

Stewardship Code, Issue of interest conflict

- investor, shareholder, management

1. What is Stewardship Code

Seven Principles

The Korea Stewardship Code sets forth the following seven principles as a soft law:

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

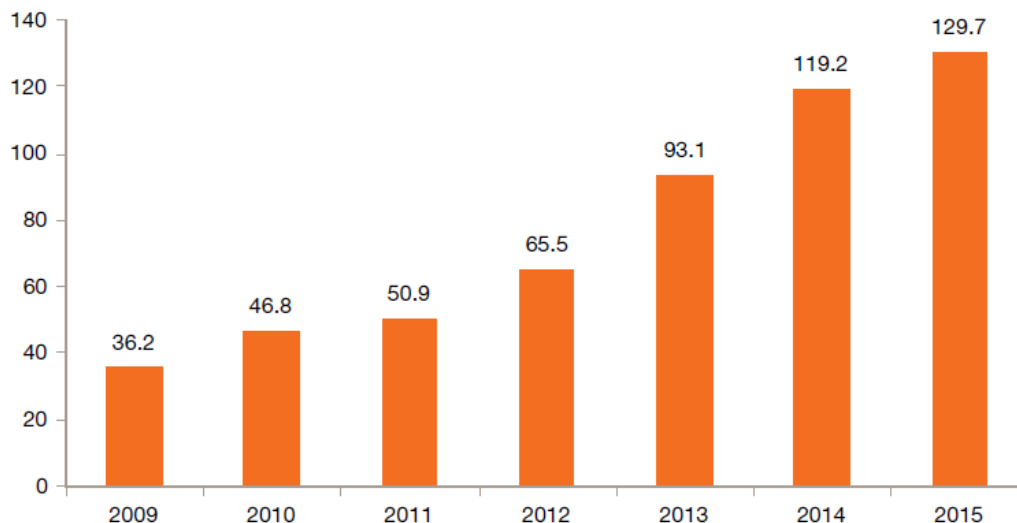


Total	Pension fund	Insurance company	Asset manager	PEF manager	Securities firm	Investment advisor	Service firm	Bank	Other
52	0	1	16	22	2	2	2	1	6

2. What is conflict of interest

- ① investor
 - shorterm return
 - activist expansion

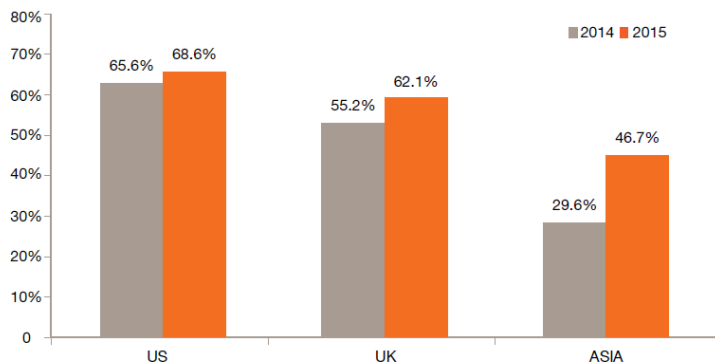
Activist Hedge Funds' Assets Under Management (US\$'bn)



Note: Assets under management data is for single-strategy US-based activist managers – non-US-based funds as well as multi-strategy funds and investment managers engaging in activism as a sub-strategy are excluded.

Source: JP Morgan, originally from HFR Industry Reports

Success Rates of Activist Demands by Region



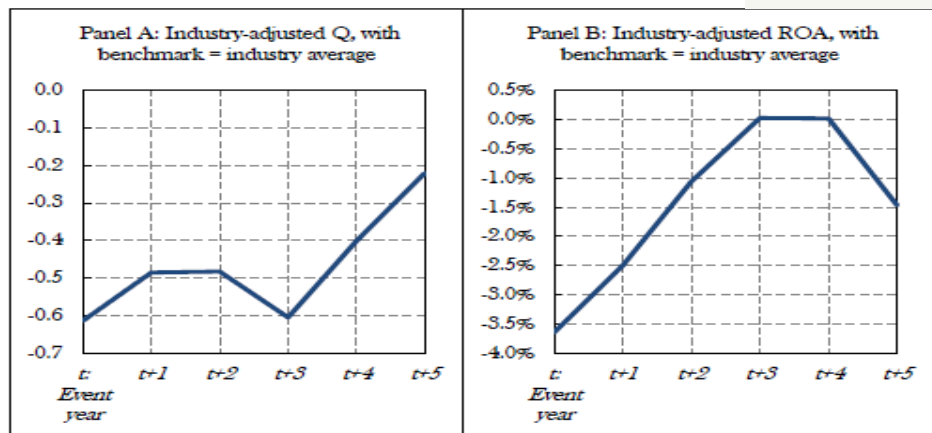
Note: Percentage of activist demands at least partially satisfied

Source: Activist Insight 2016 Annual Review

2. What is conflict of interest

- ② shareholder/management
- longterm corporate value
- sustainable growth

◀ Less Hostile / Private Approach		More Hostile / Public Approach ▶		
Prepare	Private Engagement	Escalate Ownership	Launch Public Campaign	Force Change
<p>Research: speak with competitors, industry experts, former/current employees, suppliers and customers</p> <p>Contact shareholders to assess likelihood of support</p> <p>Acquire stock without public disclosure: accumulate ownership through a mix of equity and derivatives, avoiding regulatory disclosure for as long as possible prior to launching campaign</p>	<p>No publicly disclosed activism</p> <p>Approach management privately for discussions regarding proposal / demands</p> <p>Request meeting with the board to present thesis</p> <p>Request board seats privately</p>	<p>Increase ownership through a mix of equity and derivatives in order to apply pressure on management</p> <p>Leverage local regulatory filings (public disclosure requirements) to initiate and encourage trigger churn in shareholder base</p> <p>Attract other like-minded activists to increase leverage on management</p>	<p>Release publicly disclosed letter / presentation to management</p> <p>Publicly criticise management and board performance</p> <p>Letter to shareholders</p> <p>Lobby proxy advisors for support for potential proposal</p> <p>Lobby research analysts for public support through sell-side research</p>	<p>Launch proxy fight</p> <p>Issue shareholder proposal</p> <p>Discredit current board as entrenched and ignoring shareholder interests</p> <p>Nominate opposing slate of directors</p> <p>Work with a strategic partner to catalyse M&A</p> <p>Hostile acquisition offer</p> <p>Litigation</p>



Source : Michael Harvet etc. “ a shareholder activism for sustainability report”

3. Implication

