Policy on Responsible Investment

Monitoring and taking action on environmental, social and governance factors

March 2019
I. Introduction

Purpose and scope

ANDA provides investment management services to institutional and individual clients around the world. ANDA as a fiduciary to our clients, endeavors to at all times act in the best interest of our clients and treat each client fairly. This duty at ANDA has always been interpreted as the best financial interest of the client, and this principle underlies all aspects of ANDA’s investment process. With that overarching principle in mind, ANDA is committed to maintaining an investment approach that incorporates environmental, social, and corporate governance (“ESG”) in a comprehensive manner in order to safeguard the interests of our clients as we recognize that a company’s ESG practices, whether good or bad, can affect its long-term viability, performance and ultimately its valuation and share price. Although not always dispositive and not the only factor, we believe this added layer of analysis, along with our in-depth research into all aspects of a company's business can enhance our investment decisions and improve our investment returns.

ANDA’s Responsible Investment policy attempts to broadly set forth how we discharge our responsibility towards incorporating ESG factors in our investment analysis and process. The policy describes how ANDA conducts engagement with companies throughout the course of its investment activities, in fulfilment of its role as an active shareholder that acts on behalf of its clients. ANDA is a signatory to the UN Principles for Responsible Investment (“PRI”) and the Korean Stewardship Code (the “Code”), and believes the standards and the approach to engagement set out in the policy aligns well with these commitments. A statement regarding our adherence to such principles is published on our website at www.andaasset.com.

ANDA’s Proxy Voting Guidelines are summarized in Part 2A of ANDA’s Form ADV available on the SEC website. We disclose our voting and engagement records to the extent required by any applicable regulatory authorities, and we provide our clients periodic updates on our voting activities as required in the respective client agreements or upon client request. ANDA may disclose its voting activity in the aggregate or an individual basis, and ANDA may also explain reasons for voting for or against agenda items.
II. Corporate Governance

Overview

We believe that good corporate governance starts at the top and as such we look closely at the composition of a company’s board of directors as well as voting practices and standards provided for in a company’s bylaws or articles of incorporation. The objective of our corporate governance work is to ensure the boards of the companies in which we invest can perform to expected standards and are accountable to shareholders. The composition and structure of the boards, and the processes by which boards operate, need to be carefully planned and managed to this end. The objective of our voting policy is to support good corporate governance practices and the long-term interest of shareholders. In addition, we believe that access to votes and the ability of shareholders to effectuate change in board and management through open and transparent voting processes are critical to the long-term success of a company.

ANDA understands that there is no one single indicator that identifies when companies are failing to adopt best corporate governance practices, and that the complex corporate structures of Korean chaebols and peculiar rules and structural inefficiencies that exist only in Korea often require investors to take a pragmatic approach to corporate governance. Our corporate governance work is guided by best practice guidelines developed by industry bodies such as PRI and the Korean Financial Investment Association but implemented with this background in mind.

While we prefer that companies adhere to the principles and provisions of the Code and best practice, we recognize a different approach may be justified in particular circumstances. Compliance with the Code does not necessarily constitute good governance nor does non-compliance per se disqualify a company from our investment universe. We evaluate each deviation on its own merits on a holistic basis taking into account the current market environment and company specific-circumstances. In such cases, the onus is on the company to provide us with sufficient assurance has been given that the arrangements adopted are in the best interests of shareholders. If the company does not adhere to the aforementioned conditions, we will not support the board.

Board Composition and Diversity

A board should be formed of a suitable balance and quality of executive and non-executive directors to enable it to execute strategic control of the company’s affairs to maximize long term shareholder value. To this end, it is important that the board has a sufficient contingent of independent non-executive directors to maintain appropriate oversight on the behalf of all shareholders, including the minority shareholders. Under the Korean Commercial Act, a company whose assets exceed KRW 2 trillion must have a majority of independent directors and smaller companies are required to have a board on which one-fourth of the directors are outsiders.
Board Effectiveness

To improve board effectiveness, we encourage companies to take concrete steps to evaluate the composition of their board and its performance. We expect companies to regularly assess the effectiveness of their board to ensure that directors with a suitable mix of skills, experience and tenures work together optimally for the long-term benefit of shareholders, including minority shareholders. Unfortunately, the boards of several Korean companies are controlled by, and solely work for the interests of, the controlling shareholder. Thus, intensive board monitoring and frequent evaluation of the board is required to safeguard against abuses of minority shareholders. In addition a robust self-evaluation process of board effectiveness is not the market norm in Korea and while we believe that this process is critical and will encourage our investee companies to implement such self-review, we are cognizant of the current situation in Korea and therefore, will implement our views of effectiveness of boards on an independent basis and the lack of a self-evaluation process will not disqualify a company from our investment universe.

In addition, many independent directors in Korea have academic and local government backgrounds. While we respect their experience and credentials, we recommend that companies select independent director candidates with C-suite experience. For companies that seek to grow beyond Korea, we expect a diverse board composition to reflect the geographical footprint of their businesses.

Roles of Chairman and Chief Executive

The combination of roles of Chairman and Chief Executive is market practice in Korea. Nevertheless, in most cases, we do not favor the combination of the roles of Chairman and Chief Executive in order to prevent the concentration of power in the hands of one person.

Definition of Independence

When assessing the independence of a non-executive director, we will consider whether there are relationships or circumstances which are likely to affect, or could appear to affect the director’s judgment:

- Has been an employee of the company or group within the last three years (Korean law applies a two-year cooling-off period for former executives of the company);
- Has, or has had within the last three years, a material business relationship with the company either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company;
- Has received or receives additional remuneration from the company apart from a director’s fee;
- Has close family ties with any of the company’s advisers, directors or senior employees;
- An outside director sits on more than two public company boards, in violation of the Commercial Act and accompanying presidential decree; or
• Represents a significant shareholder

When a company maintains that a non-executive director is independent despite the presence of the above relationships or circumstances, the onus is on the board to provide evidence to support the claim. Where appropriate, ANDA will review the non-executive director’s performance on the board and committees in determining whether the director exercises independent judgment.

Appointment and re-election of directors

The appointment of any director to the board should be the result of a formal, rigorous and transparent procedure. In the case of a larger companies, director candidates should be nominated by a nomination committee, which is a sub-committee of the board of directors. A majority of the members of the nomination committee should be independent directors. We note here as well, as was with the self-evaluation process, that the market practice in Korea is not to have nomination committees. We will courage companies, where we can, to implement such processes.

We will generally support the election of directors who are able to contribute to the preservation and enhancement of shareholder value all in the context of certain structural limitations highlighted above.

Bundled elections

Generally, director elections are bundled under one item at annual general shareholder meetings in Korea. We believe such practice is unfair to individual directors as it forces shareholders to vote for or against a group of directors, even if they have doubts over only one of the proposed candidates. It is also unfair to shareholders who are asked to cast a vote in such circumstances, as they may have to vote against some suitable candidates under a bundled arrangement. The power to elect directors is the most important shareholder right and shareholders should be able to vote on each director individually, depending on his or her skills, experience and performance.

Currently, there is a bill before the National Assembly to amend the Korean Commercial Act, so that all companies will have to adopt a cumulative voting system. We believe that if adopted, such change would give significant strength to minority shareholders.

Audit Committees

Audit committees must follow strict guidelines with respect to financial reporting and control related matters. The Korean Commercial Act requires that audit committees be majority independent for companies whose assets exceed KRW 2 trillion. A majority of the board of directors should be independent and each director should have the requisite knowledge and background such that they are able to read and understand financial statements. In addition, audit committees should have the sole right to hire and terminate the company’s independent audit firm and should also have what is often referred to as a “whistle-blower policy,” which allow individuals to bring questions and issues to light without fear of retribution.
When an internal audit function is required under the Korean Commercial Act, the audit committee must review and approve the audit plan, review staffing and organization of the function, and meet with internal auditors and management on a periodic basis to discuss matters of concern that may rise. The committee should also meet separately with external auditors to discuss matters that the committee or auditors believe should be discussed privately.

The fees generated from the provision of non-audit services should not be of such magnitude as to appear to impair the auditors’ objectivity. Where non-audit fees are substantial relative to the audit fee, it is up to the audit committee to justify why this expenditure is in shareholders’ interests as well as to determine that such services do not impair the independence of the audit committee.

**Remuneration Reporting and Policy**

Although, we believe that the quality of a company’s remuneration policy and practices can be seen as a litmus test of good corporate governance it is uncommon for Korean companies to publicly disclose compensation packages for C-suite executives. We believe that Korean companies should be more transparent in the remuneration policies of their executives and believe such information should be made publicly available. Executives should have fair compensation for the contribution they make to the maximization of long-term shareholder value but in Korea it is often difficult for ANDA to assess whether a company sufficiently links executive rewards to the preservation and enhancement of shareholder value.

Some factors that cause concern for us include:

- Salary increases or increased maximum bonus opportunities which are not linked to productivity improvement or increased responsibilities;
- Inappropriate use of peer data to justify increases is to be discouraged;
- Ex-gratia payments for past performance; and
- Terms and structure of incentive schemes not in line with best practice.

**Chairman’s and non-executive directors’ remuneration**

The chairman and non-executive directors should be appropriately rewarded for their contribution but this should be made available in cash or in shares bought or allocated at market price.

We do not support the award of share options (or other incentives geared to the share price) to the chairman and non-executive directors. This is because such awards could compromise independence, encourage short-term focus and align interests with those of executives rather than shareholders.

A proposal to award share options should be based on exceptional circumstances with the onus on the company to explain why the proposed arrangement is appropriate. Where it is necessary to offer share incentives, our preference is for a one-off grant, with
the award in conditional shares as opposed to share options, to be retained during the
directors' tenure. Companies should consult with shareholders prior to the grant of such
awards.

A non-executive director who is awarded share options would not be considered to be
independent. Such directors should not be members of the Audit or Remuneration
committee.

**Remuneration Disclosure**

In Korea, shareholders can approve the aggregate amount of fees to be granted to
directors as remuneration for their services. The board has the full discretion to allocate
the amount among the board members. We find it difficult to understand how exactly the
board, especially executive directors are incentivized to increase corporate value or
shareholder returns at most companies. Most remuneration policies in Korea state that
board members decide basic salaries and incentives but do not give details or transparent
guidelines. We recommend Korean companies to disclose the remuneration paid to each
executive and non-executive director individually to provide shareholders better insight
into how each director is remunerated for his or her contributions.

**Take-overs and mergers**

Our voting decisions on proposed take-overs and mergers are based primarily on our
analysts’ and fund managers’ view on the alignment between the proposal and
shareholders’ interest. ANDA makes an effort to exercise voting rights on all shares held
after sufficient data collection, analysis and dialogue with management, if possible.

**Social, environmental and ethical issues**

We believe that the effective management of risks and opportunities associated with
social and environmental concerns can lead to long-term value creation for companies.
For Korean companies the concerns commonly relate to bribery and corruption, breach
of fiduciary duties, human capital management, local tax contribution, tax avoidance and
evasion, work place health and safety, product standards down the supply chain,
community relationships as well as climate change and energy efficiency. Korea
companies are at a nascent stage with respect to their focus on social and environmental
factors that affect the community and their business. However, we will continue to
monitor and where appropriate make investment decisions in part on a company's good
stewardship of these critical conditions.

Korea has a strong tradition of labor unions. They protect the rights of workers, but at
times, they can also present challenges for companies, especially when they are changing
their business models, product requirements, and customer preferences. We therefore
recommend that companies constructively manage their employee relations, provide a
platform for regular dialogue and opportunities for union leaders to express the concerns
of workers in a timely manner, where appropriate, companies should involve
shareholders in stakeholder discussions related to labor practices. Beyond direct
contractual relationships with employees, companies should also leverage their influence
within the supply chain to ensure best human right practices for those not directly employed by them.

Companies should effectively manage social, environmental and ethical issues that are relevant to their business, with a view to enhancing their long-term sustainability. They should also disclose to shareholders on a regular basis how they identify and manage the relevant risks and provide evidence that these structures are effective and that the social, environmental and ethical factors are embedded in their culture. Companies also ought to clearly define board and senior management responsibilities for social, environmental and ethical issues. We believe that the directors of companies are accountable to shareholders for the management of social, environmental and ethical issues in the same way they are accountable for the company’s financial performance.

We expect companies to have adequate anti-corruption and anti-bribery policies in place and robust compliance mechanisms to enforce them. Audit Committees at companies required under the Korean Commercial Act to set up an independent internal audit function should ensure that such function complies with the requirements mentioned in the above Audit Committee section.

Climate change is a systematic risk to the value of the portfolios of our clients because of the economic and geopolitical consequences. We do not seek to invest in ‘green’ companies, instead we seek evidence when appropriate, from our portfolio companies that they have the necessary policies and practices for the effective management of environmental issues in place. Environmental issues we consider include, climate change, water scarcity, sustainable sourcing of raw materials, pollution, packaging and environmental impacts from the use of such products as well as energy consumption and waste and recycling efforts. Most recently we are also focused on reviewing with respect to manufacturing companies, their packaging, storage and distribution processes to ensure that environmental factors are weighed in to ensure minimum waste.

We support the development of enhanced reporting that covers the social and environmental impacts of companies, such as the application of the UN Guiding Principles (UNGP) Reporting on Business and Human Rights\(^1\) and the Code\(^2\).

### III. ANDA’s Engagement Policy

**Engagement Purpose**

Engagement provides ANDA the opportunity to create an open dialogue with companies in which ANDA invests to deepen our understanding of the ESG issues that underpin a company’s strategy or valuation, and provide the opportunity for companies to better understand our investment process and objectives. We believe investors play a critical role influencing companies to adopt sustainable business practices that promote stable long-term growth and reduce material ESG risks faced by entities over time. We strongly believe that the effective management of risks and opportunities associated with social

\(^1\) [http://www.ungpreporting.org/](http://www.ungpreporting.org/)

and environmental concerns lead to long-term value creation for companies and their shareholders.

**Engagement Policy**

Our ESG strategy has three pillars: (i) to integrate ESG values into our investment processes; (ii) to over time engage with our portfolio companies and, in limited circumstances, where appropriate, help them to develop relevant ESG strategies; (iii) and to publicly report high-level summary data on our active ownership activities, in addition to our annual public reporting requirements as a PRI signatory.

Our investment team often meets with company management as part of our research process. The meetings provide our analysts and portfolio managers with insight into management quality, business drivers, and the long-term objectives of the companies. In addition, these meetings allow our investment team to assess a company’s risk exposure to ESG factors and the company’s management of such exposure to protect shareholder value.

ESG issues are not always easily tied to valuations and returns, and their potential may differ across companies, sectors, and industries. However, we believe for Korean companies there are a number of factors, such as a company’s governance structure or capital allocation policies, which may be used to gain a better understanding of the company. **Appendix A** includes examples of ESG issues that ANDA investment professionals may consider when developing a deeper understanding of a company and its ESG practices.

ANDA’s analysts generally document the basis of their recommendation in an in-house company report. This report typically covers a range of factors, including the investment rationale, key financial information, risks, and we have begun to include views on the potential impact of ESG issues, where relevant. While a portfolio manager is never prohibited from purchasing or holding a position due to an ESG issue, consideration of these issues is now being made part of the investment decision.

**Responsibilities and Transparency**

Investment decisions are usually made after thorough consideration and follow a detailed due diligence process. Hence, it is important to note that ESG factors are just one of the many factors that would affect an investment decision or the outlook we take for a company’s future.

The normal methods through which ANDA engages with companies are:

a. Ongoing dialogue with the company management through regular meetings, visits, and telephone calls during which ANDA discusses and poses questions on operational, strategic, and other management issues and, where appropriate, will offer its own opinions and comments.
b. Proxy Voting. Where clients delegate the responsibility to vote proxies, ANDA, as a fiduciary, is obligated to vote proxies in the best interests of its clients. ANDA has adopted a written policy (the “Proxy Voting Guidelines”) that is designed to ensure that it satisfies its fiduciary obligation.

c. Where appropriate and deemed necessary, further action may be considered (i.e., resolutions, litigation, press activity, etc.), although circumstances where this conduct becomes necessary are rare.

ANDA believes that our investment team is in the best position to evaluate the potential impact that ESG issues or the outcome of a given proposal will have on long-term shareholder value. As such, our investment team has direct responsibility for the implementation of this policy, with actions taken under the policy being monitored on a regular basis, rather than being delegated to stewardship specialists. We publish an ESG Review to summarize our work on an annual basis. The annual ESG Review will report on engagement activities for the year.

**Proxy Voting**

We are aware of our fiduciary responsibilities to our clients where they wish us to exercise their rights as shareholders. ANDA's proxy voting structure, as outlined in our Proxy Voting Policy, is designed to ensure that proxy voting is conducted in an appropriate manner, consistent with our obligations to, and in the best interests of, our clients. Our policy is based on the view that, in our role as a fiduciary, we must vote proxies based on what we believe will maximize shareholder value as a long-term investor, and the votes we cast on behalf of our clients are intended to accomplish that objective.

ANDA may engage in proxy voting only for onshore collective investment schemes it manages under its asset management license. For such funds, ANDA follows the Korean market practice and only votes proxy for securities that exceed 5% of the fund’s net asset value as of the record date. The voting record for each onshore fund advised by ANDA is available on the Korea Stock Exchange website at [http://filing.krx.co.kr/main/main.do](http://filing.krx.co.kr/main/main.do). Local regulations expressly prohibited ANDA for voting proxies for its advisory clients. Nevertheless, ANDA will inform advisory clients that have requested voting advice about its views on such proxy votes. Generally, ANDA will not generally advise, in advance, how it intends to vote on any specific issue, although we may be willing to discuss the relevant context and matters under consideration.

**Conflicts of Interest**

The Proxy Voting policy recognizes that there may be times when meeting agendas or proposals create a material conflict of interest or the appearance of a material conflict of interest for ANDA. A conflict could arise, for example, where an affiliated company is advising a target or bidder or company management in some way involving a corporate
finance transaction. In such a case, ANDA will typically seek to alleviate the conflict by voting in a manner consistent with the Approved Guidelines (to vote ‘For’ or ‘Against’), or, in situations where the pre-approved guideline is to vote case-by-case, ANDA’s policy is to vote the proxy item according to the majority recommendation of the independent proxy services to which we subscribe. This allows ANDA to ensure that a vote is not influenced by a material or perceived conflict of interest, yet receives the benefit of thorough analysis and recommendation designed to further long-term shareholder value.
APPENDIX A

Examples of ESG Issues

ESG issues and their potential impact on a company’s financial performance differ across companies, sectors, and regions. The following list (which is not exhaustive) includes examples of potential ESG issues that ANDA may consider in developing a deeper understanding of a company and its ESG practices.

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<td>- Greenhouse gas (GHG) emissions</td>
<td>- Community relations</td>
<td>- Board Structure</td>
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<td>- New regulation and potential change to regulation</td>
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