

2022 NATIONAL PENSION FUND ANNUAL REPORT

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KIM Tae-hyun**Chairperson and Chief Executive Officer, National Pension Service**

Initiated in 1988, the National Pension Plan was designed to contribute to the stability of Koreans' livelihoods and the promotion of their welfare. 34 years later, as of the end of 2022, it transformed into a trusted pension system serving more than 22.50 million contributors and 6.42 million beneficiaries. The National Pension Fund also grew exponentially from a humble start of about KRW 500 billion to around KRW 890 trillion, cementing its position as one of the world's largest pension funds.

2022 was a highly volatile and challenging year for the global economy and financial markets. The global market downturn, driven by the prolonged Russia-Ukraine war, soaring inflation, and aggressive interest rate hikes, resulted in a significant decline in the value of equity and fixed income holdings, which made up the lion's share of our investment portfolio. However, our ongoing efforts to diversify investment strategies with overseas and alternative assets, alongside thorough risk management, played a pivotal role in mitigating the decline.

Throughout the year, National Pension Service (NPS) closely examined and coped with heightened volatility in global financial markets, including geopolitical risks, by monitoring a crisis severity index and activating an emergency response system. In addition, we concluded a currency swap arrangement with the Bank of Korea to secure stable access to foreign currency in a period of sharp exchange rate fluctuations, ultimately helping reduce transaction risks and associated expenses.

Furthermore, we stepped up research activities on tax schemes in other countries. As a result, for the first time in the Republic of Korea, NPS acquired the status of Qualified Foreign Pension Fund (QFPF) in the U.S., entitled to tax exemption on investment in U.S. real property. Accordingly, a tax refund of KRW 35 billion, part of the tax paid, has been approved, saving investment costs incurred due to an increase in the Fund size.

In 2023, a range of discussions to enhance the sustainability of the National Pension Plan, including the improvement of both pension and fund management systems, are taking place based on the results of the 5th National Pension Actuarial Valuation. Going forward, NPS will actively support pension reform and strive to advance the fund management system, in a bid to boost investment returns and realize our business principle of delivering a 'National Pension that Makes All Korean People Happy.'

Thank you.

**SEO Won-joo****Executive Fund Director and Chief Investment Officer, National Pension Service**

NPS Investment Management (NPSIM), a dedicated fund management arm of NPS, was established in 1999 with an aim of managing and investing the National Pension Fund in a more systematic and professional manner. Commenced with only six teams, NPSIM has evolved into a global fund management organization, consisting of three Managing Directors, 14 divisions, and three overseas offices as of the end of 2022.

In 2022, central banks in major economies maintained a tight stance of monetary policy in response to mounting inflationary pressure from global supply chain disruptions, prolonged war, and rising commodity prices. Amid such circumstances, equities and fixed income, which tended to move in opposite directions and offset each other, fell sharply in tandem at a pace not seen in decades.

Under these unprecedented and unfavorable conditions, our investments in financial assets delivered a negative return of 8.24% for the year ended December 31, 2022. Yet, it is worth noting that this decline was largely attributable to unrealized losses in the value of investments, and most of the losses have been recouped since the start of 2023 as financial markets remained relatively stable during the period.

NPSIM continued its efforts to enhance investment returns in 2022 by increasing exposures to overseas and alternative assets and diversifying investment portfolios by asset class and investment strategy. The Global Equity Research Team was created to apply its active strategy to internally managed global equity, while the Risk Management Division was segregated into the Public Market Risk Management Division and Private Market Risk Management Division to bolster expertise in risk management. Moreover, we developed a new global benchmark index to cover the real estate specialty sector, and made our first commitment to a credit fund, dedicated to investing based on environmental, social and governance (ESG) principles.

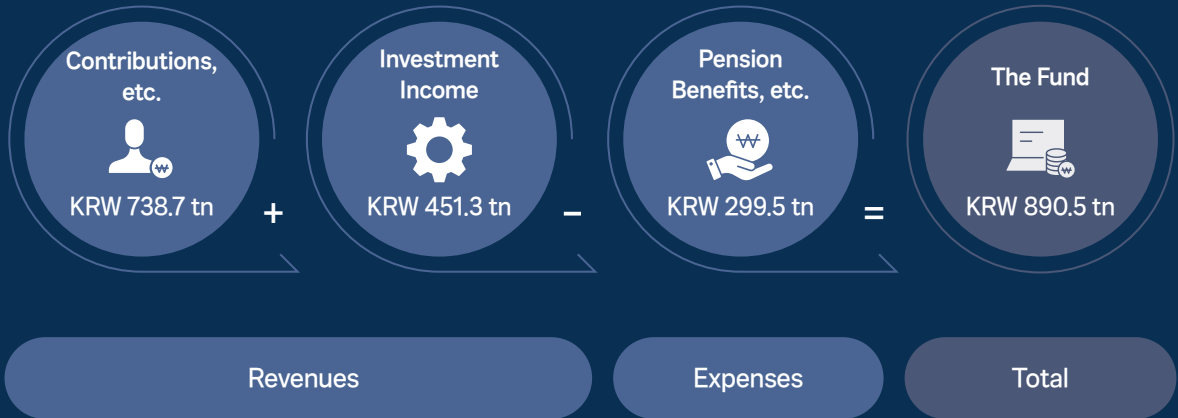
Looking ahead, NPSIM will further diversify the sources of investment income and enhance the flexibility of asset allocation to seek higher investment returns amid growing uncertainty and investment complexity.

Thank you.

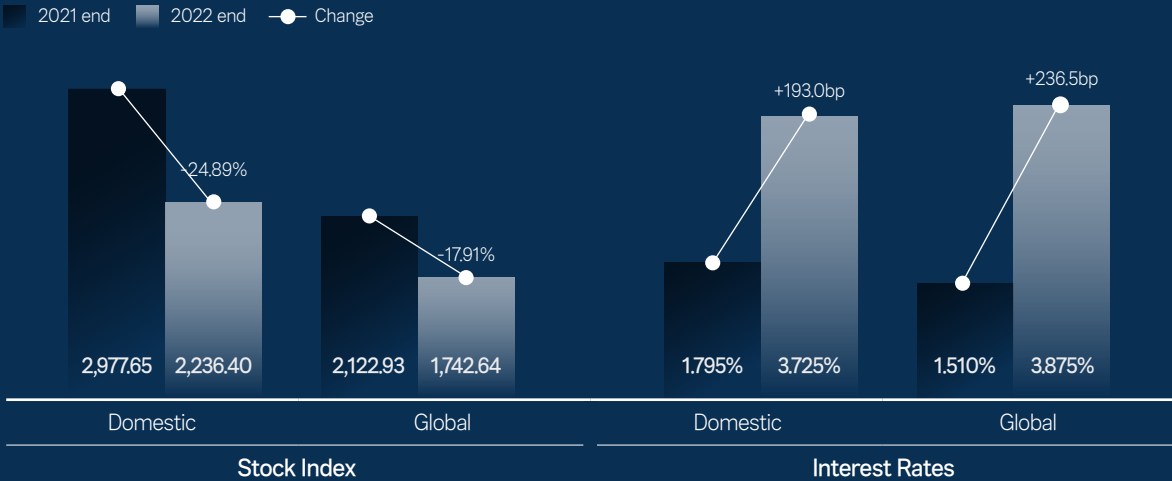


National Pension Fund at a Glance

Fund Status

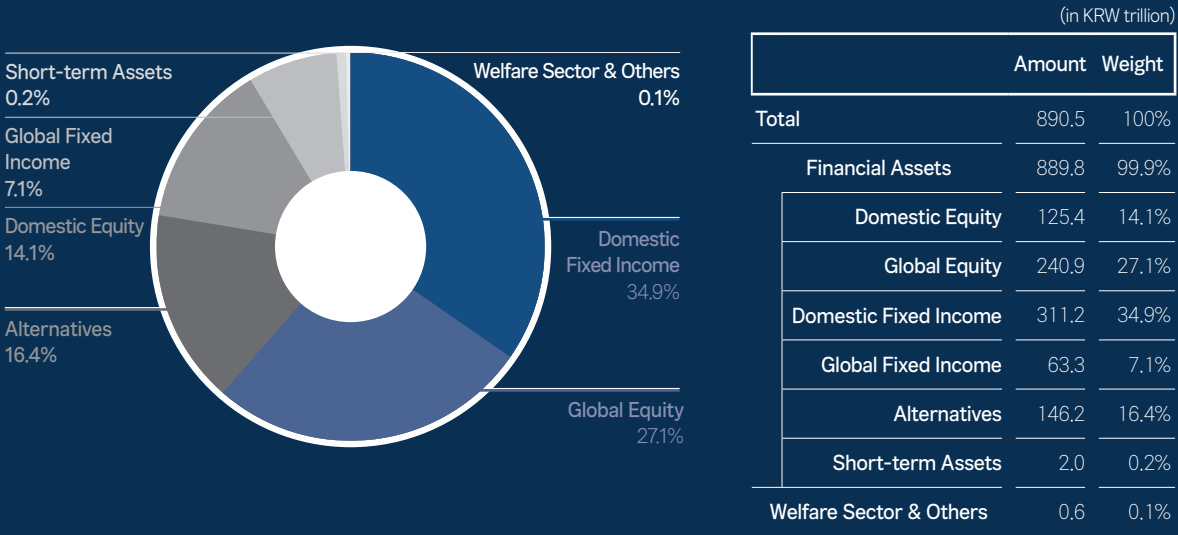


Key Economic Indicators



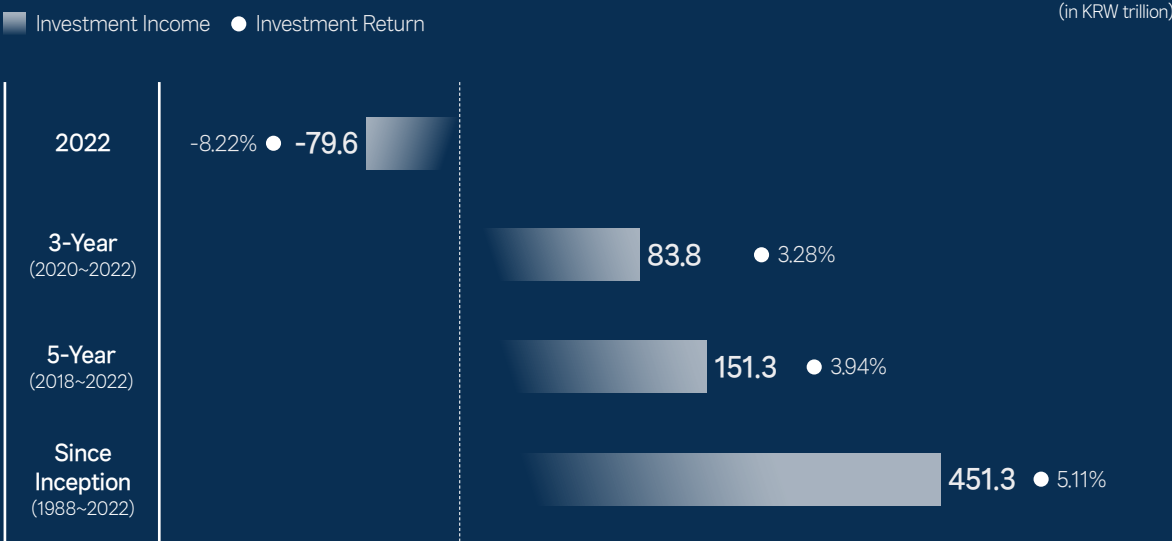
Notes:
 1) (Stock Index) Domestic: KOSPI, Global: MSCI ACWI (ex-Korea, USD)
 2) (Interest Rates) Domestic: Korea 3-year Treasury bond, Global: U.S. 10-year Treasury bond

Fund Portfolio



Note: Financial assets include tactical FX exposure.

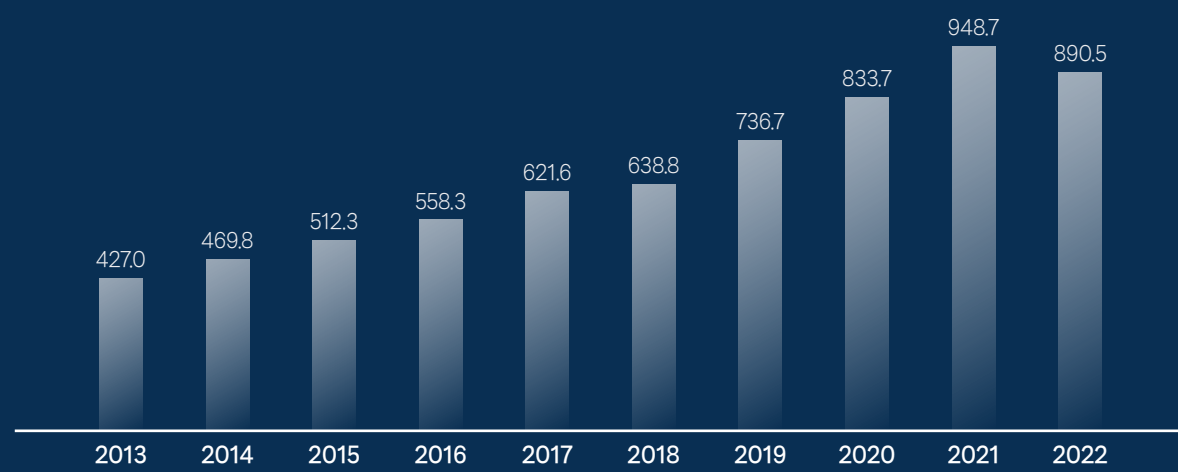
Fund Performance



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

Growth of the Fund

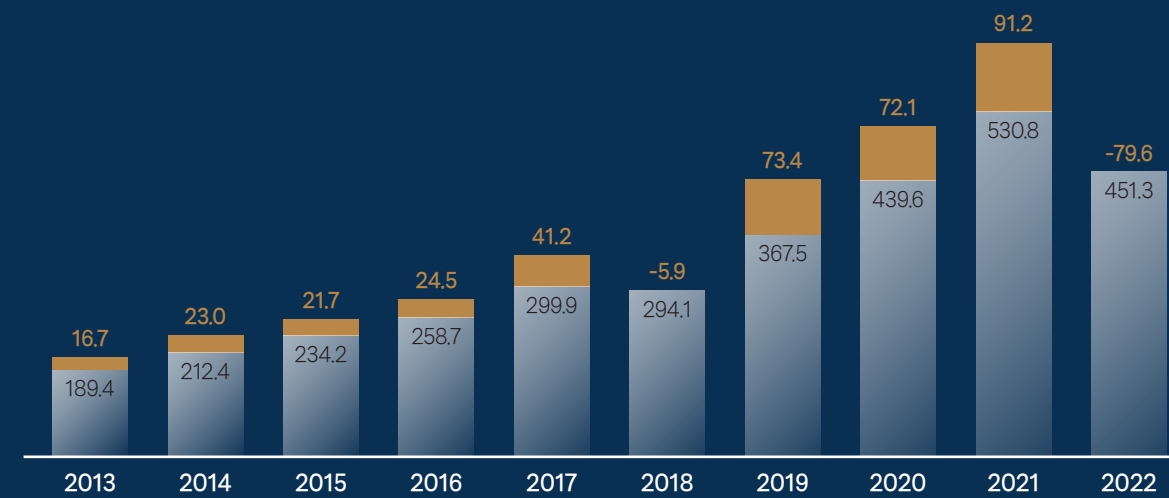
(in KRW trillion)



Investment Income

(in KRW trillion)

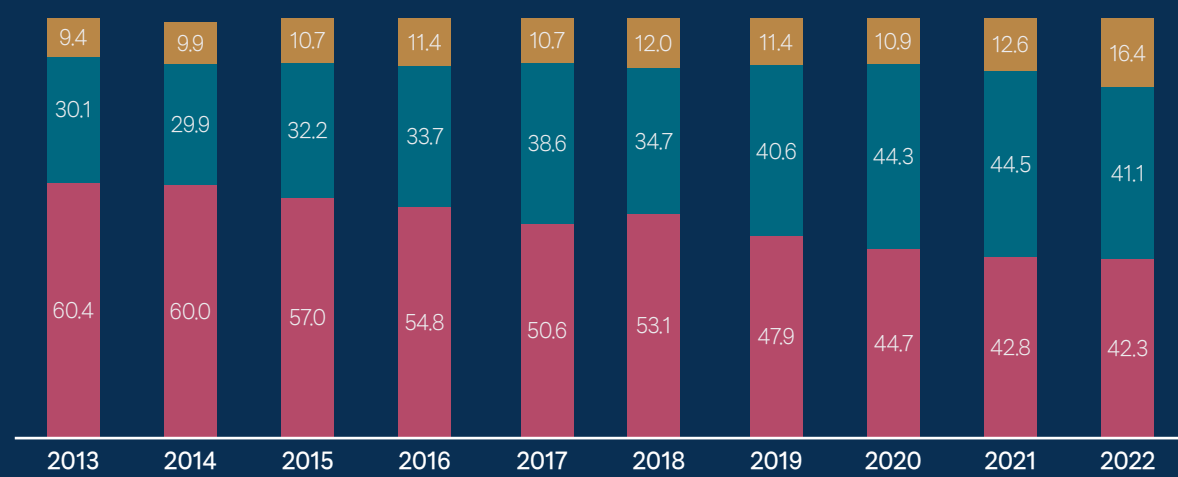
■ Annual Investment Income ■ Cumulative Investment Income



Fund Composition

(%)

■ Fixed Income (incl. short-term assets) ■ Equity ■ Alternatives

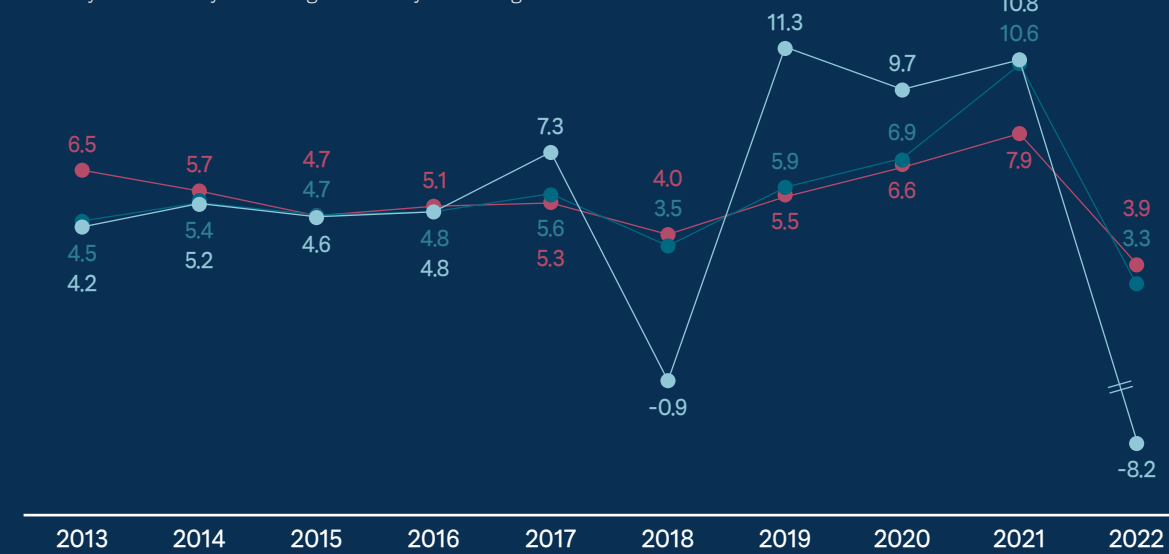


Note: Welfare Sector and Others are included, but not indicated.

Investment Return

(%)

● 1-year ● 3-year Average ● 5-year Average



Note: Based on money-weighted rate of return

2022 Highlights

Currency Swap Arrangement with the Bank of Korea



- NPS and the Bank of Korea formed a USD 10 billion currency swap deal*, which run through the end of 2022, to secure stable access to foreign currency needed for its increasing global investments.

* A currency swap is a financial arrangement between two parties to exchange currencies over a designated timeframe to gain exposure to a desired currency.

- When the demand for foreign currency increases, NPS secures the currency through the Bank of Korea, which offers longer maturities, as well as lower transaction risks and expenses.

Bolstered Responsible Investment



- The application scope of the exercise of voting rights associated with global equities was expanded. (portfolio weight: 0.5% → 0.3%)

- NPS joined the IFRS Sustainability Alliance.

* It is established to enhance communication between companies and investors, and designed to develop and improve disclosure standards that help companies disclose financially material, decision-useful ESG-related information to investors.

- NPS commenced e-voting for domestic equities and included the issuance of a responsible investment report as an evaluation factor in the securities firm selection process.

Tax Exemption on U.S. Real Property Investment as QFPF



- For the first time among Korean institutions, NPS acquired the Qualified Foreign Pension Fund (QFPF) status in the U.S. entitled to tax exemption on investment in U.S. real property.

- A tax refund of KRW 35 billion, part of the tax paid on U.S. real property investments, has been approved, and another tax refund of KRW 12 billion is on the way.

- This initiative has unlocked opportunities for other pension funds in the country, such as Government Employees Pension and Private School Teachers' Pension, to seek tax refunds in the U.S.

Revamped NPSIM Organization



- The Global Equity Research Team was newly created under the Global Equity Division, to apply its active strategy to internally managed global equity.

- The Risk Management Division was segregated into the Public Market Risk Management Division and Private Market Risk Management Division, to strengthen risk management.

I.

Overview

1. National Pension Plan
2. National Pension Fund



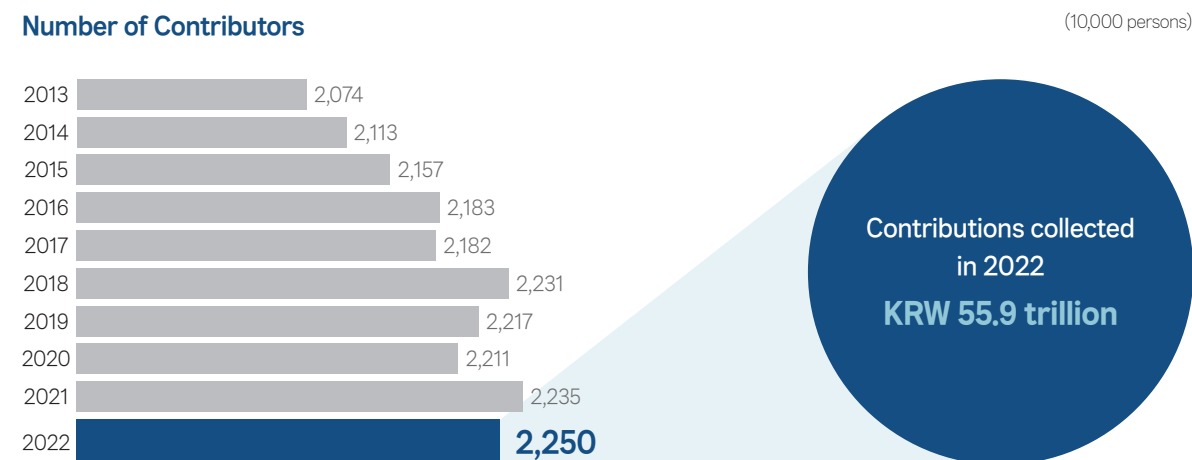
1. National Pension Plan

The National Pension Plan is one of the major social insurance schemes in the Republic of Korea that aims to ensure the stability of Koreans' livelihoods and promote their welfare by providing old-age, disability and survivor's pension.

The Plan mainly consists of old-age, disability and survivor's pension. The old-age pension benefits contributors reaching the pensionable age after retirement. The disability pension benefits contributors who have a physical or mental disability due to illness or injury. The survivor's pension benefits bereaved family members of a deceased contributor or beneficiary.

The Plan was introduced in January 1988, covering employers and employees aged between 18 and 60 in establishments with 10 or more employees. Over time, the compulsory coverage was expanded gradually, and in April 1999, it was further expanded to target the entire nation, unleashing the era of 'Pensions for All Nation.' Along with the National Health Insurance, Employment Insurance, and Worker's Compensation Insurance, the National Pension Plan is one of the major social insurance schemes in the country with more than 22.50 million contributors and 6.42 million beneficiaries as of the end of 2022.

Number of Contributors



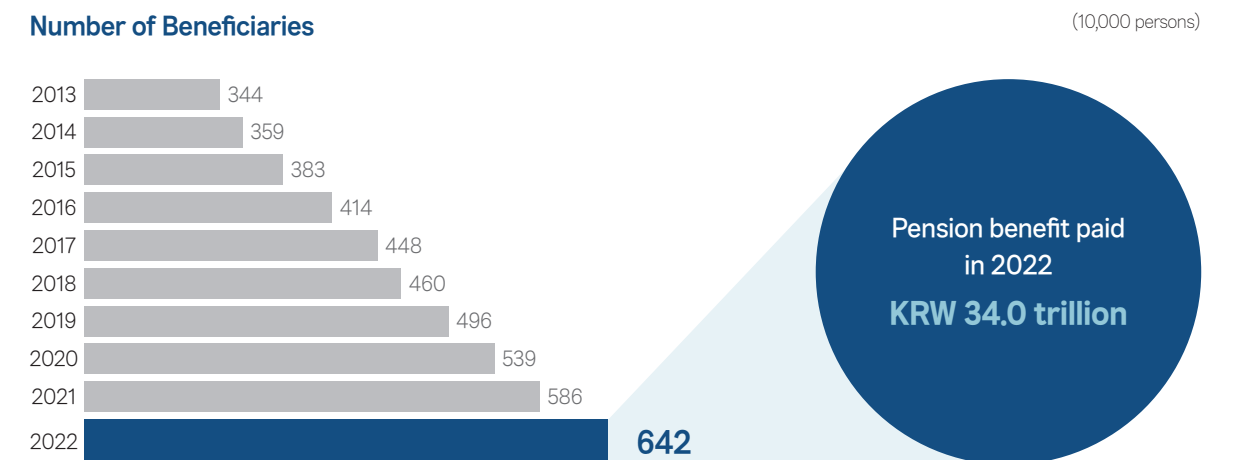
Types of Contributors

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

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

As of the end of 2022, NPS had a headquarters, 112 regional offices, Disability Assessment Center and National Pension Research Institute. The headquarters consists of 15 divisions, three centers, NPS Investment Management (NPSIM), Digital Innovation Office, and Compliance Officer. Among them, NPSIM takes charge of investing and managing the National Pension Fund that finances the payments of pension benefits.

Number of Beneficiaries



Types of Pension Benefits

<p>Old-age pension</p> <p>Old-age pension is paid to contributors whose contribution period is at least ten years, and the payment begins at the year when contributors reach age 62 and the benefit will be paid for their lifetime.</p> <p>※ 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.</p>	<p>Disability pension</p> <p>Disability pension is paid to contributors who have a physical or mental disability due to illness or injury, and meet certain requirements at the time of the first medical examination of the relevant illness or injury. The amount of pension is subject to the level of disability in case the disability persists even after the relevant illness or injury is completely cured.</p>	<p>Survivor's pension</p> <p>Survivor's pension is paid to bereaved family members of a deceased contributor or beneficiary who contributed for a certain period of time, when a family member meets pension recipient requirements.</p>
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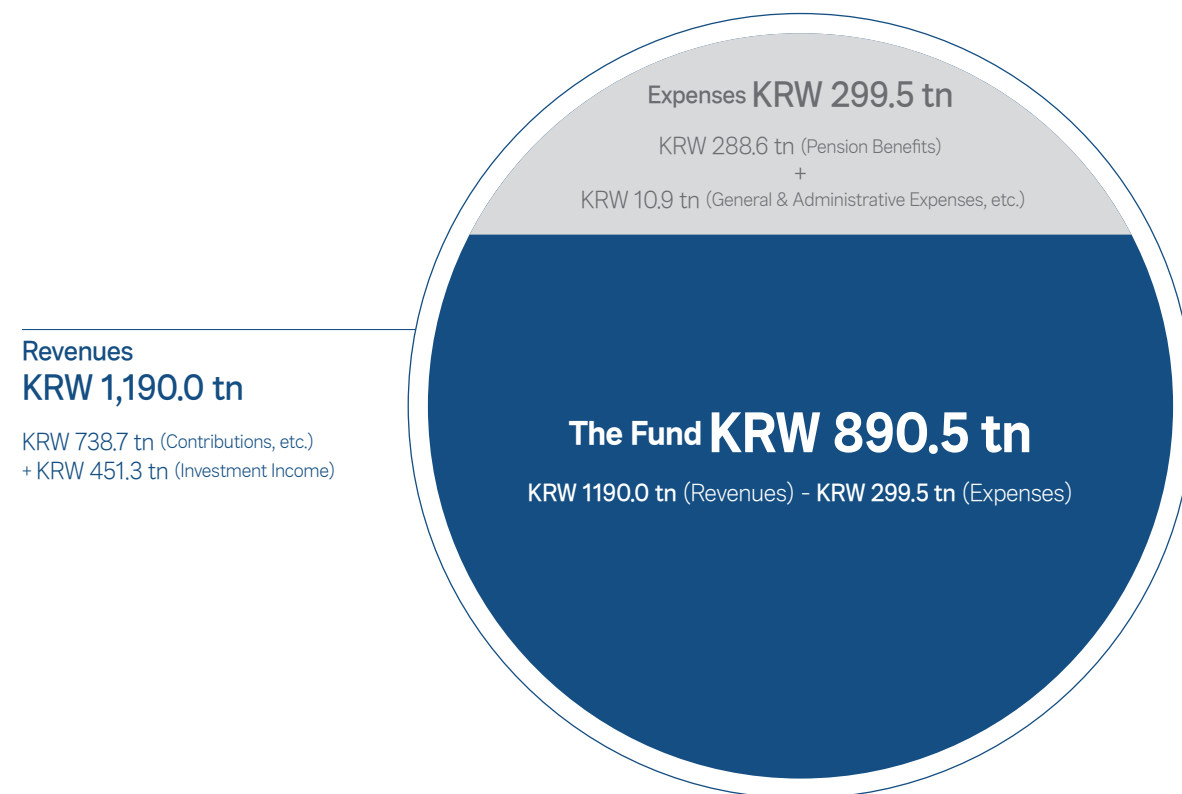
2. National Pension Fund

The National Pension Fund was established as reserve fund to finance pension benefits and secure financial resources necessary for national pension services pursuant to Article 101 of the National Pension Act.

The Fund is generated by subtracting pension benefit payments and general & administrative expenses from revenues collected from contributions and investment income. As of the end of 2022, the Fund reached KRW 890.5 trillion after subtracting KRW 299.5 trillion in expenses from KRW 1,190.0 trillion in revenues, a combination of KRW 738.7 trillion in cumulative contributions and KRW 451.3 trillion in cumulative investment income.

According to the investment policy statement approved by the National Pension Fund Management Committee (FMC), the Fund is managed in three areas: Financial Assets, Welfare Sector and Others. As of the end of 2022, 99.9% of the Fund, equivalent to KRW 889.8 trillion, was invested in Financial Assets, including equities, fixed income and alternatives, while 0.1%, equivalent to KRW 0.6 trillion, was managed in Welfare Sector and Others.

Fund Status



At the end of 1988 when the National Pension Plan was introduced, the Fund was valued at KRW 527.9 billion. 34 years later, at the end of 2022, the Fund grew exponentially to reach KRW 890.5 trillion, gaining prominence as one of the world's largest pension funds. The cumulative investment income since inception amounted to KRW 451.3 trillion, representing nearly 50.7% of the Fund.

The Fund is managed with the aim of maximizing returns to ensure the long-term financial stability of the National Pension Plan. To this end, NPS manages and invests the Fund in compliance with six investment principles: Profitability, Stability, Public Benefit, Liquidity, Sustainability and Independence.

Investment Principles



- Profitability** To pursue the highest possible returns to alleviate financial burdens on pension contributors, especially on future generations
- Stability** To manage the Fund within risk tolerance levels while considering the volatility of gains and losses in investment assets
- Public Benefit** To take into account the spillover impact on the national economy and domestic financial markets, given the sheer size of the Fund and the objectives of the National Pension Plan targeting the entire nation
- Liquidity** To secure liquidity to seamlessly meet its pension payment obligations and seek ways in advance to minimize shocks on the domestic financial market, in particular when disposing of investment assets
- Sustainability** To fulfill the fiduciary duty, particularly given ESG factors, to enhance the sustainability of assets under management
- Independence** To ensure that these principles are not compromised for other purposes

About NPS

Purpose of Establishment

To contribute to the stability of Koreans' livelihoods and the promotion of their welfare by providing old-age, disability, and survivor's pension



Business Principles

'National Pension that Makes All Korean People Happy'

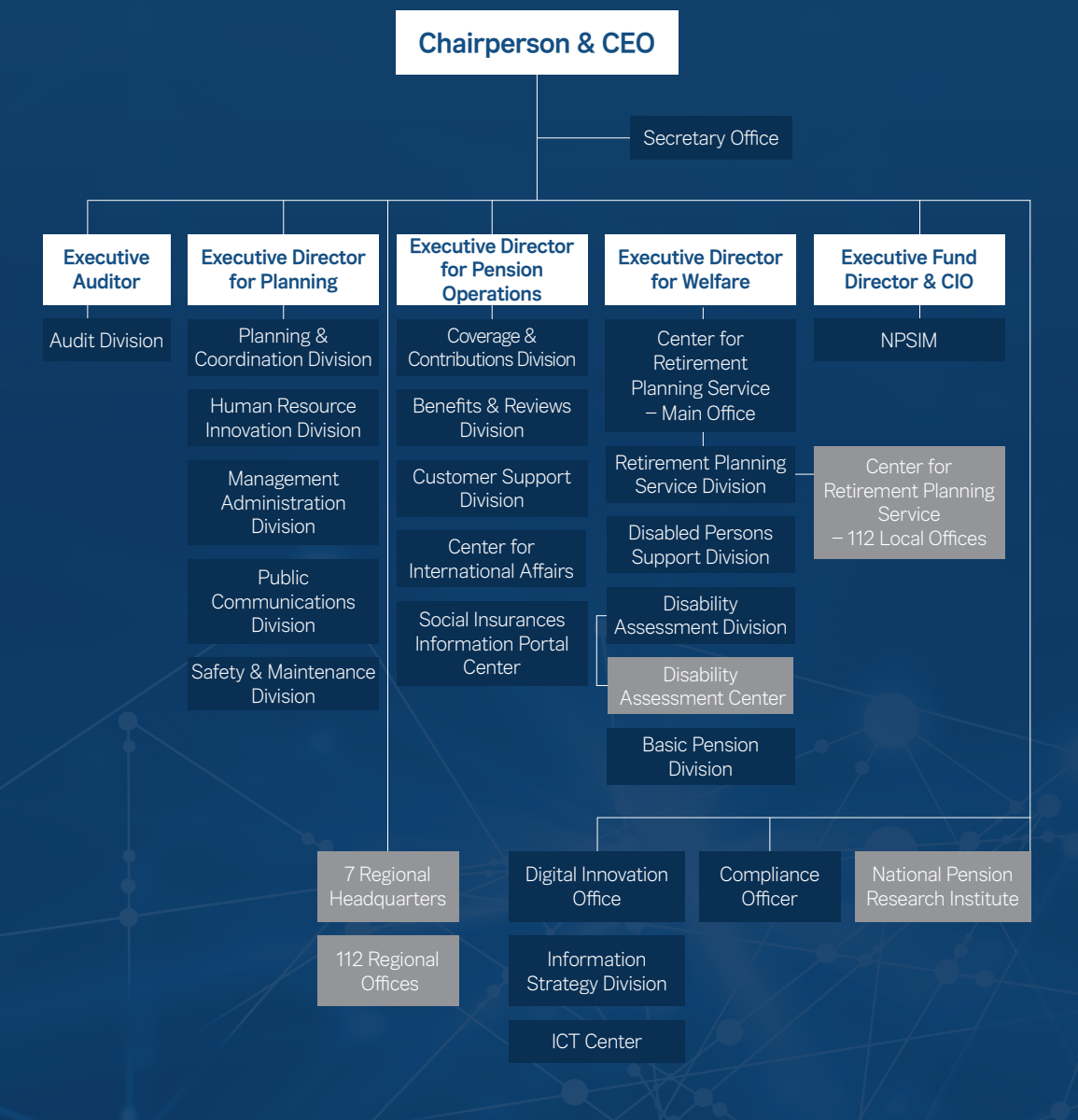
We will create an inclusive and reliable pension that is sustainable for the future.



NPS Organization Structure (No. of employees : 7,301, as of Dec. 31, 2022)

Headquarters | 15 divisions (incl. Secretary Office), 3 centers, NPSIM, Digital Innovation Office, Compliance Officer
Regional Offices | 112 regional offices, Disability Assessment Center, National Pension Research Institute

NPS Organizational Chart (as of Dec. 31, 2022)



II. Fund Management System

- 1. Governance
- 2. Process
- 3. NPSIM

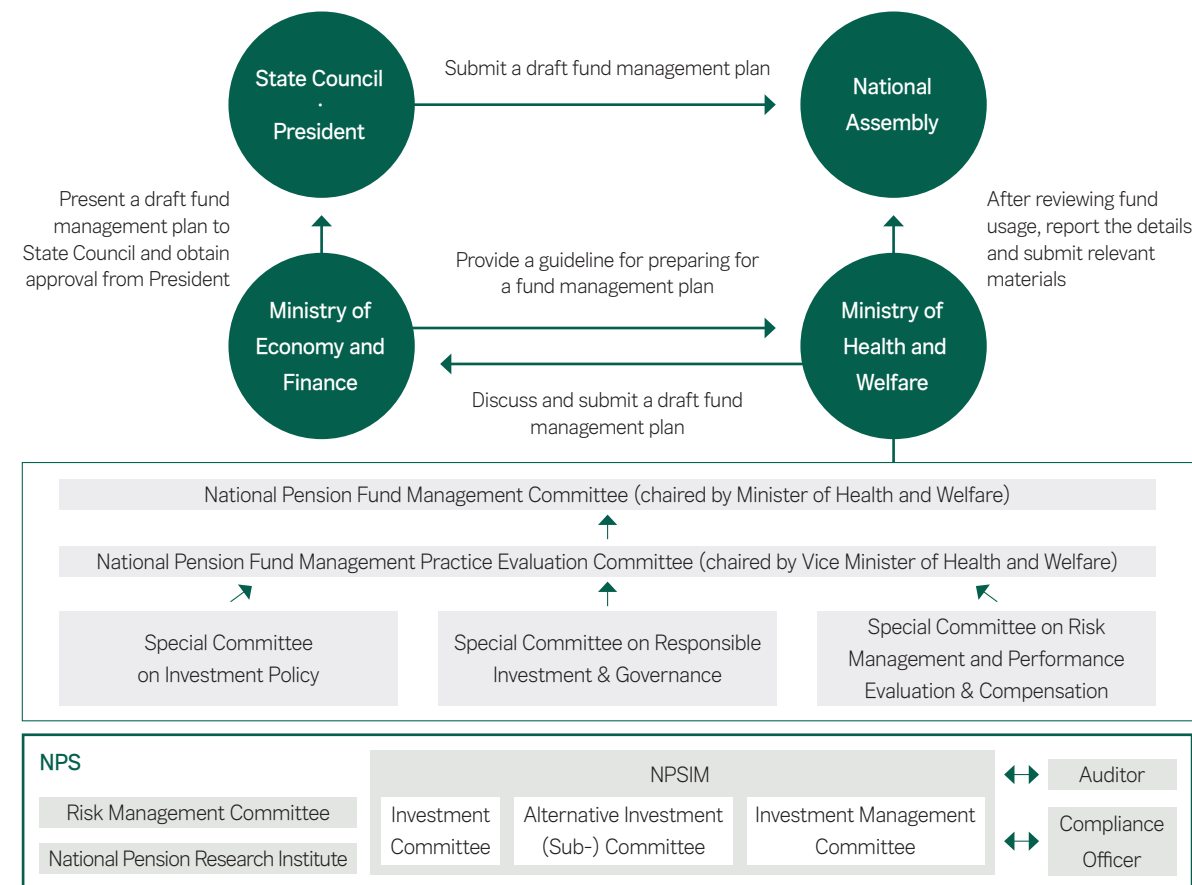


1. Governance

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

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

Fund Management Governance



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

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

Decision Making Framework

Review and Decide on Agendas	National Pension Fund Management Committee (chaired by Minister of Health and Welfare)		
	Composition	Responsibilities	
Conduct a Preliminary Review on Agendas	National Pension Fund Management Practice Evaluation Committee (chaired by Vice Minister of Health and Welfare)		
	Composition	Responsibilities	
Provide Advice and Review Specific Matters	Special Committee on Investment Policy (chaired by a person elected among full-time members)	Special Committee on Responsible Investment & Governance (chaired by a person elected among full-time members)	Special Committee on Risk Management and Performance Evaluation & Compensation (chaired by a person elected among full-time members)
	Composition	Composition	Composition
	Three full-time members, three FMC members, and three experts in related fields	Three full-time members and six experts in related fields	Three full-time members, three FMC members, and three experts in related fields
	Responsibilities	Responsibilities	Responsibilities
	Provide advice on key policies relating to fund management	Review key matters relating to the exercise of shareholder rights and conduct of responsible investment	Make recommendations on performance assessment policies, and review and decide on compensation policies

At the same time, in a bid to review and examine agendas to be proposed to the FMC in advance, three special committees – Special Committee on Investment Policy, Special Committee on Responsible Investment & Governance, and Special Committee on Risk Management and Performance Evaluation & Compensation – have been established pursuant to Article 103-3 of the National Pension Act. Each special committee is composed of nine members, including three full-time members, one of whom serves as chair of each special committee.

As part of efforts to foster constant discussions and enhance expertise and representation in investment decision-making, a full-time expert system was introduced in 2020 through amendments to the Enforcement Decree of the National Pension Act. Organizations of employers, employees and individually insured persons recommend one expert each, who is appointed as full-time member of special committees, and one of the three full-time members serves as chair of each special committee.

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

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

The Risk Management Committee is composed of the CEO of NPS as 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, examines reports on the performance status after investment execution, and recommends corrective actions when necessary.

The Investment Committee consists of the CIO of NPS as chair, Managing Directors, division heads, and up to three team leads appointed by the chair. The Committee reviews and approves investment guidelines and plans for all investment assets executed by NPSIM.

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

The Investment Management Committee is composed of Managing Director of Risk Management & Legal as chair, three internal members appointed by chair from among division heads or team leads, and three external members. The Committee’s review result is not subject to approval, but recorded in associated agenda items to refer to the Investment Committee or Alternative Investment Committee.

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

NPS Fund Management-Related Committees

	Agenda Items	Meeting	Composition
Risk Management Committee	<ul style="list-style-type: none"> • Matters relating to basic guidelines on risk management • Matters relating to setting and managing risk appetite or risk tolerance • Matters relating to designing and operating risk management systems • Matters relating to risk management on new investment assets or methods • Other matters deemed necessary by chair to vote at a meeting 	Periodically (at least four times a year) Occasionally	<ul style="list-style-type: none"> • No. of members: 7 to 9 • Chair: CEO • Members: CIO and 5 to 7 external experts
Investment Committee	<ul style="list-style-type: none"> • Matters relating to preparing annual and monthly investment plans • Matters relating to selection and management of counterparties to transaction • Other matters deemed necessary by chair 	Periodically (Monthly) Occasionally	<ul style="list-style-type: none"> • No. of members: 16 to 19 • Chair: CIO • Members: 15 members including Managing Directors and division heads, as well as up to 3 team leads appointed by chair
Alternative Investment (Sub-) Committee	<ul style="list-style-type: none"> • Investment decision-making and change in alternative investments • Other matters deemed necessary by chair 	Occasionally	<ul style="list-style-type: none"> • No. of members: 7 • Chair: CIO • Members: 3 internal members (Managing Director or Head of Investment Strategy; Managing Director of Risk Management & Legal or Head of Private Market Risk Management; 1 division head at NPSIM (excluding divisions with projects under review) and 3 external experts ※ External expert pool is formed in four areas: Infrastructure, Real Estate, Private Equity & Venture Capital and Natural Resources Development ※ Chair of Alternative Investment Sub-Committee is appointed by CIO from among division heads at NPSIM (excluding division head involved in projects under review)
Investment Management Committee	<ul style="list-style-type: none"> • Matters relating to disposal of investment assets when investee companies are in default, etc. • Matters relating to exercising voting rights on agendas which are not limited in laws in relation to disposal of non-performing assets among externally managed funds 	Occasionally	<ul style="list-style-type: none"> • No. of members: 7 • Chair: Managing Director of Risk Management & Legal • Members: 3 internal members (division heads or team leads appointed by chair) and 3 external experts

2. Process

2-1. Asset Allocation

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

The FMC presents a five-year target return and risk tolerance in consideration of the mid-term outlook on the real economy and financial markets with the aim of improving the profitability and stability of the Fund in line with the growing size, and to achieve this, sets target asset allocation.

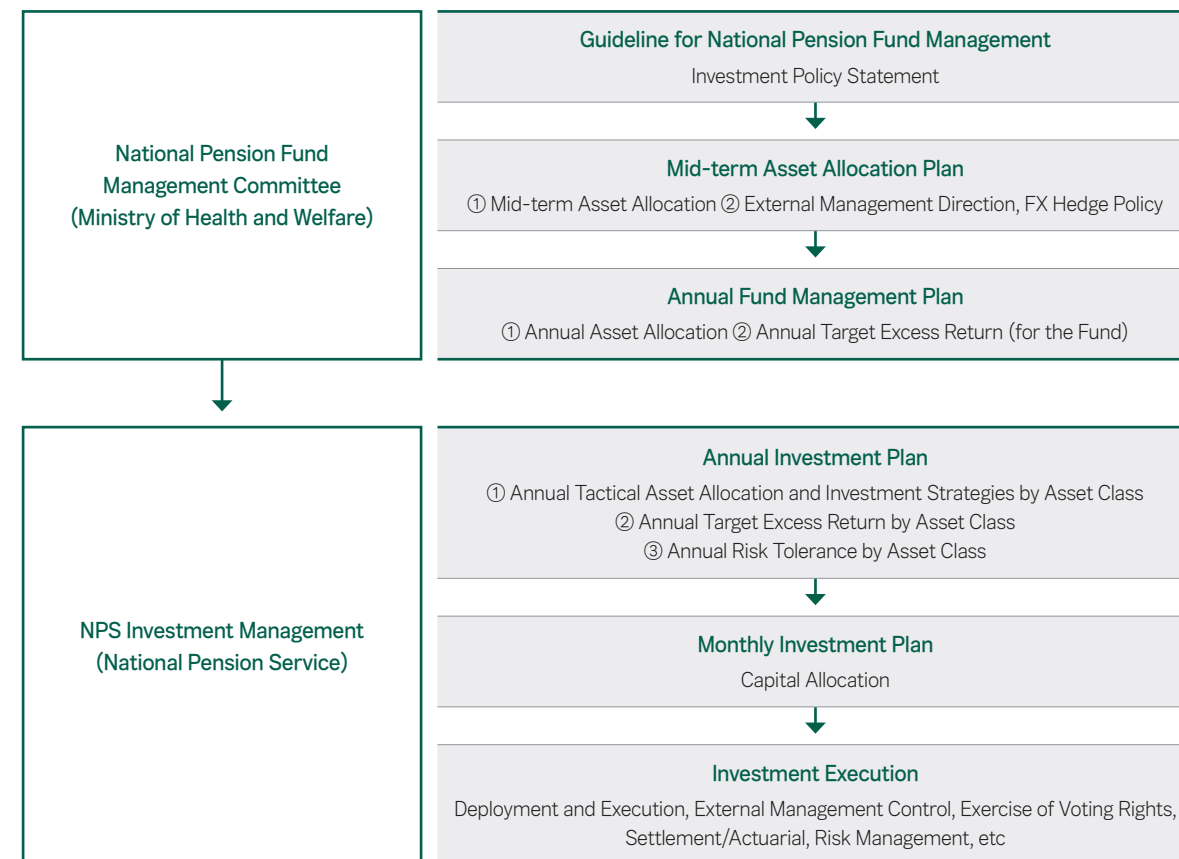
The target return is determined by 'real GDP growth + CPI inflation ± adjustments.' This formula is aimed at preserving real effective value, in order to not only preserve real value of assets under management and but also cope with change in liability value in the future. The risk tolerance is controlled to be within -15% of Conditional Value at Risk (CVaR) at 95% confidence level.

A mid-term asset allocation plan, a target for the next five years, is established in consideration of expected returns and volatility by asset class based on internal and external economic outlook such as gross domestic product (GDP) and consumer price index (CPI). An annual fund management plan presents annual target allocation to each asset class as a strategic action plan that reflects portfolio status, as well as financial and economic conditions at home and abroad.

Moreover, the FMC sets a target excess return that NPS has to achieve through active management, presenting the level of activeness in fund management to enhance long-term returns. When determining the target excess return, active risk is also determined to present a total risk level that NPSIM can harness.

NPS executes investment through NPSIM, its dedicated investment arm, in accordance with policies and guidelines approved by the FMC, and manages investment portfolios given the characteristics of each asset class. NPSIM sets forth investment plans after reflecting financial markets and economic conditions, and then the plans are reviewed and approved by the Investment Committee, an internal investment decision-making body. For alternative assets, such as infrastructure and real estate, the Alternative Investment Committee, composed of internal and external experts, makes investment decisions following investment feasibility analysis and preliminary risk assessment.

Fund Management Process

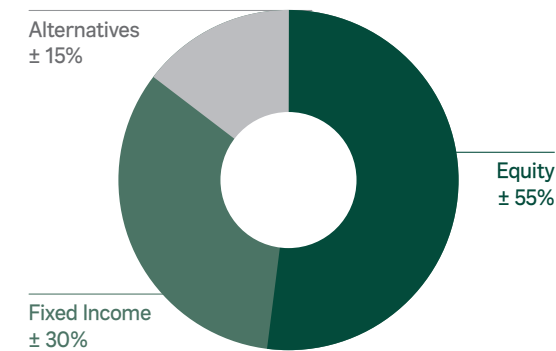


Mid-term Asset Allocation & Annual Fund Management Plan

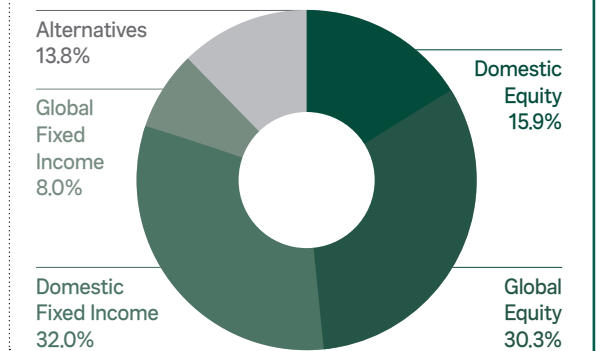
In 2022, the FMC presented a target return of 5.4% for the five-year period through 2027 in consideration of projections on real GDP growth and CPI inflation. In addition, the Committee developed an optimal asset allocation plan by forecasting volatility and correlations among asset classes on the basis of expected returns and time-series databases from benchmark, as well as considering fund management policy directions.

According to the mid-term asset allocation plan, a target portfolio of the Fund for the period through 2027 was determined with ±55% in Equity, ±30% in Fixed Income and ±15% in Alternatives. Furthermore, the FMC developed an annual fund management plan for the year 2023 by reflecting revenues and expenses of the Fund based on target asset allocation to each asset class set by the mid-term asset allocation plan. An implementation portfolio for the year 2023 was set with 15.9% in Domestic Equity, 30.3% in Global Equity, 32.0% in Domestic Fixed Income, 8.0% in Global Fixed Income and 13.8% in Alternatives.

Target Portfolio Through 2027



Target Portfolio for 2023



2-2. Investment Execution by Asset Class

At NPS, the National Pension Fund is managed in three areas: Financial Assets, Welfare Sector and Others. The Financial Assets include domestic equity, global equity, domestic fixed income, global fixed income, alternatives, and other financial instruments. The purpose of classifying assets into different asset class is to diversify the investment portfolio to improve profitability and stability in fund management. To this end, NPS has continued to examine and implement ways to further diversify the portfolio.

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

Benchmarks by Asset Class

Asset Class	Benchmark Index
Domestic Equity	KOSPI
Global Equity	MSCI AC World Index (ex Korea, Unhedged-to-KRW, customized tax rate) <i>(Customized dividend's tax rate is calculated based on actual tax rate applying to dividend)</i>
Domestic Fixed Income	Customized Index
Global Fixed Income	NPS Customized Index (ex KRW, Partial hedged (Other Currencies-USD), Unhedged (USD-KRW))
Domestic Private Equity	$(\text{KOSPI 3-Year Average Annualized Return} + 2.5\%) \times w1$ $+ (\text{Domestic Fixed Income BM 3-Year Average YTM} + 1.5\%) \times (1 - w1)$
Global Private Equity	Peer Group Index IRR
Domestic Real Estate	$\text{IPD Korean Index} \times w2 + [\text{Domestic CPI Inflation (Actual)} + 5\%] \times (1 - w2)$
Alternatives Global Real Estate	Weighted Average Top 7 IPD Country Index
Domestic SOC	$[\text{Domestic CPI Inflation (Actual)} + 4\%] \times w3$ $+ [\text{Actual Return from Existing Investment} \times (1 - w3)]$
Global Infrastructure	KRW Hedged Return of 「OECD CPI Inflation (Actual) + 5%」
Hedge Funds	$\text{HFRI FoFs} \times 0.5 + [\text{U.S. Short-term Interest Rates (90 days T-bills)} + 4.5\%] \times 0.5$

Notes:

- 1) w1: Weight of investment in domestic private equity in the corresponding year
- 2) w2: Annual increase of 10%p from the initial weight of 50% (IPD Korean Index only has been used since 2018)
- 3) w3: Actual weight of vintages after the establishment of the corresponding benchmark
- 4) When conducting performance assessment, Total Return Index is applied.
- 5) Benchmark indexes for alternative assets are used as performance assessment benchmark.

Investment Guideline by Asset Class

Asset Class	Investment Guideline
Domestic Equity	<ol style="list-style-type: none"> ① Pursue long-term investment horizons and maximize returns within acceptable risk tolerance ② For internal management, construct investment universe, a pool of investable securities; form an investment portfolio with the equities in the universe; pursue passive management from a mid- to long-term perspective ③ For external management, diversify investment styles by utilizing diverse investment techniques of external managers; pursue active management
Domestic Fixed Income	<ol style="list-style-type: none"> ① Hold bonds to maturity and diversify investment portfolio by bond type, issuer, industry (corporate bond), and maturity structure to generate long-term stable returns ② Seek excess return by adjusting duration within a certain range while considering an issuer's credit rating and spreads with risk-free bonds ③ Submit to the FMC the total credit exposure for each issuer and group of bonds exposed to credit risk on a yearly basis
Global Assets	<ol style="list-style-type: none"> ① Seek to improve the efficiency of asset allocation by diversifying investment sources ② Build a strong network with global leading peers worldwide to advance investment techniques ③ Expand exposure to global assets over the long-term horizon given future asset sales at the peak of the Fund for pension benefit payments, and minimize adverse impacts of such asset sales on the domestic financial markets ④ Submit to the FMC the total FX exposure on a yearly basis
Alternative Assets	<ol style="list-style-type: none"> ① Seek to enhance the efficiency of fund management by using risk-return profiles of alternative assets different from traditional assets such as equity and fixed income ② Note that alternative assets include real estate, infrastructure, venture capital, corporate restructuring vehicle (CRV), private equity, hedge fund, natural resources development, and tactical investment program, etc. ③ Set an annual commitment limit considering that capitals are invested on several occasions during an investment period ④ Establish a separate decision-making body for alternative assets, 'Alternative Investment Committee,' to enhance efficiency and expertise in investment decision-making ⑤ Obtain advice from external experts or professional agencies when establishing detailed investment plans, executing investments, and conducting post-investment management ⑥ Make every effort to capture new investment opportunities
Short-term Assets	<ol style="list-style-type: none"> ① Note that short-term assets include idle assets held temporarily for the purpose of paying out pension benefits or investing in mid- to long-term assets. ② Keep Korean won-denominated short-term assets to a minimum, and invest in high-return securities for an investment period of up to three months, upon review of the stability and liquidity of such securities ③ Manage short-term assets denominated in foreign currencies in a way to maintain the stability of foreign currency liquidity, and invest within USD 3 billion of daily average balances of each quarter in consideration of effects on foreign exchange markets
Securities Lending	<ol style="list-style-type: none"> ① Conduct securities lending in pursuit of excess return to the extent that does not harm the stability

2-3. Risk Management

NPS defines risks that may affect the stability and profitability of the National Pension Fund into five risks –market risk, credit risk, liquidity risk, operational risk, and legal risk – and closely manages and oversees them. In addition, NPS sets a total risk tolerance for the Fund and risk tolerance for each asset class on a yearly basis according to strategic asset allocation, and monitors them at all times. As investment returns are generated through adequate risk-taking and risk management, NPS is fully committed to managing risks in a systematic way to prevent exposure to excessive or additional risks relative to returns.

At NPSIM, both Public Market Risk Management Division and Private Market Risk Management Division, dedicated risk management divisions, manage investment risks, and the Risk Management Committee, consisting of the CEO of NPS as chair and external experts, has been established to control risk associated with investment activities in a more efficient way. At NPS level, Compliance Officer independently conducts internal control activities; audits are undertaken from time to time by an internal audit division, the Board of Audit Inspection, the National Assembly, etc.

Risk Type and Definition

Market Risk	• Market risk is the possibility of decline in value of assets under management resulting from movements in market variables such as stock prices, interest rates, and exchange rate, and is measured using Value-at-Risk (VaR).
Credit Risk	• Credit risk is the possibility of loss or decline in value of assets, arising from the failure of an issuer or counterparty to perform its obligations under a contract, and is measured by exposures, expected losses, unexpected losses, etc.
Liquidity Risk	• Liquidity risk is the possibility of loss due to the inability of trading at a fair price with immediacy as a result of lack of liquidity, slowdown of market transactions, etc.
Operational Risk	• Operational risk is the risk of financial or reputational loss that can result from inadequate internal control, work process, system errors, human errors, misconducts, etc.
Legal Risk	• Legal risk is the possibility of loss that can arise from misinterpretation of laws, contractual errors, etc.

Risk Management Process



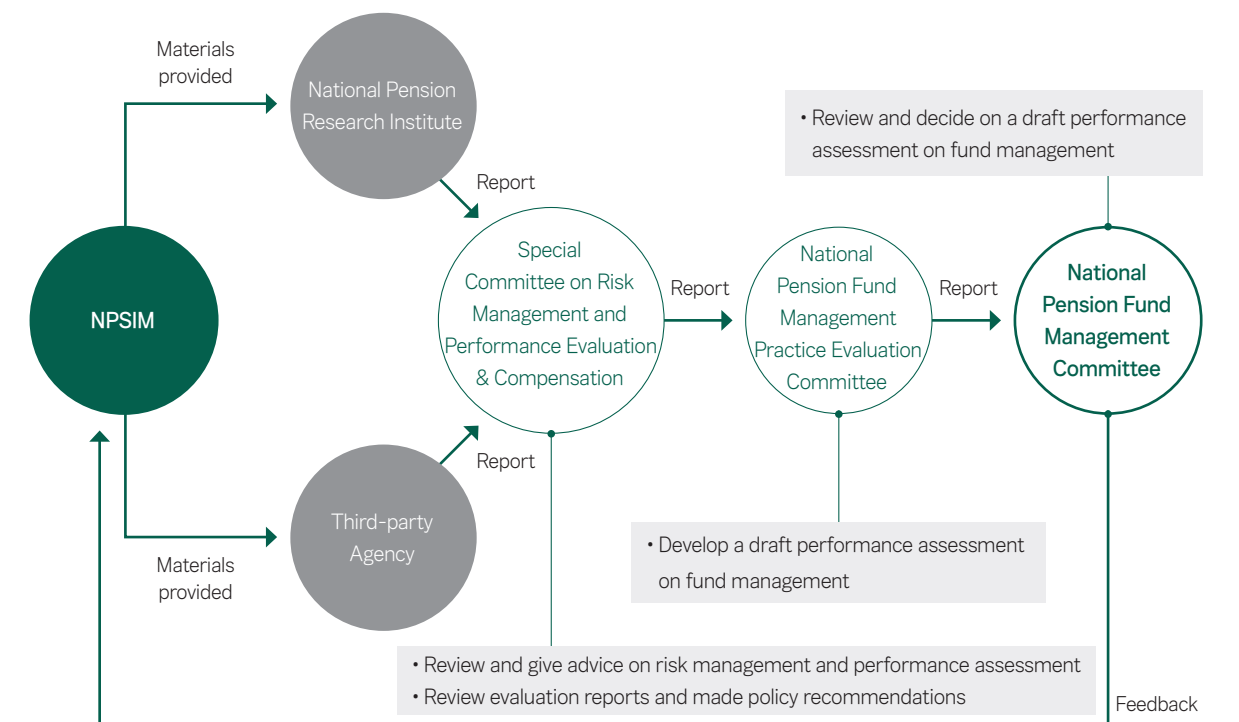
2-4. Performance Assessment

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

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

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

Performance Assessment Reporting Process



3. NPSIM

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

At the inception, the Fund was deposited as public capital, predominantly in the public sector and fixed income securities, as the size was small. However, since the Asian Financial Crisis in the late 1990s, the Fund has been excluded from a compulsory deposit scheme and experienced exponential growth in size, triggering the need for professional investment and exposures to a wide range of financial assets. Against this backdrop, NPSIM was established in November 1999 with the aim of professionally addressing rapidly evolving investment landscapes and efficiently managing the Fund.

In response to the sharp increase in Fund size, the emergence of diverse financial products, and increasingly globalized investment environment, NPSIM began investing in overseas assets in 2001 to deliver stable returns, and has diversified the investment portfolios since 2003. In line with this, a number of investment professionals have been hired across all asset classes, domestic and global, including traditional assets - equity and fixed income - and alternative assets - real estate, infrastructure, private equity - while investment and risk management functions have been newly created and segregated. At the same time, in keeping with its strategy to expand the exposure to global assets, overseas offices have been established in New York, London, and Singapore. The team of investment professionals across overseas offices monitors the trend of financial markets and builds a network with global leading peers. Also, to gain local market access and source the best investment opportunities which require local knowledge, local investment professionals are employed as well.

In 2022, the Global Equity Research Team was newly created under the Global Equity Division, to expand the application of active strategy of to internally managed global equities in line with an increase in global investments. In addition, the Risk Management Division was segregated into the Public Market Risk Management Division and Private Market Risk Management Division, to enhance expertise in overall risk management and strengthen risk management for the particular markets.

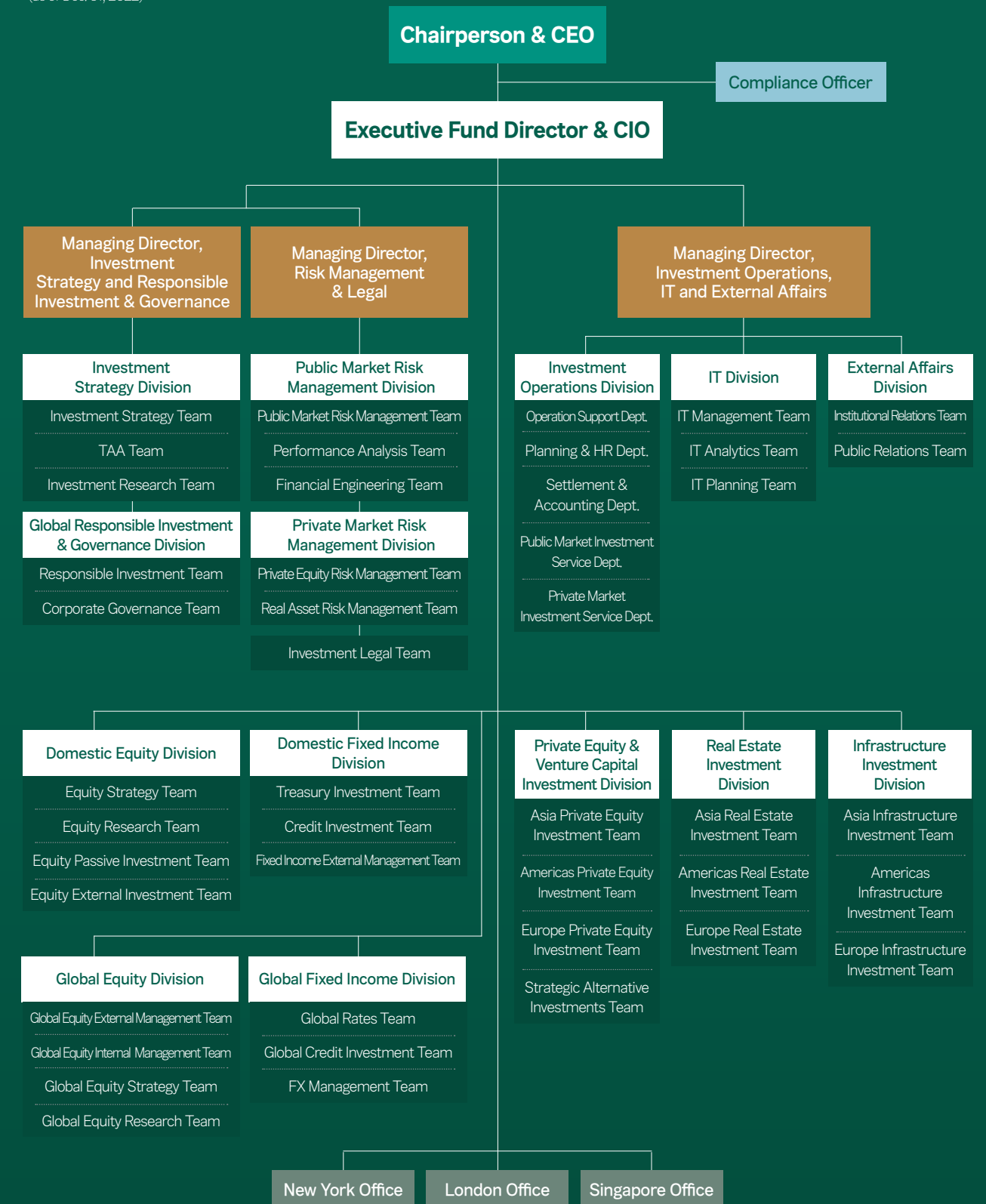
Launched with just 40 staff in six teams, NPSIM has constantly revamped its organization to align with the growth of the Fund and portfolio diversification strategy. As of the end of 2022, NPSIM was composed of a CIO, three Managing Directors, 14 divisions, and three overseas offices with a total of 435 employees, including the CIO, 365 portfolio managers and 69 support staff.

Compliance Officer

In 2007, NPS adopted the Compliance Officer system and created a Compliance Team under NPSIM to secure the transparency of fund management activities and oversee legal compliance before and after investment execution. In keeping with the growth of the Fund in size requiring compliance-specific expertise, in 2010, the Compliance Team was segregated from NPSIM and upgraded to Compliance Division placed directly under the CEO of NPS. Compliance Officer performs internal control in relation to fund management activities and monitors compliance of all NPSIM employees with relevant laws and Code of Conduct.

NPSIM Organizational Chart

(as of Dec. 31, 2022)



Fund Milestones



1988
~
2000

2001
~
2004

2005
~
2009

2010
~
2014

2015
~
2019

2020
~

- 1988**
 - Established the National Pension Fund (KRW 527.9 billion in AUM)
 - Commenced investment in domestic fixed income
- 1990**
 - Commenced investment in domestic equity
- 1999**
 - Established the NPS Investment Management
 - Reformed the National Pension Fund Management Committee (Amendments made on Chair from Minister of Economy and Finance to Minister of Health and Welfare, and the number of Members from 15 to 20)

- 2001**
 - Commenced global investment
- 2002**
 - Commenced investment in domestic venture capital
 - Commenced investment in global equity
- 2003**
 - Achieved KRW 100 trillion in the Fund
- 2004**
 - Commenced investment in domestic real estate

- 2005**
 - Commenced investment in domestic private equity fund (PEF) and infrastructure
 - Commenced investment in global PEF
- 2006**
 - Launched externally managed responsible investment funds
 - Commenced investment in global real estate
- 2007**
 - Commenced investment in global infrastructure
 - Achieved KRW 200 trillion in the Fund

- 2010**
 - Achieved KRW 300 trillion in the Fund
- 2011**
 - Opened the New York Office
- 2012**
 - Opened the London Office
- 2013**
 - Achieved KRW 400 trillion in the Fund

- 2015**
 - Opened the Singapore Office
 - Achieved KRW 500 trillion in the Fund
- 2016**
 - Commenced investment in global hedge fund
- 2017**
 - Achieved KRW 600 trillion in the Fund
 - Relocated NPSIM to Jeonju
- 2018**
 - Adopted Responsible Investment & Governance Principles (Stewardship Code)
- 2019**
 - Commenced investment in global private debt
 - Achieved KRW 700 trillion in the Fund

- 2020**
 - Created Managing Director Positions (Investment Strategy, Risk Management, Investment Operation)
 - Achieved KRW 800 trillion in the Fund
- 2021**
 - Segregated the Global Public Market Division into the Global Equity Division and Global Fixed Income Division
 - Commenced investment in Multi-Asset
 - Achieved KRW 900 trillion in the Fund
- 2022**
 - Segregated the Risk Management Division into the Public Market Risk Management Division and Private Market Risk Management Division
 - Acquired the Qualified Foreign Pension Fund (QFPF) Status in the U.S.

III. Fund Performance

1. Fund Portfolio
2. Investment Performance
3. Performance
by Asset Class



1. Fund Portfolio

As of the end of 2022, the National Pension Fund was valued at KRW 890.5 trillion, mainly investing in equities, fixed income, and alternative assets. NPS harnesses external managers and strives to expand global exposures in an effort to enhance investment returns.

The Fund is managed in three areas: Financial Assets, Welfare Sector and Others. 99.9% of the Fund is invested in Financial Assets, including equities, fixed income, and alternatives, while 0.1% is used for the Welfare Sector and Others.

By asset class, equity assets were valued at KRW 366.3 trillion, down KRW 56.2 trillion from a year ago. Among them, domestic equity assets stood at KRW 125.4 trillion, down KRW 40.4 trillion from the previous year, while global equity assets stood at KRW 240.9 trillion, down KRW 15.7 trillion year-over-year.

Fixed income assets were valued at KRW 374.5 trillion, down KRW 29.4 trillion from a year ago. Among them, domestic fixed income securities stood at KRW 311.2 trillion, down KRW 28.8 trillion from the previous year, while global fixed income securities stood at KRW 63.3 trillion, down KRW 600 billion year-over-year.

The Fund is invested not only in traditional assets such as equities and fixed income, but also in alternative assets such as real estate, infrastructure, and private equity. As of the end of 2022, alternative investment accounted for 16.4% of the Fund, equivalent to KRW 146.2 trillion. Among them, KRW 24.4 trillion was invested in domestic real estate, infrastructure, venture capital, and private equity, while KRW 121.8 trillion was invested in global real estate, infrastructure, private equity and hedge fund. Compared to the end of 2021, the allocation to alternative assets increased by 3.8%p, equivalent to KRW 26.9 trillion.

Fund Composition

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

	2022 End (A)		2021 End (B)		Change (A-B)	
	Amount	Weight	Amount	Weight	Amount	Weight
Total Fund	8,904,657	100.0	9,487,194	100.0	-582,536	0.0
Financial Assets	8,898,353	99.9	9,481,060	99.9	-582,706	0.0
Equity	3,662,671	41.1	4,224,324	44.5	-561,654	-3.4
(Domestic)	1,253,730	14.1	1,658,077	17.5	-404,346	-3.4
(Global)	2,408,940	27.1	2,566,248	27.0	-157,307	0.1
Fixed Income	3,744,738	42.1	4,038,870	42.6	-294,133	-0.5
(Domestic)	3,111,856	34.9	3,399,907	35.8	-288,052	-0.9
(Global)	632,882	7.1	638,963	6.7	-6,081	0.4
Alternatives	1,462,322	16.4	1,193,054	12.6	269,268	3.8
(Domestic)	244,261	2.7	250,328	2.6	-6,067	0.1
(Global)	1,218,061	13.7	942,726	9.9	275,336	3.8
Short-term Assets	20,171	0.2	24,811	0.3	-4,640	-0.1
Welfare Sector	2,036	0.0	2,005	0.0	31	0.0
Others	4,267	0.0	4,128	0.0	139	0.0

Notes:

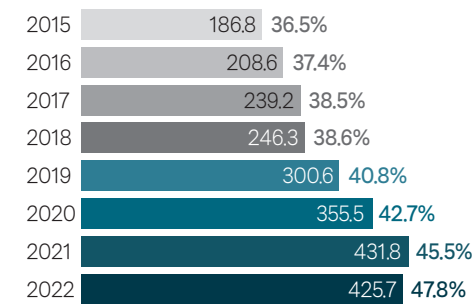
- 1) Financial Assets include tactical FX exposures.
- 2) Welfare Sector includes a recreational facility for employees (Cheong Pung Resort), credit recovery support loan, and emergency loan for the elderly (NPS Silver Loan).
- 3) Others include company buildings and fund in custody.
- 4) The figures above might not add up due to rounding.

Meanwhile, NPS invests some portion of the Fund through external managers with expertise and capabilities in targeted asset classes to diversify risk and gain access to multiple sources of investment income. Given the sheer size of the Fund, the assets are managed both internally and by external managers. The target range of external management for each asset class is determined by the FMC, and accordingly, NPS conducts external management within the set range in consideration of asset characteristics, market conditions, GP's capabilities, etc. As of the end of 2022, externally managed assets were valued at KRW 425.7 trillion, down KRW 6.1 trillion from a year ago, and external management accounted for 47.8% of the Financial Assets portfolio, up 2.3%p from the previous year.

Furthermore, NPS has increased global exposure to bolster investment returns and minimize the impact of a large amount of the Fund relative to the country's GDP on the domestic market. Since global investment commenced with Korean bonds denominated in foreign currency in 2001, NPS has gradually increased exposure to overseas assets in terms of type and value. Currently, NPS invests in a wide range of asset classes globally, including real estate, private equity, infrastructure, and hedge fund, in addition to equities and fixed income.

As of the end of 2022, global investment stood at KRW 426.4 trillion, up KRW 11.3 trillion year-over-year, and it made up 47.9% of the Financial Assets portfolio, up 4.1%p from a year ago. The allocation to global investment will be further expanded to be around 50% of the Financial Assets portfolio by 2026 according to the mid-term asset allocation plan.

Growth of External Management

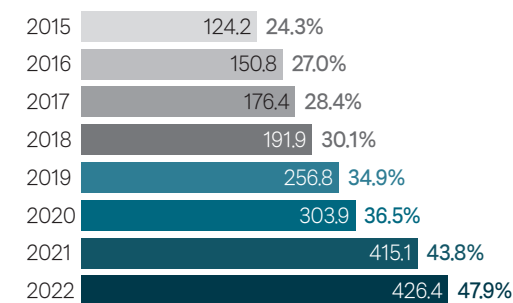


(market value, in KRW trillion)

	Total	Equity	Fixed Income	Alter-natives
Amount	425.7	206.0	78.4	141.3
(Domestic)	128.5	63.4	45.6	19.5
(Global)	297.2	142.6	32.8	121.8

Note: The weight is in the Financial Assets portfolio.

Growth of Global Investment



(market value, in KRW trillion)

	Total	Equity	Fixed Income	Alter-natives	Short-term Assets
Amount	426.4	240.9	63.3	121.8	0.4

Note: The weight is in the Financial Assets portfolio.

2. Investment Performance

NPS posted a negative return of 8.22% for the fiscal year ended December 31, 2022. The annualized return since the inception of the National Pension Fund in 1988 was 5.11%, and the cumulative investment income amounted to KRW 451.3 trillion.

2022 was a very unusual year in that equity and fixed income assets fell in tandem. Historically, equity was considered risky and fixed income acted as a safe haven, moving in opposite directions and thereby offsetting each other. That was not the case in 2022 as both plunged simultaneously for the first time since the stagflation in 1970s in overseas markets and for the first time since 2001 in the domestic market.

Stock markets across the globe tumbled dramatically from a surge after the COVID-19 crisis, due to ongoing market volatility caused by the prolonged war in Europe and the U.S. Federal Reserve's aggressive tightening stance to tame high inflation. Fixed income markets were also adversely affected by interest rate hikes driven by concerns about inflationary pressure and persistent monetary tightening stance. Amid such circumstances, investments in both equity and fixed income delivered negative returns. Overseas assets had relatively higher returns than those of domestic assets on the back of a rise in the USD/KRW exchange rate.

Alternative assets, the only asset class achieving a positive return, delivered higher returns than those of traditional assets, supported by capital appreciation and realized gains from real estate and infrastructure assets, as well as the strengthening of the U.S. dollar. Even though the return itself was less than that of 2021, the asset class played a key role in defending the profitability of the Fund when traditional assets generated negative returns.

Investment Performance

(money-weighted return, market value, in KRW 100 million, %)

	2022		3-Year (2020~2022)		5-Year (2018~2022)		Since Inception (1988~2022)	
	Investment Income	Return	Investment Income	Return	Investment Income	Return	Investment Income	Return
Total	-795,518	-8.22	838,064	3.28	1,513,640	3.94	4,512,840	5.11
Public Sector	-	-	-	-	-	-	190,827	8.26
Financial Assets	-795,671	-8.24	837,854	3.28	1,513,231	3.94	4,313,611	5.04
Equity	-703,004	-16.32	644,755	5.87	869,494	5.50	1,852,238	6.73
(Domestic)	-374,559	-22.76	203,786	4.41	125,426	1.77	776,256	5.22
(Global)	-328,445	-12.34	440,969	6.93	744,068	8.53	1,075,982	8.50
Fixed Income	-219,101	-5.45	-177,300	-1.57	117,210	0.66	1,649,140	3.32
(Domestic)	-186,277	-5.56	-175,963	-1.80	75,560	0.48	1,511,142	3.33
(Global)	-32,824	-4.91	-1,337	-0.09	41,651	2.01	137,999	3.24
Alternatives	116,197	8.94	361,451	11.56	517,820	11.27	792,893	9.94
(Domestic)	8,963	3.55	73,158	9.97	108,239	8.96	215,821	7.58
(Global)	107,234	10.24	288,292	12.05	409,580	12.09	577,073	11.25
Short-term Assets	-307	-0.86	142	0.13	1,231	0.75	15,861	3.09
Welfare Sector	-5	-0.27	-89	-1.72	-125	-1.57	5,992	5.83
Others	158	1.15	299	0.75	534	0.85	2,409	1.43

Notes:

- 1) Investment income for a certain period refers to the total amount of investment income during the period.
- 2) Investment return for a certain period refers to an average annualized return during the period.
- 3) Investment in the Public Sector ended in 2000, and the invested capital before the year 2000 was collected by the end of 2005.
- 4) The figures above might not add up due to rounding.

In 2022, equity and fixed income investments outperformed their respective benchmarks, and 3-year and 5-year annualized returns of all asset classes, including alternatives, delivered excess returns above their respective benchmarks.

Stock markets faced persistent volatility throughout the year due to high inflation, the Fed's aggressive tightening stance, and the prolonged war in Europe, having a negative impact on share valuation. In 2022, KOSPI fell 24.89%, and MSCI ACWI (ex-Korea, in USD terms) was down 17.91%. Amid such circumstances, Korean and global equity assets recorded negative returns due to a decline in valuation; however, both outperformed their benchmarks by 0.47%p and 0.15%p, respectively.

Fixed income investments also recorded a negative return due to a decline in valuation driven by interest rate hikes. As of the end of 2022, 3-year Korean Treasury and 10-year U.S. Treasury bonds increased 193.0bp and 236.5bp from the beginning of the year, respectively. However, both domestic and global fixed income assets outperformed their benchmarks by 0.04%p and 0.88%p, respectively.

In 2022, the best performing asset class was alternative assets delivering a time-weighted return of 9.47%. The figure was below its benchmark; however, 3-year and 5-year average annualized returns outperformed their respective benchmarks. In particular, alternative investments generated higher returns than equities and fixed income for an annual return, 3-year annualized return, and 5-year annualized return, indicating that the asset class has significantly contributed to diversifying risk and enhancing investment returns.

Performance by Asset Class

(time-weighted return, %, %p)

	2022			3-Year Average (2020~2022)			5-Year Average (2018~2022)		
	Return	BM	Gap	Return	BM	Gap	Return	BM	Gap
Financial Assets	-8.28	-8.07	-0.20	3.67	3.42	0.25	4.22	4.11	0.11
Total	-16.42	-16.68	0.26	6.36	5.99	0.37	5.39	5.16	0.22
Equity	-22.75	-23.23	0.47	3.27	2.73	0.54	0.58	0.14	0.44
Global	-12.53	-12.68	0.15	7.75	7.47	0.28	9.23	9.08	0.15
Fixed Income	-5.41	-5.66	0.25	-1.42	-1.55	0.14	0.91	0.81	0.10
Domestic	-5.50	-5.55	0.04	-1.73	-1.81	0.08	0.60	0.52	0.08
Global	-5.04	-5.92	0.88	0.68	0.33	0.34	3.58	3.42	0.15
Alternatives	9.47	12.62	-3.15	11.66	11.39	0.27	11.37	11.03	0.34
Domestic	3.62	6.13	-2.51	10.70	8.33	2.37	9.48	7.64	1.84
(Real Estate)	11.86	9.58	2.28	17.02	10.35	6.67	13.27	8.78	4.49
(Infrastructure)	3.61	4.83	-1.23	4.72	5.40	-0.68	5.93	6.28	-0.35
(Private Equity)	-1.10	4.98	-6.08	11.46	9.44	2.01	9.77	7.96	1.81
Global	11.00	14.23	-3.23	11.78	12.13	-0.35	12.07	12.23	-0.16
(Real Estate)	13.12	14.37	-1.25	8.50	10.00	-1.51	9.89	10.43	-0.54
(Infrastructure)	14.26	21.85	-7.59	8.48	13.24	-4.75	10.06	12.56	-2.50
(Private Equity)	7.83	12.38	-4.54	20.03	15.70	4.33	17.50	15.46	2.04
(Hedge Fund)	9.07	7.39	1.68	9.23	7.76	1.47	8.11	8.00	0.11
(Program)	2.89	-8.07	10.96	7.33	3.43	3.90	-	-	-

Notes:

- 1) Program refers to tactical investment program for alternative assets (adopted in 2019), including private debt (commenced in Dec. 2019) and multi-asset (commenced in Dec. 2021).
- 2) The benchmark of the tactical investment program is the same as the benchmark of Financial Assets.
- 3) The figures above might not add up due to rounding.

3. Performance by Asset Class

3-1. Domestic Equity

NPS began investing in domestic equity in 1990, two years after the National Pension Fund was established in 1988. As of the end of 2022, domestic equity assets were valued at KRW 125.4 trillion, accounting for 14.1% of the Fund. The value and weight were less than those of 2021 and will further decline according to the mid-term investment plan.

At NPS, domestic equity investment is made through passive and active management. Passive management seeks to match the returns of a market index; active management aims to outperform benchmarks through diversified investment strategies. While the entire passive management portfolio is managed internally, active management is carried out by both in-house portfolio managers and external managers. As of the end of 2022, the allocation to passive and active management in the domestic equity portfolio was 30.6% and 69.4%, respectively.

In terms of sector, Information Technology accounted for the largest share, at 30.3%, of the domestic equity portfolio, followed by Industrials at 16.8%, Materials at 10.0%, Financials at 9.4%, Consumer Discretionary at 9.3%, Health Care at 7.6%, Communication Services at 7.5%, Consumer Staples at 5.2%, Energy at 1.9%, Utilities at 1.2%, and Real Estate at 0.2%. The two largest sectors – IT and Industrials – represented nearly 50% of the portfolio.

In 2022, the Korean stock market underperformed mainly due to the Fed's interest rate hikes and ongoing geopolitical risks in Europe. Worsening inflation and concerns over the economic slowdown triggered by China's zero-Covid policy added a negative impact on the market, leading KOSPI to close at 2,236.40pt at the end of 2022, down 24.89% from a year ago. KOSDAQ also drastically fell to 679.29pt, down 34.30% from the previous year. In particular, the domestic market was largely affected by the shock of interest rate hikes as leading companies in the country by market capitalization were mostly tech companies involved in semiconductor, biotech, and EV batteries.

Against the backdrop of the challenging local stock market environment, in combination with a major disruption due to a mega IPO case, changes to the benchmark, and the asset allocation-driven weight reduction, our investments in domestic equity generated a negative return of 22.75%; however, the asset class delivered excess returns above its benchmark by 0.47%p.

The main contributor to positive excess returns was active management's outperformance of 1.47%p through timely stock selection, despite passive management slightly underperforming given the volatile financial market. Notably, the externally managed active strategy delivered strong performance above its benchmark by 1.60%p, significantly contributing to excess returns for the two consecutive years.

Return in Domestic Equity

(time-weighted return, %)

	Return	BM
In 2022	-22.75	-23.23
3-Year Average (2020~2022)	3.27	2.73
5-Year Average (2018~2022)	0.58	0.14

Share of NPS Investments in Domestic Equity Market

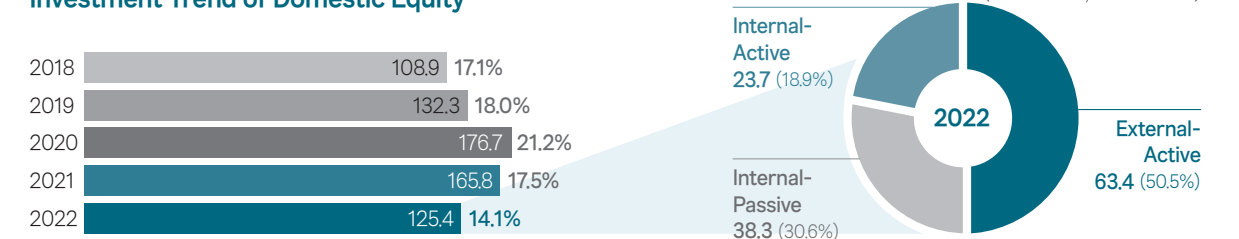
(market value, in KRW trillion, %)

	2020		2021		2022	
	NPS Investments	Weight	NPS Investments	Weight	NPS Investments	Weight
Total	175.2	7.4	163.9	6.4	124.4	6.0
KOSPI	169.8	8.6	157.5	7.4	119.9	6.8
KOSDAQ	5.4	1.4	6.4	1.4	4.5	1.4

Note: Unlisted equities, cash equivalents, preferred stocks, ETF, future options, and foreign stocks are excluded.

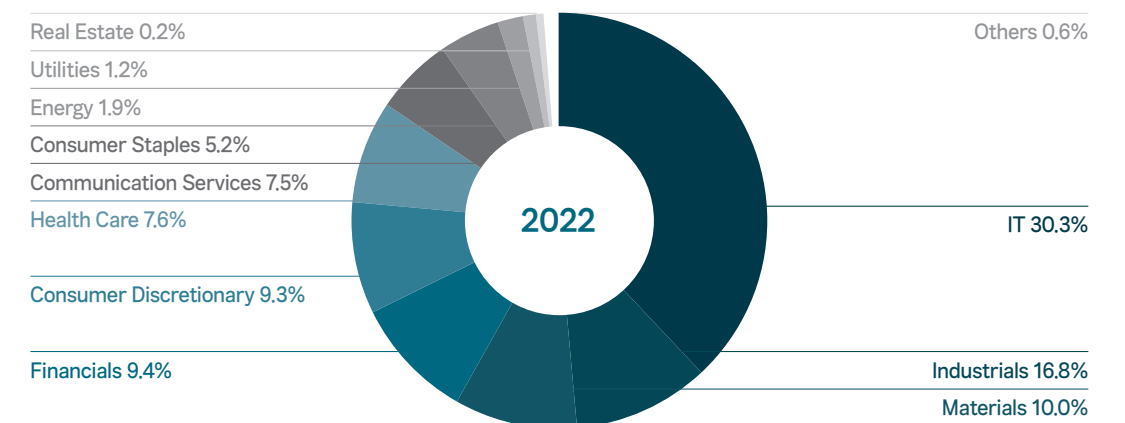
Investment Trend of Domestic Equity

(market value, in KRW trillion)



Note: The weight is in the Fund portfolio.

Domestic Equity Composition by Sector



Notes:

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

3-2. Global Equity

NPS began investing in global equity in 2002, one year after global investment first commenced in 2001. As of the end of 2022, global equity assets were valued at KRW 240.9 trillion, accounting for 27.1% of the Fund. The value was less than that of 2021; however, the weight slightly increased and will further expand according to the mid-term investment plan.

At NPS, global equity investment is made through passive and active management. Passive management seeks stability and liquidity, while active management aims to achieve excess returns relative to risk through security selection. While passive management is carried out by both in-house portfolio managers and external managers, the entire active management portfolio is conducted by external managers. As of the end of 2022, the allocation to passive and active management in the global equity portfolio was 44.8% and 55.2%, respectively.

In terms of sector, Information Technology accounted for the largest share, at 19.7%, of the global equity portfolio, followed by Financials at 14.7%, Health Care at 14.6%, Consumer Discretionary at 10.4%, Industrials at 9.9%, Consumer Staples at 7.5%, Communication Services at 6.3%, Energy at 5.6%, Materials at 4.1%, Utilities at 1.9%, and Real Estate at 1.7%. The three largest sectors – IT, Financials, and Health Care – represented nearly 50% of the portfolio. By geography, North America made up 64.1%, followed by Europe at 19.2%, Asia at 13.8%, South America at 0.9%, and Africa & Middle East at 1.9%. North America and Europe constituted more than 80% of the portfolio.

In 2022, equity and fixed income markets fell in tandem at a pace not seen in decades, driven by tighter monetary policies from central banks around the world in response to a global surge in inflation. In addition, geopolitical tension and energy supply shock stemming from the war in Europe had a negative impact on asset management. Amid such circumstances, a global equity market index, the MSCI ACWI ex-Korea in USD terms, fell by 17.91% from a year ago.

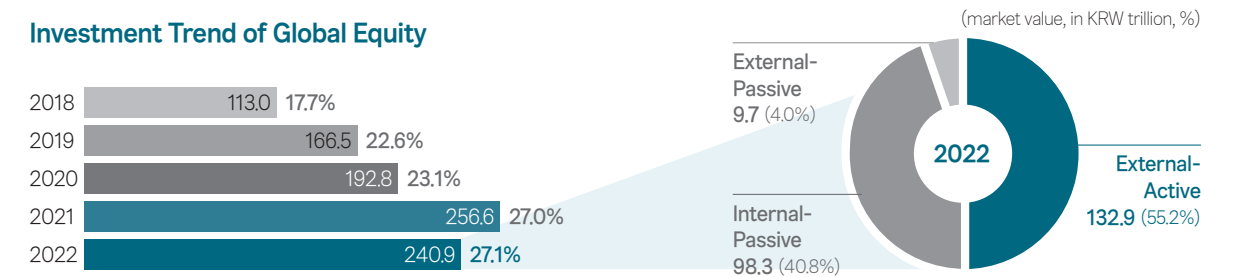
Our investments in global equity generated a negative return of 12.53% in KRW terms, influenced by increased market volatility and heightened exchange rate fluctuations; however, the asset class delivered excess returns above its benchmark by 0.15%p, primarily driven by passive management that achieved high excess returns and thereby offset the outcome of active management.

Return in Global Equity

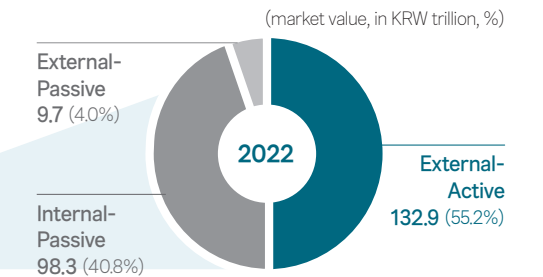
(time-weighted return, %)

	Return	BM
In 2022	-12.53	-12.68
3-Year Average (2020~2022)	7.75	7.47
5-Year Average (2018~2022)	9.23	9.08

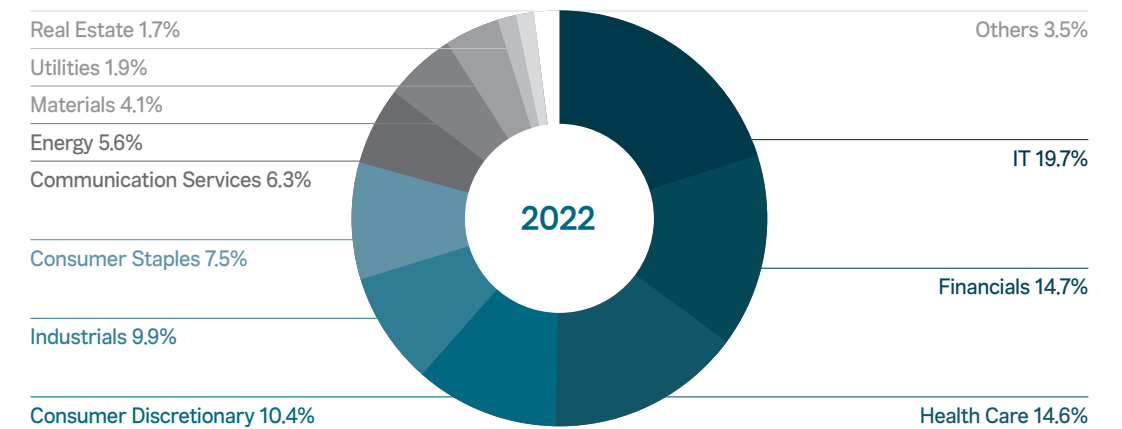
Investment Trend of Global Equity



Note: The weight is in the Fund portfolio.



Global Equity Composition By Sector



Notes:

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

Global Equity Composition by Geography 2022



3-3. Domestic Fixed Income

NPS began investing in domestic fixed income in 1988 when the National Pension Fund was established. As of the end of 2022, domestic fixed income assets were valued at KRW 311.2 trillion, accounting for 34.9% of the Fund. The value and weight were less than those of 2021, and will further decline according to the mid-term investment plan.

At NPS, domestic fixed income investment is made through an internally managed passive strategy and externally managed active strategy. As of the end of 2022, the allocation to internal management and external management was 85.3% and 14.7%, respectively, which indicates the highest allocation to internal management compared to other asset classes.

In terms of bond type and based on face value, treasury bonds accounted for the largest share, at 43.3%, of the domestic fixed income portfolio, followed by government-related bonds at 19.4%, corporate bonds at 15.3%, financial bonds at 14.2%, monetary stabilization bonds at 4.0%, and municipal bonds at 3.8%.

In the first half of 2022, domestic market interest rates continued to rise as the Monetary Policy Board of the Bank of Korea raised the base rate on three occasions in response to persistent high inflation. In the second half, the Monetary Policy Board decided to raise the base rate four times in line with the Fed's interest rate hikes, while domestic market interest rates showed a downward trend from their peak in October. As of the end of 2022, the base rate was 3.25%, up 225.0bp from a year ago, and a 3-year treasury bond yielded 3.725%, up 193.0bp from the previous year.

Our investments in domestic fixed income generated a negative return of 5.50% amid internal and external challenges such as the asset allocation-driven weight reduction and the surge in domestic market interest rates. However, through timely sector and security selection, the asset class outperformed its benchmark by 0.04%p, and has delivered positive excess returns since 2018. Internal management delivered a lower return than that of external management, but outperformed its benchmark, whereas external management delivered a higher return than that of internal management, but underperformed its benchmark.

In 2022, the share of NPS investments in the domestic fixed income market was 12.8%, down 0.4%p from 13.2% in 2021. The decline was primarily driven by a faster growth pace of the domestic fixed income market than the growth of our domestic fixed income portfolio. Compared to the average allocation ratio in the domestic fixed income market, the shares of treasury bonds, municipal bonds, and government-related bonds were above the average, while those of monetary stabilization bonds, financial bonds, and corporate bonds were below the average.

Return in Domestic Fixed Income

(time-weighted return, %)

	Return	BM
In 2022	-5.50	-5.55
3-Year Average (2020~2022)	-1.73	-1.81
5-Year Average (2018~2022)	0.60	0.52

Share of NPS Investments in Domestic Fixed Income Market

(in KRW trillion, %)

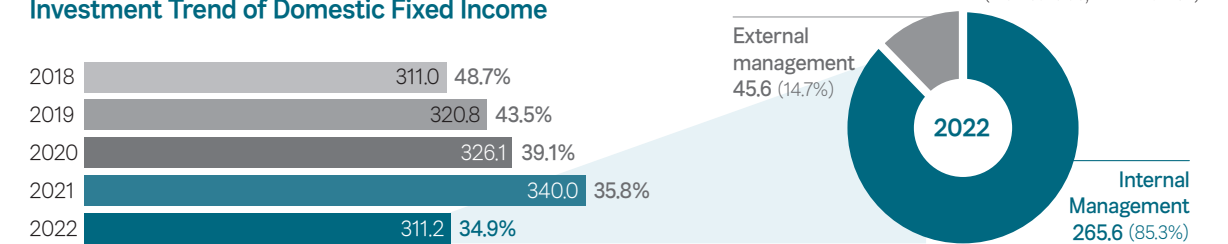
	2020		2021		2022	
	Invested Amount	Weight	Invested Amount	Weight	Invested Amount	Weight
Total	311.2	13.3	338.0	13.2	335.9	12.8
Treasury Bonds	128.6	15.9	145.3	15.7	145.5	14.3
Municipal Bonds	7.9	29.4	11.3	36.5	12.7	40.9
Gov.-related Bonds	61.6	17.3	65.0	17.5	65.2	16.8
Monetary Stabilization Bonds	14.7	9.2	9.9	7.0	13.3	12.6
Financial Bonds	47.3	8.9	52.0	9.1	47.7	8.8
Corporate Bonds	51.2	11.0	54.5	10.4	51.4	9.4

Notes:

- 1) Market value is based on the bond issue amount, while the value at NPS is based on face value.
- 2) Short-term assets are excluded.
- 3) MBS is regarded as government-related bond; ABS as corporate bond; credit finance bond as financial bond.
- 4) The figures above might not add up due to rounding.

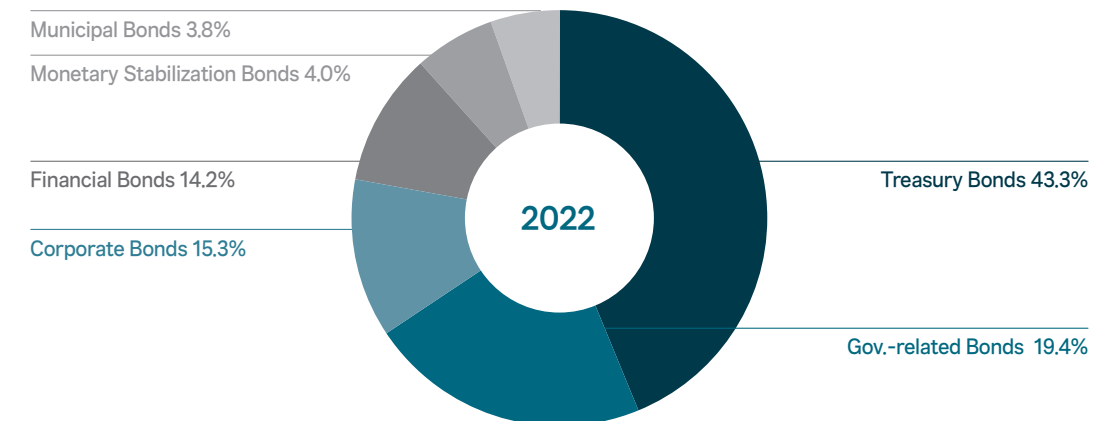
Investment Trend of Domestic Fixed Income

(market value, in KRW trillion)



Note: The weight is in the Fund portfolio.

Domestic Fixed Income Composition by Bond Type



3-4. Global Fixed Income

NPS began investing in global fixed income in 2001 with investments in Korean bonds denominated in foreign currency, and its internal management in global fixed income commenced in 2002. As of the end of 2022, global fixed income assets were valued at KRW 63.3 trillion, accounting for 7.1% of the Fund. The value was less than that of 2021; however, the weight slightly increased and will further expand according to the mid-term investment plan.

Since the second half of 2020, global fixed income investment has been made through a stable-income and high-income strategy. Both strategies are managed on an active-style basis by both in-house portfolio managers and external managers. The stable-income strategy pursues active management largely in treasury and government-related bonds which feature relatively less volatility; the strategy focuses on developed markets with abundant liquidity in order to supply foreign currency liquidity during a crisis. The high-income strategy seeks active management mainly in credit products to realize excess returns relative to the market. As of the end of 2022, the allocation to the stable-income and high-income strategy in the global fixed income portfolio was 49.3% and 50.7%, respectively.

In terms of type, treasury bonds accounted for the largest share, at 43.4%, of the global fixed income portfolio like the domestic fixed income portfolio, followed by corporate bonds at 27.5%, government-related bonds at 15.4%, and securitized bonds at 13.7%. By geography, North America represented 46.0%, followed by Europe at 25.6%, Asia at 23.0%, and South America at 1.1%.

In 2022, major market interest rates rose substantially as central banks in major economies tightened monetary policies in response to high inflation caused by geopolitical risks in Europe and accommodative monetary policies during the COVID-19 pandemic. In particular, the Fed raised interest rates on seven occasions in 2022 alone, and major central banks in Europe also raised interest rates considerably. The Fed's policy rate was lifted to a range of 4.25 to 4.50% at the end of 2022 from near-zero level in the first quarter of 2022, and a 10-year U.S. treasury bond was up 236.5bp from a year ago.

In the face of an unfavorable environment with a sharp rise in market interest rates and a dramatic decline in the market value of bonds, our investments in global fixed income generated a negative return of 5.04%, while foreign exchange gains and high excess returns relative to its benchmark helped to mitigate some impact on the performance. In particular, the asset class outperformed its benchmark by 0.88%p, the highest excess returns in the Fund portfolio.

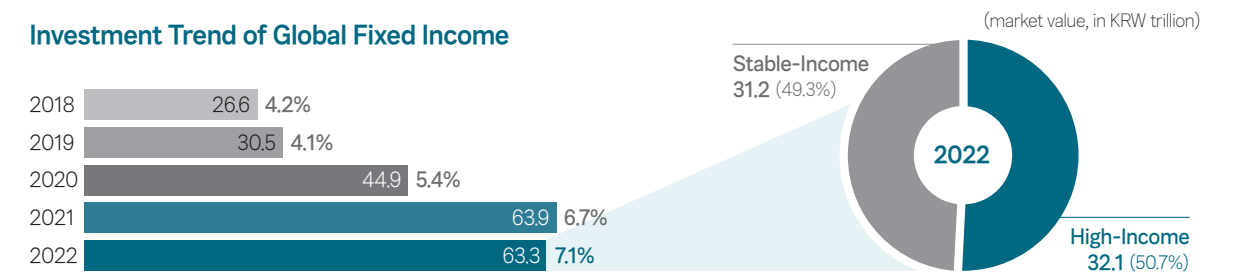
By strategy, the stable-income and high-income strategy delivered excess returns relative to their benchmarks by 1.01%p and 0.72%p, respectively, driven by shorter duration positioning compared to the benchmark during a period of rising interest rates.

Return in Global Fixed Income

(time-weighted return, %)

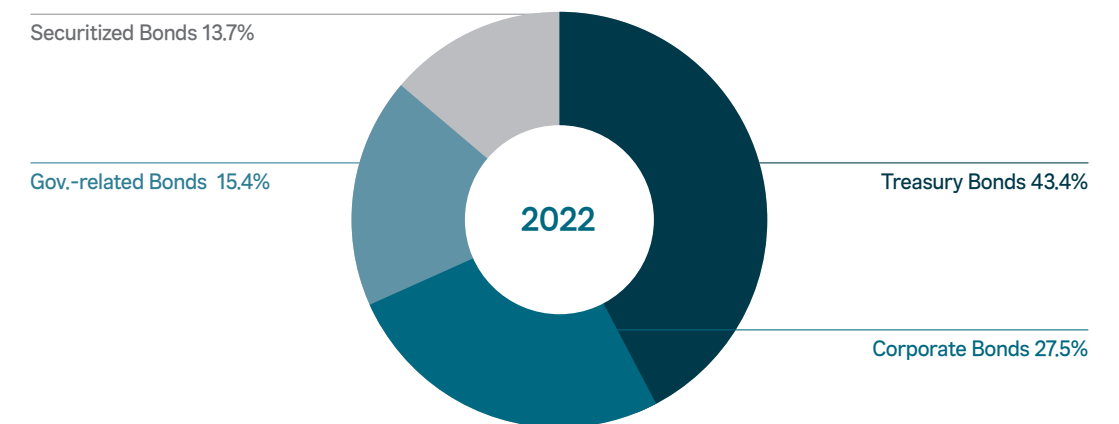
	Return	BM
In 2022	-5.04	-5.92
3-Year Average (2020~2022)	0.68	0.33
5-Year Average (2018~2022)	3.58	3.42

Investment Trend of Global Fixed Income

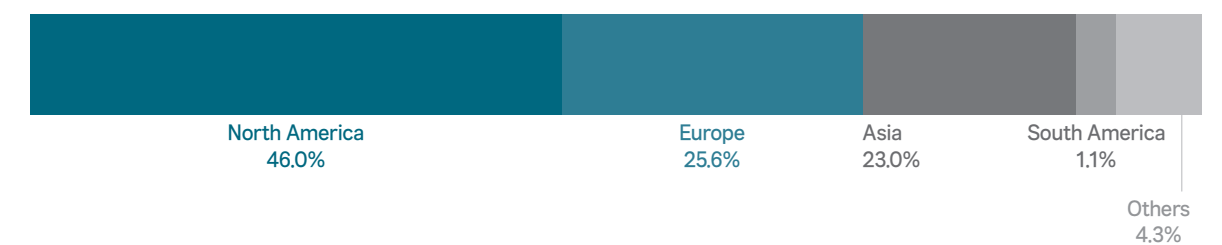


Note: The weight is in the Fund portfolio.

Global Fixed Income Composition by Bond Type



Global Fixed Income Composition by Geography 2022



3-5. Alternatives

NPS began investing in alternative assets in 2002 with domestic venture capital. Since then, the exposure and size have been constantly expanding to include domestic and overseas real estate, infrastructure and private equity, as well as overseas hedge funds. As of the end of 2022, alternative assets were valued at KRW 146.2 trillion, accounting for 16.4% of the Fund. The asset class recorded the largest increase in the value and weight as traditional assets, such as equity and fixed income, fell in tandem.

At NPS, alternative assets are a relative concept to traditional assets such as equity and fixed income. Due to its risk-return profiles being different from traditional assets, the asset class helps contribute to stable returns over the long-term horizon. Our main focus is on global assets which provide relatively abundant investment opportunities, including real estate, infrastructure, private equity, venture capital, and hedge fund. Since 2019, a program to boost a tactical investment strategy for alternative assets (tactical investment program) has been adopted, and new asset classes such as private debt and multi-asset have been managed within a limited weight range.

By geography, global alternative assets made up 83.3% while domestic alternative assets composed 16.7%. In order to overcome the limitation of the small domestic markets, capture new investment opportunities, and maximize risk diversification, NPS has constantly expanded its exposure to global alternative assets. By asset class, private equity accounted for the largest share, at 34.8%, of the alternative investment portfolio, followed by real estate at 31.7%, infrastructure at 26.3%, hedge fund at 3.0%, and tactical investment program at 4.2% (private debt 3.1%, multi-asset 1.1%).

Our investments in alternative assets generated a return of 9.47%. Despite concerns over a recession and the adjustment in financial markets due to major central banks' aggressive interest rate hikes, the fair value of assets remained broadly unchanged throughout the year, and alternative assets that hedge against inflation delivered improved performance. By geography, domestic alternative assets returned 3.62%, while global alternative assets returned 11.00%. A rise in the USD/KRW exchange rate led to a relatively high return on overseas assets.

Overall, the return on alternative assets declined in 2022 compared to in 2021; however, the asset class played a big role in offsetting negative returns of traditional assets affected by an unusual situation where equity and fixed income markets fell in tandem. Alternative assets underperformed their benchmark in 2022, but 3-year and 5-year average returns outperformed their respective benchmarks, indicating stable performance in the mid- and long-term.

Meanwhile, in order to diversify investment portfolios and introduce tactical asset allocation overlay, NPS has invested in multi-asset funds since 2021. Multi-asset funds are made up of a combination of multiple asset classes, including equity, fixed income, currency, and commodity, and are designed to pursue excess returns by adjusting the asset mix. Multi-asset mostly composed of public market products delivered a negative return of 9.46% in KRW terms due to the adverse environment where equities and fixed income fell simultaneously.

Return in Alternative Investment

(time-weighted return, %)

	2022		3-Year Average (2020~2022)		5-Year Average (2018~2022)	
	Return	BM	Return	BM	Return	BM
Total	9.47	12.62	11.66	11.39	11.37	11.03
Domestic	3.62	6.13	10.70	8.33	9.48	7.64
Global	11.00	14.23	11.78	12.13	12.07	12.23

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

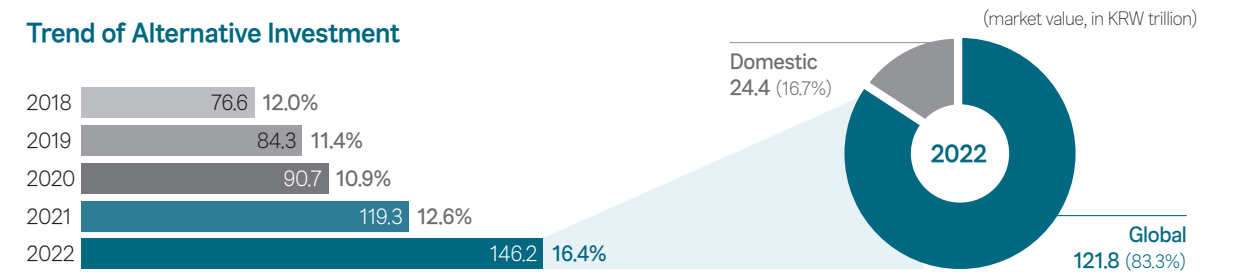
Breakdown of Alternative Investment

(in KRW 100 million)

	Total	Real Estate	Infrastructure	Private Equity	Hedge Fund	Tactical Investment Program	
						Private Debt	Multi-asset
Appraised Value	1,462,322	463,960	384,612	508,354	44,179	44,974	16,243
Domestic	244,261	67,610	70,452	106,199	-	-	-
Global	1,218,061	396,350	314,160	402,155	44,179	44,974	16,243

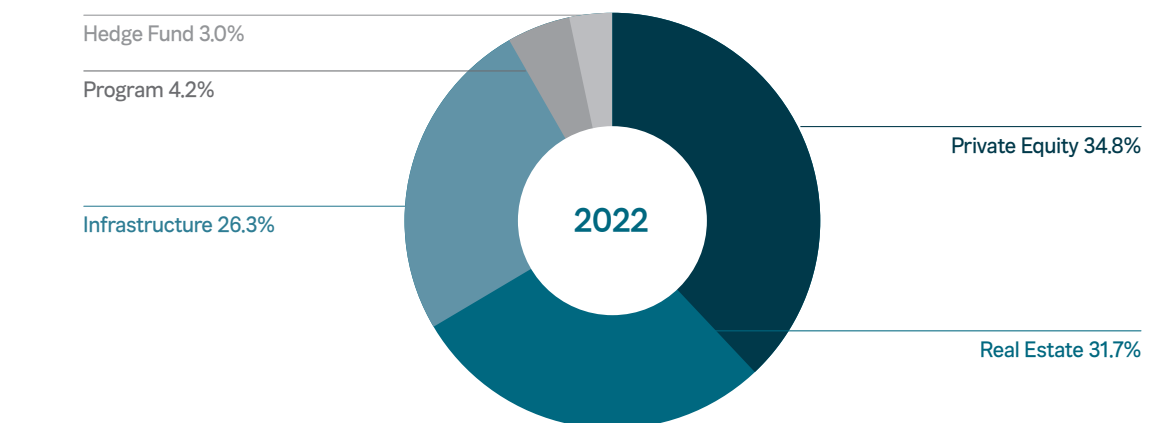
Note: For domestic assets, fair value at the end of fiscal year is reflected, while for global assets, fair value at the end of the third quarter is reflected.

Trend of Alternative Investment



Note: The weight is in the Fund portfolio.

Alternative Investment Composition by Asset Class



Notes:

- 1) Private equity includes domestic venture capital and private equity funds, as well as global private equity funds.
- 2) Program refers to tactical investment program including private debt and multi-asset, and is designed to improve the execution of alternative investment.

(1) Private Equity

As of the end of 2022, private equity assets, including hedge fund and private debt, were valued at KRW 59.7 trillion, a combination of KRW 10.6 trillion in domestic assets and KRW 49.1 trillion in global assets. The asset class accounted for 40.9% of the alternative investment portfolio and 6.7% of the Fund.

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

Our investments in private equity generated a return of 5.60%. The stock market downturn had an adverse impact on the private market as well. Domestic private equity returned negative 1.10%, while global private equity returned 7.83%. A rise in the USD/KRW exchange rate positively affected the performance of overseas assets. Hedge fund returned 9.07%, triggered by fee reduction through an increase in single hedge funds since 2019, as well as more exposures to strategies with relatively low sensitivity to public market volatility. Private debt returned 10.82%, the highest return among private equity assets, supported by an interest rate hike stance and a strong U.S. dollar.

Return in Private Equity Assets

(time-weighted return, %)

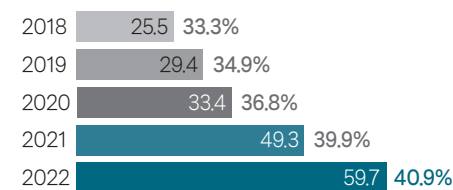
	2022		3-Year Average (2020~2022)		5-Year Average (2018~2022)		
	Return	BM	Return	BM	Return	BM	
Private Equity	Total	5.60	10.66	17.72	14.06	15.12	13.06
	Domestic	-1.10	4.98	11.46	9.44	9.77	7.96
	Global	7.83	12.38	20.03	15.70	17.50	15.46
	Hedge Fund	9.07	7.39	9.23	7.76	8.11	8.00
	Private Debt	10.82	10.41	10.18	5.89	-	-

Notes:

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

Investment Trend in Private Equity

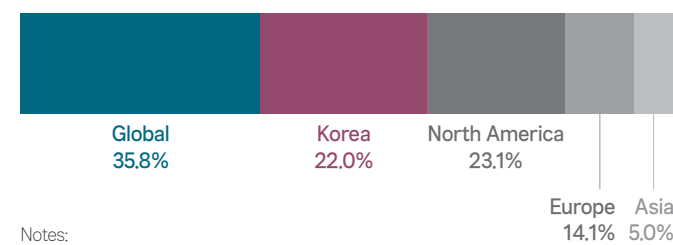
(market value, in KRW trillion)



Note: The weight is in the alternative investment portfolio.

Private Equity Composition by Geography 2022

(balance of invested capital)



Notes:

- 1) Hedge fund is excluded.
- 2) Asia includes emerging markets in South America.

(2) Real Estate

As of the end of 2022, real estate assets were valued at KRW 46.4 trillion, a combination of KRW 6.8 trillion in domestic assets and KRW 39.6 trillion in global assets. The asset class accounted for 31.7% of the alternative investment portfolio and 5.2% of the Fund.

NPS began investing in domestic real estate in 2004 and overseas real estate in 2006. Since then, deal sizes have increased with a focus on regions and sectors that have strong fundamentals. NPS strives to build a stable basis for investment management mainly with core/core+ strategies and enhance returns through selective investments in value-add and opportunistic strategies. In addition, the real estate portfolio has been diversified with a broader range of strategies such as real estate credit, REITs, platform, and secondary.

Real estate deal volume and fundraising declined worldwide in 2022, triggered by high inflation, economic uncertainty, and the potential for a global recession. However, the demand for offices and residential properties exhibited an upward trend in domestic and overseas markets, respectively.

Our investments in real estate generated a return of 12.79%. Domestic real estate assets returned 11.86%, while global real estate assets returned 13.12%. Notably, a low vacancy rate and rising rents during high inflation in the domestic market led the domestic real estate portfolio to outperform its benchmark, and a rise in the USD/KRW exchange rate positively affected the performance of global assets.

Return in Real Estate

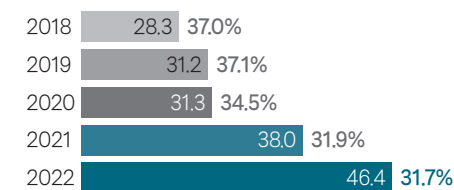
(time-weighted return, %)

	2022		3-Year Average (2020~2022)		5-Year Average (2018~2022)	
	Return	BM	Return	BM	Return	BM
Total	12.79	13.63	10.10	10.23	10.43	10.09
Domestic	11.86	9.58	17.02	10.35	13.27	8.78
Global	13.12	14.37	8.50	10.00	9.89	10.43

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

Investment Trend in Real Estate

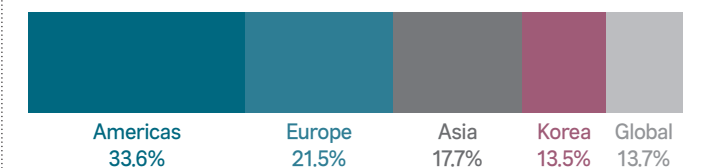
(market value, in KRW trillion)



Note: The weight is in the alternative investment portfolio.

Real Estate Composition by Geography 2022

(balance of invested capital)



Note: Asia includes Australia.

(3) Infrastructure

As of the end of 2022, infrastructure assets were valued at KRW 38.5 trillion, a combination of KRW 7.0 trillion in domestic assets and KRW 31.4 trillion in global assets. The asset class accounted for 26.3% of the alternative investment portfolio and 4.3% of the Fund.

NPS began investing in domestic port BTO in 2005 and overseas infrastructure fund in 2007. Since then, the infrastructure portfolio has been diversified across sectors, including transportation, energy, and digital. NPS strives to build a stable basis for investment management mainly through core/core+ strategies that offer stable cash flow and abundant co-investment opportunities, and diversify investment portfolios through a broader range of strategies, including value-add, mid-market, energy transition, and digital, as well as joint collaboration with leading general partners and investors, to correspond with changes in the macroeconomic environment.

With the rise in demand for energy security and green climate policies across the globe, fundraising for infrastructure increased in 2022. In addition, as infrastructure is often viewed as an inflation hedged-asset, and the demand for investment in infrastructure increased in times of high inflation.

Our investments in infrastructure generated a return of 11.87%, supported by decent dividend yields and interest income from infrastructure assets that secured revenues through an inflation-linked mechanism. Domestic infrastructure assets returned 3.61%, while global infrastructure assets returned 14.26%. A rise in USD/KRW exchange rate positively affected the performance of global assets.

Return in Infrastructure

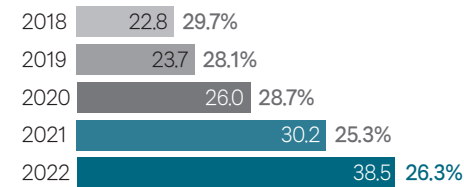
(time-weighted return, %)

	2022		3-Year Average (2020~2022)		5-Year Average (2018~2022)	
	Return	BM	Return	BM	Return	BM
Total	11.87	17.76	7.62	11.22	8.87	10.76
Domestic	3.61	4.83	4.72	5.40	5.93	6.28
Global	14.26	21.85	8.48	13.24	10.06	12.56

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

Investment Trend in Infrastructure

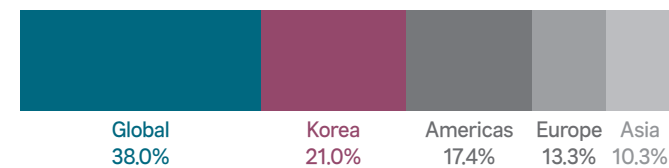
(market value, in KRW trillion)



Note: The weight is in the alternative investment portfolio.

Infrastructure Composition by Geography 2022

(balance of invested capital)



Note: Asia includes Australia.

Key Alternative Assets



Germany: Mainzero, VTG AG
India: Jarvis
Singapore: Fraser's Tower
Australia: East Link
The U.K.: Plumtree Court, 5 Broadgate
The U.S.: One Vanderbilt, Colonial Pipeline, Vantage
Canada: CIBC Square

IV.

Responsible Investment & Governance

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



1. Stewardship Activities and Responsible Investment

1-1. Overview

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

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

Legal Basis for Responsible Investment

National Pension Act
Article 102 (Management and Operation of Fund)
(4) Where the Minister of Health and Welfare manages and operates the Fund pursuant to paragraph (2) 3, he/she may take into account environmental, social, and governance factors related to investment targets, to achieve a long-term and stable revenue.
Guideline for National Pension Fund Management
Article 4 (Investment Principles)
5. Sustainability: To fulfill the fiduciary duty, particularly given ESG factors, to enhance the sustainability of assets under management
Article 17-2 (Principles on Responsible Investment & Governance)
In a bid to enhance transparency and independence of stewardship activities and improve long-term returns, stewardship activities shall be conducted in accordance with the Responsible Investment & Governance Principles approved by the FMC and referred to by the Korea Stewardship Code, 'Principles on the Stewardship Responsibilities of Institutional Investors.'
Guideline for Stewardship Activities
Article 3 (Basic Principles)
(1) Stewardship activities shall be performed with the objective of increasing the assets of the Fund.
(2) Stewardship activities shall be faithfully performed in the best interests of current and former contributors and current beneficiaries of the National Pension Plan.
(3) Stewardship activities shall be performed in a manner consistent with enhancing long-term shareholder value.
(4) Stewardship activities may be performed by incorporating environmental, social and governance (ESG) factors into investment decision-making to deliver long-term, stable returns.
(5) Stewardship activities, including responsible investment and the exercise of shareholder rights, shall be performed in accordance with the Guideline for National Pension Fund Management, Responsible Investment & Governance Principles, and this Guideline for Stewardship Activities.

1-2. Key Principles

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

Key policies relating to responsible investment and the exercise of shareholder rights are determined by the National Pension Fund Management Committee (FMC), and general principles and specific standards on responsible investment and the exercise of shareholder rights are approved by the Special Committee on Responsible Investment & Governance. As decided by the FMC and the Special Committee, NPS undertakes responsible investment including ESG integration and management of ESG-related focus areas, and exercises shareholder rights by voting, selecting companies in focus list, sending open letters, making shareholder proposals, and initiating litigation.

Key Principles and Activities

Responsible Investment Principles	Responsible Investment & Governance Principles (Stewardship Code)
(1) Achieve long-term and stable returns	(1) Formulate and publicly disclose Stewardship Activities Policy
(2) Implement RI according to the Guideline for Stewardship Activities	(2) Formulate and publicly disclose Conflict of Interest Prevention Policy
(3) Implement RI on equity and fixed income assets	(3) Regularly monitor investee companies
(4) Incorporate non-financial factors, including environmental, social and governance (ESG), into investment decisions	(4) Formulate a guideline for stewardship activities and conduct shareholder engagement
(5) Conduct shareholder engagement with investee companies	(5) Formulate and publicly disclose Voting Right Policy, and publicly disclose voting results and reasons for each vote
(6) Consider RI when selecting and assessing external managers	(6) Regularly report stewardship activities
(7) Encourage investee companies to publicly disclose ESG-related information	(7) Enhance capabilities and expertise in effective implementation of stewardship activities
(8) Enhance capabilities and expertise in RI	
(9) Regularly report RI activities	
Guideline for National Pension Fund Management	
Article 17-3 (Responsible Investment and Exercise of Shareholder Rights)	
Responsible investment and exercise of shareholder rights shall be undertaken,	
(1) With the objective of achieving stable growth of assets under management;	
(2) In good faith in the best interests of the contributors and beneficiaries of the National Pension Plan;	
(3) In a direction towards increasing shareholder value over the long run;	
(4) In compliance with standards, process, and procedure as stipulated in the Guideline for Stewardship Activities approved by the FMC; and	
(5) By NPS in principle. However, certain matters shall be determined by the Special Committee on Responsible Investment & Governance following NPS's analysis. Such matters include (i) matters deemed difficult for NPS to make a decision in relation to the exercise of voting and shareholder rights; (ii) matters requested by at least one-third of incumbent members of the Special Committee based on the likelihood of having a significant impact on long-term shareholder value; (iii) matters relating to selection of companies subject to confidential dialogue; (iv) matters relating to selection of companies subject to confidential and public Focus List; (v) matters relating to shareholder proposal (excluding shareholder proposals defined in Article 154 (1) of the Enforcement Decree of the Financial Investment Services and Capital Markets Act); (vi) matters relating to sending open letters, etc.	
(6) NPS may delegate the decision of voting direction to external managers.	

Guideline for Stewardship Activities

Article 4 (Stewardship Activities)

- (1) For fixed income and equity investments, confidential dialogues and the following responsible investment activities may be carried out:
1. Incorporation of non-financial factors such as ESG into investment decision-making;
 2. ESG-related focus areas, etc.
- (2) For listed equities held by the Fund, confidential dialogues may be conducted and the following shareholder rights may be exercised:
1. Voting;
 2. Conducting confidential dialogues, selecting companies in a confidential and public focus list, sending open letters, making shareholder proposals, etc. on Focus Areas;
 3. Conducting confidential dialogues, sending open letters, making shareholder proposals, etc. on Unexpected Concerns;
 4. Initiating litigation.
- (3) Shareholder engagement defined in paragraph (1) subparagraph 2 may be conducted through activities stipulated in paragraph (2).
- (4) Stewardship activities may be performed for any matters deemed necessary by the Chair of the National Pension Fund Management Committee (FMC), or any matters decided by the FMC.

1-3. Milestones

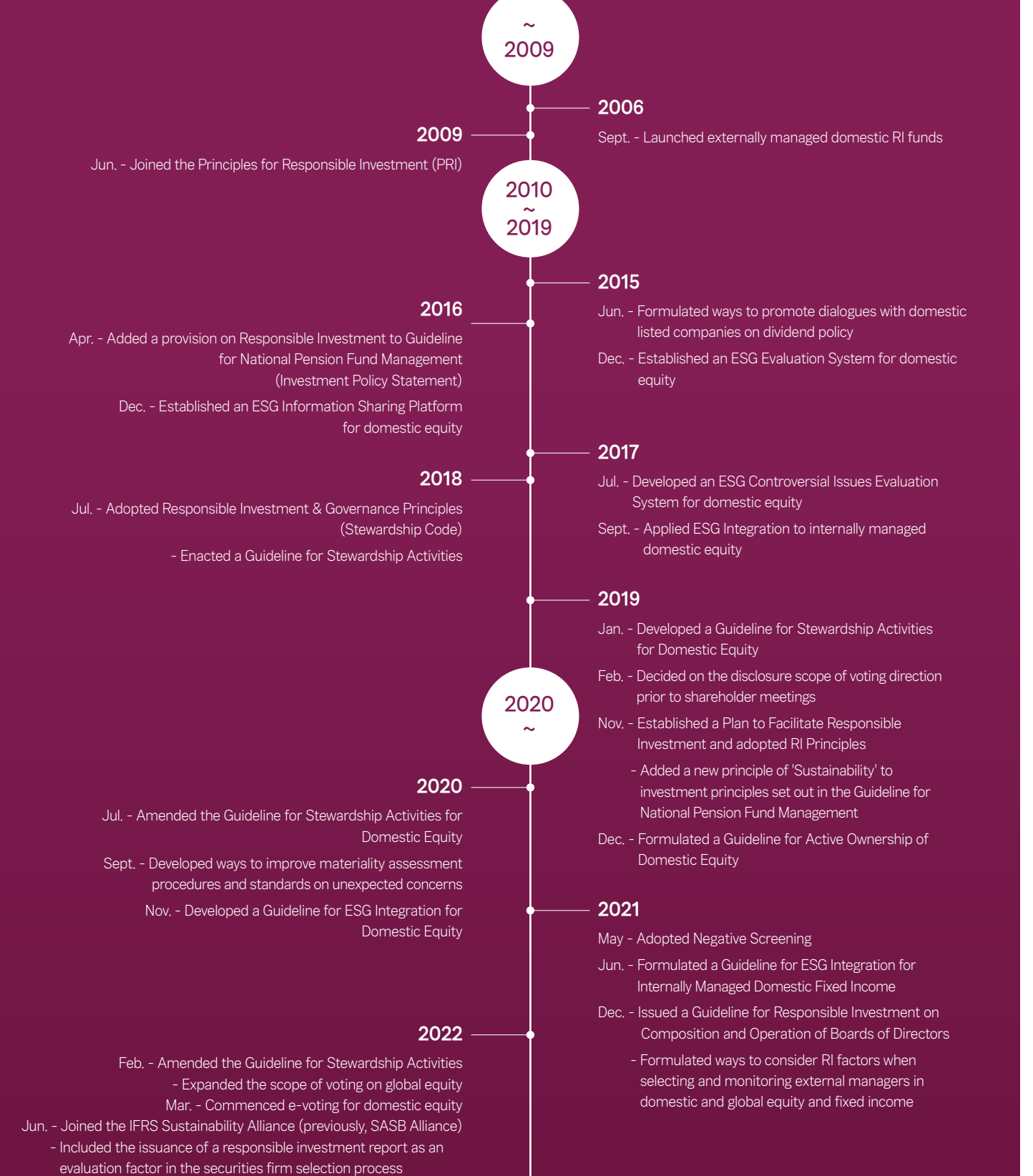
NPS began responsible investment (RI) with externally managed domestic RI funds in September 2006. Since then, NPS has been committed to taking part in a range of RI activities. In June 2009, NPS joined the Principles for Responsible Investment (PRI). In 2015, ways to promote dialogues with domestic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

In July 2018, Responsible Investment & Governance Principles, or Stewardship Code, was adopted. In November 2019, a Plan to Facilitate Responsible Investment was formulated to lay the foundation for applying RI activities to more asset classes in the portfolio. In December 2019, a Guideline for Active Ownership of Domestic Equity was developed to expand the scope of shareholder engagement. In July 2020, an annual Responsible Investment & Governance Report was issued to disclose stewardship activities conducted by NPS in a transparent manner. In November 2020, a Guideline for ESG Integration for Domestic Equity was devised to apply ESG Integration to the internally managed domestic equities.

In May 2021, negative screening was adopted in line with the FMC's announcement on coal phase-out (exclusion of coal mining and coal-fired power industries). In June 2021, a Guideline for ESG Integration for Internally Managed Domestic Fixed Income was developed to apply ESG Integration to domestic fixed income (corporate bond). In December 2021, a Guideline for Responsible Investment on Composition and Operation of Boards of Directors was issued to enhance the predictability of NPS's direction of responsible investment activities by sharing such information with investee companies.

In February 2022, the Guideline for Stewardship Activities was amended to expand the scope of the exercise of voting rights associated with global equity (portfolio weight: 0.5% and above → 0.3% and above). In March, e-voting was first utilized for domestic equity. In June, NPS joined the IFRS Sustainability Alliance (previously SASB Alliance), and commenced checking whether a responsible investment report is issued when selecting securities firms. As such, NPS constantly has constantly made endeavors to bolster responsible investment.

Stewardship Activities Milestones



2. Key Activities

2-1. ESG Incorporation

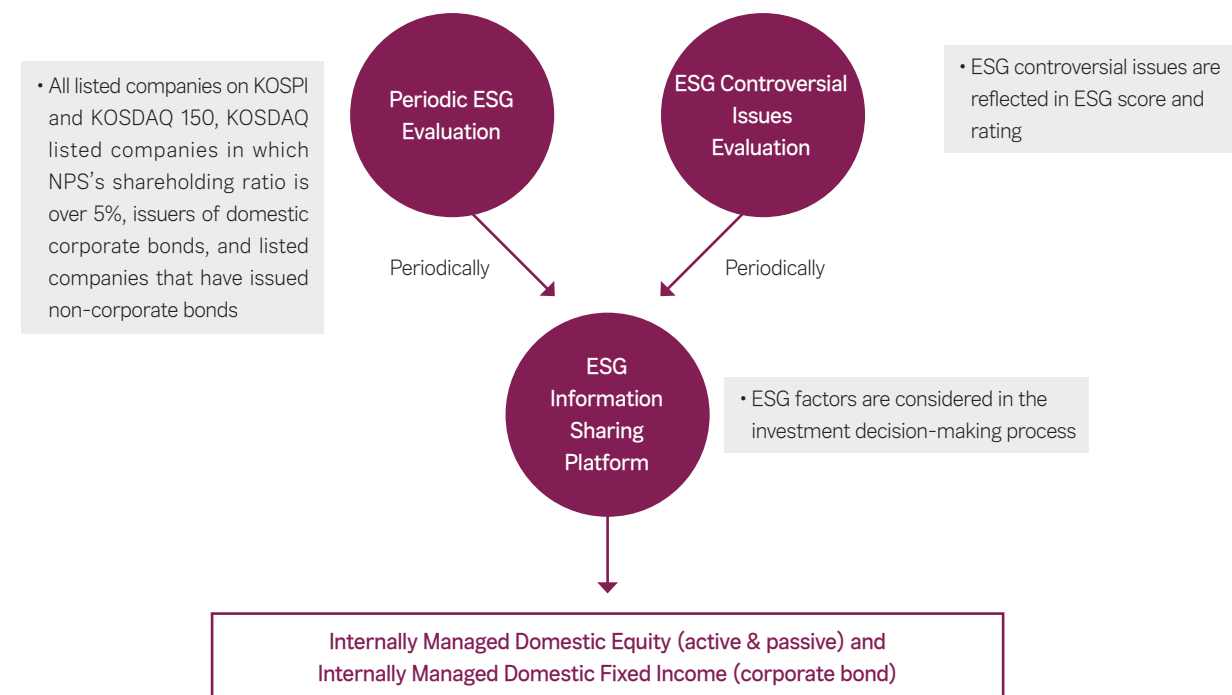
(1) Internal Management

① Periodic ESG Evaluation

NPS has developed its proprietary ESG Evaluation System to analyze non-financial factors, including ESG, in a systematic manner. Using the system, ESG evaluation is conducted twice a year for all listed companies on KOSPI and KOSDAQ 150, KOSDAQ listed companies in which NPS's shareholding ratio is over 5%, issuers of domestic corporate bonds, and listed companies that have issued non-corporate bonds. The ESG Evaluation System is composed of 61 ESG indicators in 14 items that affect enterprise value in terms of ESG. Considering the characteristics of each industry, different weightings per industry are applied to each category to calculate ESG score and rating. The ESG evaluation system was further improved in 2022. ESG controversial issues, such as environmental pollution, industrial safety, and unfair transaction of subsidiaries, were added to the system to reflect them when determining ESG scores and rating of all companies subject to ESG evaluation.

Following the evaluation, ESG information, including ESG evaluation results, is provided to portfolio managers in internally managed domestic equity and fixed income through the ESG Information Sharing Platform so that such information can be considered, alongside financial factors, during the investment decision-making process. NPS will continue to improve and upgrade the ESG Evaluation System, including ESG indicators, in consideration of internal and external circumstances.

ESG Evaluation & Internal Management ESG Integration Process



② ESG Integration

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

According to the guideline, in-house portfolio managers in domestic equity and internally managed domestic fixed income (corporate bond) examine ESG-related information when new securities are to be added to investment universe. If such securities are placed under the second lowest ESG rating, portfolio managers provide written opinions and attach an ESG report in an examination report. Moreover, if it is observed that securities with the lowest ESG rating are added above their benchmarks, the reason and investment opinions are reviewed and such securities are constantly monitored.

(2) External Management

NPS manages externally managed RI funds as one of the externally managed domestic equities. The funds follow an internally developed benchmark, the NPS-FnGuide Responsible Investment Index, designed to reflect the unique characteristics of externally managed RI funds.

In selecting external managers for the RI funds, NPS takes into account a range of aspects such as expertise, ethics, investment strategies, investment process, and compliance with the Guideline for Investment in RI Funds. Once selected, external managers may conduct diverse responsible investment strategies. Since November 2020, NPS has required external managers managing RI funds to submit a responsible investment report, and such reports are harnessed as a way of monitoring external managers.

In addition, in December 2021, NPS devised ways to consider RI factors when selecting and monitoring external managers managing domestic and global equity and fixed income. Moreover, the requirement of submitting a responsible report was expanded to apply to all external managers in domestic and global equity and fixed income, in a bid to encourage them to strengthen their responsible investment.

Responsible Investment by Asset Class

(in KRW trillion)

Asset Class		2020	2021	2022
Domestic Equity	Internal Management	93.4	84.3	62.0
	External Management	8.0	7.7	63.4
Domestic Fixed Income	Internal Management (corporate bond)	-	38.2	37.7
	External Management	-	-	45.6
Global Equity	External Management	-	-	142.6
Global Fixed Income	External Management	-	-	32.8
Total Amount of Responsible Investment		101.4 (12.2%)	130.2 (13.7%)	384.1 (43.2%)
AUM		833.1	948.1	889.8

Notes:

1) Externally managed domestic RI funds only are included in 2020 and 2021.

2) The amounts above are derived from the asset classes to which RI strategies and standards apply.

2-2. Negative Screening

In November 2019 when the FMC formulated the Plan to Facilitate Responsible Investment, it decided to additionally review the necessity, application scope, and process of negative screening. Accordingly, in February 2021, the FMC decided to review the adoption of negative screening in the field relating to climate change first. In May 2021, the FMC announced the adoption of negative screening on coal mining and coal-fired power industry as part of efforts to combat climate change, and decided to prepare an action plan through commissioned research.

In December 2021, in line with the decisions made by the FMC, NPS commissioned research to analyze the application scope, standards, and selection method of the target industry as a preparation process for the adoption of negative screening. In April 2022, the results of the commissioned research were reported to the FMC. NPS has constantly supported the development of a step-by-step action plan, including the scope and standards of the target industry, selection method of target companies, and implementation timing by asset class and geography, by gathering opinions from various stakeholders based on the research results.

2-3. Voting

NPS exercises its voting rights on listed companies in good faith and in the best interests of the contributors and beneficiaries of the National Pension Plan according to the National Finance Act and the Guideline for National Pension Fund Management. Voting is conducted in accordance with the Guideline for Stewardship Activities which stipulates voting criteria, procedures, and methods, as well as by referring to advice from a third-party agency specializing in agenda analysis, to vote in a professional and faithful manner.

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

Moreover, NPS strives to determine voting positions by listening to and considering companies' stances on agenda items at shareholder meetings. As such, NPS has been in constant communication with the market in light of the exercise of voting rights.

NPS discloses the results of voting activities and reasons for voting against, including applicable provisions in guidelines, within 14 days after a shareholder meeting is held. However, voting directions of certain agendas can be disclosed before a shareholder meeting. The agendas include (i) agendas of a company where NPS's shareholding ratio is more than 10% or its weight is more than 1% in NPS portfolio, and (ii) agendas whose voting direction is determined by the Special Committee. In 2022, NPS disclosed 83 shareholder meetings prior to the meetings.

In 2022, NPS exercised voting rights on a total of 3,439 agendas in 825 shareholder meetings for domestic equity, including 2,625 For (76.33%), 803 Against (22.35%) and 11 Abstentions/non-vote (0.32%). Reasons for voting against included the appointment of directors and auditors (251, 31.3%), amendments to articles of incorporation (114, 14.2%), remuneration cap for directors (342, 42.6%) and others (96, 12.0%).

Voting Result

3,439 in total in 2022

Abstentions/
Non-votes
11 (0.3%)

Against
803 (23.4%)

For
2,625 (76.3%)

Reasons for Voting Against

803 in total in 2022

Others
96 (12.0%)

Appointment of
Directors of Auditors
251 (31.3%)

Amendments to
Articles of Incorporation
114 (14.2%)

Remuneration Cap for
Directors and Auditors
342 (42.6%)

2-4. Shareholder Engagement

With the aim of achieving long-term and stable returns, NPS has focus areas and conducts shareholder engagement. Focus areas include a dividend policy, remuneration cap for directors, violation of laws and regulations, repetitive vote against, and ESG rating downgrade. Shareholder engagement in focus areas is undertaken in stages according to the Guideline for Stewardship Activities for Domestic Equity, including selection of focus list, confidential dialogue, selection of confidential focus list, selection of public focus list, and shareholder proposal.

NPS formulated the Guideline for Active Ownership in December 2019 to enhance enterprise value and undertake shareholder engagement in a transparent and fair manner. The focus of the Guideline is not on involvement in management affairs, but on enhancing shareholder and enterprise value by helping develop improvement measures through sufficient dialogues in relation to focus areas and unexpected concerns. When an issue requiring shareholder engagement occurs, NPS seeks to check the facts and conducts sufficient dialogues to address issues according to the Guideline for Stewardship Activities for Domestic Equity. Only when it is difficult to expect improvements from a company, is active ownership engagement conducted.

Stewardship Activities on Focus Areas and Unexpected Concerns

	Focus Areas	Unexpected Concerns
Objectives	To enhance shareholder value and long-term profitability	
Action to be taken	Request a company to make improvements on focus areas	Request a company to make improvements on unexpected concerns
Selection of a Company subject to Confidential Dialogue	<ul style="list-style-type: none"> • (Target) Companies falling under the criteria of focus areas, among companies with NPS's shareholding ratio exceeding 5% or the company's weight exceeding 1% in the portfolio • (Activities) Set up an amicable communication channel to encourage a company to establish action plans and countermeasures to enhance shareholder value * In principle, it is conducted confidentially. However, an open letter is sent if no willingness to make improvements is shown, such as refusing a dialogue. 	<ul style="list-style-type: none"> • (Target) Companies selected for confidential dialogue by the Special Committee through a materiality assessment when an ESG-related controversial issues* arises * Including events or issues that may affect enterprise value • (Activities) Set up an amicable communication channel to encourage a company to establish action plans and countermeasures to enhance shareholder value * In principle, it is conducted confidentially. However, an open letter is sent if no willingness to make improvements is shown, such as refusing a dialogue.
Selection of a Company in Confidential / Public Focus List	<ul style="list-style-type: none"> • (Target) Companies showing no improvements despite a series of dialogues for a certain period • (Activities) Designate a company in focus list and continuously encourage it to make improvements * In principle, it is conducted confidentially. However, if no improvements are made until a year end, the Special Committee decides whether to publicly disclose the company in a public focus list 	N/A
Active Ownership	<ul style="list-style-type: none"> • (Target) Companies showing no improvements despite a series of dialogues for a certain period • (Activities) Make shareholder proposal, etc. after reviewed by the Special Committee and approved by the FMC in accordance with the Guideline for Active Ownership * As for issues relating to dividend policy and remuneration cap for directors, shareholder proposal (not involved in management affairs) is first made based on the decision by the Special Committee. 	<ul style="list-style-type: none"> • (Target) Companies showing no improvements despite a series of dialogues for a certain period • (Activities) Make shareholder proposal, etc. after reviewed by the Special Committee and approved by the FMC in accordance with the Guideline for Active Ownership

3. Looking Ahead

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

3-1. ESG Investing

NPS applied the ESG Integration to internally managed domestic equity and internally managed domestic fixed income (corporate bond), and seeks to apply it to global equity and fixed income going forward. In 2022, ways to apply ESG Integration to global equity and fixed income were formulated based on the results of commissioned research conducted in 2021 and thorough discussion with investment departments, and the ways were reported to the Special Committee on Responsible Investment & Governance. According to the measures, NPS will apply ESG Integration to global equity and fixed income by amending the Guideline for ESG Integration.

Furthermore, as part of effort to enhance capacity and expertise in responsible investment, NPS has dispatched a professional in charge of stewardship activities to the London Office to strengthen its network with global pension funds. Going forward, NPS will gradually increase the number of manpower engaging in stewardship activities in overseas offices.

3-2. Exercise of Shareholder Rights

NPS has announced its plan to expand shareholder engagement in the domestic equity portfolio from the current focus on governance to include environmental and social factors, as well as to undertake shareholder engagement for global equity. To this end, climate change (environmental) and industrial safety (social) are added to focus areas on the domestic equity portfolio, and a detailed action plan will be developed to conduct shareholder engagement going forward. For global equity, commissioned research was conducted to benchmark the best practices of leading peers, and based on the results of commissioned research and the characteristics of investment in the asset class, NPS will develop ways to implement shareholder engagement for asset class.

In July 2018 when adopting the Responsible Investment & Governance Principles, or Stewardship Code, NPS established the criteria and grounds to file a derivative suit and damage claim suit, in a bid to contribute to increasing shareholder value over the long-term horizon. Currently, NPS is working on the development of standards to file a derivative suit, which include detailed implementation measures.

Going forward, NPS will review cases subject to a derivative suit by comprehensively considering the impact on fund performance, the possibility of winning, and the enhancement of enterprise value in the long term, in accordance with applicable criteria and grounds, when necessary.

Appendix

- 1. 2022 Financial Statements
- 2. Key Statistics
- 3. FMC Meetings



1. 2022 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, 2022 and December 31, 2021, 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, 2022 and 2021 and the results of its operation, and the changes in its net assets for the years then ended in conformity with the National Accounting Standards of the Republic of Korea.

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Grant Thornton Daejoo

Seoul, Korea

February 15, 2023

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, 2022 and 2021

(In Korean Won)

	2022	2021
Assets		
I. Current Assets	₩ 217,250,029,313,455	₩ 236,680,756,798,176
1. Cash and cash equivalents	1,916,529,090,135	1,491,030,022,224
2. Short-term financial instruments	12,570,000,000,000	15,400,000,000,000
(1) Bank deposits	12,570,000,000,000	15,400,000,000,000
3. Short-term investment securities	199,208,751,452,794	217,181,069,513,805
(1) Debt securities	39,120,798,701,766	31,946,445,064,942
a. Government bonds	8,885,050,759,986	10,494,932,429,303
b. Public bonds	9,957,026,153	59,957,658,055
c. Municipal bonds	1,218,291,635,147	1,397,066,462,862
d. Special bonds	3,827,403,147,483	2,760,461,966,191
e. Financial bonds	5,534,756,253,450	3,524,770,703,302
f. Credit financial bonds	3,195,433,447,625	2,253,222,142,856
g. Corporate bonds	13,539,601,664,874	8,040,165,871,050
h. Foreign bonds	2,559,738,543,786	2,426,126,332,693
i. Electronic short-term bonds	99,944,309,590	989,741,498,630
j. Foreign Currency CP	250,621,913,672	-
(2) Equity securities	160,087,952,751,028	185,234,624,448,863
a. Domestic stocks	61,987,376,709,023	84,279,445,853,980
b. Foreign stocks	98,100,576,042,005	100,955,178,594,883
4. Other receivables	2,224,572,627,804	2,175,345,846,628
(1) Accrued interest income	1,975,520,490,612	1,892,744,060,672
(2) Accrued other income	139,682,961,790	106,712,911,044
(3) Other accounts receivable	109,443,966,343	190,802,216,296
Allowance for other accounts receivable	(74,790,941)	(14,913,341,384)
5. Short-term loans	374,921,924,522	335,243,351,492
(1) Short-term loans	376,401,067,792	337,983,813,504
Allowance for bad debts	(1,479,143,270)	(2,740,462,012)
6. Other current assets	955,254,218,200	98,068,064,027
(1) Derivatives	891,177,405,779	60,853,409,188
(2) Prepaid income taxes	64,076,812,421	37,214,654,839
II. Investments	672,868,328,677,050	711,781,677,283,850
1. Long-term financial instruments	-	20,000,000,000
(1) Bank deposits	-	20,000,000,000
2. Long-term investment securities	668,735,319,720,563	707,275,277,901,725
(1) Debt securities	242,665,051,623,387	274,936,585,014,490
a. Government bonds	106,995,905,817,337	121,413,981,907,564
b. Public bonds	445,447,993,411	890,186,604,190
c. Municipal bonds	9,544,276,404,301	8,860,549,801,381
d. Special bonds	46,190,212,859,887	53,056,346,945,449
e. Financial bonds	18,106,625,958,739	20,681,744,181,295
f. Credit financial bonds	8,961,423,955,749	9,443,631,797,568
g. Corporate bonds	24,764,591,935,428	32,929,386,291,361

(In Korean Won)

	2022	2021
Assets		
h. Foreign bonds	27,656,566,698,535	27,660,757,485,682
(2) Equity securities	426,070,268,097,176	432,338,692,887,235
a. Domestic discretionary contract assets	108,996,064,466,370	128,595,537,770,326
b. Foreign discretionary contract assets	177,016,927,240,003	191,102,749,122,833
c. Stocks	3,637,065,668,652	4,107,144,792,696
d. Equity investments	11,636,893,833,421	11,837,508,653,969
e. Beneficiary certificates	5,441,881,138,030	5,214,374,754,959
f. Foreign equity securities	119,341,435,750,700	91,481,377,792,452
3. Long-term loans	4,133,008,956,487	4,486,399,382,125
(1) Long-term loans	4,167,514,095,734	4,519,923,379,750
Allowance for bad debts	(34,505,139,247)	(33,523,997,625)
III. Property, plant and equipment	15,128,981	17,534,856
1. Fixtures, fittings and office equipment, gross	22,589,000	22,589,000
Accumulated depreciation	(7,460,019)	(5,054,144)
IV. Other non-current assets	658,479,623,995	577,939,932,834
1. Long-term other receivables	26,905,033,686	-
(1) Long-term accrued interest income	75,265,264,340	-
Long-term allowance for other accounts receivables	(48,360,230,654)	-
2. Other assets	631,574,590,309	577,939,932,834
(1) General business accounting assets	435,424,679,034	384,801,518,145
(2) Welfare business accounting assets	196,149,911,275	193,138,414,689
Total assets	₩ 890,776,852,743,481	₩ 949,040,391,549,716
Liabilities		
I. Current liabilities	275,374,650,439	283,515,906,613
1. Derivatives	152,198,184,057	47,917,939,531
2. Other accounts payable	118,509,276,645	230,205,555,631
3. Accrued expenses	4,571,712,797	4,542,880,351
4. Withholdings	95,476,940	849,531,100
II. Other non-current liabilities	35,765,884,060	37,517,096,820
1. Security deposits received from NPS	35,765,884,060	37,517,096,820
Total liabilities	311,140,534,499	321,033,003,433
Net assets		
I. Basic net assets	335,261,900	335,261,900
II. Reserve and surplus	759,798,002,780,633	711,442,492,916,212
1. Reserve for national pension benefits	448,512,561,630,776	426,618,608,609,846
2. Surplus	311,285,441,149,857	284,823,884,306,366
III. Net asset adjustments	130,667,374,166,449	237,276,530,368,171
1. Accumulated gain on investment securities valuation	130,665,086,764,555	237,329,667,804,138
2. Other changes in net assets	2,287,401,894	(53,137,435,967)
Total net assets	890,465,712,208,982	948,719,358,546,283
Total liabilities and net assets	₩ 890,776,852,743,481	₩ 949,040,391,549,716

Statements of Financial Operation

For the years ended December 31, 2022 and 2021

(In Korean Won)

	2022	2021
I. Net program cost	₩ 606,587,807,907	₩ 600,909,935,736
1. Program(A): Pension service		
(1) Gross cost	56,498,905,254,515	54,113,221,464,378
(2) Revenue	(55,924,528,506,840)	(53,550,314,839,689)
(3) Net program cost	574,376,747,675	562,906,624,689
2. Program(B): Buildings and Welfare		
(1) Gross cost	56,933,515,828	59,297,674,524
(2) Revenue	(24,722,455,596)	(21,294,363,477)
(3) Net program cost	32,211,060,232	38,003,311,047
II. Management and operating expense	52,938,204,044	58,507,883,227
1. Transfers for management and operating	52,938,204,044	58,507,883,227
III. Non-allocated expenses	10,086,479,961,160	4,279,798,245,883
1. Commission expense	22,923,705,451	19,151,935,204
2. Bad debt expense	43,032,211,836	22,763,909,389
3. Loss on valuations	152,904,303,901	48,014,184,746
(1) Loss on derivative valuation	152,198,184,057	47,917,939,531
(2) Loss on foreign currency translation	706,119,844	96,245,215
4. Loss on disposition of assets	5,205,571,336,651	2,238,833,180,468
(1) Loss on disposition of short-term investment securities	2,832,800,797,180	1,297,347,196,332
(2) Loss on disposition of long-term investment securities	2,372,770,539,471	941,485,984,136
5. Assets impairment loss	-	100,354,736,250
6. Taxes and dues	118,601,641,004	80,738,373,478
7. Depreciation expense	2,405,875	2,756,807
8. Other expenses	4,543,444,356,442	1,769,939,169,541
(1) Loss on foreign currency transactions	2,416,401,553,741	1,029,848,832,868
(2) Loss on derivative transactions	2,015,529,426,687	643,070,082,804
(3) Miscellaneous	111,513,376,014	97,020,253,869
IV. Non-allocated revenues	37,197,224,816,602	42,414,185,666,061
1. Interest income	7,639,954,009,213	6,797,801,315,911
(1) Interest income on financial instruments	399,654,403,075	215,906,706,880
(2) Interest income on bonds	6,849,423,376,418	6,170,104,650,567
(3) Interest income on loans	390,876,229,720	411,789,958,464
2. Gain on valuations	894,617,388,593	62,670,441,822
(1) Gain on derivative valuation	891,177,405,779	60,853,409,188
(2) Gain on foreign currency translation	3,439,982,814	1,817,032,634
3. Gain on disposition of assets	14,648,363,815,916	25,830,788,334,245
(1) Gain on disposition of short-term investment securities	6,613,362,253,956	14,239,994,456,425

(In Korean Won)

	2022	2021
(2) Gain on disposition of long-term investment securities	8,035,001,561,960	11,590,793,877,820
4. Other income	14,014,289,602,880	9,722,925,574,083
(1) Dividend income	7,273,550,241,617	6,990,410,541,801
(2) Gain on foreign currency transactions	1,987,432,662,315	951,431,327,308
(3) Gain on derivative transactions	4,617,238,107,284	1,623,188,978,381
(4) Reversal of allowance for doubtful accounts	9,787,733,626	33,063,333,107
(5) Reversal of impairment loss on assets	33,333,332,800	33,333,334,400
(6) Miscellaneous income	92,947,525,238	91,498,059,086
V. Net operating cost	(26,451,218,843,491)	(37,474,969,601,215)
VI. Non-exchange revenue	10,338,000,000	10,199,000,000
1. Other financing and transfers	10,338,000,000	10,199,000,000
VII. Net operating results	₩ (26,461,556,843,491)	₩ (37,485,168,601,215)

Statements of Changes in Net Assets

For the years ended December 31, 2022 and 2021

(In Korean Won)

	Basic Net Assets	Reserve and Surplus	Net asset Adjustments	Total Net Assets
Prior Year				
I. Net assets at January 1, 2021	₩ 335,261,900	₩ 649,553,897,590,227	₩ 184,173,396,871,960	₩ 833,727,629,724,087
1. Reported amount	335,261,900	649,553,897,590,227	184,173,396,871,960	833,727,629,724,087
II. Operating results	-	(37,485,168,601,215)	-	(37,485,168,601,215)
III. Adjustments	-	24,403,426,724,770	53,103,133,496,211	77,506,560,220,981
1. Gain on investment securities valuation	-	-	53,083,000,927,430	53,083,000,927,430
2. Other increase in net assets	-	24,403,426,724,770	20,132,568,781	24,423,559,293,551
IV. Net assets at December 31, 2021	₩ 335,261,900	₩ 711,442,492,916,212	₩ 237,276,530,368,171	₩ 948,719,358,546,283
Current Year				
I. Net assets at January 1, 2022	₩ 335,261,900	₩ 711,442,492,916,212	₩ 237,276,530,368,171	₩ 948,719,358,546,283
1. Reported amount	335,261,900	711,442,492,916,212	237,276,530,368,171	948,719,358,546,283
II. Operating results	-	(26,461,556,843,491)	-	(26,461,556,843,491)
III. Adjustments	-	335,261,900	(106,609,156,201,722)	(84,715,203,180,792)
1. Gain on investment securities valuation	-	-	(106,664,581,039,583)	(106,664,581,039,583)
2. Other increase in net assets	-	21,893,953,020,930	55,424,837,861	21,949,377,858,791
IV. Net assets at December 31, 2022	₩ 335,261,900	₩ 759,798,002,780,633	₩ 130,667,374,166,449	₩ 890,465,712,208,982

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, 2022, the total billed pension contributions were KRW 744,410,970 million. Of this contributions, KRW 737,087,883 million was collected and KRW 7,323,087 million (1.0%) was not collected as of December 31, 2022. The uncollected amount was not recognized as revenue. The accumulated billed pension contributions for workplace based insured persons are KRW 637,899,991 million and the accumulated uncollected amount is KRW 2,275,154 million (0.4%). The accumulated billed pension contributions for individually regional based insured persons are KRW 106,510,978 million and the accumulated uncollected amount is KRW 5,047,933 million (4.7%).

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

(3) Cash and Cash Equivalents

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

(4) Long-Term and Short-Term Financial Instruments

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

(5) Securities

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

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

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

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

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

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

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

(6) Allowance for Bad Debts

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

(7) Derivatives

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

(8) Provisions, Contingent Liabilities

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

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

(9) Property, plant and equipment

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

The estimated useful lives of the NPF's property, plant and equipment are as follows:

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

(10) Foreign Currency Translation

The NPF converts foreign currency-denominated monetary assets and liabilities into Korean won based on basic rates announced by Seoul Money Brokerage Service at balance sheet dates. Foreign currency translation gains/loss reflects into the calculation of net operating cost. For foreign currency-denominated investment securities, the difference between fair value, which is the amount in KRW translated at reporting period, and book value is presented as a part of adjustments in the net asset statements. The Korean won equivalent of assets and liabilities denominated in foreign currencies are translated in these financial statements based on the basic rate of KRW 1,267.3 to USD 1.00 on December 31, 2022, 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

(in KRW 100 million)

	2018	2019	2020	2021	2022
The Fund (market value)	6,387,811	7,366,538	8,337,276	9,487,194	8,904,657
Financial Assets	6,382,168	7,360,790	8,331,384	9,481,060	8,898,353
Domestic Equity	1,089,138	1,322,609	1,766,957	1,658,077	1,253,730
Domestic Fixed Income	3,109,927	3,207,512	3,260,993	3,399,907	3,111,856
Global Equity	1,129,610	1,665,277	1,927,517	2,566,248	2,408,940
Global Fixed Income	265,874	304,622	448,827	638,963	632,882
Alternatives	766,195	842,952	906,596	1,193,054	1,462,322
Short-term Assets	21,426	17,819	20,493	24,811	20,171
Welfare Sector	1,446	1,663	1,800	2,005	2,036
Others	4,196	4,085	4,092	4,128	4,267

Note: Financial assets include tactical FX exposures.

(in KRW 100 million)

	2018	2019	2020	2021	2022
The Fund (book value)	5,655,446	6,063,088	6,493,363	7,110,127	7,581,487
Revenues	7,505,543	8,147,514	8,841,382	9,756,896	10,576,464
Contributions	5,286,164	5,764,165	6,276,336	6,811,739	7,370,879
Investment Income	2,212,350	2,376,172	2,557,805	2,937,800	3,198,349
Government Subsidies, etc.	7,029	7,177	7,241	7,357	7,237
Expenses	1,850,097	2,084,426	2,348,019	2,646,770	2,994,978
Pension Benefits	1,770,000	1,997,644	2,254,185	2,545,552	2,885,753
General & Administrative Expenses	80,097	86,782	93,834	101,217	109,224

(person)

	2018	2019	2020	2021	2022
Pension Contributors	22,313,869	22,216,229	22,107,028	22,347,586	22,497,819
Workplace-based Insured	13,817,963	14,157,574	14,320,025	14,580,825	14,785,761
Individually Insured	7,694,885	7,232,063	6,898,118	6,827,009	6,845,744
Voluntarily Insured, etc.	801,021	826,592	888,885	939,752	866,314
Beneficiaries	4,769,288	5,163,110	5,588,154	6,070,124	6,642,643
Old-Age Pension	3,778,824	4,090,497	4,468,126	4,894,452	5,396,729
Disability Pension	75,734	77,872	78,079	77,726	76,718
Survivor's Pension	724,132	792,774	841,817	892,195	951,470
Lump-sum Allowance	172,598	201,967	200,132	205,751	217,726

3. FMC Meetings

Session (Date)	No.	Agenda	Result
1 st (Feb. 25)	1	2021 National Pension Fund Settlement (Proposal)	Resolved
	2	Adjustment in Target Range of External Management on Alternative Assets (Proposal)	Amendment
	3	Amendments to the Guideline for Stewardship Activities (Proposal) <Rediscussed>	Resolved
	4	2021 10th FMC Meeting Minutes (Summary)	
	5	Interim Reporting of Commissioned Research on the Development of Range and Standards of Coal Mining and Coal-fired Power Industry <Confidential>	Reported
	6	Report of 2022 Target Active Risk Allocation Result by Asset Class	
	7	National Pension Fund Status as of Dec. 31, 2021 (Preliminary)	
2 nd (Apr. 29)	1	Amendments to the Guideline for National Pension Fund Management (Proposal)_ Change in Risk Tolerance Index	Resolved
	2	Review of Change in the Purpose of Holding Hanjin KAL Stocks	1st Proposal Resolved
	3	2022 1st FMC Meeting Minutes (Summary)	
	4	Status of Establishment of Mid-term Asset Allocation Plan (2023~2027) <Confidential>	
	5	Final Reporting of Commissioned Research on the Development of Range and Standards of Coal Mining and Coal-fired Power Industry <Confidential>	Reported
	6	Sub-Committee's Progress for Amendments to the Guideline for Stewardship Activities (Proposal) <Confidential>	
	7	National Pension Fund Status as of Feb. 28, 2022 (Preliminary)	
3 rd (May 27)	1	Mid-term Asset Allocation Plan (2023~2027) (Proposal) <Confidential>	2nd Proposal Resolved
	2	2023 Fund Management Plan (Proposal)	
	3	2022 2nd FMC Meeting Minutes (Summary)	Reported
	4	National Pension Fund Status as of Mar. 31, 2022 (Preliminary)	
4 th (July 1)	1	2021 Fund Management Performance Assessment (Proposal)	Resolved
	2	2021 NPSIM Performance-based Incentive Ratio (Proposal)	
	3	2022 3rd FMC Meeting Minutes (Summary)	Reported
	4	National Pension Fund Status as of Apr. 30, 2022 (Preliminary)	
5 th (Sept. 23)	1	Change of 2022 Fund Management Plan (Proposal)_Deficiency Amount, including Pension Benefits Payment	Resolved
	2	Amendments to the Guideline for National Pension Fund Management (Proposal)_FX Short-term Assets Limit Raise	
	3	2022 4th FMC Meeting Minutes (Summary)	
	4	Conclusion of Currency Swap Arrangement between NPS and Bank of Korea	
	5	FMC Sub-Committee's Discussion Progress for Amendments to the Guideline for Stewardship Activities (Proposal) <Confidential>	Reported
	6	2021 FMC Activity Report	
	7	National Pension Fund Status as of July 31, 2022 (Preliminary)	
6 th (Dec. 16)	1	2023 Target Excess Return (Proposal)	2nd Proposal Resolved
	2	Improvement of Infrastructure Performance Assessment Benchmark (Proposal)	Resolved
	3	Adjustment of Global Investment Policy <Confidential>	
	4	2022 5th FMC Meeting Minutes (Summary)	Reported
	5	National Pension Fund Status as of Sept. 30, 2022 (Preliminary)	

Attachment

2022 Responsible
Investment & Governance
Report



I. Responsible Investment

1. What is Responsible Investment?

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

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

NPS Responsible Investment Scheme

PRI	Definition	Adoption Status	Remarks
1. ESG Incorporation			
① ESG Integration	• Consider financial factors and non-financial factors, including ESG, in decision-making	Adopted	• ESG rating is considered for internally managed equity and fixed income (corporate bond)
② Screening	• Include (positive screening) or exclude (negative screening) certain industries which are considered positive or negative from an ESG perspective	To be adopted	• An action plan on negative screening is under development in line with the FMC's announcement of coal phase-out
③ Thematic	• Pursue risk-adjusted returns and ESG outcomes altogether	Not yet	-
2. Active Ownership			
④ Voting	• Exercise voting rights at shareholder meetings	Adopted	• NPS votes on domestic and global equities
⑤ Engagement	• Shareholder engagement not involved in management affairs: Dialogue with companies (confidential dialogue, confidential/public focus list) • Shareholder engagement involved in management affairs: shareholder proposal, etc. (after publicly disclosing focus list) • Litigation: Shareholder derivative suit, damage claim suit, etc.	Adopted	Dialogues are conducted with companies in the domestic equity portfolio in relation to focus areas and unexpected concerns

2. Legal Basis

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

Legal Basis for Responsible Investment

National Pension Act
Article 102 (Management and Operation of Fund)
(4) Where the Minister of Health and Welfare manages and operates the Fund pursuant to paragraph (2) 3, he/she may take into account environmental, social, and governance factors related to investment targets, to achieve long-term and stable revenues.
Guideline for National Pension Fund Management
Article 4 (Investment Principles)
5. Sustainability: To fulfill the fiduciary duty, particularly given ESG factors, to enhance the sustainability of assets under management

3. Responsible Investment Policies

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

Guideline for National Pension Fund Management

Article 17 (Responsible Investment)

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

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

In a bid to enhance transparency and independence of stewardship activities and improve long-term returns, stewardship activities shall be conducted in accordance with the Responsible Investment & Governance Principles approved by the FMC and referred to by the Korea Stewardship Code, 'Principles on the Stewardship Responsibilities of Institutional Investors.'

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

Responsible investment and exercise of shareholder rights shall be undertaken,
 (1) With the objective of achieving stable growth of assets under management;
 (2) In good faith in the best interests of the contributors and beneficiaries of the National Pension Plan;
 (3) In a direction towards increasing shareholder value over the long run;
 (4) In compliance with standards, process and procedure as stipulated in the Guideline for Stewardship Activities approved by the FMC.

Responsible Investment Principles	Responsible Investment & Governance Principles (Stewardship Code)
(1) Achieve long-term and stable returns	(1) Formulate and publicly disclose Stewardship Activities Policy
(2) Implement RI according to the Guideline for Stewardship Activities	(2) Formulate and publicly disclose Conflict of Interest Prevention Policy
(3) Implement RI on equity and fixed income assets	(3) Regularly monitor investee companies
(4) Incorporate non-financial factors, including environmental, social and governance (ESG), into investment decisions	(4) Formulate a guideline for stewardship activities and conduct shareholder engagement
(5) Conduct shareholder engagement with investee companies	(5) Formulate and publicly disclose Voting Right Policy, and publicly disclose voting results and reasons for each vote
(6) Consider RI when selecting and assessing external managers	(6) Regularly report stewardship activities
(7) Encourage investee companies to publicly disclose ESG-related information	(7) Enhance capabilities and expertise in effective implementation of stewardship activities
(8) Enhance capabilities and expertise in RI	
(9) Regularly report RI activities	

Guideline for Stewardship Activities

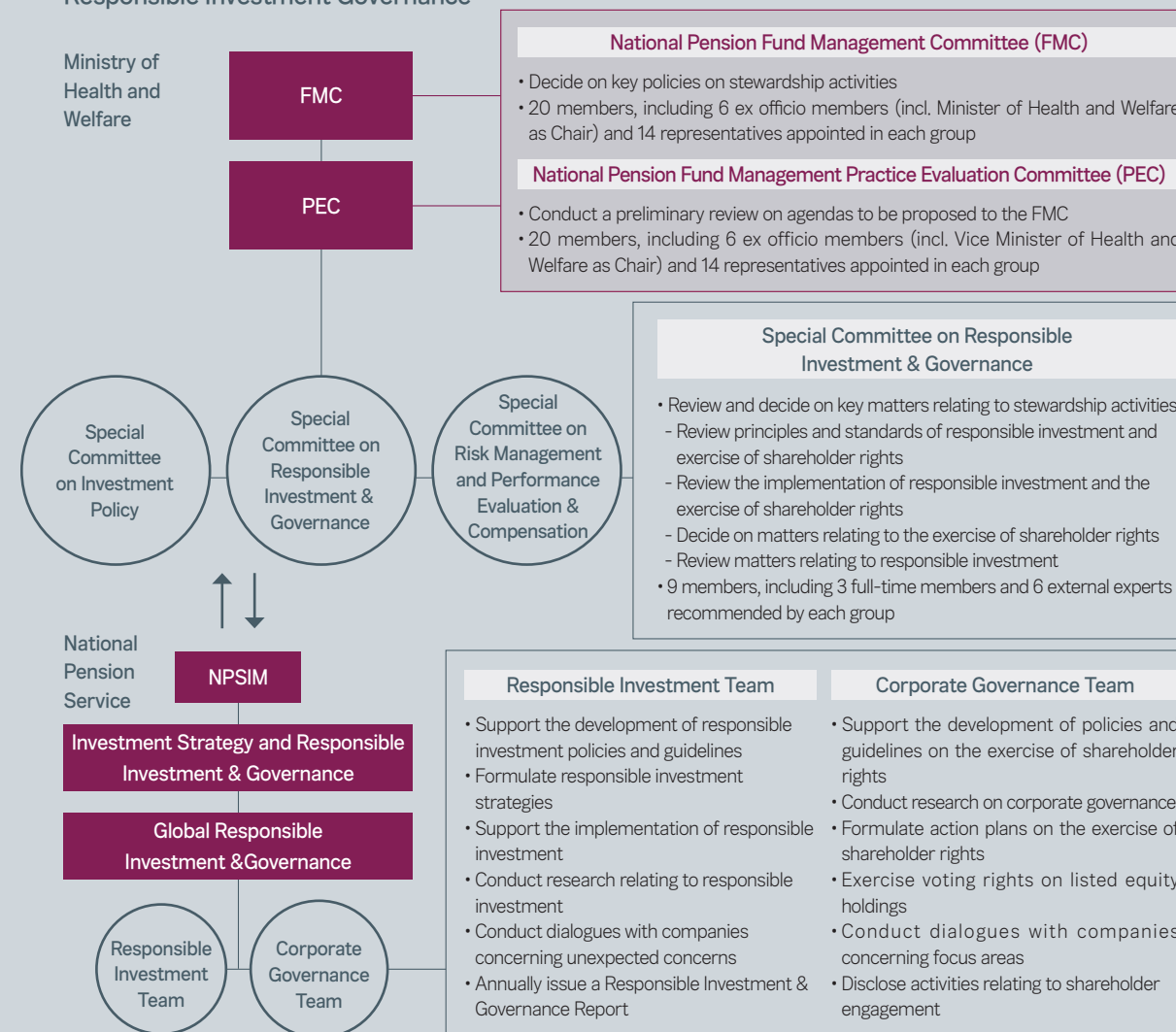
PART 1 (General Provisions): Purpose, Scope of Application, Basic Principles, Stewardship Activities, Decision Making Body
 PART 2 (Responsible Investment): Subjects, Non-financial Factors (ESG), Incorporation Method
 PART 3 (Exercise of Shareholder Rights)
 - Voting (Subjects, Basic Principles, Specific Voting Guidelines, etc.)
 - Stewardship Activities on Focus Areas (Confidential Dialogues, Selection of Confidential/Public Focus List, Open Letters, Shareholder Proposals, etc.)
 - Stewardship Activities on Unexpected Concerns (Subjects, Provisions Applicable Mutatis Mutandis)
 PART 4 (Public Disclosure, Submission, etc): Notification and Public Disclosure, Public Disclosure and Submission, Responsible Investment & Governance Report, Internal Control, Record Keeping, Capacity Building, etc.
 Exhibits: Voting Guidelines for Domestic Equity, Voting Guidelines for Global Equity, Voting Results, Focus Areas Selection Criteria

4. Responsible Investment Governance

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

At NPS, the Global Responsible Investment & Governance Division is in charge of the implementation of responsible investment. The division, comprised of 16 members as of the end of 2022, consists of two teams: the Responsible Investment Team and Corporate Governance Team. The Responsible Investment Team supports the development of responsible investment policies and guidelines; maps out responsible investment strategies and action plans that help portfolio managers consider ESG Integration in investment decision-making; conducts research, including ESG evaluation and ESG controversial issues monitoring; and carries out ESG-related shareholder engagement. Meanwhile, the Corporate Governance Team supports the development of policies and guidelines for the exercise of shareholder rights; formulates action plans; conducts research on corporate governance; exercises voting rights on listed companies; holds dialogues with companies concerning focus areas.

Responsible Investment Governance



FMC Meetings on Responsible Investment in 2022

Session	Date	Agenda
1 st	Feb. 25	Amendments to the Guideline for Stewardship Activities (Proposal)
		Interim Reporting of Commissioned Research on the Development of Range and Standards of Coal Mining and Coal-fired Power Industry <Confidential>
2 nd	Apr. 29	Review of Change in the Purpose of Holding Hanjin KAL Stocks
		Final Reporting of Commissioned Research on the Development of Range and Standards of Coal Mining and Coal-fired Power Industry <Confidential>
		Sub-Committee's Progress for Amendments to the Guideline for Stewardship Activities (Proposal) <Confidential>
5 th	Sept. 23	FMC Sub-Committee's Discussion Progress for Amendments to the Guideline for Stewardship Activities (Proposal) <Confidential>

Meetings of Special Committee on Responsible Investment & Governance in 2022

Session	Date	Agenda
1 st	Jan. 24	Selection of Companies Subject to Materiality Assessment on Unexpected Concerns (Proposal)
		Selection of Companies Subject to Confidential Dialogues on Unexpected Concerns (Proposal)
		Decision on Disclosure Scope of Voting Direction Prior to Shareholder Meetings (Proposal)
		Voting Criteria for Board Gender Diversity (Proposal)
		Voting Position on Agendas at Extraordinary General Meeting of POSCO (Proposal)
2 nd	Feb. 17	Amendments to Specific Voting Criteria for Domestic Equity on Labor Director System (Proposal)
		Selection of Companies Subject to Confidential Dialogues on Concerns over Violation of Laws and Regulations (Proposal)
		Selection of Companies Subject to Materiality Assessment on Unexpected Concerns (Proposal)
		Reporting on Voting Rights to be Exercised in Annual General Meetings in March
		Reporting on the Result of Periodic ESG Evaluation on Domestic Equity and Fixed Income in the Second Half of 2021
3 rd	Mar. 2	Reporting on the Result of Periodic Monitoring on Stewardship Activities and Proxy Voting
		Reporting on a Plan to Conduct Confidential Dialogues on Unexpected Concerns (Proposal)
		Selection of Companies Subject to Confidential Dialogues on Unexpected Concerns (Proposal)
		Early Exclusion of Companies Subject to Confidential Dialogues on Unexpected Concerns (Proposal)
		Criteria for Voting Direction on Matters Affecting Enterprise Value and Infringing on Shareholder Rights and Interests (Proposal)
4 th	Mar. 10	Improvement Measures to Provide Information including Voting Schedule for Domestic Equity (Proposal)
		Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Dividend Policies (Proposal)
		Improvement Status of Companies in Confidential Focus List and Selection of Public Focus List on Dividend Policies (Proposal)
		Identification of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Remuneration Cap for Directors (Proposal)
		Identification of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Repetitive Vote Against (Proposal)
5 th	Mar. 17	Identification of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Concerns over Violation of Laws and Regulations (Proposal)
		Identification of Improvement Status of Companies in Confidential Focus List and Selection of Public Focus List on Remuneration Cap for Directors (Proposal)
		Identification of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Repetitive Vote Against (Proposal)
		Identification of Improvement Status of Companies in Confidential Focus List and Selection of Public Focus List on Repetitive Vote Against (Proposal)
		Voting Position on Agendas at Annual General Meeting of SK D&D (Proposal)
6 th	Mar. 24	Voting Position on Agendas at Annual General Meeting of HYOSUNG (Proposal)
		Voting Position on Agendas at Annual General Meeting of POSCO (Proposal)
		Voting Position on Agendas at Annual General Meeting of LG Chem (Proposal)
		Voting Position on Agendas at Annual General Meeting of Hanjin KAL (Proposal)
		Voting Position on Agendas at Annual General Meeting of Shinhan Financial Group (Proposal)
7 th	Mar. 24	Voting Position on Agendas at Annual General Meeting of Hanwha Systems (Proposal)
		Identification of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Remuneration Cap for Directors (Proposal)
		Identification of Improvement Status of Companies in Confidential Focus List and Selection of Public Focus List on Remuneration Cap for Directors (Proposal)
		Voting Position on Agendas at Annual General Meeting of KB Financial Group (Proposal)
		Voting Position on Agendas at Annual General Meeting of Hana Financial Group (Proposal)

Session	Date	Agenda
6 th	Mar. 24	Voting Position on Agendas at Annual General Meeting of Woori Financial Group (Proposal)
		Voting Position on Agendas at Annual General Meeting of DGB Financial Group (Proposal)
		Voting Position on Agendas at Annual General Meeting of Korea Investment Holdings (Proposal)
		Voting Position on Agendas at Annual General Meeting of KCC Glass Corporation (Proposal)
		Voting Position on Agendas at Annual General Meeting of Netmarble (Proposal)
		Voting Position on Agendas at Annual General Meeting of Kakao (Proposal)
		Voting Position on Agendas at Annual General Meeting of Hankook & Company (Proposal)
		Voting Position on Agendas at Annual General Meeting of SK (Proposal)
		Voting Position on Agendas at Annual General Meeting of Kumho Petrochemical (Proposal)
		Voting Position on Agendas at Annual General Meeting of HDC Hyundai Development Company (Proposal)
		Voting Position on Agendas at Annual General Meeting of SK Innovation (Proposal)
		Voting Position on Agendas at Annual General Meeting of HDC Holdings (Proposal)
		Voting Position on Agendas at Annual General Meeting of Celltrion (Proposal)
		Voting Position on Agendas at Annual General Meeting of Dongkuk Holdings (Proposal)
7 th	Apr. 22	Review of Change in the Purpose of Holding Hanjin KAL Stocks (Proposal)
		Selection of Companies Subject to Materiality Assessment on Unexpected Concerns (Proposal)
		Selection of Companies Subject to Confidential Dialogues on Unexpected Concerns (Proposal)
8 th	May 30	Identification of Improvement Status of Companies Subject to Confidential Dialogues and Review of Implementation of Active Ownership on Unexpected Concerns
		Final Reporting of Commissioned Research on the Development of Range and Standards of Coal Mining and Coal-fired Power Industry
9 th	June 23	Selection of Companies Subject to Confidential Dialogues on Concerns over Violation of Laws and Regulations (Proposal)
		Selection of Companies Subject to Materiality Assessment on Unexpected Concerns (Proposal)
10 th	July 8	Deliberation on Process of Filing Derivative Suits (Proposal)
		Reporting on the Result of Periodic Monitoring on Stewardship Activities and Proxy Voting
11 th	July 27	Identification of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Dividend Policies (Proposal)
		Identification of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Concerns over Violation of Laws and Regulations (Proposal)
12 th	Oct. 18	Identification of Improvement Status of Companies Subject to Confidential Dialogues and Selection of Confidential Focus List on Concerns over Violation of Laws and Regulations (Proposal)
		Reporting on a Plan to Conduct Confidential Dialogues on Unexpected Concerns (Proposal)
13 th	Nov. 21	Selection of Companies Subject to Confidential Dialogues on Dividend Policies (Proposal)
		Selection of Companies Subject to Confidential Dialogues on Remuneration Cap for Directors (Proposal)
14 th	Dec. 9	Selection of Companies Subject to Confidential Dialogues on Unexpected Concerns (Proposal)
		Reporting on a Responsible Investment & Governance Report

5. Stewardship Activities Milestones

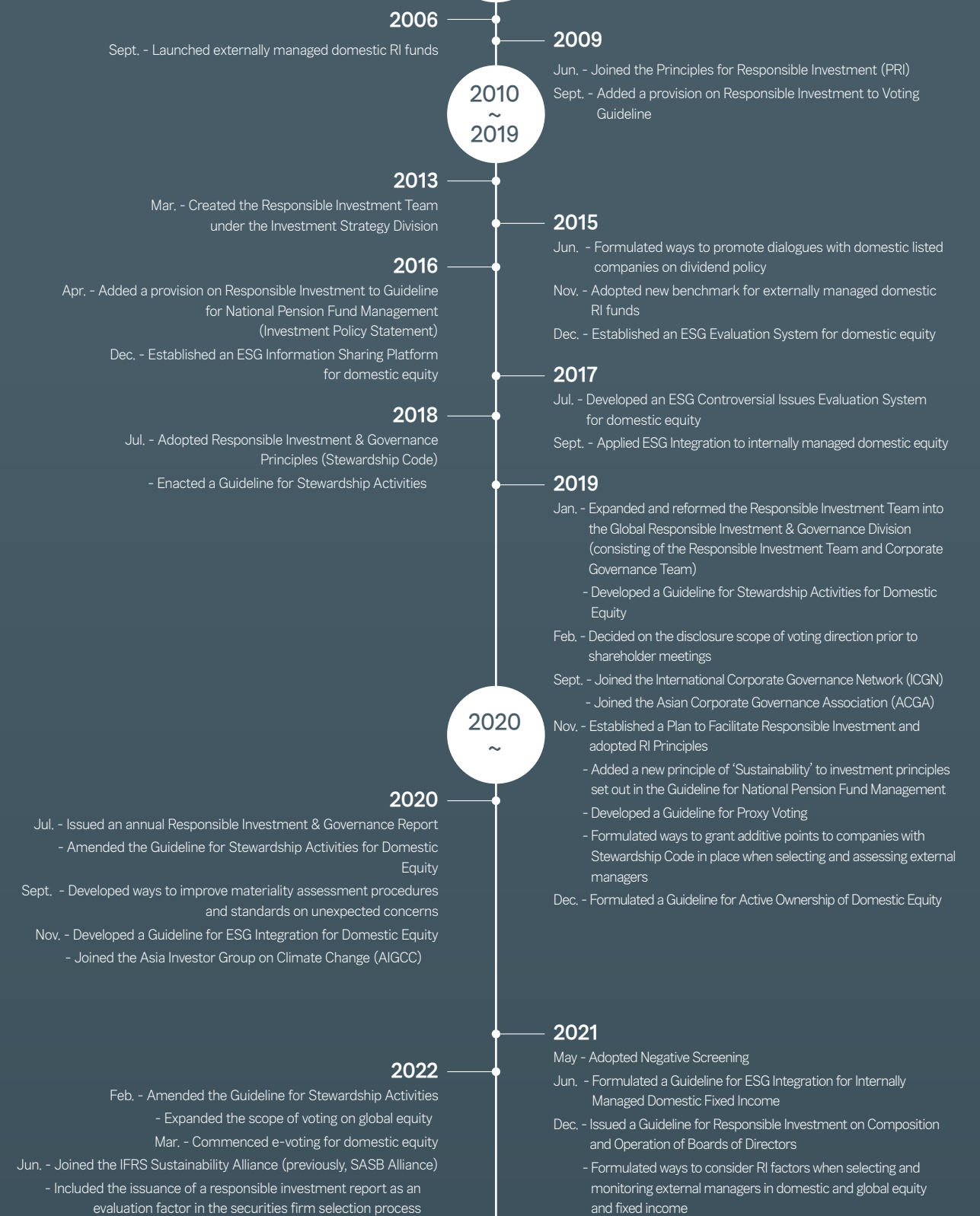
NPS began responsible investment (RI) with externally managed domestic RI funds in September 2006. Since then, NPS has been committed to taking part in a range of RI activities. In June 2009, NPS joined the Principles for Responsible Investment (PRI). In March 2013, the Responsible Investment Team was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

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

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

In February 2022, the Guideline for Stewardship Activities was amended to expand the scope of the exercise of voting rights associated with global equity (portfolio weight: 0.5% and above → 0.3% and above). In March, e-voting was first utilized for domestic equity. In June, NPS joined the IFRS Sustainability Alliance (previously SASB Alliance), and commenced checking whether a responsible investment report is issued when selecting securities firms. As such, NPS constantly has constantly made endeavors to bolster responsible investment.

Stewardship Activities Milestones



II . Responsible Investing

1. ESG Integration

NPS has been committed to laying the groundwork for the implementation of ESG Integration for a long period of time. Beginning with the development of the ESG Evaluation System for domestic equity assets in December 2015, NPS has formulated an internal ESG research framework and established related strategies, creating an environment to adopt ESG Integration which currently applies to internally managed domestic equity and fixed income (corporate bond). In line with the Plan to Facilitate Responsible Investment approved by the FMC in November 2019, the application scope of ESG Integration has been gradually expanded.

As for internal management, ESG Integration is materialized based on ESG evaluation. NPS implements ESG Integration by incorporating ESG factors, coupled with financial factors, into an investment decision-making process for internally managed domestic equity and fixed income (corporate bond) using its internal ESG evaluation system. As for external management, NPS considers ESG factors during the external manager selection process.

(1) Internal Management

① Periodic ESG Evaluation

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

ESG Evaluation Indicators

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

Based on the commissioned research conducted in the second half of 2020 on both the improvement of an ESG evaluation system for domestic equity and the establishment of ESG evaluation system for domestic fixed income, NPS enhanced the ESG evaluation system for domestic equity and adopted an ESG evaluation system for domestic fixed income in 2021. The ESG evaluation system was further improved in 2022. ESG controversial issues, such as environmental pollution, industrial safety, and unfair transaction of subsidiaries, were added to the system to reflect them when determining ESG scores and rating of companies subject to ESG evaluation. Going forward, NPS will continue to improve and upgrade the ESG Evaluation System, including ESG indicators, in consideration of a range of internal and external circumstances.

As of the end of 2022, 954 domestic listed companies were evaluated and rated as follows:

2022 ESG Evaluation Result (Equity)

AA	A	BB	B	C	D	Total
94 (9.9%)	180 (18.9%)	201 (21.1%)	323 (33.9%)	149 (15.6%)	7 (0.7%)	954 (100.0%)

As for fixed income securities, 1,043 domestic listed companies, issuers of domestic corporate bonds, and listed companies that have issued non-corporate bonds were evaluated and rated as follows:

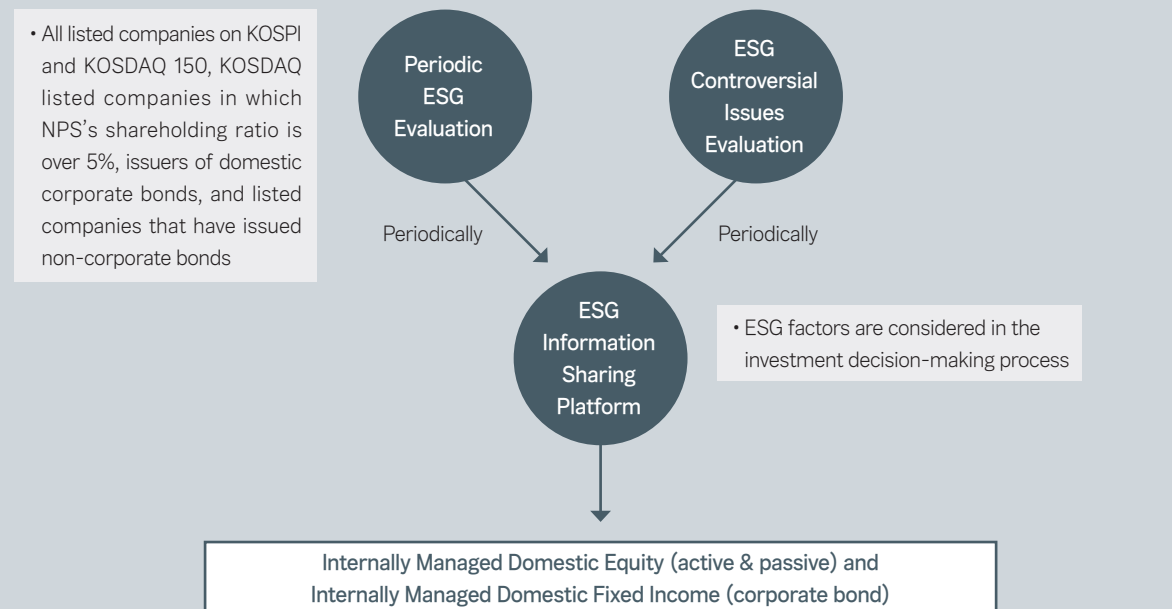
2022 ESG Evaluation Result (Fixed Income)

AA	A	BB	B	C	D	Total
109 (10.5%)	196 (18.8%)	233 (22.3%)	361 (34.6%)	139 (13.3%)	5 (0.5%)	1,043 (100.0%)

Following the evaluation, ESG information, including ESG evaluation results, is provided to portfolio managers in internally managed domestic equity and fixed income through the ESG Information Sharing Platform so that such information can be considered, alongside financial factors, in the investment decision-making process.

② ESG Integration

ESG Evaluation & Internal Management ESG Integration Process



Since 2017, NPS has adopted ESG Integration to internally managed active domestic equity. In November 2020, the strategy was expanded to apply to internally managed passive domestic equity, and a Guideline for ESG Integration for Domestic Equity, which presents enhanced implementation measures, was established to apply ESG Integration to the entire internally managed domestic equity. In 2021, the Guideline for ESG Integration was amended to apply to internally managed domestic fixed income (corporate bond). According to the guideline, in-house portfolio managers in domestic equity examine ESG-related information when new securities are to be added to investment universe. If such securities are placed under the second lowest ESG rating, portfolio managers provide written opinions and attach an ESG report in an examination report. Moreover, when examining the investment universe, securities placed under the lowest ESG rating are checked to identify whether they are included above their benchmarks¹⁾. If it is observed that securities with the lowest ESG rating are added above their benchmarks, the reason and investment opinions are reviewed and such securities are constantly monitored. As for internally managed domestic fixed income (corporate bond), in-house portfolio managers examine ESG-related information and conduct thorough reviews on an issuer with a low ESG rating, when considering adding new securities to the investment universe or investing in new securities.

(2) External Management

NPS manages externally managed RI funds as one of the externally managed domestic equities. The funds follow an internally developed benchmark, the NPS-FnGuide Responsible Investment Index, designed to reflect the unique characteristics of externally managed RI funds. In selecting external managers for the RI funds, NPS takes into account a range of aspects such as expertise, ethics, investment strategies, investment process, and compliance with the Guideline for Investment in RI Funds. Once selected, external managers may conduct diverse responsible investment strategies. Since November 2020, NPS has required external managers managing RI funds to submit a responsible investment report, and such reports are harnessed as a way of monitoring external managers.

In addition, in December 2021, NPS devised ways to consider RI factors when selecting and monitoring external managers managing domestic and global equity and fixed income. Moreover, NPS has required all external managers managing domestic and global equity and fixed income, including external managers managing RI funds, to submit a responsible report, in a bid to encourage external managers to strengthen their responsible investment.

Responsible Investment by Asset Class

Asset Class		2020	2021	2022
Domestic Equity	Internal Management	93.4	84.3	62.0
	External Management	8.0*	7.7*	63.4
Domestic Fixed Income	Internal Management (corporate bond)	-	38.2	37.7
	External Management	-	-	45.6
Global Equity	External Management	-	-	142.6
Global Equity	External Management	-	-	32.8
Total Amount of Responsible Investment		101.4 (12.2%)	130.2 (13.7%)	384.1 (43.2%)
AUM		833.1	948.1	889.8

* The amount of externally managed domestic equity in 2020 and 2021 refers to the amount of externally managed domestic RI funds, while the amount of externally managed domestic equity in 2022 includes all externally managed responsible investments, including externally managed domestic RI funds.
 ※ The amounts above are derived from the asset classes to which RI strategies and standards apply.

1) Securities under Rating D or below are not permitted to outweigh their benchmarks (This rule has applied to internally managed active domestic equity since 2021 and to internally managed passive domestic equity since 2022).

2. Negative Screening

In November 2019 when the FMC formulated a Plan to Facilitate Responsible Investment, it decided to additionally review the necessity, application scope, and process of negative screening. Accordingly, in February 2021, the FMC decided to review the adoption of negative screening in the field relating to climate change first. In May 2021, the FMC announced the adoption of negative screening on coal mining and coal-fired power industry as part of efforts to combat climate change, and decided to prepare an action plan through commissioned research.

In December 2021, in line with the decisions made by the FMC, NPS commissioned research to analyze the application scope, standards, and selection method of the target industry as a preparation process for the adoption of negative screening. In April 2022, the results of the commissioned research were reported to the FMC. NPS has constantly supported the development of a step-by-step action plan, including the scope and standards of the target industry, selection method of target companies, and implementation timing by asset class and geography, by gathering opinions from various stakeholders based on the research results.

3. Voting

(1) Criteria and Process

NPS exercises its voting rights on listed companies in good faith and in the best interests of the contributors and beneficiaries of the National Pension Plan according to the National Finance Act and the Guideline for National Pension Fund Management. Voting is conducted in accordance with the Guideline for Stewardship Activities which stipulates voting criteria, procedures, and methods, as well as by referring to advice from a third party agency specializing in agenda analysis, to vote in a professional and faithful manner.

Voting Process



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

Moreover, NPS strives to determine voting positions by listening to and considering companies' stances on agenda items at shareholder meetings. As such, NPS has been in constant communication with the market in light of the exercise of voting rights.

(2) Disclosure and Status

NPS discloses the results of voting activities and reasons for voting against, including applicable provisions in guidelines, within 14 days after a shareholder meeting is held. However, voting directions of certain agendas can be disclosed before a shareholder meeting. The agendas include (i) agendas of a company where NPS's shareholding ratio is more than 10% or its weight is more than 1% in the Fund portfolio, and (ii) agendas whose voting direction is determined by the Special Committee. In 2022, NPS disclosed 83 shareholder meetings prior to the meetings.

In 2022, NPS exercised voting rights on 3,439 agendas in 825 shareholder meetings for domestic equities.

Voting Results in 2021

3,378 in total in 2021

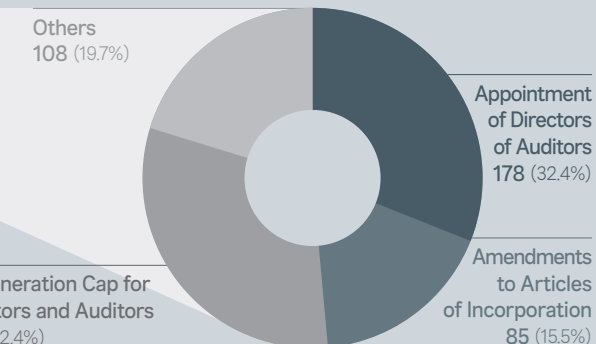
Abstentions/
Non-votes
21 (0.6%)

Against
549 (16.3%)

For
2,808 (83.1%)

Reasons for Voting Against in 2021

549 in total in 2021



Voting Results in 2022

3,439 in total in 2022

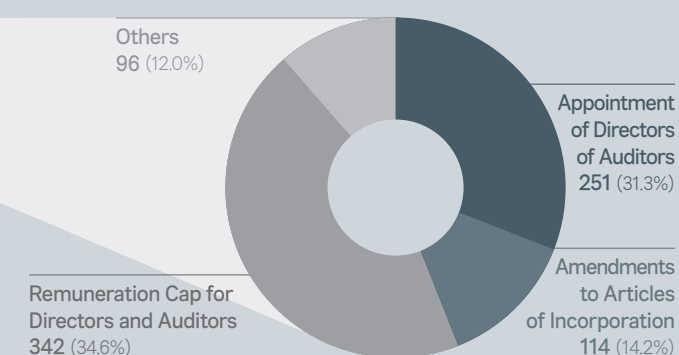
Abstentions/
Non-votes
11 (0.3%)

Against
803 (23.4%)

For
2,625 (76.3%)

Reasons for Voting Against in 2022

803 in total in 2022



Voting Activities in 2022



① Approval of Financial Statement

Regarding an agenda to approve the financial statement of Company A which did not pay out dividends, NPS voted **For** given that the company publicly discloses its dividend policy, etc. (it plans to implement the dividend policy at a time when revenues, including free cash flow, become stable as it is currently going through intensive investment.)

Regarding an agenda to approve the financial statement of Company B which paid out dividends in excess of net profits for the recent three years, NPS voted **For** given that the company had paid out dividends according to its disclosed dividend policy, as well as it is one-off loss and related to impairment loss.

Regarding an agenda to approve the financial statement of Company C where the BOD proposal was conflicting with shareholder proposal, NPS voted **For** the BOD proposal in consideration of the dividend policy disclosed by the company, dividend payout status in the past, its financial status, comparison with peer firms in the same industry, etc.

② Appointment of Directors and Auditor (Audit Committee Members)

NPS voted **Against** the appointments of an inside director in Company D, who held additional positions in 16 companies including the company; an outside director in Company E, who was a full-time employee in the company within the recent five years; a full-time employee in Company F, who was employed in a corporation that has a major stake in the Company F within the recent five years; an outside director in Company G, who represented an affiliate of the company in lawsuit; an Auditor candidate in Company H, who is a relative of the largest shareholder.

In addition, NPS voted **Against** the appointments of an inside director in Company I which was given legal sanction from the Fair Trade Commission due to illegal assistance and undue benefits, and an inside director in Company J which was given legal sanction from the Commission due to cartel, as the person was considered to have impaired enterprise value and infringed on shareholder rights and interests; and an outside director in Company K which was given legal sanction on mis-selling of financial products, as the person was considered to have neglected duty of oversight and have impaired enterprise value and infringed on shareholder rights and interests.

③ Amendments to Articles of Incorporation

NPS voted **For** the appointments to Articles of Incorporation of Company L, that newly add the company's obligations such as compliance with laws and regulations relating to sustainability management, safety management, and construction, establish the HSE Committee within BOD, and disclose sustainability management.

④ Approval for Remuneration Cap for Directors

NPS voted **Against** remuneration cap for directors in Company M as it was observed, after reviewing information on remuneration, that the amount of remuneration and business performance were not aligned, and the company did not provide its opinion on the matter. Meanwhile, NPS voted **For** remuneration cap for directors in Company N as it was observed that the amount of remuneration and business performance seemed to be aligned based on submitted information including severance pay.

4. Shareholder Engagement

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

At the outset of the adoption of the Responsible Investment & Governance Principles, NPS began exercising shareholder rights with agendas that are not involved in management affairs²⁾ in consideration of concerns over potential intervention and short-swing profit. Following this, the exercise of shareholder rights on agendas involved in management affairs was allowed when all conditions are met and only upon approval from the FMC. A case in point was the shareholder proposal on limiting the powers of directors of Hanjin KAL to help enhance its shareholder value, based on concerns over damage to shareholder value due to the deviant behaviors of management of Korean Air Lines and Hanjin KAL³⁾ in February 2019.

In line with the increasing call for enhancing predictability and transparency as well as alleviating concerns over interference in management and autonomy, NPS developed a Guideline for Active Ownership in December 2019, which describes principles, standards, and procedures of active ownership activities in a transparent manner. NPS remains committed to conducting shareholder engagement according to relevant guidelines and by doing so, NPS aims to encourage investee companies to voluntarily establish their own measures to improve shareholder value.

(1) Shareholder Engagement in Focus Areas

With the aim of achieving long-term and stable returns, NPS has focus areas⁴⁾ and conducts shareholder engagement. Focus areas include a dividend policy, remuneration cap for directors, violation of laws and regulations, repetitive vote against, and ESG rating downgrade.

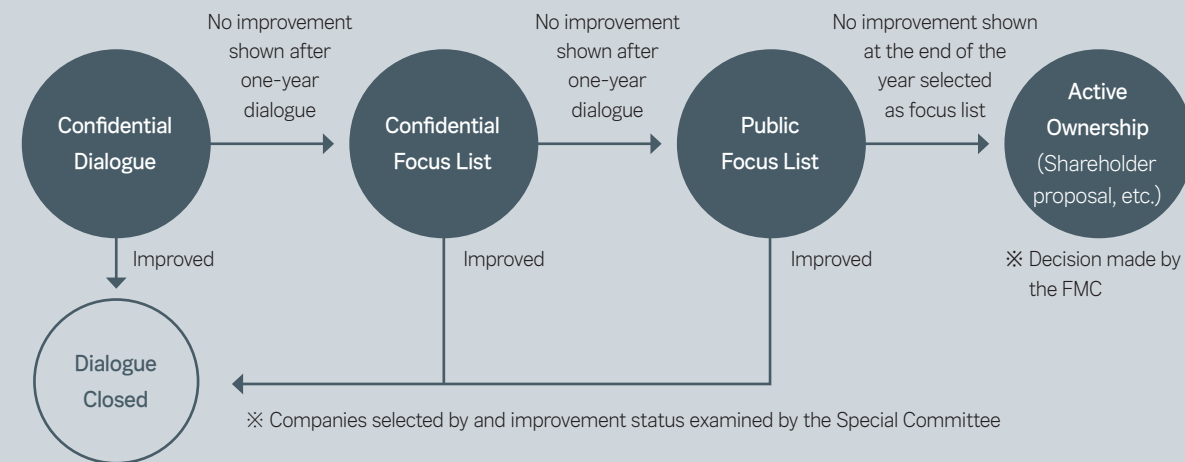
Shareholder engagement in focus areas is undertaken in stages according to the Guideline for Stewardship Activities for Domestic Equity, including a selection of focus list, confidential dialogue, selection of confidential focus list, selection of public focus list, and shareholder proposal. If a company in the focus list shows no improvement despite a series of shareholder engagements, NPS may exercise its voting rights for associated agendas or appointment of directors at a shareholder meeting or send open letters.

2) It refers to shareholder rights that virtually have an impact on a company, including shareholder proposal in relation to appointment of directors.

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

4) According to the approval by the FMC on Mar. 7, 2023, the Guideline for Stewardship Activities was amended to remove 'ESG rating downgrade' and add 'climate change' and 'industrial safety' in focus areas.

Shareholder Engagement Process on Focus Areas



Selection Criteria of Companies Subject to Focus Area

Dividend Policy	In case a company lacks a reasonable dividend policy or has not paid out dividend in accordance with a reasonable dividend policy
Remuneration Cap for Directors	In case shareholder rights and interests are infringed as a proposed remuneration cap is not aligned with the company's remuneration and business performance
Violation of Laws and Regulations	In case a company falls into the followings based on objective facts, such as investigations by authorities: ① Embezzlement or breach of trust; ② Provision of illegal assistance to related parties or another company (Illegal assistance); ③ Provision of undue benefits to related parties (Undue benefits)
Repetitive Vote Against	In case a company shows no improvement despite NPS's repetitive votes against at shareholder meetings
ESG Rating Downgrade	In case a company's ESG rating is downgraded by more than two ratings to below Grade C

① Dividend Policy

NPS selects companies subject to confidential dialogues from among companies that have not established nor disclosed a reasonable dividend policy, or have not paid out dividend. In 2022, NPS sent letters to and conducted dialogues with 38 companies on dividend policies. By forming an amicable communication channel, NPS encouraged such companies to voluntarily set out their dividend policy and communicate with the market, rather than presenting specific dividend figures or levels. As a result, the companies have disclosed their reasonable dividend policy on the Data Analysis, Retrieval & Transfer (DART) of Financial Supervisory Service (FSS) and their websites, giving rise to an increase in the predictability of investors on dividend payouts.

NPS conducted confidential dialogues with representatives of Company O and Company P, including their BOD and management, to explain the process and purpose of NPS's shareholder engagement in relation to a dividend policy. Prior to the dialogues, the companies did not have a dividend policy in place, but through the confidential dialogues, they deeply understood the necessity and purpose of establishing the dividend policy. As a result, the companies publicly disclose their dividend policy including dividend payout calculation criteria. Company O began considering the establishment of an investment plan to an extent that maintains net debt at 50%~100% level of EBIT, as well as returning 30% of net profits to shareholders. Company P began paying out dividends every six months and maintaining a dividend payout ratio at the level of 10% and above. As such, the disclosure of a dividend policy has helped investors understand the companies' decision-making criteria on dividends and enhance the predictability of the companies' dividends.

② Remuneration Cap for Directors

NPS selects companies subject to confidential dialogues in consideration of actual remuneration relative to remuneration cap, from among companies that NPS voted against at recent shareholder meetings with a reason of excessive actual remuneration at odds with business performance. In 2022, NPS sent letters to and conducted dialogues with 13 companies. NPS formed an amicable communication channel with such companies and encouraged them to develop action plans that help enhance shareholder value. As a result, the companies voluntarily made progress in their remuneration cap policies, including establishing a Remuneration Committee and adjusting their remuneration cap.

NPS conducted confidential dialogues with representatives of companies, including their BOD and management, to discuss △ the process and purpose of NPS's shareholder engagement in relation to remuneration cap for directors, △ concerns over addressing such agendas at shareholder meetings as a mere formality, and △ the linkage between business performance and actual remuneration provided to inside directors, when the gap between remuneration cap and actual remuneration is large. After the confidential dialogues, they deeply understood the purpose of having the confidential dialogues and investors' concerns. As a result, the BOD of Company Q has established its Remuneration Committee, reformed the remuneration system for inside directors, developed a detailed variable pay system considering the characteristics of the industry and in line with performance, and narrowed the gap between actual remuneration and remuneration cap by setting a remuneration cap considering expected remuneration. Company R has enhanced the transparency of its remuneration system by disclosing remuneration cap for stock-based compensation, given that the existing disclosure of remuneration cap for directors, which was paid in cash, did not provide a full explanation of long-term incentives to shareholders in the process of the adoption of the restricted stock unit as part of long-term incentives.

③ Violation of Laws and Regulations

NPS selects companies subject to confidential dialogues from among companies which may damage enterprise value or impair shareholder rights and interests due to embezzlement, breach of trust, illegal assistance or undue benefits, based on objective facts such as charge by prosecutor and sanction by the Fair Trade Commission. In 2022, NPS sent letters to and conducted dialogues with 17 companies. NPS formed an amicable communication channel with such companies and encouraged them to develop action plans that help enhance shareholder value.

NPS selects companies subject to confidential dialogues on concerns over violation of laws and regulations on a quarterly basis, and conducts confidential dialogues even on unresolved issues in the past such as issues whose ruling is not finalized by the Supreme Court. In 2022, NPS conducted confidential dialogues with representatives of Company S, including their BOD and management, to explain the process and purpose of NPS's shareholder engagement in relation to embezzlement of management, and to check facts, measures taken, and improvement measures concerning behaviors that may have concerns over violation of laws and regulations. After the confidential dialogues, Company S deeply understood the necessity to actively respond to such cases by improving its internal compliance system to prevent the recurrence of similar cases. As a result, the company has developed ways to manage risks and improve its compliance system, and formulated a plan to claim against damage based on the liability ratio decided by the court and in accordance with internal regulations once the punishment of executives is confirmed. In addition, NPS conducted confidential dialogues with Company T which was found to be sanctioned by the Fair Trade Commission due to illegal assistance, and afterwards, the BOD of the company established measures to prevent recurrence of similar cases across the company by amending its guideline for affiliates and streamlining internal control activities.

④ Repetitive Vote Against

NPS selects companies subject to confidential dialogues in consideration of the number of voting against, room for improvement, and portfolio weight, from among companies which NPS voted against more than twice with the same reason concerning agendas relating to the appointment of directors and auditor within the recent five years. In 2022, NPS sent letters to and conducted dialogues with 11 companies to build consensus on the reason for voting against in line with the Guideline for Stewardship Activities and encouraged them to formulate action plans that help enhance shareholder value. As a result, the companies made progress, including implementing action plans.

NPS conducted confidential dialogues with representatives of Company U and V, including their BOD and management, to explain the process and purpose of NPS's shareholder engagement, as well as the reasons for repeatedly voting against. After the confidential dialogues, they deeply understood the purpose of having the confidential dialogues in relation to repeatedly voting against. As a result, Company U, which received repeated voting against due to having a full-time employee of a company with a major stake in Company U within the recent five years, has added a new provision 'review of the independence of outside directors' to the regulations of its Committee under its BOD. Company V, which received repeated voting against due to negligence on the duty of oversight, has made improvement by establishing measures to prevent recurrence and enhancing internal control.

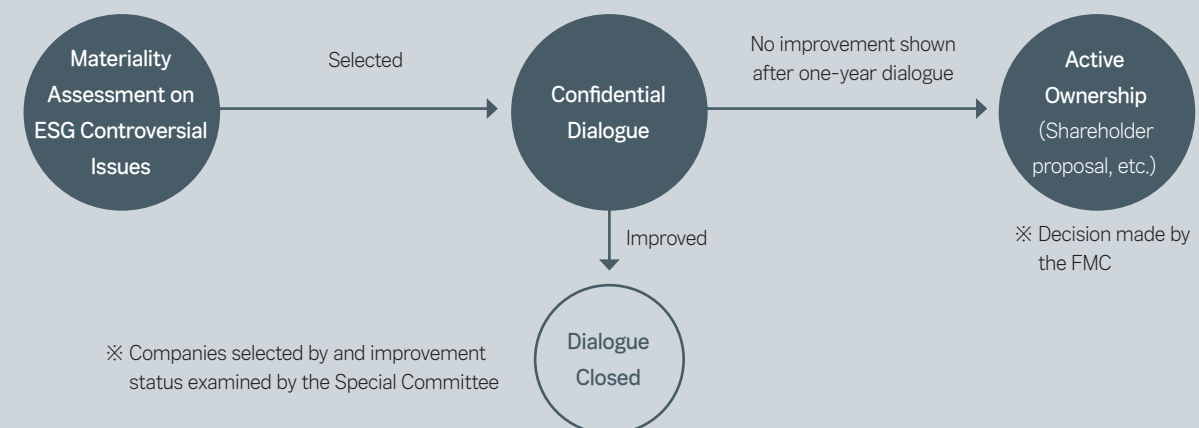
⑤ ESG Rating Downgrade

NPS selects companies subject to confidential dialogues based on a qualitative assessment on the reasons for ESG rating downgrading and NPS's asset exposures, from among domestic listed companies whose ranking dropped by more than two ratings to Rating C or D compared to the previous ESG evaluation. In 2022, no companies had such results.

(2) Shareholder Engagement on Unexpected Concerns

With the aim of delivering long-term profitability and enhancing shareholder value, NPS fosters shareholder engagement in unexpected concerns in relation to ESG when concerns over damage to enterprise value or shareholder rights and interests arise. According to the Guideline for Stewardship Activities for Domestic Equity, NPS conducts shareholder engagement in companies with ESG controversial issues⁵⁾ in stages: conducting materiality assessments, selecting companies subject to confidential dialogues, and making shareholder proposals. If no improvement is made despite a series of shareholder engagements, it is linked with voting on the appointment of directors and auditors at shareholder meeting. If it deems that no willingness is shown to make improvement, including refusing confidential dialogues, an open letter may be sent to such companies.

Shareholder Engagement Process on Unexpected Concerns



In 2022, NPS sent 48 letters to and conducted materiality assessments on companies with ESG controversial issues, including investigations by authorities, violation of environmental laws, and casualties occurring at workplace. NPS sent letters to and conducted dialogues with three companies to form an amicable communication channel and encourage them to develop action plans that help enhance shareholder value. As a result, the companies voluntarily made improvement, including establishing measures to prevent recurrence.

NPS conducted confidential dialogues with representatives, including the BOD and management, of Company W in relation to industrial safety such as casualties occurring at workplace. The company deeply understood the necessity and purpose of actively implementing corrective measures, establishing improvement measures to prevent recurrence, and disclosing information on such matters in a transparent manner. As a result, the company has made progress in relation to safety, including improving work process and equipment to prevent recurrence, discussing safety issues on a regular basis at BOD by establishing the 'safety first' management principle, strengthening governance and organization relating to safety, establishing safety systems and programs, expanding safety manpower and education, disclosing more information, etc.

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

(3) Active Ownership

NPS formulated the Guideline for Active Ownership in December 2019 to enhance enterprise value and undertake shareholder engagement in a transparent and fair manner. The focus of the Guideline is not on involvement in management affairs, but on enhancing shareholder and enterprise value by helping develop improvement measures through sufficient dialogues in relation to focus areas and unexpected concerns. When an issue requiring shareholder engagement occurs, NPS seeks to check the facts and conducts sufficient dialogues to address issues according to the Guideline for Stewardship Activities for Domestic Equity. Only when it is difficult to expect improvement from a company is active ownership engagement conducted.

Active Ownership Activities

	Description
Target Company	• Companies that show no improvement, from among companies in public focus list and companies subject to confidential dialogues on unexpected concerns
Engagement Standards	• Case-by-case in consideration of a range of factors including industrial characteristics, business conditions, feasibility of shareholder proposal, cost-effectiveness, and implication for the market
Selection Process	• The Special Committee on Responsible Investment & Governance decides on companies that show no improvement, reviews the need for and the contents of a shareholder proposal, and reports it to the National Pension Fund Management Committee (FMC). - The FMC decides the need for and the contents of the shareholder proposal based on the review of the Special Committee.
Shareholder Proposal	• The FMC makes a final decision on the contents of a shareholder proposal within a permitted range of the Commercial Act and the Financial Investment Service and Capital Market Act.

(4) Litigation

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

III . Global Investor Network for Responsible Investment

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

In order to implement the Responsible Investment & Governance Principles, or Stewardship Code, and enhance associated capabilities, NPS joined two investor-led organizations dedicated to corporate governance and investor shareholder engagement in September 2019: the International Corporate Governance Network (ICGN)⁷⁾ and Asian Corporate Governance Association (ACGA)⁸⁾. Moreover, NPS joined the Asia Investor Group on Climate Change (AIGCC)⁹⁾ in November 2020, an initiative to enhance awareness of climate change, expand a network and encourage action among institutional investors in Asia about the risk and opportunities associated with climate change and low carbon investing.

Furthermore, NPS joined the IFRS Sustainability Alliance (previously SASB (Sustainability Accounting Standards Board) Alliance)¹⁰⁾, a global membership program for sustainability standards, in 2022, in line with the increasing calls for developing standards for a global baseline of sustainability disclosures and identifying the materiality of ESG factors per industry.

Going forward, NPS will remain committed to ramping up its capacity and expertise in ESG based on research, best practices, and guidelines provided by the ICGN, ACGA, AIGCC and IFRS Sustainability Alliance, and harness them when making decisions around ESG investing and exercising shareholder rights.

Global Network for Responsible Investment



6) The Principles for Responsible Investment (PRI) is a global initiative launched by UNEP financial Initiatives and the UN Global Compact in collaboration with financial institutions as an international network of investors working together to put its six Principles for Responsible Investment into practice. As of March 2022, the PRI has 4,902 signatories with total assets under management of around KRW 162,445 trillion.

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

8) The Asian Corporate Governance Association (ACGA) is an independent membership organization dedicated to enhancing financial environment ecosystem including corporate governance practice throughout Asia, and conducts analysis in rules and regulations on corporate governance. The ACGA has 111 members from 19 countries as of 2022.

9) The Asia Investor Group on Climate Change (AIGCC) is launched to encourage action among Asia's asset owners and financial institutions about the risk and opportunities associated with climate change and low carbon investing and provide capacity for investors to share best practices and to collaborate on investment activities, credit analysis, and policy engagement. As of 2022, the AIGCC has 69 members, including pension funds, asset managers and relevant organizations.

10) The IFRS Sustainability Alliance (previously SASB Alliance) was founded in 2011 as a not-for-profit, independent standards-setting organization to establish and maintain industry-specific standards that assist companies in disclosing financially material, decision-useful sustainability information to investors.

IV . Looking Ahead

1. ESG Investing

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

(1) Expand RI Coverage in Portfolio

NPS has applied ESG Integration to internally managed domestic equity and internally managed domestic fixed income (corporate bond), and seeks to apply it to global equity and fixed income going forward. In 2022, ways to apply ESG Integration to global equity and fixed income were formulated based on the results of commissioned research conducted in 2021 and discussion with investment departments, and the ways were reported to the Special Committee on Responsible Investment & Governance. According to the measures, NPS will apply ESG Integration to global equity and fixed income by amending the Guideline for ESG Integration.

(2) Develop Phased Action Plans on Negative Screening (Coal Phase-out)

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

(3) Create Foundation to Promote Responsible Investment

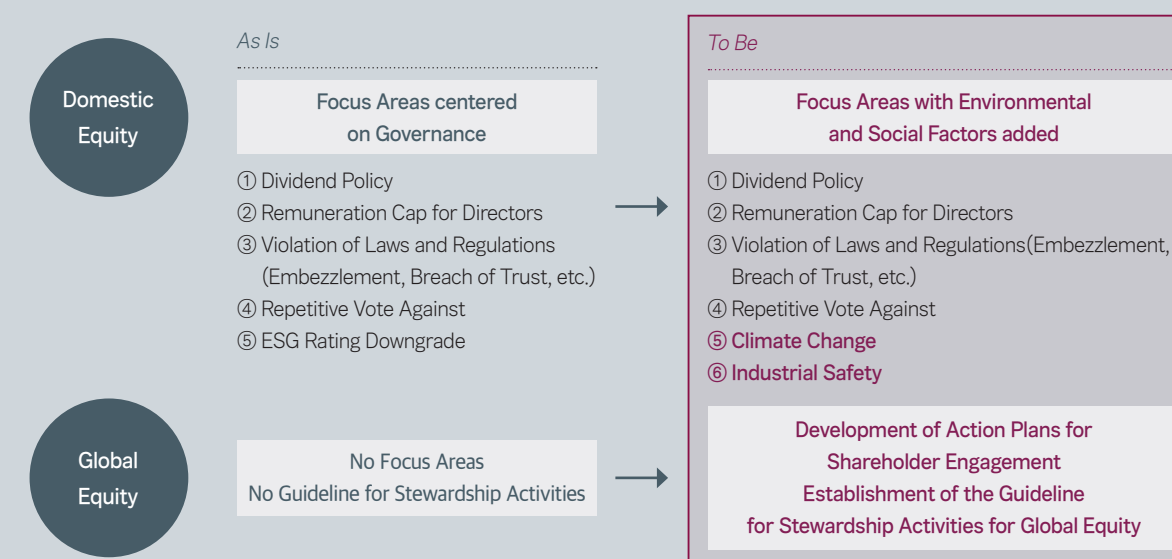
NPS will continue to improve its ESG Evaluation System and review ways to consider ESG-related information for the purpose of maximizing returns in a long-term and stable manner. In addition, as part of efforts to enhance capacity and expertise in responsible investment, NPS has dispatched a professional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

2. Exercise of Shareholder Rights

The FMC has announced its plan to diversify its shareholder engagement from its current focus on governance to include environmental and social factors, and to expand the scope of asset classes subject to shareholder engagement, such as dialogue, to global equity in line with the Plan to Facilitate Responsible Investment. NPS will implement the decisions made by the FMC on a step-by-step basis, and furthermore make a derivative suit according to the Guideline for Stewardship Activities for Domestic Equity and related standards for derivative suit.

(1) Expand the Scope of Shareholder Engagement

The FMC has decided to expand the scope of shareholder engagement when developing the Plan to Facilitate Responsible Investment. Accordingly, NPS announced that it would expand shareholder engagement activities for domestic equity and begin conducting shareholder engagement for global equity. To this end, for domestic equity, ways to add climate change and industrial safety to focus areas were reviewed through commissioned research, in a bid to expand the scope of stewardship activities from the current focus on governance to include environmental and social aspects. Based on the results of the commissioned research, climate change and industrial safety are added to focus areas, and a detailed action plan will be developed to conduct shareholder engagement going forward. For global equity, commissioned research was conducted to benchmark the best practices of global leading peers, and based on the research results, ways to implement shareholder engagement considering regulatory policies in each country and the characteristics of each industry will be developed.



(2) Initiate Litigation

In July 2018 when adopting the Responsible Investment & Governance Principles, or Stewardship Code, NPS established the criteria and grounds to file a derivative suit and damage claim suit, in a bid to contribute to increasing shareholder value over the long-term horizon. Currently, NPS is working on the development of standards to file a derivative suit, which include detailed implementation measures.

Going forward, NPS will review cases subject to a derivative suit by comprehensively considering the impact on fund performance, the possibility of winning, and the enhancement of enterprise value in the long term, in accordance with applicable criteria and grounds, when necessary.

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

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

V . Stewardship Activities Statistics

1. Voting Activities in Domestic Equity

In 2022, NPS voted on a total of 3,439 agendas in 825 shareholder meetings for domestic equity holdings, including 2,625 For (76.33%), 803 Against (22.35%) and 11 Abstention/non-vote (0.32%). The reasons behind 803 votes Against included the appointment of directors and auditors (251, 31.3%), amendments to articles of incorporation (114, 14.2%), remuneration cap for directors (342, 42.6%), and others (96, 12.0%).

① Votes Cast

Year	No. of Companies NPS invests in	No. of Shareholder Meetings	No. of Votes Cast	Voting Result		
				For (Weight)	Against (Weight)	Abstention/ non-vote (Weight)
2022	1,143	825	3,439	2,625 (76.33%)	803 (23.35%)	11 (0.32%)
2021	1,208	773	3,378	2,808 (83.13%)	549 (16.25%)	21 (0.62%)
2020	1,033	854	3,397	2,854 (84.02%)	535 (15.75%)	8 (0.24%)

② Reasons for Voting Against

Reason	2020		2021		2022	
	Number	Weight (%)	Number	Weight (%)	Number	Weight (%)
Appointment of Directors and Auditors	245	45.8	178	32.4	251	31.3
Amendments to Articles of Incorporation	37	6.9	85	15.5	114	14.2
Remuneration Cap for Directors	155	29.0	178	32.4	342	42.6
Others	98	18.3	108	19.7	96	12.0
Total	535	100.0	549	100.0	803	100.0

③ Reasons for Voting Against Appointment of Directors and Auditors

Reason	2020		2021		2022	
	Number	Weight (%)	Number	Weight (%)	Number	Weight (%)
Long Service (10+ years)	33	13.5	22	12.4	10	4.0
Full-time Employee in the company, affiliate or a company with a major stake within the recent five years	77	31.4	45	25.3	71	28.3
Poor Attendance on the Board (75% or below)	24	9.8	15	8.4	13	5.2
Excessive Dual Office Holding	43	17.6	31	17.4	33	13.1
Negligence on Duty of Oversight	10	4.1	19	10.7	25	10.0
Others	58	23.7	46	25.8	99	39.4
Total	245	100.0	178	100.0	251	100.0

2. Shareholder Engagement Activities

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

In 2022, NPS undertook 272 shareholder engagement activities with 139 companies, including sending letters and conducting confidential dialogues.

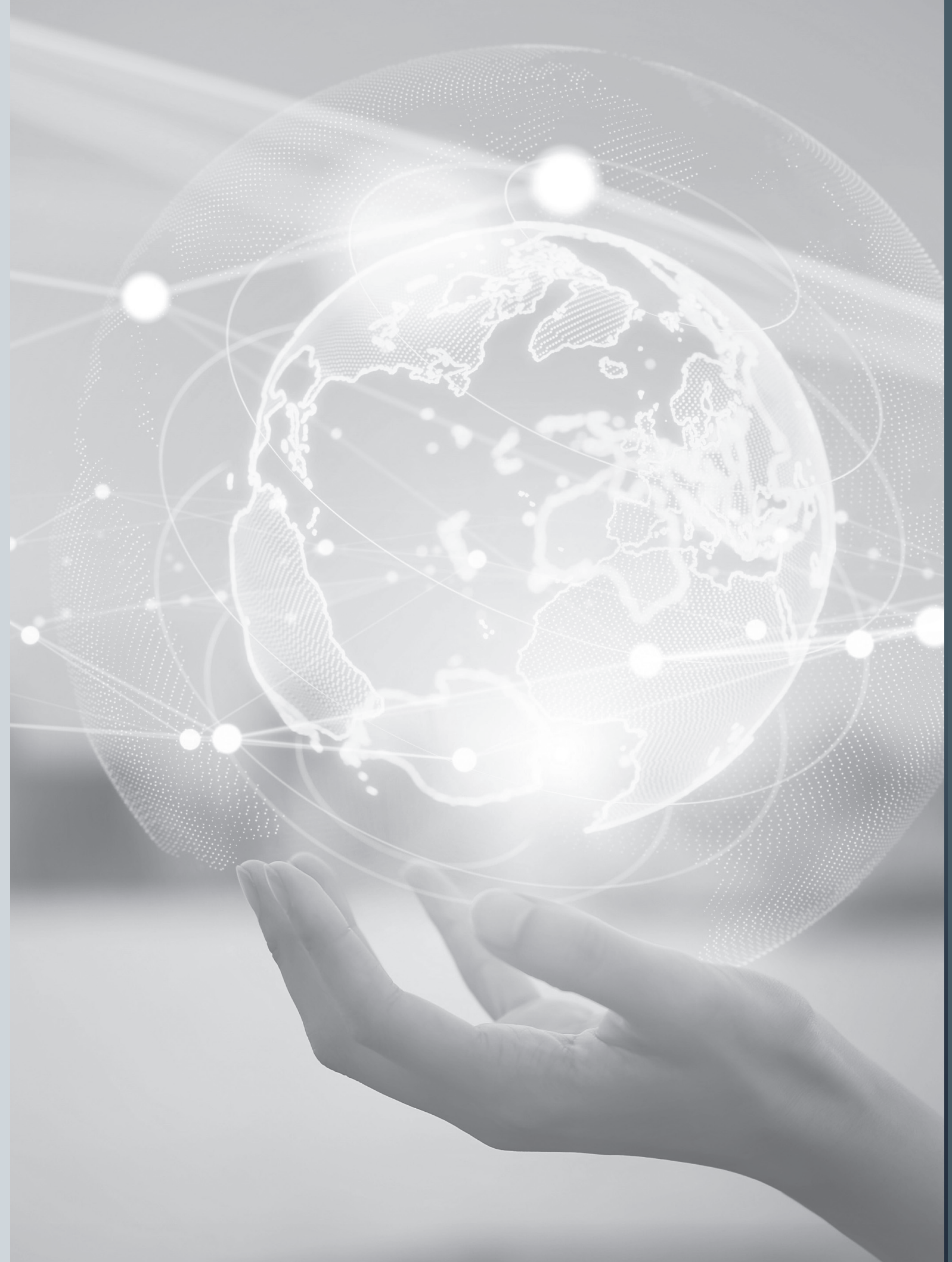
Shareholder Engagement Activities

Item	No. of Companies ²⁾		Letters Sent (Confidential-Open)		Confidential Dialogues		Total (Letters and Confidential Dialogues)	
	2021	2022	2021	2022	2021	2022	2021	2022
Dividend Policy	30	38	41	47	20	25	61	72
Remuneration Cap for Directors	12	13	12	13	29	23	41	36
Violation of Laws and Regulations	26	17	36	15	39	25	75	40
Repetitive Vote Against	11	11	11	12	16	23	27	35
ESG Rating Downgrade	1	0	1	0	5	0	6	0
Unexpected Concerns	26	39	31	50	7	11	38	61
Others ¹⁾	52	21	45	0	20	28	65	28
Total	158	139	177	137	136	135	313	272

Notes:

1) Others include fact checks and explanations of agendas at shareholder meetings.

2) It indicates the number of companies which NPS sent letters to and conducted confidential dialogues with.



Guide to the Website

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

Disclaimer

This annual report is published to disclose information about investment status and investment performance of the National Pension Fund. Please note that the information may differ as of the date of searching, and further information check may be needed due to absence of detailed explanations this report. This report reflects the results of the performance assessment on the National Pension Fund for the period ended December 31, 2022, approved by the National Pension Fund Management Committee. More 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. The original annual report was drafted in Korean. This document is an English translation of the original. In case of any discrepancies between the English and Korean text, the latter will prevail.

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



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