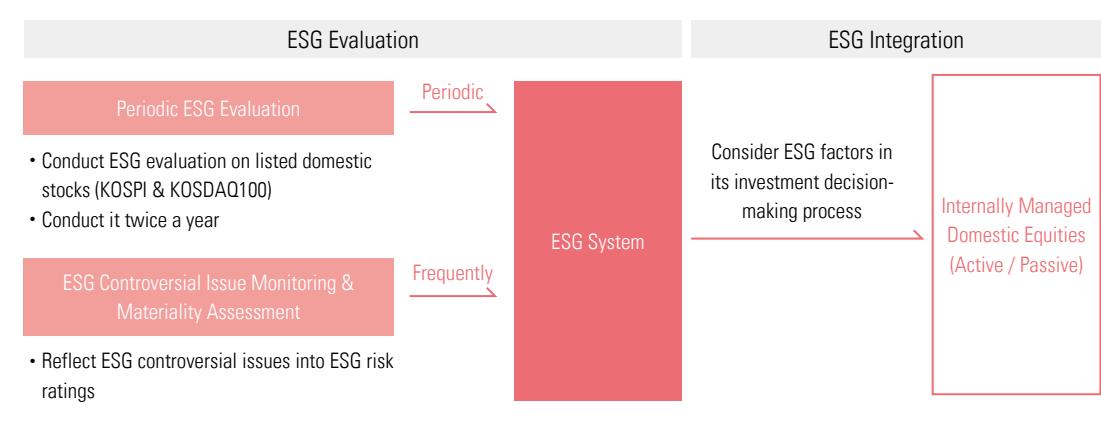
Milestones of Stewardship Activities

Sept. 2006	Launched externally-managed domestic RI Funds
Jun. 2009	Joined the Principles for Responsible Investment (PRI)
Jun. 2015	Developed a plan to promote engagement with locally listed companies on dividends from domestic equities
Nov. 2015	Established an ESG Evaluation System for domestic equities
Apr. 2016	Added a provision relating to responsible investment in the Fund Management Guideline (Investment Policy Statement)
Dec. 2016	Built an ESG System for domestic equities
Jul. 2017	Established an evaluation system to assess ESG Controversial Issues for domestic equities
Sept. 2017	Incorporated ESG factors into investment decision for internally-managed domestic equities
Jul. 2018	Introduced the Responsible Investment & Governance Principles (Stewardship Code)
	Established a Guideline on Responsible Investment & Governance
Jan. 2019	Developed a Guideline on Stewardship Activities for Domestic Equities
Feb. 2019	Decided on the scope of disclosing voting directions prior to shareholder meetings
Nov. 2019	Developed a Plan to Facilitate Responsible Investment and adopted RI Principles
	Added Sustainability as one of the investment principles
Dec. 2019	Introduced a Guideline on Active Ownership for Domestic Equities
Jul. 2020	Amended the Guideline on Stewardship Activities for Domestic Equities
Sept. 2020	Upgraded a materiality assessment process and its assessment standards
Nov. 2020	Developed a Guideline on ESG Integration Strategy for Domestic Equities

2. Key activities

2-1 ESG Investing

ESG Evaluation & ESG Integration Process



(1) ESG Evaluation

In order to analyze non-financial factors, or ESG factors, in a systematic manner, NPS establishes a distinct ESG Evaluation System and evaluates locally listed companies (KOSPI+KOSDAQ100) twice a year. The ESG Evaluation System is comprised of 52 evaluation indicators in 13 issues affecting corporate values in the areas of environmental, social, and governance (ESG). Each issue is scored and graded for ESG rating after being weighted differently for each industry.

The ESG System provides ESG information, including ESG evaluations results, to portfolio managers of internally managed domestic equities. Along with financial factors, non-financial factors are considered in investment decision making processes. NPS continues to enhance and upgrade the ESG Evaluation System, including evaluation indicators, given internal and external circumstances.

(2) ESG Monitoring & Materiality Assessment

NPS monitors controversial issues, including ESG-related matters, which can affect corporate value, and conducts materiality assessments to measure possible impact on both corporate and shareholder value. Taking into consideration the result of materiality assessments, ownership ratio and holding weight, NPS adjusts ESG evaluation results or takes shareholder engagement. In case that an investee company is subject to 'shareholder engagement for unexpected concerns,' the company is likely to be invited to a confidential dialogue according to the process and standards of the Guideline on Stewardship Activities for Domestic Equities.

(3) ESG Integration

Since 2017, NPS has adopted ESG integration strategies towards some internally managed domestic equities (active-type). In November 2020, NPS expanded its strategies into passive investments and developed the Guideline on ESG Integration Strategies for Domestic Equities which describes enhanced measures to implement. As such, NPS applies ESG integration strategies into all of the internally managed domestic equities.

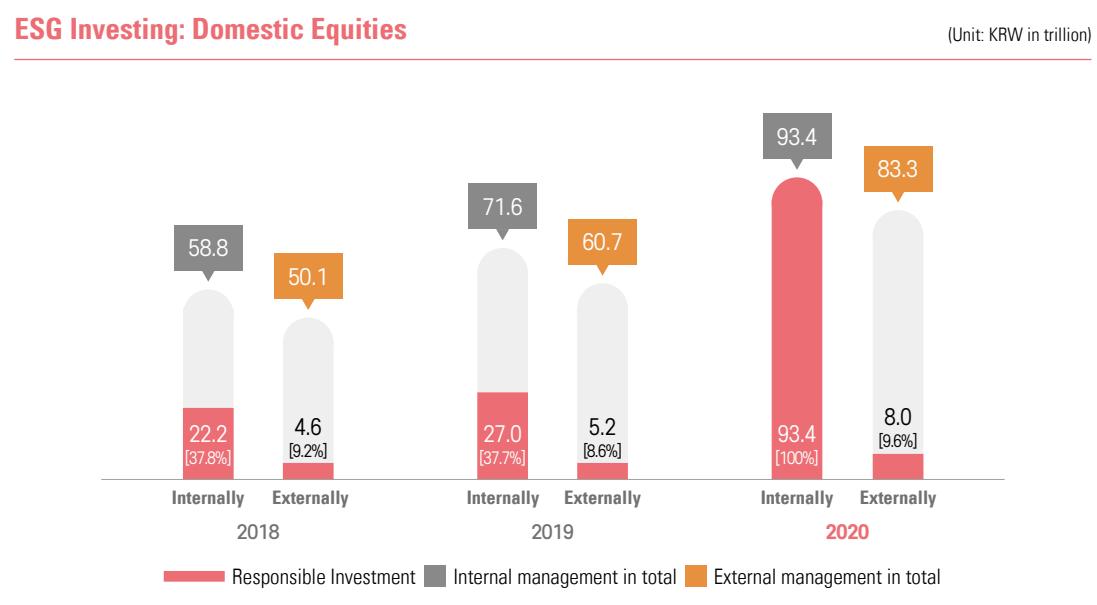
Accordingly, in-house portfolio managers check ESG-related details in considering new securities. If ESG rating falls into low categories, portfolio managers are required to provide in writing their opinion and ESG reports as attachment of a security review report. In addition, as for securities falling into Level C, portfolio managers are required to check if the investments meet their benchmark. If the investments are made beyond their benchmark, it is required to add the reason and investment opinion in a security review report.

(4) Externally Managed Domestic RI funds

NPS manages externally managed domestic RI funds as one of the externally managed domestic equities. As of the end of 2020, the RI funds were managed by nine external managers, and the amount under management amounted to approximately KRW 8 trillion. NPS has adopted an internally developed benchmark index for such RI funds, which is called NPS-FnGuide Responsible Investment Index.

In selecting external managers, a range of aspects are considered, including their expertise, ethics, investment strategies, investment process, and compliance with investment guidelines. Once selected, external managers are allowed to implement a range of RI investment strategies. Since November 2020, external RI managers have been required to submit RI fund management reports, which are used for the monitoring purpose in NPS.

As of the end of 2020, ESG investments amounted to KRW 101.4 trillion, a combination of internally managed domestic equities of KRW 93.4 trillion and externally managed domestic responsible investment (RI) funds of KRW 8 trillion.



2-2 Proxy Voting

NPS exercises voting rights in a faithful manner and solely in the best interests of pension participants and beneficiaries according to the National Finance Act and the Fund Management Guideline. Also, NPS complies with the Guideline on Responsible Investment & Governance which defines standards, procedures, and practices on voting.

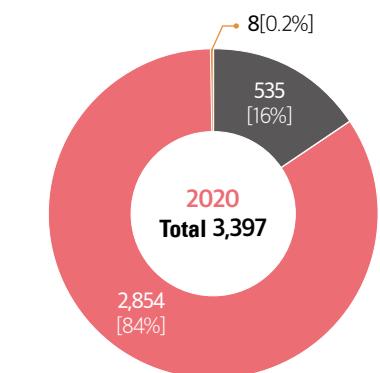
Based upon ownership ratio and holding weight, the Investment Committee reviews and decides on the exercise of voting rights. However, the Special Committee on Responsible Investment & Governance may decide the direction of voting in certain cases: i) where NPS deems it difficult to make a decision, or ii) where over a third of the committee's registered members deem it to have a long-term impact on shareholder values.

The Fund Management Committee (FMC) has formulated the Guideline on Voting Right Delegation to External Managers to allow the delegation of voting rights of some holdings to external managers as of an annual meeting of the listed companies in March 2020.

NPS discloses reasons for voting against proposals in detail, containing voting results and supporting clauses within associated guidelines within 14 days after a shareholder meeting. Nevertheless, voting direction can be disclosed before a shareholder meeting when i) NPS holds stocks in excess of 10%, ii) associated stocks account for more than 1% of investment portfolio, or iii) the Special Committee on Responsible Investment & Governance deems it necessary. In 2020, NPS made prior disclosures for 123 proposals.

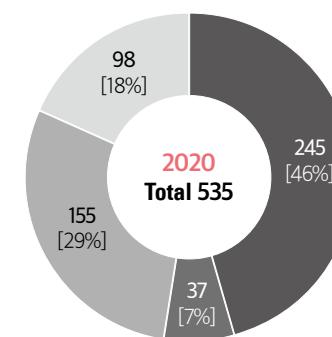
NPS voted on 3,397 proposals in 854 shareholder meetings for domestic equities in 2020. Voting results were 2,854 in favor (84.0%), 535 against (15.8%), and 8 abstentions/non-votes (0.2%). 535 votes against included appointments of directors and auditors (245, 45.8%), amendments to articles of incorporation (37, 6.9%) and approval of remuneration cap for directors (155, 29.0%), and others (98 votes, 18.3%).

2020 Voting Results



For
Against
Abstentions/Non-Votes

Reasons for Votes Against



Appointments of directors and auditors
Amendments to articles of incorporation
Approval of remuneration cap for directors
Others

2-3 Shareholder Engagement

With an aim of achieving stable and long-term returns, NPS identifies key focus areas and conducts shareholder engagement. Key focus areas include i) dividend policy, ii) remuneration cap for directors, iii) concerns over violation of law, iv) repetitive votes against, and v) downgraded results of ESG evaluations. NPS also undertakes shareholder engagement when there are concerns over unexpected infringement on corporate value or shareholder's interest from the ESG perspective. Shareholder engagement is carried out in stages, including confidential dialogue, non-public/public focus list, and shareholder proposals, according to the Guideline on Stewardship Activities for Domestic Equities.

In December 2019, NPS formulated the Guideline on Active Ownership for Domestic Equities to enhance corporate value and provide transparent and fair shareholder engagement. In this guideline, stewardship activities focus on increasing value of investee companies and shareholders by involving in sufficient interaction and communication on key focus areas and unexpected concerns as well as seeking improvement plans, rather than directly engaging in business management of investee companies. When an issue requiring shareholder engagement occurs, NPS pursues fact-checking and communication with investee companies to address issues according to the Guideline on Stewardship Activities for Domestic Equities. In case that it seems hard to make improvements, active ownership engagement is conducted.

Stewardship Activities on Focus Area and Unexpected Concerns

Type	Focus Area	Unexpected Concerns
Objective	To increase shareholder value and long-term profitability	
Activities	Make improvements	Alleviate associated concerns
Engagement	<ul style="list-style-type: none"> • (Targets) Companies in focus list (NPS's ownership ratio exceeding more than 5%, or the investment exceeding more than 1% of NPS's portfolio) • (Activities) Establish an amicable communication channel with investee companies to encourage them to develop plans or measures to improve shareholder value <ul style="list-style-type: none"> * All engagement activities remain confidential. However, if there is no sign of improvements (i.e. refusing dialogue), an open letter is sent. 	<ul style="list-style-type: none"> • (Targets) Companies selected for confidential dialogue by the Special Committee on Responsible Investment & Governance, according to the result of Materiality Assessment on ESG-related Controversial Issues*. <ul style="list-style-type: none"> * ESG-related controversial issues refer to issues that might adversely affect corporate value or cause controversy. • (Activities) Establish an amicable communication channel with investee companies to encourage them to develop plans or measures to improve shareholder value <ul style="list-style-type: none"> * All engagement activities remain confidential. However, if there is no sign of improvements (i.e. refusing dialogue), an open letter is sent.
Non-Public/ Public Focus List Selection	<ul style="list-style-type: none"> • (Targets) Companies showing no improvements despite a series of dialogues for a certain period of time • (Activities) Add the company in a Focus List and encourage them to make improvements <ul style="list-style-type: none"> * All engagement activities remain confidential. However, if there is no sign of improvements until the year end, the Special Committee decides whether to publicly disclose the list 	N/A
Active	<ul style="list-style-type: none"> • (Targets) Companies showing no improvements despite a series of dialogues for a certain period of time • (Activities) Examine the companies (by the Special Committee on Responsible Investment & Governance) in accordance with the Guideline on Active Ownership for Domestic Equities and make shareholder proposals on the basis of FMC's approval <ul style="list-style-type: none"> * Matters relating to the establishment of dividend policy and compensation for directors are decided by the Special Committee. Shareholder proposals which are not associated with business management are conducted first. 	<ul style="list-style-type: none"> • (Targets) Companies showing no improvements despite a series of dialogues for a certain period of time • (Activities) Examine the companies (by the Special Committee on Responsible Investment & Governance) in accordance with the Guideline on Active Ownership for Domestic Equities and make shareholder proposals on the basis of FMC's approval

3. Way Forwards

3-1 ESG Investing

In November 2019, NPS set out the Plan to Facilitate Responsible Investment to enhance long-term profitability. Since then, NPS has implemented the roadmap to promote responsible investment. Specifically, NPS plans to expand the application of its ESG integration strategies to not only internally managed domestic equities, but also overseas equities and domestic/overseas fixed income investments. In addition, the scope of RI report submission requirements will be extended to external managers while additional scores for ESG ranking will be granted to companies which have RI policies or guidelines in place. Through such efforts, NPS remains committed to pursuing responsible investment. Also, NPS will create environment where ESG disclosure is promoted by requiring external managers to include ESG information in their analysis reports.

3-2 Exercise of Shareholder Rights

National Pension Fund Management Committee (FMC) has decided to develop the Guideline on the Composition and Operation of the Board of Investee Companies. NPS has already announced that through the Plan to Facilitate Responsible Investment, NPS will expand its current focus from governance to include environmental and social factors, and to further apply its ESG strategies to overseas assets. NPS plans to materialize the decisions made by FMC in stages, and file shareholder derivative actions according to the Guideline on Stewardship Activities for Domestic Equities which provides the legal basis for the litigation.

**2020
National Pension Fund
Annual Report**

Appendix

1. 2020 Financial Statements
2. Key Statistics
3. FMC Meetings
4. Public Disclosure



1. 2020 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, 2020 and December 31, 2019, 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, 2020 and 2019 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Seoul, Korea

February 17, 2021

Grant Thornton Daejoo

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

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

Statements of Financial Position

As of December 31, 2020 and 2019

	(In Korean Won)	
	2020	2019
Assets		
I. Current Assets	216,799,636,899,891	193,396,855,311,437
1. Cash and cash equivalents	1,559,373,737,526	1,249,801,520,722
2. Short term financial instruments	13,415,000,000,000	12,810,000,000,000
(1) Bank deposits	13,415,000,000,000	12,810,000,000,000
3. Short term investment securities	199,554,010,005,858	176,790,816,685,524
(1) Debt securities	32,825,352,615,364	41,119,268,209,938
a. Government bonds	7,330,256,593,626	8,054,212,856,690
b. Public bonds	-	281,901,933,785
c. Municipal bonds	639,262,146,445	220,267,450,566
d. Special bonds	3,735,120,741,199	4,092,600,879,147
e. Financial bonds	7,647,490,677,908	14,199,028,978,993
f. Credit financial bonds	1,940,967,622,826	2,176,815,045,803
g. Corporate bonds	10,217,145,526,945	10,522,326,690,460
h. Foreign bonds	825,331,962,125	1,042,332,253,032
i. Electronic short-term bonds	489,777,344,290	529,782,121,462
(2) Equity securities	166,728,657,390,494	135,671,548,475,586
a. Domestic stocks	93,376,618,206,845	71,612,131,661,625
b. Foreign stocks	73,352,039,183,649	64,059,416,813,961
4. Other receivables	1,988,856,664,396	2,218,469,666,455
(1) Accrued interest income	1,804,369,804,189	2,088,832,339,857
(2) Accrued other income	79,558,342,337	82,191,612,190
(3) Other accounts receivable	105,601,275,038	47,754,218,140
Allowance for other accounts receivable	(672,757,168)	(308,503,732)
5. Short term loans	280,932,184,306	318,506,479,318
(1) Short term loans	314,012,387,835	361,182,080,782
Allowance for bad debts	(33,041,523,044)	(42,633,832,143)
6. Other current assets	(38,680,485)	(41,769,321)
(1) Derivatives	1,464,307,805	9,260,959,418
(2) Prepaid income taxes	1,137,397,891	9,096,840,318
	326,909,914	164,119,100
II. Investments	616,549,995,204,740	542,790,746,116,004
1. Long term investment securities	611,615,548,988,088	538,034,924,939,260
(1) Debt securities	255,509,524,967,820	236,343,218,462,914
a. Government bonds	115,930,866,776,106	112,048,395,315,200
b. Public bonds	1,210,838,932,636	1,292,312,288,810
c. Municipal bonds	6,681,231,676,656	4,215,306,004,160
d. Special bonds	52,597,830,548,687	51,496,470,856,795
e. Financial bonds	20,630,841,662,539	18,916,485,149,070

	2020	2019
Assets		
f. Credit financial bonds	8,083,699,343,814	7,291,835,779,465
g. Corporate bonds	30,065,898,932,242	29,724,338,197,507
h. Foreign bonds	20,308,317,095,140	11,358,074,871,907
(2) Equity securities	356,106,024,020,268	301,691,706,476,346
a. Domestic discretionary contract assets	127,611,498,011,605	102,071,755,899,664
b. Foreign discretionary contract assets	143,097,098,462,921	120,428,883,500,592
c. Stocks	3,921,951,037,323	5,468,251,358,205
d. Equity investments	10,882,324,601,846	9,907,699,736,933
e. Beneficiary certificates	5,544,374,292,616	5,377,733,524,869
f. Foreign equity securities	65,048,777,613,957	58,437,382,456,083
2. Long term loans	4,934,446,216,652	4,755,821,176,744
(1) Long term loans	4,962,173,518,496	4,774,439,703,931
Allowance for bad debts	(27,727,301,844)	(18,618,527,187)
III. Property, plant and equipment	20,291,663	-
1. Fixtures, fittings and office equipment, gross	22,589,000	-
Accumulated depreciation	(2,297,337)	-
IV. Other non-current assets	583,434,215,187	587,753,851,455
1. General business accounting assets	410,468,484,064	429,157,591,831
2. Welfare business accounting assets	172,965,731,123	158,596,259,624
Total assets	833,933,086,611,481	736,775,355,278,896
Liabilities		
I. Current liabilities	169,415,745,014	84,409,486,714
1. Derivatives	115,694,355,715	54,864,421,397
2. Other accounts payable	47,865,944,274	24,355,581,337
3. Accrued expenses	3,409,204,846	2,988,979,053
4. Income received in advance	245,735,252	-
5. Other deposits received	2,200,504,927	2,200,504,927
II. Other non-current liabilities	36,041,142,380	37,101,698,370
1. Security deposits received from NPS	36,041,142,380	37,101,698,370
Total liabilities	205,456,887,394	121,511,185,084
Net assets		
I. Basic net assets	335,261,900	335,261,900
II. Reserve and surplus	649,553,897,590,227	606,977,283,159,124
1. Reserve for national pension benefits	402,215,181,885,076	376,652,101,014,176
2. Surplus	247,338,715,705,151	230,325,182,144,948
III. Net asset adjustments	184,173,396,871,960	129,676,225,672,788
1. Accumulated gain on investment securities valuation	184,246,666,876,708	129,734,410,632,194
2. Other changes in net assets	(73,270,004,748)	(58,184,959,406)
Total net assets	833,727,629,724,087	736,653,844,093,812
Total liabilities and net assets	833,933,086,611,481	736,775,355,278,896

Statements of Financial Operation

For the years ended December 31, 2020 and 2019

	(In Korean Won)					
	2020			2019		
	Gross cost	Revenue	Net program cost	Gross cost	Revenue	Net program cost
I. Net program cost	51,818,588,431,656	(51,247,541,231,728)	571,047,199,928	48,375,775,076,636	(47,832,898,759,787)	542,876,316,849
1. Program(A): Pension service	51,755,319,140,298	(51,226,384,937,281)	528,934,203,017	48,325,893,870,065	(47,809,883,696,576)	516,010,173,489
2. Program(B): Buildings and Welfare	63,269,291,358	(21,156,294,447)	42,112,996,911	49,881,206,571	(23,015,063,211)	26,866,143,360
II. Management and operating expense	58,998,133,993			61,542,599,112		
III. Non-allocated expenses	5,046,933,843,961			2,847,953,015,702		
1. Commission expense	15,085,605,895			13,254,482,010		
2. Bad debt expense	2,792,901,409			91,341,415		
3. Loss on valuations	117,368,097,272			55,506,623,776		
(1) Loss on derivative valuation	115,694,355,715			54,864,421,397		
(2) Loss on foreign currency translation	1,673,741,557			642,202,379		
4. Loss on disposition of assets	2,799,057,091,524			1,763,592,368,817		
(1) Loss on disposition of short-term investment securities	2,397,346,933,645			1,339,806,823,632		
(2) Loss on disposition of long-term investment securities	401,710,157,879			423,785,545,185		
5. Assets impairment loss	-			128,653,400,000		
6. Taxes and dues	99,055,177			1,111,139,954		
7. Depreciation expense	2,297,337			-		
8. Other expenses	2,112,528,795,347			885,743,659,730		
(1) Loss on foreign currency transactions	775,239,756,688			452,304,057,763		
(2) Loss on derivative transactions	1,251,530,579,037			367,907,663,246		
(3) Miscellaneous	85,758,459,622			65,531,938,721		
IV. Non-allocated revenues	22,680,335,738,085			19,434,032,388,813		
1. Interest income	6,915,570,339,677			7,458,431,516,118		
(1) Interest income on financial instruments	230,899,020,968			252,169,725,450		
(2) Interest income on bonds	6,284,274,793,877			6,789,805,067,128		
(3) Interest income on loans	400,396,524,832			416,456,723,540		
2. Gain on valuations	1,153,103,663			9,103,996,442		
(1) Gain on derivative valuation	1,137,397,891			9,096,840,318		

	2020		2019	
	Gross cost	Revenue	Net program cost	Gross cost
(2) Gain on foreign currency translation			15,705,772	7,156,124
3. Gain on disposition of assets			8,769,572,899,257	5,839,934,921,885
(1) Gain on disposition of short-term investment securities			4,209,353,999,248	1,457,425,060,592
(2) Gain on disposition of long-term investment securities			4,560,218,900,009	4,382,509,861,293
4. Other income			6,994,039,395,488	6,126,561,954,368
(1) Dividend income			5,470,167,390,571	5,015,708,347,691
(2) Gain on foreign currency transactions			842,234,144,409	410,715,157,829
(3) Gain on derivative transactions			597,778,225,996	597,784,591,076
(4) Reversal of allowance for doubtful			2,912,182,415	43,182,217,455
(5) Reversal of impairment loss on assets			16,666,667,200	-
(6) Miscellaneous income			64,280,784,897	59,171,640,317
V. Net operating cost	(17,003,356,560,203)			(15,981,660,457,150)
VI. Non-exchange revenue			10,177,000,000	10,177,000,000
1. Other financing and transfers			10,177,000,000	10,177,000,000
VII. Net operating results	(17,013,533,560,203)			(15,991,837,457,150)

Statements of Changes in Net Assets

For the years ended December 31, 2020 and 2019

	(In Korean Won)			
	Basic Net Assets	Reserve and Surplus	Net asset Adjustments	Total Net Assets
<Prior Year>				
I. Net assets at January 1, 2019	335,261,900	565,949,733,204,144	72,831,004,257,477	638,781,072,723,521
1. Reported amount	335,261,900	565,949,733,204,144	72,831,004,257,477	638,781,072,723,521
II. Operating results		(15,991,837,457,150)		(15,991,837,457,150)
III. Adjustments		- 25,035,712,497,830	56,845,221,415,311	81,880,933,913,141
1. Gain on investment securities valuation	-	-	56,836,974,728,318	56,836,974,728,318
2. Other increase in net assets	-	25,035,712,497,830	8,246,686,993	25,043,959,184,823
IV. Net assets at December 31, 2019	335,261,900	606,977,283,159,124	129,676,225,672,788	736,653,844,093,812
<Current Year>				
I. Net assets at January 1, 2020	335,261,900	606,977,283,159,124	129,676,225,672,788	736,653,844,093,812
1. Reported amount	335,261,900	606,977,283,159,124	129,676,225,672,788	736,653,844,093,812
II. Operating results		(17,013,533,560,203)		(17,013,533,560,203)
III. Adjustments		- 25,563,080,870,900	54,497,171,199,172	80,060,252,070,072
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
IV. Net assets at December 31, 2020	335,261,900	649,553,897,590,227	184,173,396,871,960	833,727,629,724,087

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, 2020, the total billed pension contributions were KRW 639,348,673 million. Of this contributions, KRW 627,842,840 million was collected and KRW 11,505,833 million (1.8%) was not collected as of December 31, 2020. The uncollected amount was not recognized as revenue. The accumulated billed pension contributions for workplace based insured persons are KRW 547,463,689 million and the accumulated uncollected amount is KRW 5,977,599 million (1.1%). The accumulated billed pension contributions for individually regional based insured persons are KRW 91,884,983 million and the accumulated uncollected amount is KRW 5,528,234 million (6.0%).

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:

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

(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 1,088.0 to USD 1.00 on December 31, 2020, 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

(Unit: KRW 100 million, Persons)

	2016	2017	2018	2019	2020
Total Fund Reserve (market value)	5,582,991	6,216,611	6,387,811	7,366,538	8,337,276
Financial Investments	5,576,819	6,210,372	6,382,168	7,360,790	8,331,384
Domestic Equity	1,023,591	1,315,200	1,089,138	1,322,609	1,766,957
Domestic Fixed Income	2,793,444	2,894,009	3,109,927	3,207,512	3,260,993
Global Equity	856,582	1,082,793	1,129,610	1,665,277	1,927,517
Global Fixed Income	232,154	232,740	265,874	304,622	448,827
Alternatives	636,668	668,362	766,195	842,952	906,596
Short-term Assets	34,380	17,273	21,426	17,819	20,493
Welfare	1,396	1,433	1,446	1,663	1,800
Others	4,777	4,806	4,196	4,085	4,092

	2016	2017	2018	2019	2020
Total Fund Reserve (book value)	4,889,498	5,271,788	5,655,446	6,063,088	6,493,363
Revenue	6,328,563	6,907,928	7,505,543	8,147,486	8,841,382
Contributions	4,424,580	4,842,430	5,286,164	5,764,165	6,276,336
Investment income	1,894,146	2,058,573	2,212,350	2,376,172	2,557,805
Government subsidies, etc.	6,837	6,925	7,029	7,149	7,241
Expense	1,439,065	1,636,140	1,850,097	2,084,398	2,348,019
Pension Benefits Paid	1,371,635	1,562,474	1,770,000	1,997,644	2,254,185
Other administrative expenses, etc.	67,430	73,666	80,097	86,754	93,834

	2016	2017	2018	2019	2020
Pension Participant	21,832,524	21,824,172	22,313,869	22,216,229	22,107,028
Workplace-based pension participants	13,192,436	13,459,240	13,817,963	14,157,574	14,320,025
Individually pension participants	8,060,199	7,691,917	7,694,885	7,232,063	6,898,118
Voluntarily pension participants, etc.	579,889	673,015	801,021	826,592	888,885
Beneficiary	4,362,254	4,692,847	4,769,288	5,163,110	5,588,154
Old-Age Pension	3,412,350	3,706,516	3,778,824	4,090,497	4,468,126
Disability Pension	75,497	75,486	75,734	77,872	78,079
Survivor Pension	647,445	693,141	724,132	792,774	841,817
Lump-sum Allowance	226,962	217,704	172,598	201,967	200,132

3. FMC Meetings

Meeting (Date)	No	Agenda	Result
1st (Feb. 5)	1	Proposal of amendments to Fund Management Guideline	Approved
	2	The 9th FMC meeting minute in 2019 (summary)	
	3	2020 Active Risk Allocation Results by asset class	Reported
	4	Fund management status as of Nov. 30, 2019 (preliminary)	
2nd (Feb. 17)	1	Proposal of amendments to 2020 Fund Management Plan	Approved
	2	The 1st FMC meeting minute in 2020 (summary)	Reported
3rd (Mar. 31)	1	Proposal of NPS 2019 Financial Settlement Plan	Approved
4th (Apr. 17)	1	The 2nd FMC meeting minute in 2020 (summary)	
	2	NPS COVID-19 Response Status and Plan <Confidential>	
	3	Progress on the establishment of Mid-term Asset Allocation Plan (proposal) 2021-2025 <Confidential>	Reported
	4	Roles and responsibilities of full-time experts and ways to provide information	
	5	Fund management status as of Jan. 31, 2020 (preliminary)	
5th (May. 20)	1	Proposal of Mid-term Asset Allocation Plan 2021-2025 <Confidential>	Approved
	2	Proposal of 2021 Fund Management Plan	Approved
	3	The 4th FMC meeting minute in 2020 (summary)	
	4	Fund management status as of Feb. 29, 2020 (preliminary)	Reported
6th (Jun. 2)	1	Proposal of the 3rd amendments to 2020 Fund Management Plan	Approved
7th (Jul. 3)	1	Proposal of 2019 Performance Assessment	Approved
	2	Proposal of NPSIM Performance-based Incentive	Approved
	3	The 5th FMC meeting minute in 2020 (summary)	
	4	Proposal of amendments to Guideline on Stewardship Activities for Domestic Equities	Reported
	5	Fund management status as of Apr. 30, 2020 (preliminary)	
8th (Jul. 31)	1	Proposal of amendments to Fund Management Guideline	Approved
	2	The 7th FMC meeting minute in 2020 (summary)	
	3	Overseas Investments Master Plan 2020-2024	
	4	Overview of standards on the Composition and Operation of the Board of investee companies	Reported
	5	Issuing of Annual Report on Stewardship Activities	
	6	Fund management status as of May 31, 2020 (preliminary)	

Meeting (Date)	No	Agenda	Result
9th (Oct. 30)	1	Proposal of amendments to FX Management Systems	Approved after revision
	2	Plan to improve Silver Loan services	Approved
	3	The 8th FMC meeting minute in 2020 (summary)	
	4	Proposal of Improvements of Constraints on Hedge Funds Targets	Reported
	5	Fund management status as of August 31, 2020 (preliminary)	
10th (Dec. 16)	1	Proposal of amendments to Overseas Equities Benchmark Index	Approved
	2	Proposal of 2021 Target Excess Return	Approved
	3	Proposal of amendments to 2020 Fund Management Plan	Approved
	4	The 9th FMC meeting minute in 2020 (summary)	
	5	Interim report on the progress of Asset Allocation Plans	
	6	Guide to the Composition and Operation of the Board of investee companies	Reported
	7	Fund management status as of September 30, 2020 (preliminary)	

4. Public Disclosure

Type	Public Disclosure
Monthly	<ul style="list-style-type: none"> ▪ Revenues, expenses and fund reserve ▪ Portfolio status and rate of return by asset class
Quarterly	<ul style="list-style-type: none"> ▪ List of large equities holdings ▪ Fixed income investments by bond type ▪ List of external managers and partner securities firms
Annually	<ul style="list-style-type: none"> ▪ Statements of financial positions and financial operations ▪ Investment portfolios by asset class <ul style="list-style-type: none"> - Equity investment portfolio by sector - Alternative investments portfolio by type - Global investment portfolio by region - Externally managed securities funds ▪ Investment holdings by asset class <ul style="list-style-type: none"> - Domestic and global equities holdings by security - Domestic fixed income holdings by issuer - Global fixed income holdings by security ▪ Alternative investments holdings (type, amount, name, etc.) and other related statistics ▪ Responsible Investment Status <ul style="list-style-type: none"> - Policies, plans, organizations, and activities regarding responsible investment - Standards on integrating environment, social and governance (ESG) factors into responsible investment - Scope of asset classes considering responsible investment and investment scale - Investment of asset classes considering responsible investment (by security among investment breakdown for each asset class) - Standards on selecting external managers related to responsible investment, selected list, and performance assessment standards
Occasionally	<ul style="list-style-type: none"> ▪ FMC meeting results ▪ Fund Management Guideline and Fund Management Plan ▪ Fund Management Regulations and Standards on Selecting External Managers and Partner Securities Firms ▪ Voting records of listed stocks and reasons for votes against (excluding reasons for votes against when external managers decide the direction of the exercise of voting rights) ▪ Other matters deemed necessary to be publicly disclosed in relation to fund management decision





**2020
National Pension Fund
Annual Report**

Attachment

2020 Responsible Investment &
Governance Report

1. An Introduction to Responsible Investment

1-1 What is Responsible Investment?

Nation Pension Service conducts responsible investment (RI) as well as establishes and expands RI strategies in order to achieve long-term and stable returns. RI is implemented in two ways: ESG incorporation and active ownership. That is, in investment decision processes, environmental, social, and governance (ESG) factors are considered while active ownership is carried out through the exercise of voting rights and constructive engagement with companies so as to better manage ESG-related risk and enhance corporate value.

ESG investments are conducted in three approaches: ESG integration, screening and thematic. ESG integration considers financial factors and non-financial factors all together. Screening uses filters to determine which companies, sectors, or activities are eligible or ineligible to be included in a portfolio. Thematic approach seeks to combine attractive risk return profiles with an intention to contribute to a specific environmental or social outcome. In addition, active ownership is undertaken through proxy voting and ownership engagement, including dialogue and shareholder proposals.

Responsible Investment Approaches

PRI	Definition	Application Status	Activities
ESG Investing			
① ESG Integration	Consider financial factors and non-financial factors, including ESG issues	Yes	Incorporate ESG considerations in investment decision for internally managed domestic equities
② Screening	Exclude (Negative Screening) or include (Positive Screening) certain sectors or companies based on ESG performance	To be adopted	As the FMC has introduced restriction screening strategies and declared carbon neutrality, NPS will develop a plan to gradually restrict investments in certain sectors or companies, including investments in coal mining and energy
③ Thematic	Seek to combine attractive risk return profiles with an intention to contribute to a specific environmental or social outcome	No	-
Active Ownership			
④ Proxy Voting	Exercise voting rights at shareholder meetings	Yes	Exercise voting rights on domestic and global equities, etc.
⑤ Engagement	Engagement in non-management: dialogue (confidential dialogue, non-public focus list, public focus list) Engagement in management: shareholder proposal, etc. (after being selected as public focus company) Litigation: Shareholder Derivative Suit, damage suit, etc.	Yes	Engage in dialogues on focus areas and unexpected concerns of domestic equities

1-2 Legal Basis for Responsible Investment

A clear legal basis for responsible investment (RI) to incorporate ESG factors into investment decision has been in place since the amendment to the National Pension Act in January 2015. Reflecting this, a new provision to implement RI was added to the Fund Management Guideline in April 2016. Responsible Investment & Governance Principles (Stewardship Code) and other guidelines were enacted and amended in July 2018 to lay the groundwork for active ownership. In December 2019, the Guideline on Active Ownership was enacted to describe specific measures on active ownership in a broader scope. In November 2019, the Plan to Facilitate Responsible Investment was established to add a new principle of Sustainability to the existing five investment principles – Profitability, Stability, Public Benefit, Liquidity and Independence, in order to continue and expand RI.

Legal Basis

National Pension Act
Article 102 (Fund Management and Investment) 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 and revenue.
National Pension Fund Management Guideline Article 4 (Fund Management Principles) 5. Sustainability: 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 and revenue.

1-3 Policies on Responsible Investment

NPS conducts responsible investment in the best interest of pension participants and beneficiaries to achieve stable growth of assets. NPS adopts Responsible Investment Principles (RI Principles) and Principles on Responsible Investment & Governance (Stewardship Code), manages the Fund by integrating non-financial factors, such as ESG factors, into investment decisions in accordance with standards, procedures, and process of the Guideline on Responsible Investment & Governance, and ensures independence and transparency in the process of the exercise of shareholder rights.

Policies on Responsible Investment

Fund Management Guideline

Article 17 (Responsible Investment)

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

Article 17-2 (Responsible Investment and Governance Principles)

NPS shall adopt the Korea Stewardship Code, or Principles on the Stewardship Responsibility of Institutional Investors, and implement the Responsible Investment and Governance Principles approved by the Fund Management Committee, in order to promote transparency and independence of stewardship activities carried out by NPS.

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

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

Principles on Responsible Investment (RI)

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

Stewardship Code, or Principles on Responsible Investment & Governance

- (1) Formulate and publicly disclose a policy for implementing stewardship responsibilities
- (2) Formulate and publicly disclose a policy for avoiding conflicts of interest
- (3) Regularly monitor investee companies
- (4) Formulate internal guidelines and conduct shareholder engagement
- (5) Formulate and publicly disclose a voting policy, and publicly disclose voting records and reasons for each vote
- (6) Regularly report stewardship activities
- (7) Enhance the capabilities and expertise required to fulfill stewardship responsibilities

Guideline on Responsible Investment & Governance

PART 1 (General Provisions) Objective, scope of application, basic principles, details of stewardship activities, and key decision makers

PART 2 (Responsible Investment) Coverage, incorporation of non-financial factors (ESG), incorporation type

PART 3 (Exercise of Shareholder Right)

- Proxy voting (coverage, basic principles, sub-standards, etc.)
- Stewardship activities on Focus Area (Confidential Dialogue, Non-Public/Public Focus List Selection, Open Letter, Shareholder Proposals, etc.)
- Stewardship activities on Unexpected Concerns (coverage, compliance standards)

PART 4 (Disclosure and Reporting, etc.) Notification and announcement, disclosure and reporting, publication of a report on stewardship activities, internal control, document storage, capability improvement, etc.

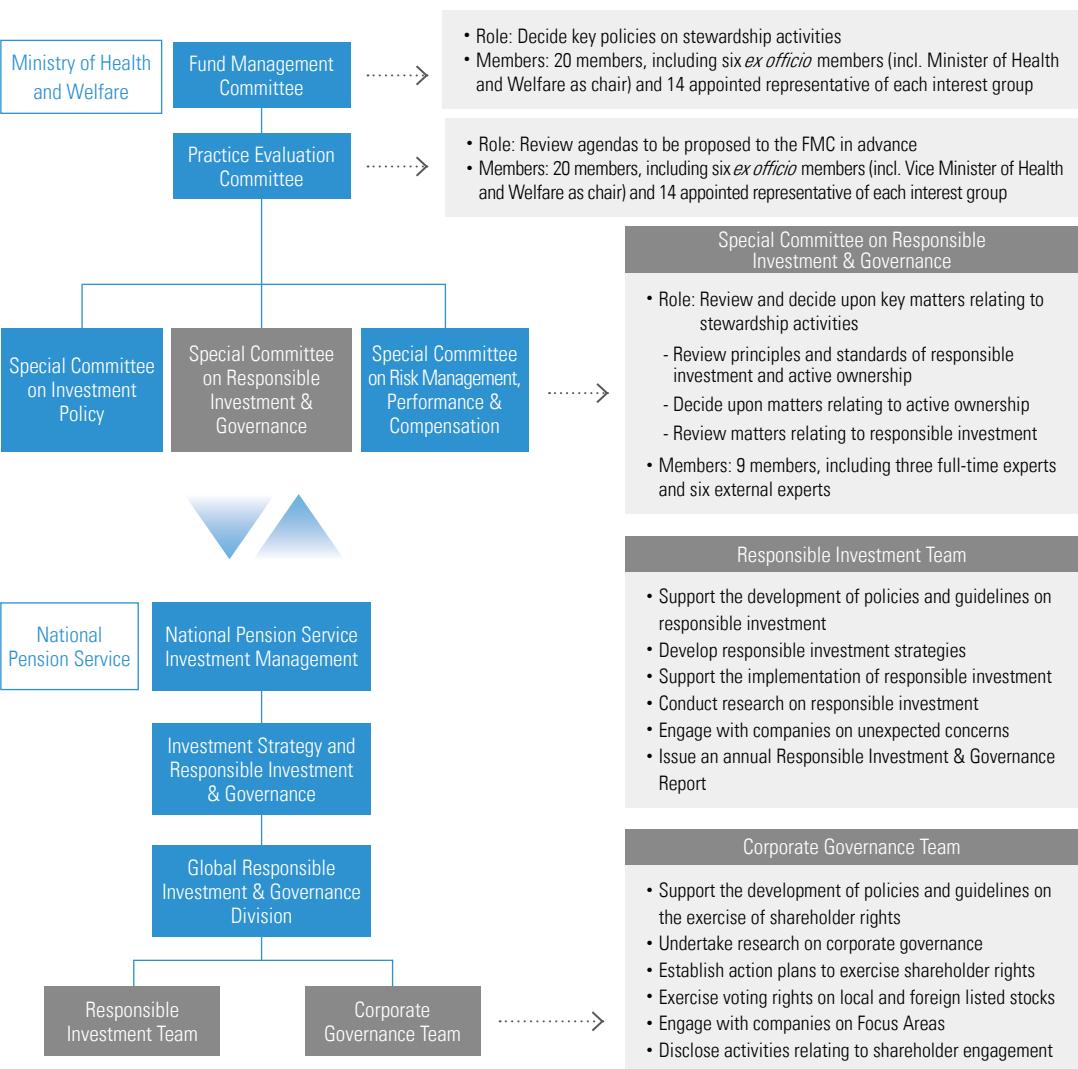
Attached tables: detailed voting criteria for domestic and global equities, form of voting results to be disclosed and selection criteria for Focus Area

1-4 Governance Structure and Organization

NPS undertakes stewardship activities in line with the policies approved by the Fund Management Committee (FMC), the highest decision-making body in NPS. The Special Committee on Responsible Investment & Governance under the FMC, consisting of full-time experts and external experts, makes decisions on responsible Investment, as well as reviews and approves key matters relating to ESG investing and the exercise of shareholder rights.

Responsible investment is conducted by the Global Responsible Investment & Governance (GRI&G) Division under the Managing Director of Investment Strategy and Responsible Investment & Governance at NPSIM. The GRI&G consists of the Responsible Investment Team and the Corporate Governance Team with 13 members as of the end of 2020. The Responsible Investment Team supports the development of policies and guidelines relating to responsible investment, and establishes responsible investment strategies and action plans to support in-house portfolio managers in incorporating ESG factors into investment decisions. To this end, ESG Evaluation is carried out internally; researches are undertaken, including monitoring ESG-related controversial issues; ESG-related active ownership is conducted. In addition, the Corporate Governance Team supports the development of policies and guidelines on the exercise of shareholder rights, and formulates action plans. Moreover, the team undertakes research on corporate governance, exercises shareholder rights, and engages with companies on focus areas.

Governance Structure and Organization for Stewardship Activities



Fund Management Committee Meeting Agendas on Responsible Investment for 2020

No	Date	Agenda
1	Feb. 5	Proposal of the amendments to the Fund Management Guideline
4	Apr. 17	Report on roles and responsibilities of full-time experts and ways to provide information
7	Jul. 3	Report on the Guideline on Stewardship Activities for Domestic Equities
8	Jul. 31	Report on the Standards of the Structure and Operation of the Board of Investee Companies Publication of Annual Report on Responsible Investment & Governance

Special Committee on Responsible Investment & Governance Meeting Agendas for 2020

No	Date	Agenda
1	Jan. 6	Report on the Guideline on Stewardship Activities for Domestic Equities Proposal of ways to review voting right delegation to external managers
2	Jan. 20	Decision on whether to make improvements on companies in focus list and to proceed with active ownership Public disclosure according to the amendments to Enforcement Decree of the Financial Investment Services and Capital Markets Act
3	Feb. 25	Report on companies subject to voting right delegation Report on the standards of the application of remuneration cap for directors Report on follow-up measures for revised focus areas
4	Mar. 2	Proposal of the selection of non-public focus list and Assessment of companies subject to confidential dialogue in relation to dividend policy
5	Mar. 6	Decision on withdrawal of delegated voting rights Proposal of the selection of non-public focus list and Assessment of companies subject to confidential dialogue in relation to repetitive vote-against
6	Mar. 13	Proposal of the selection of non-public focus list and Assessment of companies subject to confidential dialogue in relation to remuneration cap for directors Proposal of the selection of non-public focus list and Assessment of companies subject to confidential dialogue in relation to repetitive vote-against Proposal of the selection of non-public focus list and Assessment of companies subject to confidential dialogue in relation to violation of law Proposal of the selection of non-public focus list and Assessment of companies subject to confidential dialogue in relation to remuneration cap for directors
7	Mar. 19	Proposal of considerations in exercising voting rights for agenda of general meeting of shareholders of KB Financial Group Proposal of considerations in exercising voting rights for agenda of general meeting of shareholders of Shinhan Financial Group Proposal of considerations in exercising voting rights for agenda of general meeting of shareholders of Woori Financial Group Proposal of considerations in exercising voting rights for agenda of general meeting of shareholders of Hana Financial Group Proposal of considerations in exercising voting rights for agenda of general meeting of shareholders of Mando Proposal of considerations in exercising voting rights for agenda of general meeting of shareholders of Halla Holdings Proposal of considerations in exercising voting rights for agenda of general meeting of shareholders of Hyosung Holdings
8	Mar. 26	Proposal of considerations in exercising voting rights for agenda of general meeting of shareholders of Hanjin KAL Proposal of considerations in exercising voting rights for agenda of general meeting of shareholders of Korean Air Proposal of considerations in exercising voting rights for agenda of general meeting of shareholders of KT&G Proposal of a Guideline on desirable structure and operation of the Board
9	Apr. 29	Proposal of ways to assign additional points when selecting and assessing external managers Report on the result of NPSIM's proxy voting
10	May. 22	Proposal of an Annual Report on Responsible Investment & Governance Report on the status of responsible investment of NPSIM and amendments to the Guideline on Stewardship Activities
11	Jun. 22	Proposal of the standards of public disclosure for change in the purpose of holding stocks Review on change in the purpose of holding stocks of Hanjin KAL

No	Date	Agenda
12	Jul. 16	Proposal of the selection of non-public focus list and Assessment of companies subject to confidential dialogue in relation to dividend policy Proposal of the selection of companies subject to confidential dialogue in relation to dividend policy Proposal of the selection of companies subject to confidential dialogue in relation to remuneration cap for directors Proposal of the selection of companies subject to confidential dialogue in relation to violation of law Proposal of the selection of companies subject to confidential dialogue in relation to repetitive vote-against Proposal of the selection of companies subject to stewardship activities and report on the result of monitoring on unexpected concerns in the first half of 2020
		Materiality assessment procedures and standards in relation to unexpected concerns
		Selection of companies subject to materiality assessment in relation to unexpected concerns
		Report on the result of ESG Evaluation for the first half of 2020
		Proposal of the selection of companies subject to confidential dialogue in relation to drop in regular ESG Evaluation
		Proposal of additional selection of companies subject to confidential dialogue in relation to violation of law Proxy voting exercised by NPSIM Report on NPSIM's stewardship activities and the result of periodic review of voting right delegation
13	Sept. 11	Proposal of considerations in exercising voting rights for agenda of an extraordinary meeting of shareholders of SGC Solutions Proxy voting exercised by NPSIM
14	Sept. 24	Report on NPSIM's stewardship activities and the result of periodic review of voting right delegation Proposal of considerations in exercising voting rights for agenda of an extraordinary meeting of shareholders of LG Chem
15	Sept. 25	Proposal of considerations in exercising voting rights for agenda of an extraordinary meeting of shareholders of LG Chem Proposal of the selection of non-public focus list and Assessment of companies subject to confidential dialogue in relation to degraded results of ESG Evaluation
16	Oct. 27	Decision on the standards of withdrawal of delegated voting Proposal of the selection of companies subject to confidential dialogue in relation to unexpected concerns Responsible investment report for externally managed domestic equities
17	Nov. 9	Proposal of the selection of companies subject to confidential dialogue in relation to violation of law Proposal of the selection of companies subject to materiality re-assessment in relation to unexpected concerns Proposal of the selection of companies subject to materiality assessment in relation to unexpected concerns Proposal of the standards of public disclosure for change in the purpose of holding stocks Discussion on ways to apply history, including damage to corporate value, to proxy voting Guideline on ESG Integration Strategies
		Proposal of the selection of companies subject to confidential dialogue in relation to unexpected concerns
		Proposal of the selection of companies subject to materiality re-assessment in relation to unexpected concerns
		Proposal of the selection of companies subject to materiality assessment in relation to unexpected concerns
		Proposal of the standards of public disclosure for change in the purpose of holding stocks
		Discussion on ways to apply history, including damage to corporate value, to proxy voting
18	Nov. 17	Proposal of considerations in exercising voting rights for agenda of an extraordinary meeting of shareholders of KB Financial Group Proposal of the selection of companies subject to confidential dialogue in relation to unexpected concerns
19	Dec. 8	Proposal of the selection of companies subject to materiality re-assessment in relation to unexpected concerns Proposal of the selection of companies subject to materiality assessment in relation to unexpected concerns Interim report on the recommendation of outsider directors and auditors Guide to the Structure and Operation of the Board of Investee Companies Report on NPSIM's stewardship activities and the result of periodic review of voting right delegation Discussion on ways to apply history, including damage to corporate value, to proxy voting
		Proposal of the selection of companies subject to confidential dialogue in relation to unexpected concerns
		Proposal of the selection of companies subject to materiality re-assessment in relation to unexpected concerns
		Proposal of the selection of companies subject to materiality assessment in relation to unexpected concerns
		Interim report on the recommendation of outsider directors and auditors
		Guide to the Structure and Operation of the Board of Investee Companies

1-5 Milestones of Stewardship Activities

After the launch of externally managed domestic responsible investment (RI) funds in September 2006, NPS joined the Principles for Responsible Investment (PRI), a global initiative for responsible investment, in June 2009. In March 2013, Responsible Investment team was created under the Investment Strategy Division to facilitate responsible investment activities by integrating proxy voting functions which used to be performed in various equity management departments. In 2015, NPS set a plan to promote engagement with domestic listed companies with an aim of developing a reasonable dividend policy. In November in the same year, NPS established an ESG Evaluation System for domestic equities, and built an internal IT system that provides ESG related information to its portfolio managers. In July 2018, NPS adopted the Responsible Investment & Governance Principles, or Stewardship Code. Accordingly, the Responsible Investment team was expanded and reformed into the Global Responsible Investment & Governance Division (Responsible Investment Team, Corporate governance Team) in January 2019. In November in the same year, NPS mapped out a Plan to Facilitate Responsible Investment to promote responsible investment throughout the entire portfolio, while formulating the Guideline on Active Ownership for Domestic Equities in December to expand the scope of shareholder engagement. In July 2020, an Annual Report on Responsible Investment & Governance was published to publicly disclose Responsible Investment & Governance carried out by NPS, and in November, the Guideline on ESG Integration Strategies for Domestic Equities was developed to incorporate new ESG strategies into internally managed domestic equities.

Milestones of Stewardship Activities

Sept. 2006	Launched externally-managed domestic RI funds
Jun. 2009	Joined the Principles for Responsible Investment (PRI)
Dec. 2009	Added a provision relating to responsible investment in Voting Guidelines
Mar. 2013	Established the Responsible Investment Team under the Investment Strategy Division
Jun. 2015	Developed a plan to promote engagement with domestic listed companies on dividends from domestic equities
Nov. 2015	Introduced new benchmarks for externally-managed domestic RI funds Established an ESG Evaluation System for domestic equities
Apr. 2016	Added a provision relating to responsible investment in the Fund Management Guideline (Investment Policy Statement)
Dec. 2016	Built an ESG System for domestic equities
Jul. 2017	Established an Evaluation System to assess ESG Controversial Issues for domestic equities
Sept. 2017	Incorporated ESG factors into investment decision in internally-managed domestic equities
Jul. 2018	Introduced the Responsible Investment & Governance Principles (Stewardship Code) Established the Guideline on Responsible Investment & Governance by amending Voting Guidelines
Jan. 2019	Expanded and reformed the Responsible Investment Team into the Global Responsible Investment & Governance (Responsible Investment Team, Corporate Governance Team) Developed the Guideline on Stewardship Activities for Domestic Equities
Feb. 2019	Decided on the scope of disclosing voting directions prior to shareholder meetings
Sept. 2019	Joined the International Corporate Governance Network (ICGN) Joined the Asian Corporate Governance Association (ACGA)
Nov. 2019	Developed the Plan to Facilitate Responsible Investment and adopted RI Principles Added a principle of Sustainability in the Investment Principles Developed the Guideline on Voting Right Delegation to External Managers Developed plans to add additional points to external managers in relation to stewardship activities in the selection and evaluation process
Dec. 2019	Developed the Guideline on Active Ownership for Domestic Equities
Jul. 2020	Issued an Annual Report on Responsible Investment & Governance Amended the Guideline on Stewardship Activities for Domestic Equities
Sept. 2020	Developed the upgraded standards of the materiality assessment process and its assessment standards in relation to unexpected concerns
Nov. 2020	Developed the Guideline on ESG Integration Strategies for Domestic Equities Joined the Asian Investor Group on Climate Change

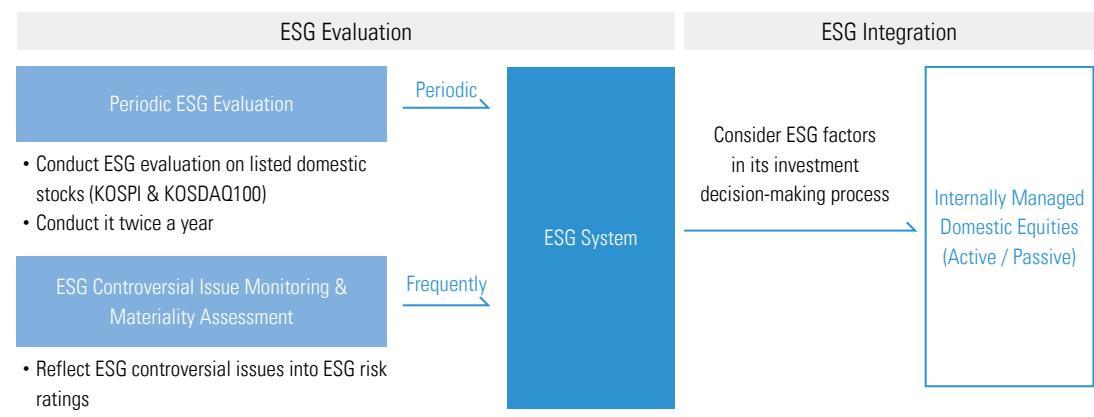
2. Implementation of Responsible Investment

2-1 ESG Integration

NPS has paved the way towards implementing responsible investment (RI) strategies for a long period of time. Since the commencement of external investments in RI funds in September 2006, NPS has laid the foundation for adopting ESG integration strategies by developing an internal ESG research scheme and ESG-related strategies, and has applied the strategies to internally managed domestic equities and externally managed domestic RI funds. In line with the Plan to Facilitate Responsible Investment approved by the FMC in November 2019, NPS remains committed to expanding the application of ESG integration strategies throughout the entire portfolio, and gradually increase RI through the integration of ESG strategies into external management.

ESG Integration Strategies are designed to realize through ESG Evaluation. NPS conducts the ESG Integration Strategies by incorporating ESG factors, coupled with financial factors, into investment decision-making processes for internally managed domestic equities by developing an ESG Evaluation system and internal systems.

ESG Evaluation & ESG Integration Process



(1) Periodic ESG Evaluation

In order to analyze non-financial factors, or ESG factors, in a systematic manner, NPS has formed its own ESG Evaluation System and conducted evaluations on domestic listed companies (KOSPI+KOSDAQ100) twice a year. The ESG Evaluation System is comprised of 52 evaluation indicators in 13 issues affecting corporate values in the areas of environmental, social, and governance (ESG). Each issue is scored and graded for ESG rating after being weighted differently for each industry.

ESG Evaluation System on Domestic Equities

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

As of the end of 2020, NPS conducted an ESG Evaluation on 908 listed companies in Korea and graded them in the following six ESG ranking.

2020 ESG Evaluation Result

AA	A	BB	B	C	D	Total
74 (8.1%)	145 (16.0%)	192 (21.1%)	243 (26.8%)	187 (20.6%)	67 (7.4%)	908 (100.0%)

ESG information, including ESG Evaluation results, is provided via to portfolio managers through the ESG System to integrate non-financial factors, along with financial factors, into investment decision of domestic equity assets. If a company falls below a certain ranking in a regular ESG Evaluation process, qualitative assessment is taken to conduct stewardship activities when appropriate. In the second half of 2020, NPS undertook a commissioned research on Improvement of ESG Evaluation System for Domestic Equities and Establishment of ESG Evaluation System for Fixed Income Investments to seek ways to enhance the ESG Evaluations system for domestic equities and develop an ESG Evaluation system for fixed income investments. Based on these researches, NPS plans to upgrade the ESG Evaluation system for domestic equities and introduce the ESG Evaluation system for fixed income investments in 2021. In addition, NPS remains committed to building up and advancing ESG evaluation systems, including evaluation indicators, given a wide range of external and internal factors.

(2) ESG Controversial Issue Monitoring and Materiality Assessment

NPS monitors ESG-related matters which can affect corporate value in accordance with the Stewardship Code and the Guideline on Responsible Investment & Governance, and conducts materiality assessments, mainly for materiality¹⁾ and recurrence²⁾, to measure possible impact on corporate value and shareholder value. Taking into consideration the result of materiality assessments as well as ownership ratio and holding weight, NPS adjusts ESG evaluation results or takes shareholder engagement.

In case that an investee company is subject to 'shareholder engagement for unexpected concerns,' the company is likely to be invited to a confidential dialogue according to the process and standards of the Guideline on Stewardship Activities for Domestic Equities. Details of shareholder engagement for unexpected concerns are described in the 2-3. *Shareholder Engagement*.

In 2020, NPS conducted materiality assessments on 34 ESG-related issues. Among them, one company's ESG evaluation result was adjusted, and the result was provided to portfolio managers of internally managed domestic equities.

(3) ESG Integration

Since 2017, NPS has adopted ESG integration strategies for some internally managed domestic equities (active-type). In November 2020, NPS expanded its strategies into passive investments and formulated the Guideline on ESG Integration Strategies for Domestic Equities which describes enhanced measures to implement. As such, NPS applies ESG integration strategies into all of the internally managed domestic equities. Accordingly, in-house portfolio managers check ESG-related details when considering new securities. If ESG rating falls into low categories, portfolio managers are required to add their opinion and ESG reports as attachments of a security review report. In addition, as for securities falling into Level C, portfolio managers are required to check if the investments meet their weights relative to their benchmark. If investments are made beyond their benchmark, portfolio managers are required to add the reason and investment opinion in writing in a security review report.

(4) Externally Managed Domestic RI funds

NPS manages externally managed domestic RI funds as one of the externally managed domestic equities. As of the end of 2020, RI funds were managed by nine external managers, and the amount under management amounted to approximately KRW 8 trillion. NPS introduced an internally developed benchmark index for such RI funds, which is called NPS-FnGuide Responsible Investment Index. In selecting external managers, a range of aspects are considered, including their expertise, ethics, investment strategies, investment process, and compliance with investment guidelines. Once selected, external managers are allowed to implement a range of RI investment strategies. Since November 2020, external RI managers have been required to submit RI fund management reports, which are used to monitor such investments by NPS.

ESG Investing: Domestic Equities

(Unit: KRW in trillion)



1) The size of the damage, probability of punishment of its level, and the duration of damage are considered.

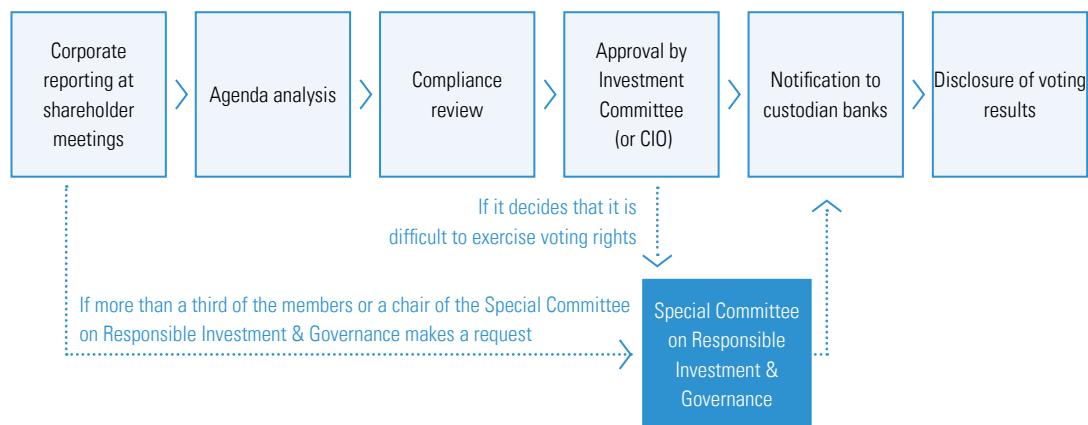
2) Engagement in communication, improvement level, and frequency are considered.

2-2 Proxy Voting

(1) Standards and Procedures

NPS exercises voting rights for retained listed stocks in good faith and in the best interests of pension participants and beneficiaries according to the National Finance Act and the Fund Management Guideline. Also, NPS complies with the Guideline on Responsible Investment & Governance which defines standards, procedures, and practices on voting while referring to advice from external experts to exercise voting rights in a more professional and faithful manner.

Proxy Voting Procedures



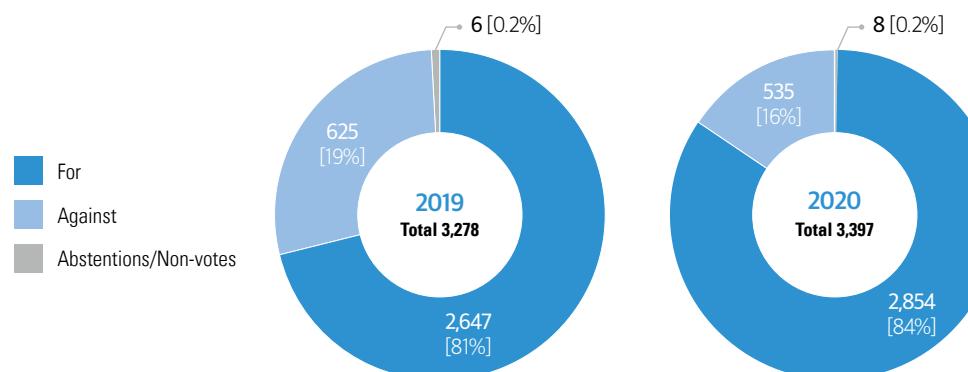
Based upon ownership ratio and holding weight, the Investment Committee reviews and approves the exercise of voting rights. However, the Special Committee on Responsible Investment & Governance may decide the direction of voting in certain cases: i) where NPS deems it difficult to make a decision, or ii) where over a third of the committee's registered members deem it to have a long-term impact on shareholder values. Moreover, at an annual shareholder meeting in March 2020, the Fund Management Committee (FMC) decided to delegate voting rights of some holdings to external managers by formulating the Guideline on Voting Right Delegation to External Managers.

(2) Disclosure and Voting Status

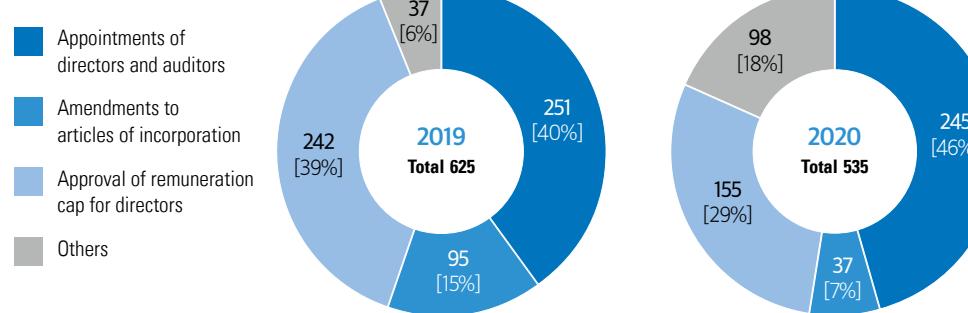
NPS discloses reasons for voting against proposals in detail, containing voting results and supporting clauses under applicable guidelines within 14 days after a shareholder meeting. Nevertheless, voting direction can be disclosed before a shareholder meeting when i) NPS holds stocks in excess of 10%, ii) associated stocks account for more than 1% of investment portfolio, or iii) the Special Committee on Responsible Investment & Governance deems it necessary. Accordingly, NPS made prior disclosures for 123 proposals in 2020.

NPS voted on 3,397 agenda in 854 shareholder meetings for domestic equities in 2020.

Voting Status



Vote-Against Status



Voting Cases in 2020

① Approval of Financial Statement

NPS voted FOR a financial statement of Company A considering the characteristics of the company and industry which have low dividend payout ratios but require intensive capital investment instead of paying dividends. On contrary, NPS voted AGAINST a financial statement of Company B considering its low dividend payout ratio and the absence of dividend policies even in good fiscal conditions in March 2020. Meanwhile, NPS agreed with a shareholder proposal for the approval of a financial statement (incl. statement of appropriation of retained earnings) of Company C considering its financial stability, cash holding, free cash flow, and comparison with other companies in the same industry.

② Appointment of Directors and Auditors (Supervisors)

In March 2020, NPS voted AGAINST appointment of an outside director at Company D where NPS holds more than 5% of its assets; appointment of a full-time employee at Company E as the employee worked for a key business partner company over the last five years; appointment of a full-time employee at Company F as the employee was under a long-term contract as advisor of the company over the last five years. In addition, NPS voted AGAINST appointment of an inside director at Company G as the director was held guilty by the supreme court, harming shareholder interests and damaging corporate value; appointment of an inside director at Company H due to the employee's negligence of duties to oversee corporate value or shareholder rights when the largest shareholder was engaged in embezzlement.

③ Amendment to Articles of Incorporation

In March 2020, NPS voted AGAINST amendments to articles of incorporation for the following cases: concerns over damage to corporate value due to the introduction of a supermajority voting provision (Company I), change in an approval authority for a financial statement by a resolution of the board of directors at a shareholder meeting without justifiable grounds (Company J), and change in an approval authority for provision of money for merit by a resolution of the board of directors at a shareholder meeting without justifiable grounds (Company K).

④ Approval of Remuneration Cap for Directors

In March 2020, NPS voted AGAINST remuneration cap for a director of Company L due to its excessive remuneration relative to the company's performance, and voted FOR remuneration cap for a director of Company M as the company submitted supporting documents including one-off costs.

2-3 Shareholder Engagement

NPS has adopted the Responsible Investment & Governance Principles (Stewardship Code) to fulfill its fiduciary duty to improve long-term profitability and stability while enhancing independence and transparency in the exercise of shareholder rights. Through this Code, the scope of shareholder engagement has been expanded to an extent to address director remuneration cap and legal violation. NPS undertakes shareholder engagement in accordance with standards and procedures of the Guideline on Stewardship Activities for Domestic Equities.

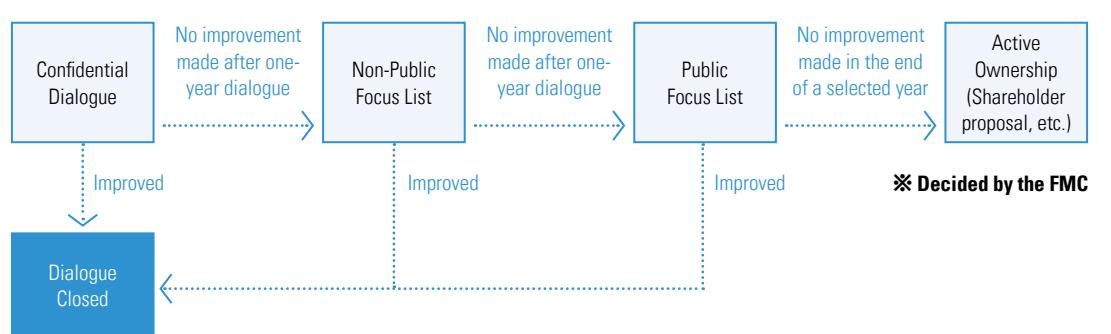
Meanwhile, when introducing the Stewardship Code, NPS first conducted shareholder activities which are not directly involved in business management³⁾ given concerns over potential intervention and a return of short-term gains on trading. In principle, engagement in business management is not permitted unless various conditions met; however, NPS is allowed to engage in business management for issues approved by the FMC. A case in point is a shareholder proposal for limiting the rights of some directors of Hanjin KAL⁴⁾ in February 2019 based on concerns over degraded corporate value due to deviant behaviors of some members of the owner family of Korean Air and Hanjin KAL. Moreover, in line with increasing call for transparency and alleviate concerns over intervention in business management and infringement of autonomy, NPS established the Guideline on Active Ownership in December 2019 that defines principles, standards and procedures for active shareholder engagement. NPS remains committed to conducting shareholder engagement according to guidelines and guidance and by doing so, NPS aims to encourage companies to voluntarily establish their own measures to improve shareholder value.

(a) Shareholder Engagement for Focus Area

With an aim of achieving long-term and stable returns, NPS identifies key focus areas and conducts shareholder engagement. Key focus areas include a dividend policy, the remuneration caps for directors, and concerns over violation of law, repetitive vote-against, and downgraded results of ESG evaluations.

Shareholder engagement for focus area is undertaken in stages, including selections of focus list, confidential dialogue, non-public/public focus lists, and shareholder proposals according to the Guideline on Stewardship Activities for Domestic Equities. If a company fails to show improvement even after a series of shareholder engagement, NPS can vote against any relevant agenda or appointment of directors in the company's shareholder meeting, or send an open letter.

Shareholder Engagement for Focus Areas



* Company selection and improvement decision made by the Special Committee on Responsible Investment & Governance

3) It refers to a shareholder right that virtually influences the company on matters including election of directors and other related shareholder proposals.

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

Focus Area Selection Standard

Establishment of dividend policy	In case a company fails to establish a reasonable dividend policy or pay out dividends accordingly
Reasonableness of remuneration caps for directors	In case a shareholder right is likely to be infringed as a remuneration cap for directors is not aligned with business performance and compensation.
Issues hindering corporate value or shareholders' interest due to concerns over violation of law	In case a company falls into the following categories based on objective facts, such as investigations by authorities, ① Embezzlement or breach of duty in relation to the company ② Provision of unfair support to a special-interest party or other companies (unfair support) ③ Activities causing unfair gains to a special-interest party (shareholders' proportionate interests)
Repetitive votes-against agenda	In case a company fails to show improvement despite NPS's repetitive vote-against decisions in the company's shareholder meeting.
Issues downgrading the results of ESG evaluations	In case ESG ranking declines to below grade C after dropping two grades or more

① Establishment of Dividend Policy

NPS selected a list of companies required for confidential dialogue among companies that have not established and publicly disclosed reasonable dividend policy, or payed out dividend accordingly. In 2020, NPS communicated with 31 companies through letters or dialogues. By establishing an amicable communication channel, NPS encouraged companies to set out dividend policies voluntarily and communicate with the market, rather than just presenting a dividend ratio or level. As a result, the companies disclosed a reasonable dividend policy through a local electronic disclosure system, Data Analysis, Retrieval & Transfer (DART) of Financial Supervisory Service (FSS), and its website. This has led to an increase in the predictability of dividend payouts for investors.

NPS held confidential dialogue with representatives of companies (Company M and Company N), including the board of directors and management, to share the procedures and intention of NPS's shareholder engagement, particularly for the establishment of the dividend policy. The companies understood the necessity for developing a dividend policy. As a consequence, Company M decided to allocate a certain percentage of its operating profits to shareholders and retain the remaining internally to improve its competitiveness through reinvestment. The company has executed its dividend policy to maximize values of stakeholders. Company N publicly disclosed its standards of calculating the dividend amount in detail, along with its effort to pay out dividends at a fixed rate under certain circumstances, such as no dramatic volatility in the business environment and to escalate the dividend payout ratio in stages. As such, the disclosure of dividend policies helps investors better understand the companies' decision-making process for dividends and paves the way for enhancing the predictability of dividend payouts.

② Reasonableness of Remuneration Caps for Directors

NPS selected companies subject to confidential dialogue in consideration of actual remuneration relative to remuneration cap. The selection was made among companies NPS voted against proposals of 'Approval of Remuneration Cap for Directors' at recent shareholder meeting with the reasons of the remuneration cap not in line with business performance or excessive relative to actual remuneration. In 2020, NPS held confidential dialogue with and sent official letters to 12 companies, established an amicable communication channel, and encouraged them to establish measures to improve shareholder value. As a consequence, the companies voluntarily made improvements in making remuneration cap reasonable by establishing a Compensation Committee and adjusting remuneration cap.

NPS held confidential dialogue with representatives of companies, including the board and management, as to agendas relating to concerns over a larger gap between remuneration cap and actual remuneration, as well as NPS's shareholder engagement process and intention in relation to remuneration caps for directors. The companies acknowledged and understood the intention of confidential dialogue and investors' concerns. As a result, the board of Company O approved the establishment of a Compensation Committee within the board and the enactment of an Operation Regulation to improve shareholder value and increase transparency in business management. The Compensation Committee of Company R voluntarily made improvements by adjusting excessive remuneration relative to actual remuneration through discussions. Company R voluntarily made improvements by adjusting excessive remuneration relative to actual remuneration through discussions.

③ Issues Possible to Damage Corporate Value or Shareholders' Interests

NPS selected companies subject to confidential dialogue with concerns over potential damage to shareholder value or violation of shareholder rights caused by embezzlement, breach of duty, unfair support practices, or shareholders' proportionate interests on the basis of investigations by authorities or law enforcement. In 2020, NPS held confidential dialogue with and sent official letters to 25 companies, established an amicable communication channel, and encouraged them to establish measures to improve shareholder value.

NPS held confidential dialogue with the management and the board of Company P to examine factual grounds, countermeasures, and improvement measures on concerns over violation of laws, and share NPS's shareholder engagement intention and procedures in relation to shareholders' proportionate interests. As a result, Company P made improvements by seeking measures at shareholder meetings and enhancing a related sub-committee under the board. In early 2020, the company was lifted from a non-public dialogue list.

④ Repetitive Vote-Against Agenda

NPS selected companies subject to confidential dialogue given the number of voting against, room for improvement, ownership ratio, etc., among companies where NPS exercised voting against proposals of appointment of directors and auditors (supervisors) more than two times with the same reason over the last five years. In 2020, NPS held confidential dialogue with and sent official letters to 11 companies to build consensus on rule-violating practices against the Guideline of Stewardship Activities and encouraged them to establish measures to improve shareholder value. As a result, those companies showed improvement in implementing the corrective measures.

NPS held confidential dialogue with the management and the board of companies receiving repetitive vote-against proposals and shared the procedures and intention of NPS's shareholder engagement: Company Q for appointing a former director of a key shareholder company as an outside director and Company R for an inside director holding excessive posts outside the company. The companies acknowledged and understood the intention of confidential dialogue through sufficient communication. As a result, Company Q and Company R made improvements by removing the director in question from a candidate list for the post of a board director (Company Q) and reduce the number of posts permitted to hold outside the company (Company R).

⑤ Issues Downgrading the Results of ESG Evaluations

NPS selected companies subject to confidential dialogue based on quantitative analysis in NPS's asset exposure and the reason of drop in ranking, among internally managed domestic equities companies whose ranking dropped more than two levels below Grade C in an ESG Evaluation. In 2020, NPS held confidential dialogue with and sent official letters to one company, established an amicable communication channel, and encouraged the company to establish measures to improve shareholder value. As a consequence, the company made improvements in enhancing its disclosure, establishing countermeasures, and implementing the measures.

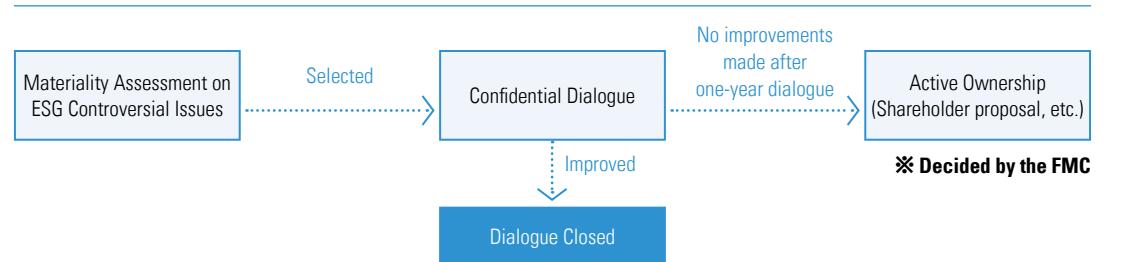
NPS selected Company S as a company subject to confidential dialogue in relation to degraded ESG ranking, and held confidential dialogue for around one year with representatives of the company, such as the board and management, of the company. During the dialogue, NPS shared the procedures and intention of NPS's shareholder engagement and described the reason of being selected, while Company S acknowledged and understood the intention of confidential dialogue, and established and implemented countermeasures.

Specifically, the company added an environmental management section in its website, strengthening the disclosure of environmental and social information, such as energy consumption data and safety-related information, and established procedures to secure product safety. In addition, the Board approved a proposal of newly launching and operating of an Outside Director Nomination Committee and made related regulations.

(b) Shareholder Engagement for Unexpected Concerns

To improve shareholder value and long-term returns, NPS seeks shareholder engagement in unexpected concerns in relation to environmental, social and governance (ESG) that may harm corporate value or shareholder interests. According to the Guideline on Stewardship Activities, NPS takes action in stage: conducting materiality assessments on companies with ESG controversial issues⁵⁾, selecting companies subject to confidential dialogue, and making a shareholder proposal. If no improvement is made even after a series of shareholder engagement, NPS exercises voting rights at shareholder meetings. If no willingness is shown for making improvements, including refusing confidential dialogue, NPS may send an open letter.

Shareholder Engagement for Unexpected Concerns



※ Company selection and improvement decision made by the Special Committee on Responsible Investment & Governance

Confidential Dialogue for Unexpected Concerns

(Concerns over Product Safety)

To address concerns over product safety accidents causing massive human casualty, NPS held confidential dialogue with and sent letters to investee companies which manufacture or distribute products, including Company T, in order to minimize any risks which have adverse impact on shareholder value. Through these efforts, NPS examined fact relevance and countermeasures in place, established policies to avoid the recurrence of the same accidents, developed human resources and physical systems, and encouraged the companies to publicly disclose related information. As a result, manufacturing companies established policies to strengthen the control of hazardous chemical substances, developed infrastructure necessary to prevent the same incident from occurring, including building related systems and expanding the organization, newly created a committee within the board, and enhanced reporting process. In the case of distributing companies, they reinforced the validation of product safety, conducted assessments on private-label products by a third-party agency, and disclosed all components of products with risk concern on their websites. In addition, NPS held confidential dialogue with and sent letters to companies which underwent investigations by authorities on the incident in 2019, and continues to monitor such companies.

(Concerns over Industrial Safety)

Since 2016, NPS has held confidential dialogue with and sent letters to Company U where casualties constantly occurred due to occupational diseases. Through these efforts, NPS examined fact relevance and countermeasures in place, established measures to protect the safety and health of the employees, and encouraged the company to publicly disclose related information. In 2018, the company made a formal apology, formulated measures to compensate associated employees, followed recommendations of a third-party agency consisting of experts in a range of fields, including industrial safety and health and preventive medicine, and continued to make improvements.

In 2020, NPS sent 35 letters to companies on various ESG controversial issues and conducted materiality assessments. The issues included ESG-related investigations by authorities, violation of environmental laws, casualty occurring in workplace, etc. Based on the result of the materiality assessments and letters, no company was selected as a company subject to confidential dialogue. NPS continues to monitor ESG-related controversial issues in investee companies.

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

(c) Active Ownership

In December 2019, NPS established the Guideline on Active Ownership to enhance corporate value and provide transparent and fair shareholder engagement. In this guideline, active ownership focuses on increasing values of investee companies and shareholders by involving in sufficient interaction and communication on key focus areas and unexpected concerns as well as seeking improvement plans, rather than engaging in business management of investee companies. When an issue requiring shareholder engagement occurs, NPS pursues fact-checking and communication with investee companies to address issues according to the Guideline on Stewardship Activities for Domestic Equities. In case that it seems hard to make improvement, an 'Active Ownership Engagement' is conducted.

Active Ownership Activities

	Activities
Target Company	<ul style="list-style-type: none"> Companies which fail to make improvements, among companies either on a public focus list or in confidential dialogue for unexpected concerns
Engagement Standard	<ul style="list-style-type: none"> Engagement standard is established on a case-by-case basis by considering a range of factors including industrial characteristics, internal conditions, feasibility of a shareholder proposal, cost-effectiveness, and implications for the market
Selection Process	<ul style="list-style-type: none"> The Special Committee on Responsible Investment & Governance decides companies with no improvements made, and reviews the need for a shareholder proposal and its contents, and reports it to the FMC. <ul style="list-style-type: none"> The FMC makes an actual decision on a shareholder proposal based on the review from the committee.
Shareholder Proposal	<ul style="list-style-type: none"> The FMC makes a final decision on the contents of a shareholder proposal within an acceptable range of the Commercial Code and the Financial Investment Service and Capital Market Act.

(d) Litigation

NPS may file a claim, such as shareholder derivative suit or compensatory damage suit, with a view to creating more long-term shareholder value of investee companies, according to the Guideline on Stewardship Activities for Domestic Equities. NPS does not file a claim for the purpose of exercising influence over investee companies or directors nor living up to the request of other shareholders. Even if conditions are met for litigation, NPS takes legal action only when it deems that the legal action can contribute to enhancing shareholder value over a long-term horizon considering the possibility to win and costs relative to benefits.

3. Global Investor Network

In June 2009, NPS joined the Principles for Responsible Investment (PRI)⁶⁾, a global network of investors that have publicly demonstrated their commitment to responsible investment. Since 2016, NPS has submitted PRI Transparency Reports.

In order to enhance the capabilities and implement stewardship activities in line with the launch of the Stewardship Code, NPS joined two investor-led organizations dedicated to corporate governance and investor stewardship: International Corporate Governance Network (ICGN)⁷⁾ and Asian Corporate Governance Association (ACGA)⁸⁾ in September 2019. Moreover, NPS joined the Asia Investor Group on Climate Change (AIGCC)⁹⁾, an initiative to create awareness and encourage action among Asia's asset owners and financial institutions about the risks and opportunities associated with climate change and low carbon investing in November 2011. Capitalizing on researches, best practices, and guidelines from ICGN, ACGA, and AIGCC, NPS remain committed to boosting its capability and expertise in environmental, social, and governance (ESG) and expanding its network with asset managers and global pension funds.

Global Network for Responsible Investment



6) The Principles for Responsible Investment (PRI) is a global initiative launched by UNEP Financial Initiative 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 2020, the PRI has 3,038 signatories with total assets under management of around KRW 126,417 trillion.

7) International Corporate Governance Network (ICGN) is the world's largest investor-led organization to promote effective standards of corporate governance and provides a range of research and networks. The ICGN has more than 800 members from 43 countries as of July 2020.

8) Asian Corporate Governance Association (ACGA) is an independent membership organization dedicated to working with investors, companies and regulation in the implementation of effective corporate governance practice throughout Asia and producing independent analyses of laws and regulations in relation to corporate governance. The ACGA has 110 members from 17 markets as of the end of 2020.

9) 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 practice and to collaborate on investment activity, credit analysis, risk management, engagement and policy. As of the end of 2020, the AIGCC has 54 members, including pension funds, asset managers, and relevant organizations.

4. Way Forwards

4-1. ESG Investing

NPS established the Plan to Facilitate Responsible Investment in November 2019 as part of efforts to enhance market trust and confidence as public pension fund and achieve long-term returns by minimizing risks. In line with this plan, NPS has developed a road map to expand RI coverage in portfolio, formulate relevant strategies, introduce restriction screening strategies, and create a base to boost RI. Based on this roadmap, NPS seeks to develop more specific implementation measures and carry out activities.

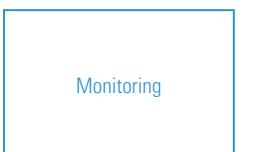
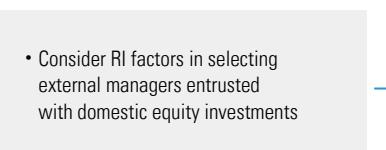
(a) Expand RI Coverage in Portfolio and Develop Strategies

NPS plans to reinforce ESG Integration strategies for internally managed domestic equities. For securities in Grade D of ESG ranking, NPS will uphold the principle of refraining from investing beyond their benchmark. Furthermore, based on a commissioned study conducted in 2020, NPS will develop an ESG evaluation system and measures to apply ESG integration strategies for domestic fixed income investments. In 2021, NPS will commission a study of application of ESG integration strategies to global equities and fixed income investments considering their characteristics, investing methodologies, and associated laws and regulations to seek recommendations on specific implementation measures and apply the ESG integration strategies to global equities and fixed income investments.

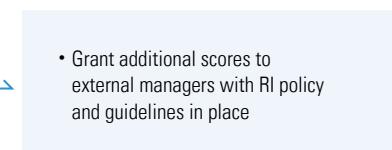
(b) Enhance the Implementation of RI in External Managers

NPS will continue to enhance the implementation of RI of external managers. Firstly, NPS will expand the requirement of submission of RI reports throughout the entire portfolio, including domestic and global equities and fixed income investments. Secondly, NPS will grant additional scores to managers with RI policies and guidelines in place when selecting external managers for domestic and global equities and fixed income investments. To this end, scoring systems will be developed given the attributes of assets and the conditions of small- and mid-sized external managers, and accordingly associated regulations will be amended to come into force in 2022. Lastly, in order to check if external managers implement RI with faithfulness, NPS will monitor them periodically to reflect the result into the management of external managers.

As-Is



To-Be (proposed)



4-2. Exercise of Shareholder Rights

(c) Introduce Negative Screening¹⁰⁾ (Declaration of Exist from Coal Finance)

Recognizing the importance of the ESG investment principles and the severity of climate change caused by the spread of COVID-19, as well as the need for risk management relating to carbon emissions in line with more stringent global regulations such as carbon border adjustment mechanism, the Fund Management Committee has declared exit from coal finance to reduce carbon emissions¹¹⁾. Starting with the declaration, NPS will stop investing in the construction of new coal power plants at home and abroad, and plans to establish phased implementation measures as a preparation stage to apply negative screening. To this end, NPS will commission a study for such an issue to refer to a wide range of opinions from various stakeholders in the study in the second half of 2021, and regulate implementation measures.

(d) Set Foundation for Promoting RI

NPS continues to review its ESG Evaluation System, while developing ways to enhance the use of the results. In addition, NPS broadens its network with global pension funds and investors to enhance its capabilities and expertise in responsible investment, and expand the workforce dedicated to responsible investment in the overseas offices in stages.

Furthermore, NPS will improve its systems to encourage investee companies to improve ESG disclosure practices to ultimately bolster responsible investment, and create an environment where capital market participants such as asset managers and brokerage firm include ESG information in their company analysis report.

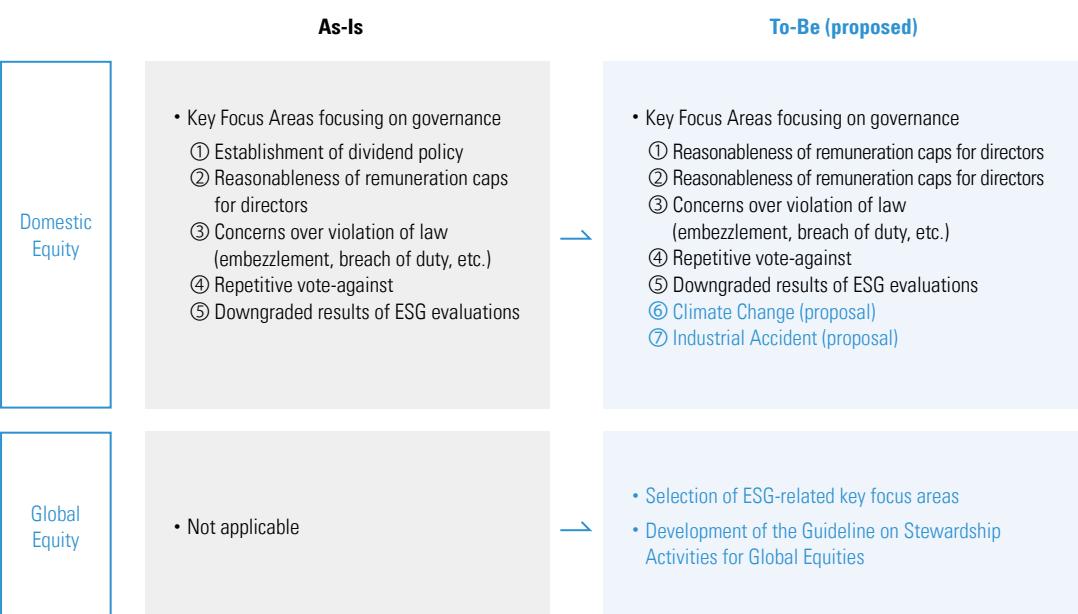
National Pension Fund Management Committee (FMC) has decided to develop the Guideline on the Composition and Operation of the Board of investee companies. NPS has already announced that through the Plan to Facilitate Responsible Investment, NPS will expand its current focus from governance to include environmental and social factors, and to further apply its ESG strategies to overseas assets. NPS plans to materialize the decisions made by FMC in stages, and file shareholder derivative actions according to the Guideline on Stewardship Activities for Domestic Equities which provides the legal basis for the litigation.

(a) New Guideline on the Structure and Operation of the Board

The FMC has decided to establish general principles for the composition and operation of the board as well as appointment of directors and auditors when NPS deems it necessary. The general principles, for instance, may include standard practices such as 'the board shall perform decision making and management oversight in an efficient manner,' 'directors shall be appointed through transparent procedures which comprehensively reflect a wide range of shareholders' views,' and 'the board shall establish a specific committee for particular functions and roles to ensure efficient operation.' NPS will prepare general principles of the structure and operation of the board in accordance with applicable laws, standard norms on corporate governance, and the Guideline on Stewardship Activities.

(b) Expansion of the Scope of Stewardship Activities

The FMC has decided to expand engagement strategies when establishing plans to facilitate responsible investment. In this context, NPS plans to broaden applicable areas of stewardship activities for domestic equities while conducting the activities for global equities. To materialize the practices, NPS has included environmental and social factors in existing key focus areas while selecting ESG-related key focus areas and developing a guideline on shareholder activities for overseas equities.



10) Negative Screening is one of the responsible investments approach of reducing or excluding certain sectors, industries, or companies that do not comply with environmental, social, and governance (ESG) criteria.

11) The declaration was made in the 6th Fund Management Committee meeting in 2021 (May 28, 2021).

5. Statistics of Stewardship Activities

(c) Increase in an Ability to File Shareholder Derivate Litigation

NPS has developed the Guideline on Stewardship Activities for Domestic Equities in January 2019 that lays out specific standards to file a shareholder derivate litigation and suit for damage with an aim of contributing to increasing shareholder value over a long-term horizon.

In the first half of 2021, NPS plans to formulate specific standards and procedures for a shareholder derivate litigation by reviewing cases possible to file the litigation, including specific damages and filing period given the period of extictive prescription of damages. In the second half, NPS will start to file a shareholder derivate litigation to curb any practices harming corporate value and continue to increase shareholder value in a long term.

5-1. Voting of Domestic Equity

NPS voted on a total of 3,397 proposals in 854 shareholder meetings for domestic equities in 2020, with 2,854 in favor (84.0%), 535 against (15.8%) and 8 abstentions/non-votes (0.2%). The reasons behind 535 votes against included appointment of directors and auditors (245, 45.8%), amendments to articles of incorporation (37, 6.9%), approval of remuneration cap (155, 29.0%), and others (98, 18.3%).

(a) Voting Results

Year	No. Invested Company	No. of Shareholder Meeting	No. of Proposal	Result		
				For (%)	Against (%)	Abstentions/Non-votes (%)
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%)
2018	764	768	2,864	2,309 (80.62%)	539 (18.82%)	216 (0.56%)

(b) Vote-Against Proposals

Reasons for Vote-Against	2018		2019		2020	
	No. of Proposal	Weight (%)	No. of Proposal	Weight (%)	No. of Proposal	Weight (%)
Appointment of Directors and auditors	226	41.9	251	40.2	245	45.8
Amendment to Articles of Incorporation	47	8.7	95	15.2	37	6.9
Compensation of Directors and Auditors	230	42.7	242	38.7	155	29.0
Other	36	6.7	37	5.9	98	18.3
Total	539	100.0	625	100.0	535	100.0

(c) Reasons for Votes Against Proposal for Appointment of Directors and Auditors

Reasons for Vote-Against Proposals for Appointment of Directors and Auditors	2018		2019		2020	
	No. of Proposal	Weight (%)	No. of Proposal	Weight (%)	No. of Proposal	Weight (%)
Long service (over 10 years)	35	15.5	52	20.7	33	13.5
Fully employed by the company, affiliates or a company that the invested company has important relations with over the last five years	61	27.0	58	23.1	77	31.4
Lack of attendance on the board meetings (75% or less)	27	11.9	15	6.0	24	9.8
Excessive dual office holding	47	20.8	34	13.5	43	17.5
Negligent oversite	12	5.3	16	6.4	10	4.1
Others	44	19.5	76	30.3	58	23.7
Total	226	100.0	251	100.0	245	100.0

MEMO

5-2. Engagement

NPS conducts shareholder activities on Focus Areas and Unexpected Concerns of investee companies while engaging in shareholder activities, including sending official or confidential letters or hosting confidential dialogue. In case investigation by authorities is initiated or ESG-related issues occur, NPS carries out shareholder activities, including sending a confidential letter or having dialogue. Aside from these efforts, NPS also conduct other engagement activities, including provision of explanations on ESG strategies, business performance, and shareholder meeting agendas as per request of companies.

In 2020, NPS engaged in 225 activities, including sending letters and having dialogue, with 109 companies.

Engagement for 2020

Type	Issue	No. of engaged companies		No. of letters sent		No. of dialogue		Sub-total	
		2019	2020	2019	2020	2019	2020	2019	2020
Focus Area	Establishment of dividend policy	35	31	44	40	33	27	77	67
	Remuneration cap for directors	6	12	6	12	9	20	15	32
	Concerns over violation of law	4	25	5	37	5	19	10	56
	Repetitive vote-against	5	11	5	11	14	14	19	25
	Downgraded results of ESG Evaluation	1	2	1	2	1	3	2	5
Unexpected Concerns		9	28	21	35	5	5	26	40
Total		60	109	82	137	67	88	149	225

GUIDE TO THE WEBSITE

National Pension Service publicly discloses information on investment status to enable pension participants, beneficiaries, and other stakeholders to have easy access. For more details on its portfolio and returns, please refer to the NPS website at <http://www.nps.or.kr> or NPSIM's website at <http://fund.nps.or.kr>.

This annual report is published to help better understand NPS's fund management status and performance. Some information may differ from that of other materials due to the difference of cut-off dates, or may require further checking due to its absence in this report. This report reflected the results of the performance of National Pension Fund for the period of 2020 approved by the Fund Management Committee in July 2021. Approval details are available on the websites of the Ministry of Health and Welfare at www.mohw.go.kr and NPSIM at fund.nps.or.kr.

STEP 1

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



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



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