

A photograph of three white wind turbines standing on a rolling green hill. The sky is a clear blue with some light, wispy clouds. The foreground is filled with tall, golden-brown grass. The overall scene is peaceful and represents sustainable energy.

2020

# SUSTAINABLE INVESTMENT REPORT

KOREA INVESTMENT CORPORATION

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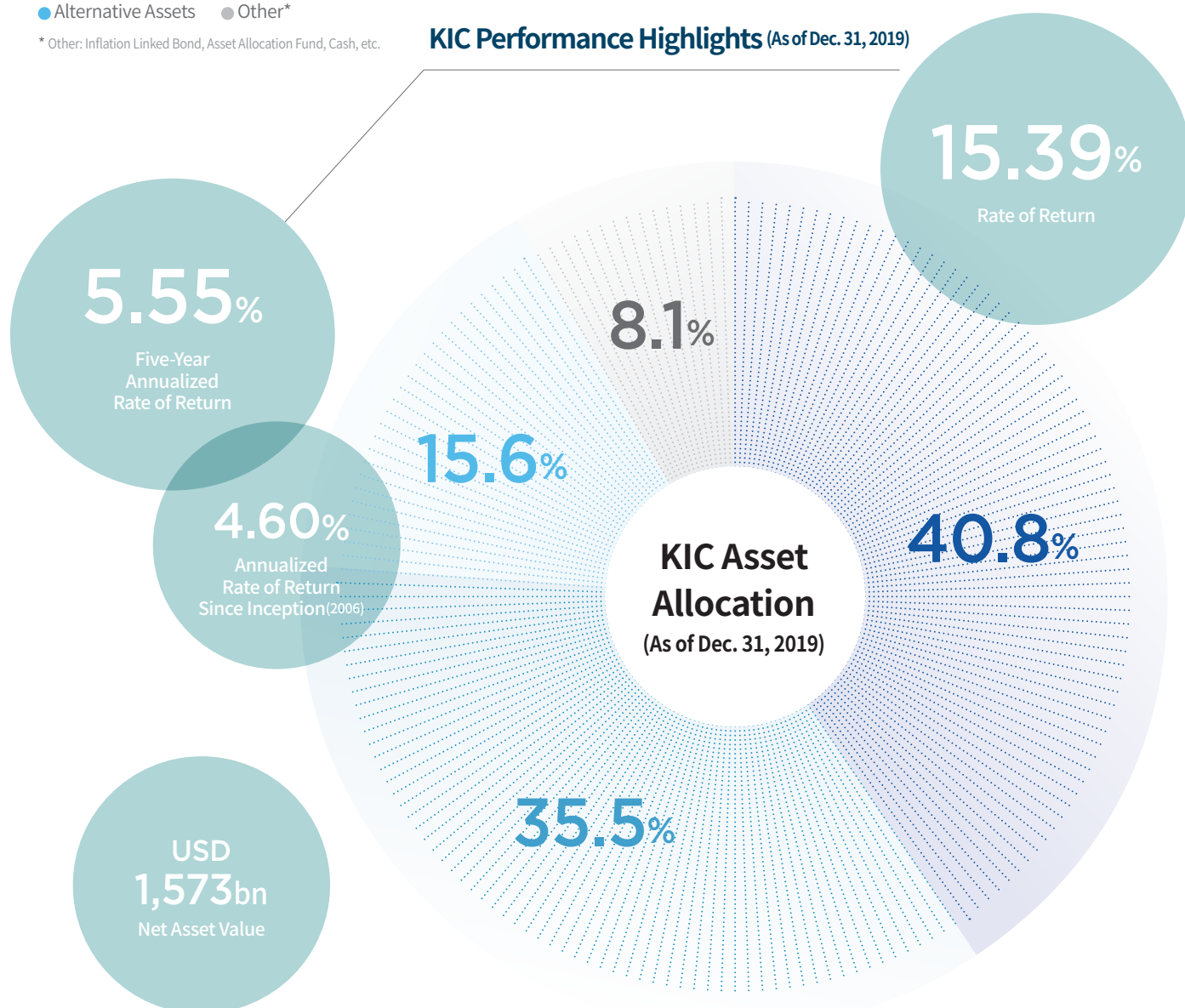
Looking Ahead

# Introduction to KIC

KIC, the sovereign wealth fund of Korea, was established in 2005 to efficiently manage assets entrusted by the government of Korea and Bank of Korea. Based on principles of prudent and responsible asset management, we are committed to pursuing sustainable growth, minimizing market and asset risk through diversified investing and actively and flexibly seeking investment opportunities. Going forward, as an overseas investor in Korea's public investment sector, we plan to increase collaborations with domestic and foreign financial institutions.

- Public Equity
  - Fixed Income
  - Alternative Assets
  - Other\*
- \* Other: Inflation Linked Bond, Asset Allocation Fund, Cash, etc.

## KIC Performance Highlights (As of Dec. 31, 2019)



# CEO Message



## The COVID-19 pandemic has caused immeasurable suffering worldwide and unprecedented challenges in the finance industry and capital markets.

The crisis is what Yale University emeritus professor Charles Perrow referred to as a “normal accident” – an accident that is inevitable in a system extremely complex, tightly coupled and having catastrophic potential.

Indeed, COVID-19 has not only caused a pandemic, but also revealed the dangers of our highly complex, tightly coupled world.

In this world, corporate activities have a profound impact on the environment and society, and stakeholders expect more from companies and their governance. Non-financial factors represented by ESG are increasingly used in corporate valuations and impact returns. And ESG-related issues, including the United Nation’s Sustainable Development Goals and how investments could affect the environment, society and future of business, are becoming more important among investors.

At KIC, we are working hard to adopt responsible investments. We have established our own stewardship principles and are actively promoting ESG integration into all asset classes and investment processes.

We have also helped structure and establish the framework for the Korean government’s green and sustainability bond, a first such bond globally and one that was successfully issued in June of 2019. KIC will use the proceeds to invest in environmental and social projects.

Sustainability takes on added significance in the Covid-19 era. After all, if Covid-19 is a “normal accident” that happens in a tightly connected world, then the best way to fight it is with transparency in the interactions that bind us and through working together. Sustainable investments are based on exactly these factors – transparency and mutual cooperation – and seek to solve problems across systems while increasing long-term value.

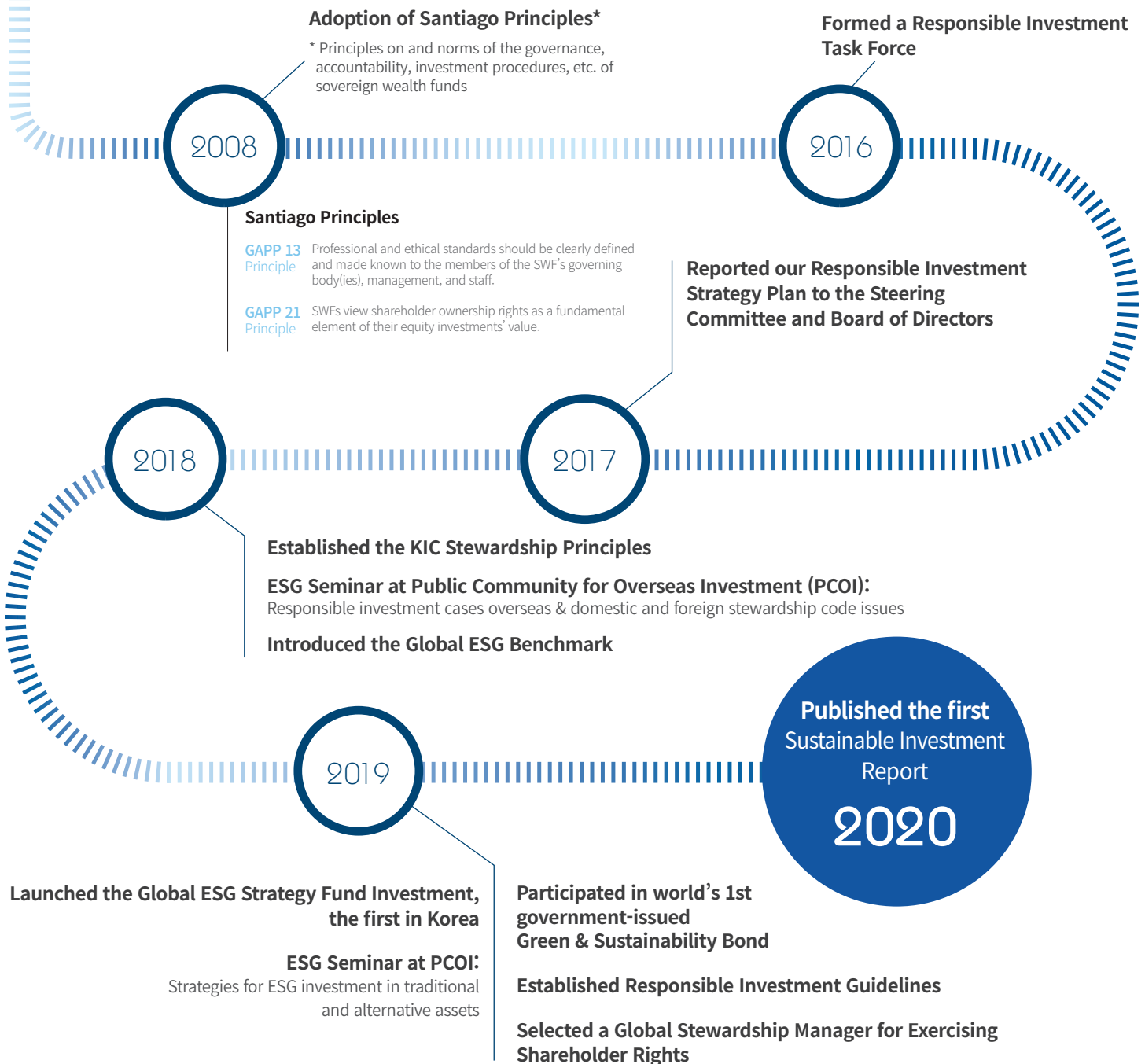
The following pages outline how KIC has been pursuing ESG integration and environmental and social projects. Consider this our pledge to increase investment sustainability – and to promote transparency and mutual cooperation along the way.

**Heenam Choi**

Chairman / CEO  
June 2020

# Milestones

## KIC Sustainable Investment Timeline



# Responsible Investment Policy

Responsible investment refers to an investment that takes into account environmental, social and governance factors along with financial factors in all investment processes to achieve sustainable returns at the portfolio level.





# Responsible Investment Policy

A responsible investment is an investment that reflects not only the financial factors of the target company, but also such non-financial factors as environmental, social and governance. We're seeing more responsible investments worldwide, and they will continue growing.

At KIC, we expect a focus on ESG – the consideration of ESG issues in investment decisions – to contribute to sustainable returns at the portfolio level. Introducing the KIC Stewardship Principles in December of 2018, we laid the foundation for our responsible investment policy. In 2019, we included a responsible investment clause in our Investment Policy Statement(IPS) and enacted related business guidelines as well.

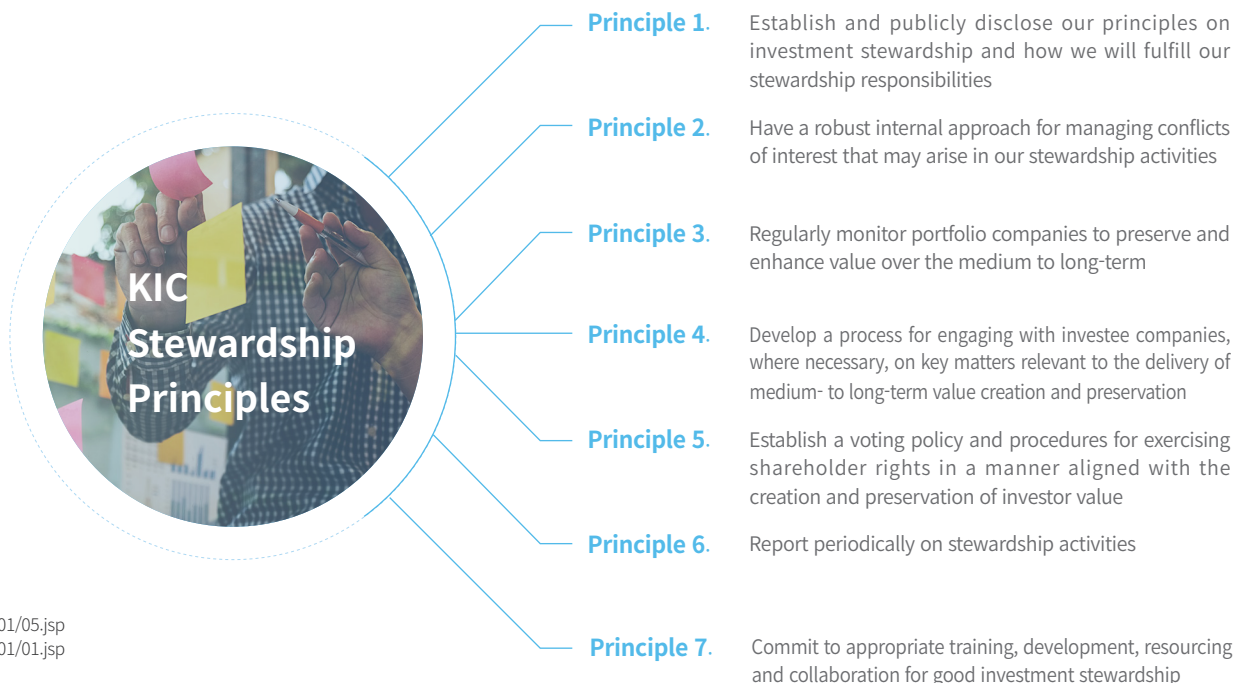
## KIC Stewardship Principles

KIC established and announced the KIC Stewardship Principles<sup>1)</sup> (Dec. 2018) to actively apply global standards and emphasize our faithful commitment to our fiduciary duty.

## Establishment of Responsible Investment Clause & Responsible Investment Guidelines

KIC included a responsible investment clause (Sept. 2019) in our Investment Policy Statement<sup>2)</sup>(IPS) and established responsible investment guidelines (Oct. 2019) to outline the procedures and standards for responsible investment-related work. The IPS, KIC's most authoritative guidelines, includes KIC's investment philosophy, principles and processes.

"In order to increase long-term and stable profits, the company may engage in responsible investing, which considers environmental, social, and governance factors in managing assets." <KIC IPS>



1) <http://kic.kr/en/02/01/05.jsp>

2) <http://kic.kr/en/02/01/01.jsp>

# ESG Integration

ESG integration represents an investment approach that incorporates ESG factors in all investment decision-making processes. KIC has established ESG approaches suitable for traditional and alternative assets as well as direct and indirect investments.



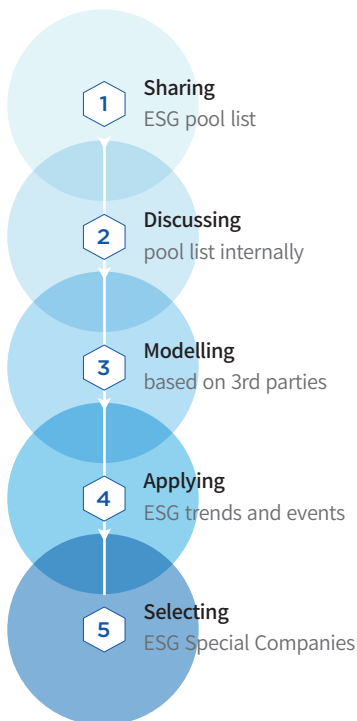


## Traditional Asset

### ESG Integration

KIC performs ESG integration by taking into account environmental, social and governance factors in all asset classes and investment processes. The aim is to increase long-term value and returns by reflecting ESG factors that could have a material impact on the value of the target company.

### >>> ESG Special Companies Selection Process



### Global ESG Strategy Fund

In April of 2019, KIC selected a global ESG benchmark composed of companies that perform well in terms of ESG from our equity benchmark (MSCI All Country World Index ex Korea) and Korea's first global ESG strategy fund. In doing so, we expanded our investment in companies managing ESG risks and aim to achieve excess returns over equity benchmarks in the mid- to long-term.

The global ESG strategy fund is managed by a global asset manager and has recorded excess returns on KIC's equity benchmark as of December, 2019. KIC will continue to monitor the global ESG strategy fund and discover new ESG strategies to establish a more advanced ESG investment strategy.

### ESG Special Companies Program(Divestment)

With investors growing more interested in ESG and an increase in fund inflow, companies are paying more attention to ESG. That means companies that perform less well in terms of ESG are drawing less interest. When it comes to corporate value, ESG is clearly an important factor.

KIC runs the Special Companies Program to check a company's ESG information, which includes not only financial factors but also non-financial factors in the direct investment of traditional assets, and to manage exposure to low-performing companies at the portfolio level. We select Special Companies based on external ESG assessments and the views of our Sustainability Working Group.

We regularly monitor our ESG Special Companies and proactively manage their investments to achieve mid- to long-term returns.

### Responsible Investment Assessment Platform For External Managers

When selecting external managers, KIC looks at how they conduct responsible investments for such traditional assets as stocks and bonds. We give points for how ESG factors are reflected in an external manager's policies, processes and organizational structure and in their risk management processes.

We introduced this responsible investment assessment process in January of 2020. We have since been reflecting all results in our external manager selection process.

We will have evaluated the degree to which our existing external managers conduct responsible investment by the first half of 2020. We want to help other investors realize the importance of responsible investment.



## Alternative Asset

### ESG Assessment Platform

KIC conducts an independent ESG review of the target companies and target assets involved in direct and co-investments to check for potential ESG risks.

Also, when investing in green and social projects with the capital raised from a government-issued green & sustainability bond that we manage, we consider such related impacts as reduced carbon emissions and energy savings and job creation.

### Intensive ESG Check System

We closely target companies and assets in terms of ESG factors and check ESG risk factors through internal experts or external advisors when necessary.

### ESG Questionnaire

KIC asks external managers to complete ESG Questionnaires when indirectly investing in private equity, real estate, infrastructure and hedge funds. Due to the nature of external managers who handle alternative assets, they are evaluated qualitatively instead of with additional quantitative points, as is the case with traditional assets.

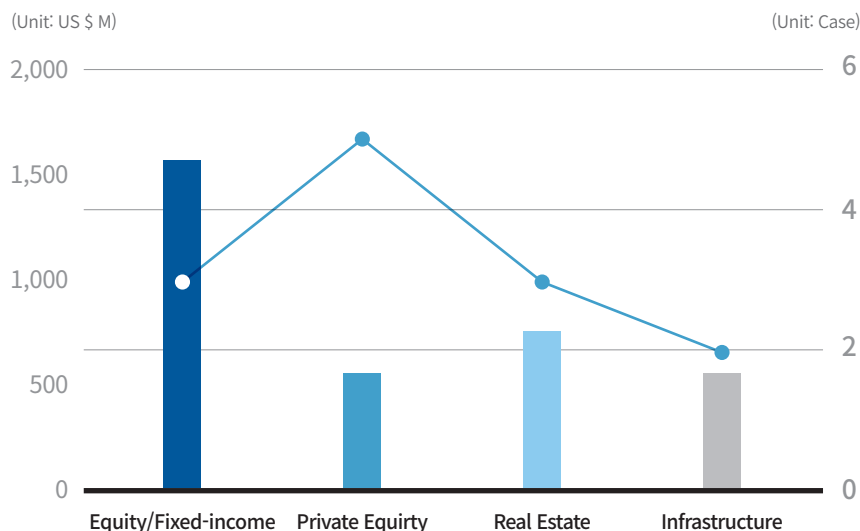
In doing so, we encourage our alternative asset external managers to actively consider policies and processes related to responsible investment. KIC will also better identify the best practices of global external managers and strengthen our capabilities.

ESG findings on all alternative assets are reported to both the Investment Working Committee and the Investment Committee and are reflected in our investment decisions.

### >>> Q1 2020 Traditional and Alternative ESG Assessment

Since their introduction in January, ESG Assessments have been conducted on 3 equity/fixed-income external managers and 10 alternative external managers and direct / co-investment projects. All results are reflected in KIC's investment process.

- Investment Capital(LHS)
- ESG Assessments Case(RHS)





## Green & Sustainability Bond

In June of 2019, the Korean government issued a five-year green and sustainability bond worth \$500 million to raise awareness of responsible investment, in line with global trends, including sustainable development and environmental and social values. This was the world's first government-issued Sustainability bond.

### Participation in Bond Issuance Process and Entrustment of Funds

KIC took part in the issuance process for the Korean government's (Ministry of Economy and Finance) green and sustainability bond. We helped establish the framework<sup>3)</sup>, outlining eligible assets for investments to be made with the bond proceeds, criteria for environmental and social impact and reporting plans.

To enhance investor trust in our green and sustainability bonds and to comply with global financial market practices, KIC has completed verification of the bond framework through obtaining a second-party review<sup>3)</sup>.

On June 13, 2019, the government successfully issued the first green and sustainability bond. As of Mar 2020, KIC invests \$360 million in green & social projects using entrusted bond proceeds to enhance environmental and social value.

### >>> Issuance Result

5Y Green & Sustainability Bond (ISIN:US50064FAR55)	
Amount	US\$ 500M
Maturity Date	2024.6.19.
Yield	2.177% (US 5Y Treasury Rate + 30bp)
Coupon Rate	2.0%

### >>> Entrustment and Investment Process



3) <http://kic.kr/en/02/03/05.jsp>



## Green & Social Projects

KIC is entrusted with the proceeds of the government's green and sustainability bond to invest in green and social projects. KIC will examine and disclose the environmental and social impact of each investment, including reductions in carbon dioxide and greenhouse gases emissions, renewable energy generation, job creation and the number of users who will benefit (i.e., patients in the event of a medical investment). Through this, KIC aims to increase trust in government-issued green and sustainability bond investors, grow in the global ESG market and achieve the UN Sustainable Development Goals over the long-term.

### Green Project

KIC invests in green projects including green buildings, renewable energy, clean transportation, waste energy and water management, joining the global response to climate change.



- Renewable Energy
- Clean Transportation
- Green Building
- Energy Efficiency
- Water and Wastewater Management
- Waste Management & Waste-To-Energy

### Social Project

To support the development of countries with lower economic and social development levels, KIC invests in social projects such as education, health care, affordable basic infrastructure and venture investment exclusively in countries that qualify for ODA\*

\* Official Development Assistance



- Health Care
- Affordable Basic Infrastructure
- Education
- Venture Investment

### Green & Social Project

Green & Sustainability Bond Issue Amount (USD)

**\$500** Million

GHG Emission Reduction (MT CO<sub>2</sub>e)

**279,204**

Green Building Energy Saving (MWh)

**629**

Green Building Area (m<sup>2</sup>)

**236,000**

Annual Waste Reused/Recycled or Treated (MT)

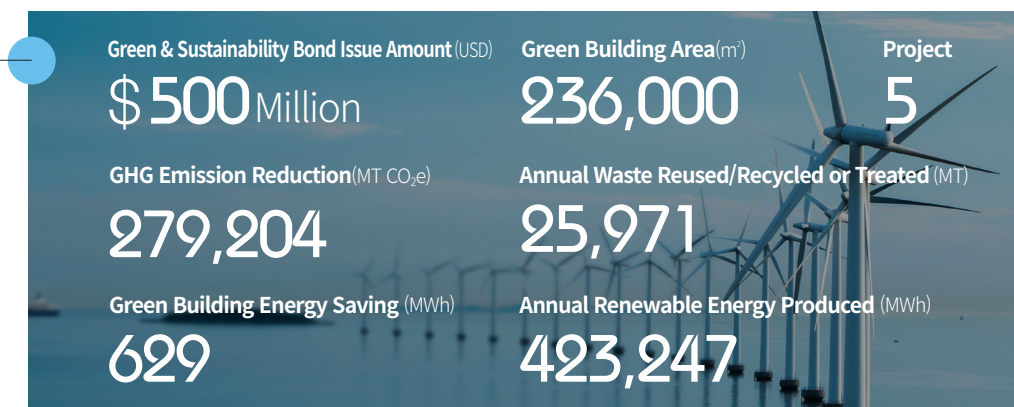
**25,971**

Annual Renewable Energy Produced (MWh)

**423,247**

Project

**5**



## Green Building

KIC invests in green buildings that seek to be environmentally sustainable through the efficient use of resources such as energy and water.

No.	Project	Description	Allocated Amount (USD)	Area(m <sup>2</sup> )	Green Building Certificate	Annual CO <sub>2</sub> Emission Reduction(MT)*	Annual Energy Saving (MWh)
1	Green Building A	Office in North America		102,000	LEED Gold		
2	Green Building B	Office in North America	\$239m	47,000	LEED Platinum	444	629
3	Green Building C	Office in North America		87,000	LEED Gold		

\* Averaged 2017-2019 based on the change of Energy Star Score and look-back period / Energy savings based on Energy Star Data / CO<sub>2</sub> reduction based on the CO<sub>2</sub> conversion factor of the Environmental Protection Agency (<https://www.epa.gov/energy/greenhouse-gases-equivalencies-calculator-calculations-and-references>)

## Renewable Energy

KIC invests in renewable energy assets that generate electricity using such renewable energy sources as wind, solar and hydro.

No.	Project	Description	Allocated Amount (USD)	Annual CO <sub>2</sub> Emission Reduction(MT)*	Renewable Capacity (MW)	Annual renewable energy produced (MWh)
1	Renewable Energy Portfolio	Renewable Energy Infrastructure in South America, Africa, etc.	\$44m	219,302	132	423,247

\* CO<sub>2</sub> Offset = Total Generation(MWh) x (Country CO<sub>2</sub> Intensity(kg CO<sub>2</sub> eq/MWh) - Technology CO<sub>2</sub> Intensity(kg CO<sub>2</sub> eq/MWh)) based on OECD (<http://www.compareyourcountry.org/climate-policies?cr=ocd&lg=en&page=2>) and IPCC (<https://www.ipcc.ch/report/ar5/wg3/>) / Period measured: 2019

## Waste Management

KIC invests in eco-friendly businesses such as waste management companies that provide home and industrial waste collection, transportation and recycling services.

No.	Project	Description	Allocated Amount (USD)	Annual GHG Emission Reduction (MT CO <sub>2</sub> e)*	Annual Waste Reused/Recycled or Treated (Tonnes)
1	Waste Management Services	Waste Management	\$77m	59,458	25,971

\* Based on Waste Reduction Model(WARM) tool of the Environmental Protection Agency (<https://www.epa.gov/warm/basic-information-about-waste-reduction-model-warm>) / Period measured: 2019



Renewable Energy



Green Building



## Organizational Structure

To facilitate ESG integration, KIC has started a Sustainability Working Group consisting of managers from each traditional as well as alternative asset department.

Under the supervision of the Chief Investment Officer (CIO), this group is responsible for selecting ESG Special Companies, managing their investment exposures, discovering and reviewing investments in green & social projects and discussing the importance of ESG considerations.

In addition, the Investment Strategy Team establishes and manages KIC's responsible investment policies, processes and ESG investment strategies. The team also checks the responsible investment level of all asset groups and strategies as well as important ESG issues when making direct/co-investments in alternative assets. Results are reported to the Investment Working Committee and the Investment Committee in consultation with each investment department.

# Stewardship Activities

To enhance the mid- to long-term development of invested companies and returns on entrusted funds, KIC faithfully fulfills its fiduciary duty through exercising voting rights, engagement and other stewardship activities.





## Proxy Voting

The exercising of voting rights is a stewardship activity widely used in conjunction with shareholder engagements to supervise the management activities, governance structures, etc. of invested companies and to enhance their long-term shareholder value. KIC exercises its voting rights for invested companies in accordance with our Stewardship Principles to fulfill our fiduciary duty.

For direct investments, KIC selected a global stewardship manager in December of 2019 to exercise our voting rights and enhance shareholder engagements. In indirect investments, we exercise our voting rights through an external manager. KIC monitors all voting rights and results and aims to enhance the long-term value of invested companies.



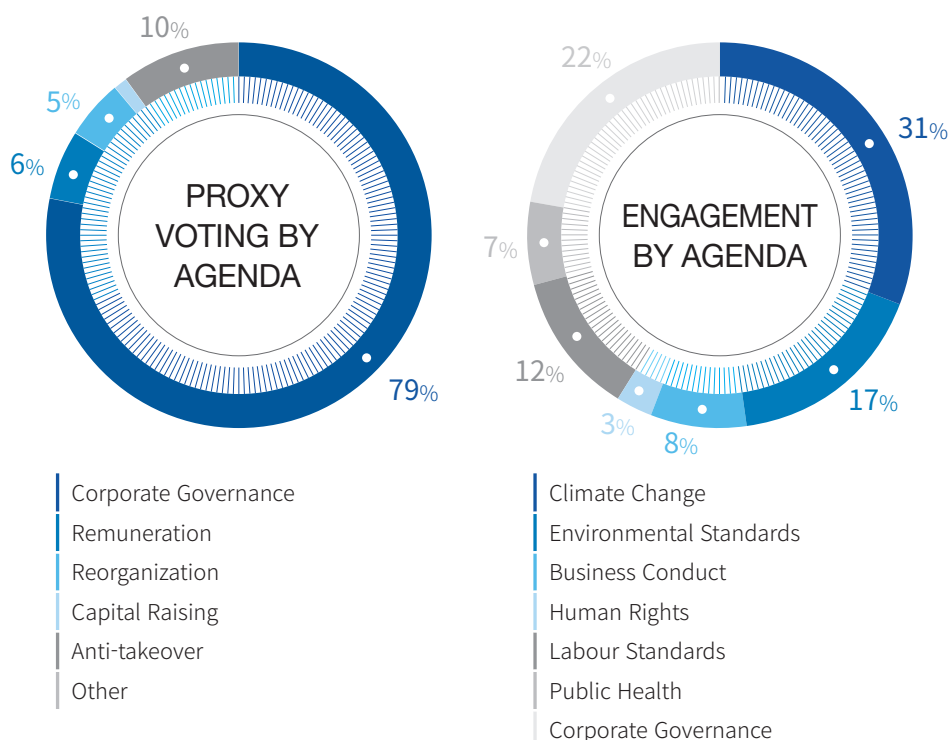
## Engagement

Shareholder engagement refers to various activities conducted between companies and investors, such as direct dialogue with management, written inquiries and shareholder letters, in order to enhance corporate value in the long term. These activities have a positive effect on corporate value in the mid- to long-term, leading to the improved management of invested companies.

In December of 2019, KIC selected a global stewardship manager specializing in shareholder rights to enhance our shareholder engagement in invested companies. For indirect investments, we work with an external manager. KIC seeks to enhance the long-term corporate value of invested companies by monitoring activity progress and important engagement themes.

In addition, KIC, as a sovereign wealth fund and a global investor, is considering the UN Sustainable Development Goals as we conduct shareholder engagement in invested companies in order to contribute to the international community's efforts to achieve the UN Sustainable Development Goals.

## Stewardship Activity for Direct Investment in Public Equities (1Q 2020)

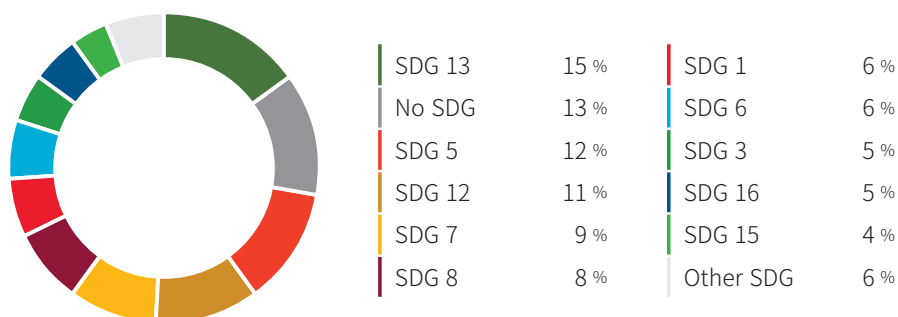


## UN Sustainable Development Goals

In 2015, the UN and international community set 17 Sustainable Development Goals (SDGs) to address global human, environmental and socioeconomic problems, including poverty, health, education and climate change, by 2030.



## Engagement by SDG Agenda (1Q 2020)



# Partnership

KIC has joined global initiatives to learn more about responsible investments overseas and cooperate with global institutional investors.

We also hold an ESG Day through our Public Community for Overseas Investment to raise interest in responsible investing among domestic institutional investors and share KIC's experience with overseas investment trends.





Established in 2009 by a group of 23 leading state-owned international investors from around the world, the International Forum of Sovereign Wealth Funds (IFSWF) is a voluntary organization of global sovereign wealth funds committed to working together and strengthening the community through dialogue, research and self-assessment.



**ICGN**  
International Corporate Governance Network

Established in 1995 as an investor-led organization, the International Corporate Governance Network's mission is to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies worldwide.



## Global Initiatives Participation

KIC is a founding member of the International Forum of Sovereign Wealth Funds (IFSWF), which was started in 2009 and helps members implement the Santiago Principles, which are generally accepted principles and practices for sovereign wealth funds (SWFs). We plan to promote responsible investment through close cooperation with SWFs.

In 2019, KIC joined the International Corporate Governance Network (ICGN), an investor-led initiative that promotes governance and stewardship. In order to promote high standards of investor stewardship, KIC also endorsed ICGN Global Stewardship Principles. ICGN members include various investors, including sovereign wealth funds from major countries, overseas pension funds and global asset management companies. KIC plans to strengthen partnerships with global institutional investors as well as its responsible investment expertise.



## Launch of ESG Day of Public Community for Overseas Investment

KIC has held meetings of the Public Community for Overseas Investment (PCOI) since 2014 to share overseas investment information and know-how with domestic public investors and to strengthen partnerships.

In August of 2018, PCOI members discussed cases of responsible investment overseas as well as domestic and international stewardship code issues.



In May of 2019, we invited global responsible investment experts to speak on ESG investment strategies for traditional and alternative assets, trends in global responsible investment and other major issues.

Going forward, we aim to help expand responsible investments by domestic public investors through periodic ESG Day.

# Looking Ahead

KIC will boost investment sustainability by enhancing ESG strategies, strengthening stewardship activities and establishing an ESG analytics infrastructure.





## Establishing an ESG Alert Process

KIC continuously monitors invested companies for ESG-related ratings, changes and other issues. We have also established and operated an ESG alert process so investment managers can immediately respond to unexpected drops in ESG ratings or material ESG risk.

In particular, our Quant Team applies the process to models within detailed strategies. In the future, KIC plans to establish an ESG model portfolio by directly applying ESG factors and using it as an ESG indicator that can be referenced in all areas of investment.

## Pre-monitoring of shareholder rights

According to KIC's Stewardship Principles, KIC conducts stewardship activities through a global stewardship manager. We select and proactively monitor invested companies in which we have large ownership or that entail ESG-related caution. In the mid- to long-term, we will benchmark the capabilities of global stewardship managers and use the collected information through our stewardship activities in corporate analysis and investment decision.

## Introducing ESG Function in Investment System

We plan to introduce ESG function to monitor information such as ESG ratings and stewardship activities in KIC's Investment System, which will be launched in 2021. We plan to expand our ESG investment infrastructure so that all investment managers can apply ESG factors in their decision-making process.

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