

Preview of 2019 Annual General Meetings

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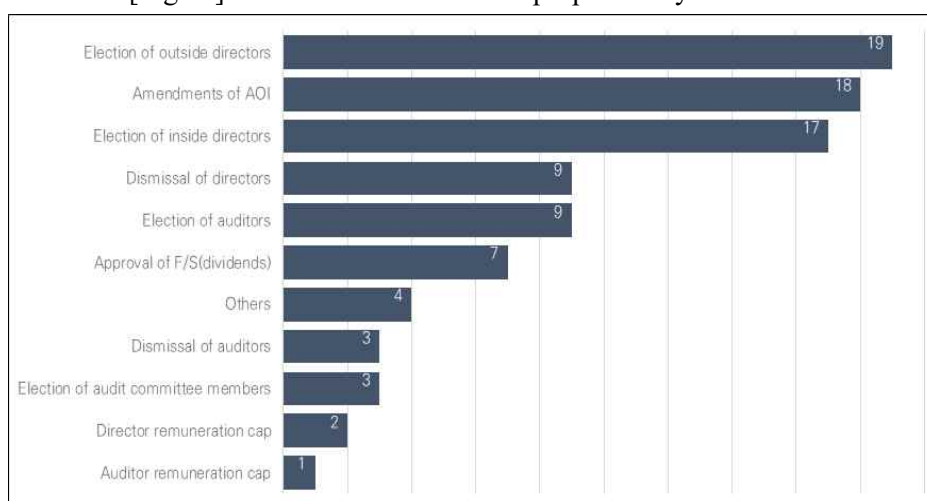
Background

With the 2019 annual general meeting season for the firms having a December year-end fast approaching, the Korea Corporate Governance Service (KCGS) selected five noteworthy themes – shareholder proposals, reduced clustering of annual general meetings (AGMs), outside director nomination, controlling shareholders nominated as a director, and remuneration cap.

Increased Shareholder Proposals¹⁾

Since 2016 when the Korean version of the stewardship code was introduced to the market, shareholder proposals have steadily risen²⁾. The principals and the targeted areas of proposals have also become diverse and complex. Particularly notable is a shift from the one-off filing of shareholder proposals to continued engagement with companies for enhanced shareholder value.

[Figure] # of 2018 shareholder proposals by theme



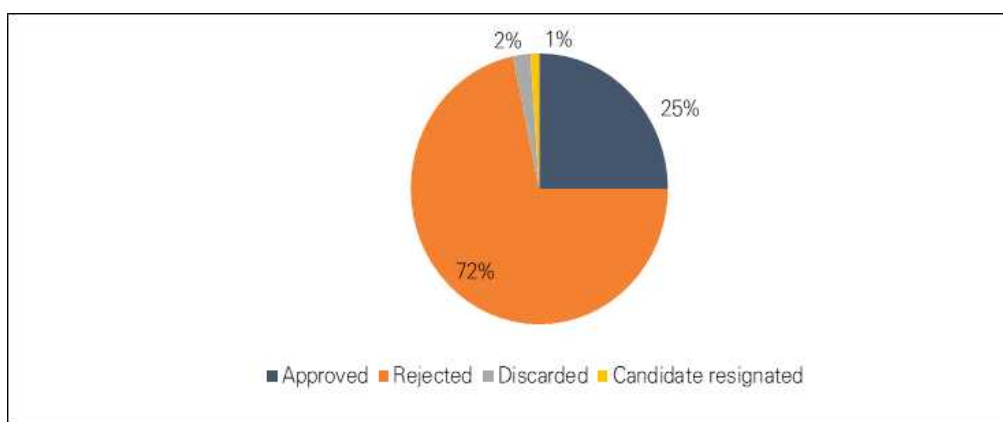
1) A shareholder owning 3% or more of the total number of shares issued, exclusive of the shares without voting rights under the Commercial Act of Korea, or a shareholder who has owned 1% or more over a period of six months can file a proposal with the board of directors six weeks before the annual general meeting.

2) 31 shareholder proposals in 2016, 66 in 2017, and 92 in 2018 (counted at proposal level, not at company level)

In 2018, shareholder proposals were filed with 28 listed issuers – 32 proposals with 15 KOSPI-listed firms and 60 with 13 KOSDAQ-listed firms.

As for the companies listed on the KOSPI, shareholder proposals associated with the approval of dividend payouts accounted for 85.7% of the entire proposals on dividends. The dividend yield ratio demanded by the shareholders was 100% ~ 567% higher than the ratio proposed by the respective companies. In the case of KOSDAQ-listed firms, election and/or dismissal of directors/auditors took up 75% of the entire proposals in the market. Markedly observed in these companies were proxy fights over management control.

[Figure] Results of 2018 shareholder proposals



Considering the market circumstances including the National Pension Service (NPS) signing up to the stewardship code and the launch of local private equity funds supporting shareholder activism, much more shareholder proposals are expected to come in the coming months. The following describes some of the noteworthy cases:

- In the extraordinary general meeting held last September by Macquarie Korea Infrastructure Fund (MKIF), activist PEF Platform Partners Asset Management filed a proposal of replacing MKIF's fund manager, a corporate director, citing excessive fees and destruction of shareholder value. Platform Partners' proposal was voted down with 31% of affirmative votes but had no small influence on MKIF, who made a decision to reduce manager compensation³⁾. It is being watched whether the asset manager will continue to exercise its rights as a shareholder actively in the coming AGM season.

3) Macquarie Korea Infrastructure Fund's disclosure titled *Revision of Manager Compensation*, Jan. 18, 2019

- In continuation of the two preceding proxy fights against the company, KB Financial Group's union made a third attempt by nominating attorney SH Paek as an outside director on February 7, 2019⁴).
- In the 2018 annual general meeting held by KISCO Holdings, different shareholders (Value Partners Asset Management and retail investors) filed multiple shareholder proposals⁵), only to be voted down. In particular, management of the company has yet to respond to the demands from Value Partners who tried five rounds of engagement activities through successive open letters. Thus, Value Partners is likely to file a shareholder proposal for the upcoming general meeting of shareholders as well.
- Local activist PEF KCGI recently emerged as the second largest shareholder of HANJIN KAL and HANJIN and announced a 'five-year plan for restoring confidence in HANJIN GROUP'⁶), openly demanding increased dividends and improvements in governance structure. It also sent to the two companies shareholder proposals of nominating directors and auditors⁷).

Q. In 2018, a program was launched to discourage clustering of AGMs around a few specific dates. Was this program effective?

The voluntary compliance program was first introduced to the market last year to reduce clustering of AGMs on a specific day of March, so-called 'Super AGM Day' and to enhance shareholders' ability to attend the meetings and exercise an informed vote. 32.2%⁸) of the KOSPI- and KOSDAQ-listed firms responded to this program and moved their annual meeting dates. As an incentive, these firms would be issued reduced penalty points in case they fail to make faithful disclosures in the future.

4) Attorney SS Ha nominated in November 2017; Professor from Sookmyung Women's University SW Kwon nominated in March 2018; Attorney SH Paek to be nominated in March 2019 (a member of human rights committee affiliated with Korea Bar Association and advisor to Supreme Prosecutors' Office committee for reforming prosecution)

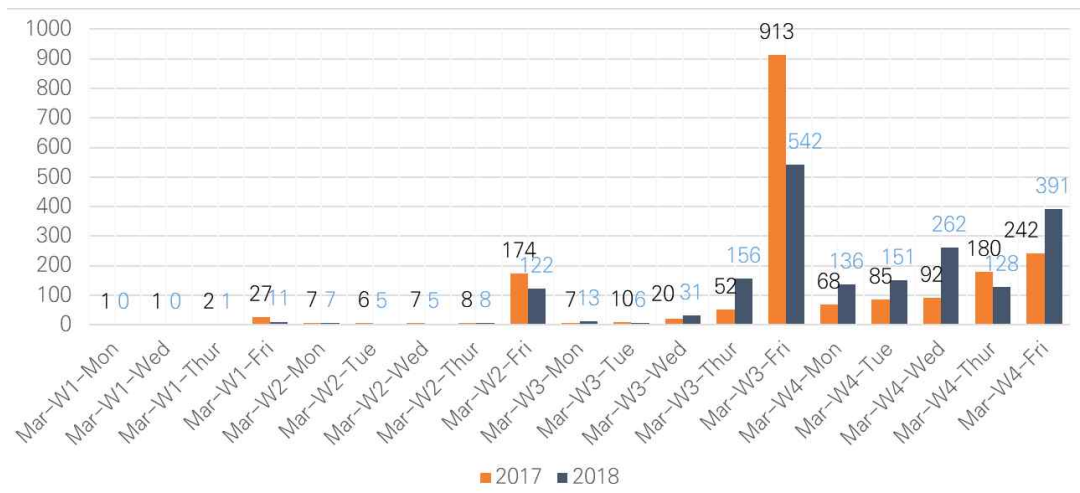
5) Shareholder proposals were filed of electing outside directors and audit committee members and demanding increased dividends and share repurchase/cancellation. In response, management turned financial statements (dividend payout) into a board reporting item a week before the annual general meeting, disregarding shareholder proposals. (*KISCO Holdings Shut Ears to Shareholders* dated Nov. 28, 2018, local online newspaper SISA WEEK)

6) http://valuehanjin.com/bbs/board.php?bo_table=bbs_02

7) KCGI press release titled *KCGI filed with Hanjin Kal a shareholder proposal nominating an auditor and two outside directors*

8) Based on the firms having a December year-end. Data from Korea Listed Companies Association and KOSDAQ Association

[Figure] Clustering of AGMs by Date in 2017 vs. 2018



[Figure] Clustering of AGMs by Week in 2017 vs. 2018



The daily distribution of AGMs shows that the voluntary compliance program helped reduce clustering of AGMs on specific days (Fridays). While 913 AGMs (47.63%) clustered on the peak day of 2017, the number fell to 542 (27.28%) in 2018, showing a marked mitigation of clustering on the ‘Super AGM Day.’

Looking at the weekly distribution, however, between 2017 and 2018, most of the 913 companies just shifted to the next week from week 3 of March to week 4 of March. In this sense, heavy clustering of AGMs in a certain week hardly improved.

In the absence of an additional measure to induce extra reduction of the clustering, the trend is expected to remain pretty much unchanged this year. Considering that the compliance program is into the second year of implementation now, however, bunching of AGMs on certain days may be further addressed this year if more listed

firms participate in the program.

What is notable is the fact that consolidation accounting of combining subsidiary companies from home and abroad and external auditing requirement, among others, hinder companies from avoiding clustering. In this regard, institutional change is necessary to enable firms to hold an AGM in April for the protection of shareholders' ability to exercise their rights and enhanced effectiveness of the meetings.

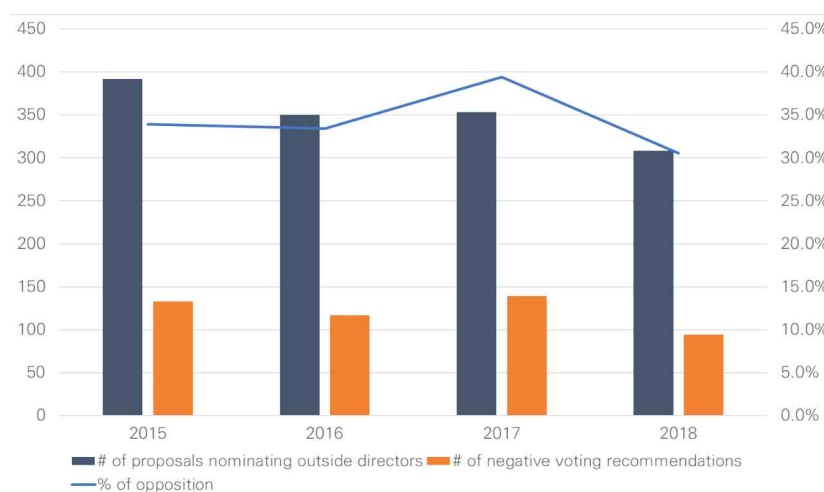
Repetitive Pattern in Outside Director Nomination

As an annual trend over the recent four years⁹⁾, the KCGS issued negative vote recommendations against around 30% of the proposals of nominating outside directors it reviewed. The most frequently cited disqualification was nomination of a person related to the company and/or controlling shareholder.

The percentage of outside director nominees whose independence from management was determined to be at risk due to long-term consecutive service trended up after 2015 but slightly dropped last year. The percentage of the nominees with low attendance in the board and/or committee meetings peaked in 2015, showing a downward trend afterwards.

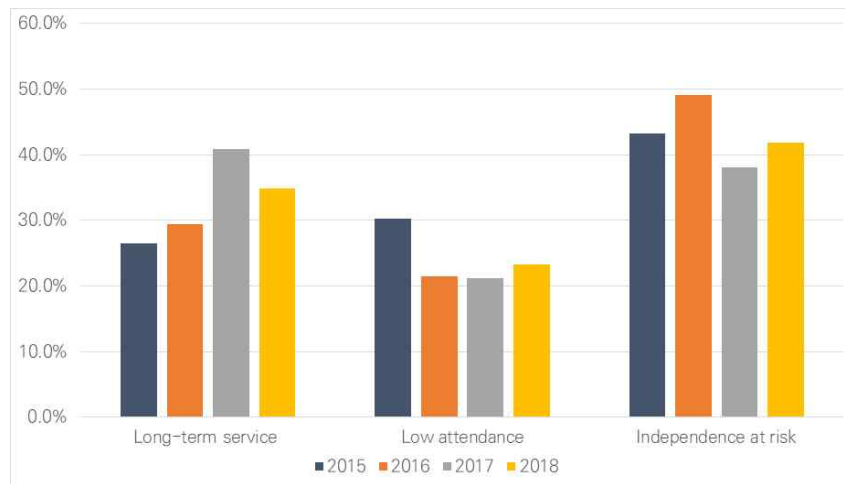
Based on the past four years' trend, the same disqualifications (a party related to stakeholders, long-term consecutive service, and low attendance) are likely to be cited this season again. Investors, therefore, are advised to pay close attention.

[Figure] Negative voting recommendations against outside director nominees (2015-2018)



9) In 2015, KCGS's proxy service started in full swing at the request from institutional investors.

[Figure] Distribution of disqualifications of outside director nominees (2015-2018)



Election of Controlling Shareholders of Large Business Group to Directors

Amid the yearly downward trend of the percentage of listed issuers belonging to a large business group electing a controlling shareholder or his/her family (“controlling shareholders” collectively) as a director¹⁰⁾, 27 controlling shareholders of large business groups come to the end of the respective director term in the 2019 annual meetings of shareholders.

As of now, 83 controlling shareholders serve the director role at 65 listed firms. In six business groups of Kumho Asiana, OCI, GS, KCC, HARIM, and Korea Investment Holdings, respective controlling shareholders are serving as a director in every listed issuer under each business group. A controlling shareholder elected to a director position carries significance in the sense of ensuring transparency and accountability, as opposed to the one yielding influence on the management of the company as an executive but not sitting in the board. Still, investors are advised to pay heed to whether they hold excessively multiple positions concurrently or are paid too large a salary inconsistent with the assigned role.

In the meantime, there are five large business groups (Hanwha, Hyundai Heavy Industries, Shinsegae, Mirae Asset, and Kyobo Life) without any listed issuer having elected the controlling shareholder as a director. It is still worth paying attention to these groups whether a controlling shareholder is nominated as a director.

10) *Governance Structure in Large Business Groups*, Korea Fair Trade Commission, Press Release dated Dec 6, 2018

<Table> Distribution of controlling shareholders serving as a director

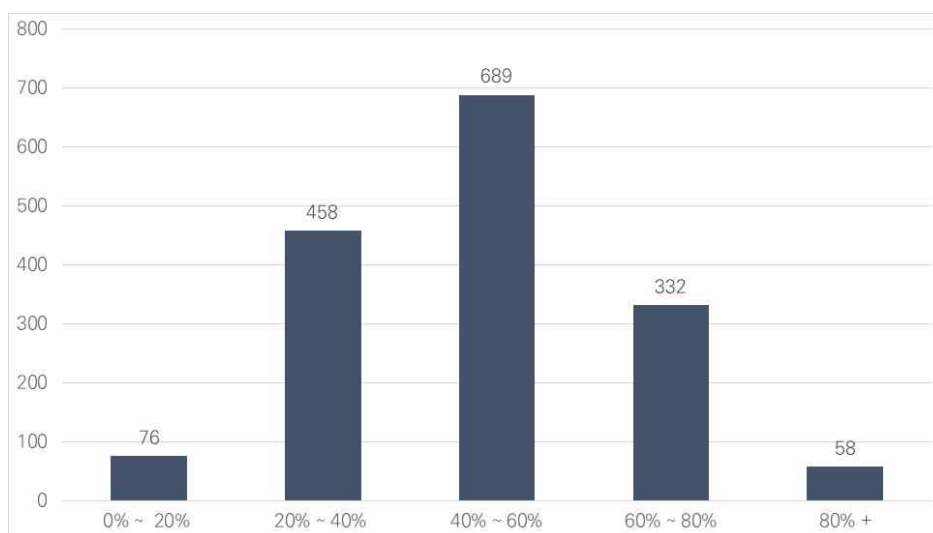
# of business groups with the controlling shareholder serving as a director in affiliated listed firms		% of firms where the controlling shareholder serves as a director against total listed firms in the business group	
0 listed firm	7	0%~20%	8
1~2	7	20%~40%	6
3~4	7	40%~60%	5
5 +	5	60% +	7
Total	26	Total	26

Remuneration vs. Remuneration Cap

In Korea, shareholders have difficulty making their voice heard about the structure or size of director remuneration through exercising voting rights since the remuneration cap, not an exact value of remuneration, is tabled to the general meeting of shareholders, as part of local practice.

The actual payment in local firms reaches only about 50% the proposed remuneration cap¹¹⁾, and it is structured that the remuneration amount for the immediately prior year is unknown at the time of the annual general meeting. Moreover, the disparity between the actual remuneration and the cap restricts shareholders to do a rational estimation on the actual remuneration based on the remuneration cap provided by the firm.

[Figure] Actual remuneration rates for directors serving listed issuers



11) Averages of 10-year data collected from 1,617 listed issuers

The NPS of Korea is committed to proactive engagement with its portfolio companies including exercising voting rights on remuneration cap, adding “appropriateness of director remuneration” to its priority list recently. The KCGS has also revised its voting guidelines on the remuneration cap for directors. Against this backdrop, whether institutional investors will exercise voting rights more actively on the director remuneration cap and whether issuers will make more detailed disclosures on the matter merit investors’ attention.