

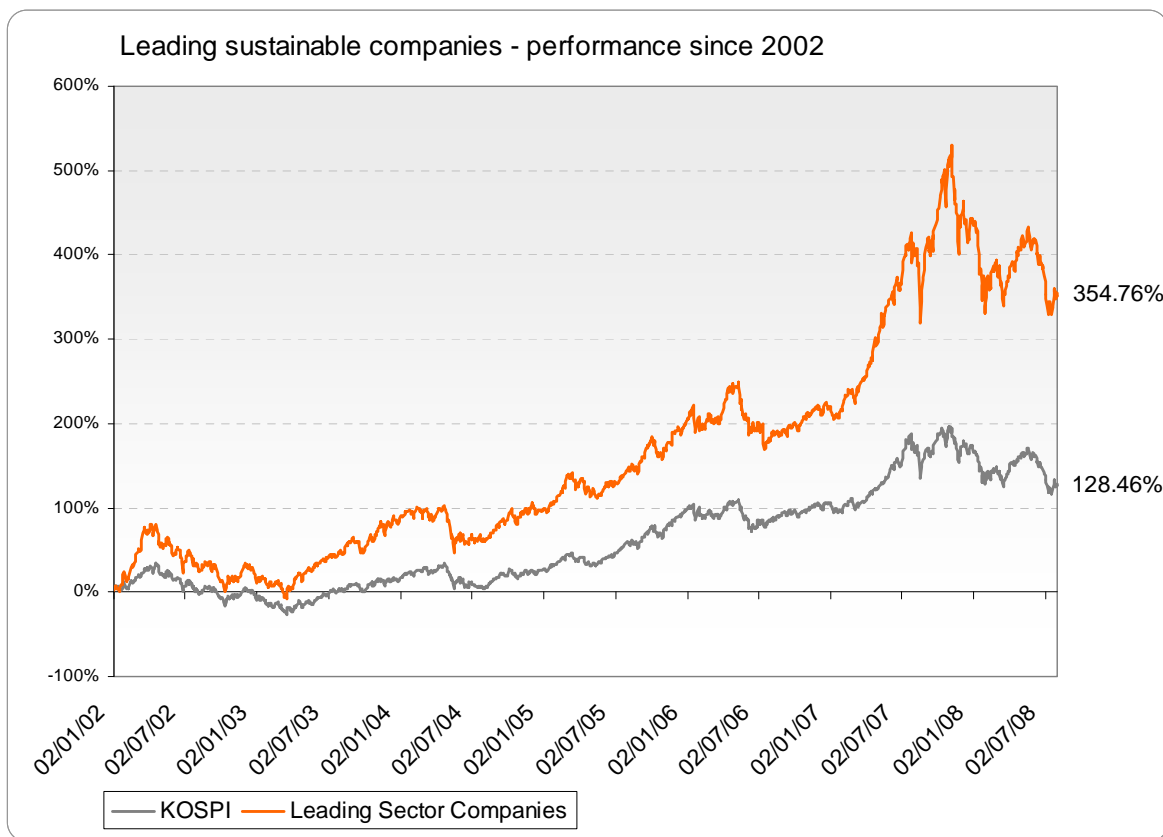
Korea:

Sustainable companies significantly outperform benchmark

SolAbility (www.solability.com) accomplished the second yearly assessment of companies listed on the Korean Stock Exchange (www.krx.co.kr) The assessment covers 350 Korean large and medium-sized companies.

The results reveal clear value added through ESG research – a portfolio of the 34 leading sustainable Korean companies according the SolAbility assessment has significantly outperformed the KOSPI – by more than 220% since 2002, and more than 110% since 2007.

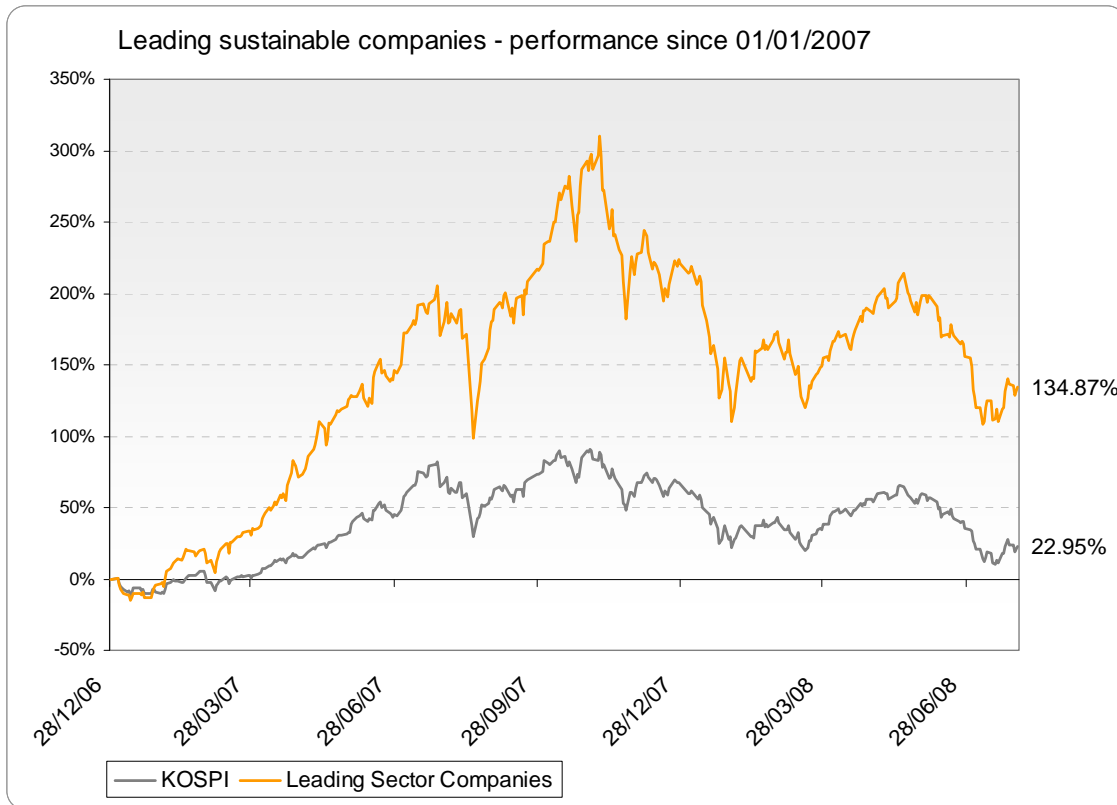
Figure _01: sector leader performance since 2002



Stocks are equally weighted

The portfolio consisted of the leading 34 sector companies derived from the initial universe of 350 companies.

Figure _02: sector leader performance since 2007



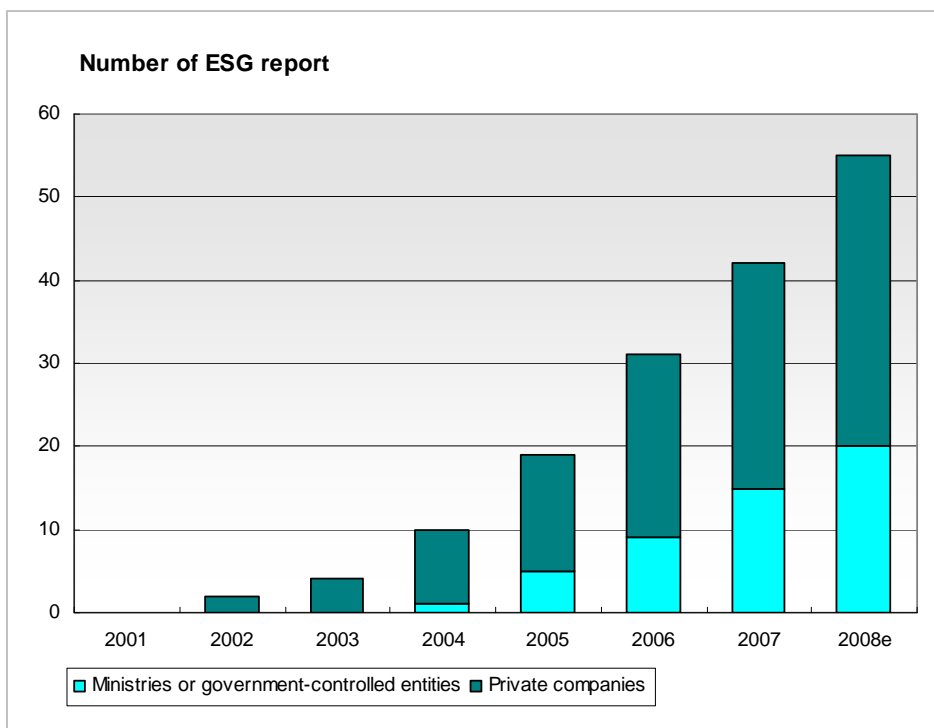
SolAbility applies a sophisticated methodology specifically developed for the Korean characteristics, based on a best-in-class (industry peer comparison) approach that analysis 400+ indicators grouped in 60+ management, governance, environmental and social criteria across 29 industry sectors.

Background

Corporate Sustainability in Korea

Korean companies have started to realise that Sustainability Management is an important factor for business success, a fact that is reflected in the volume and number of companies reporting on sustainability issues:

Figure _03: number of published ESG Reports in Korea



However, the materiality and depth integration of sustainability management into management frameworks and management thinking, with a few notable exceptions - i.e. that CSR means not only publishing sustainability Reports, but is, as the performance of leading Korean companies indicates, a very valuable business proposition.

CSR development: a selection of issues

Corporate Governance

While many Korean companies have implemented formal governance systems and new regulation requiring large companies to have a majority of independent Directors on the Board of Directors, the governance structure in many cases fail a more detailed comparison with global best practice and do not guarantee true independent management control. The absolute

management control by minority owners in some large conglomerates – the “Chaebols” – remains of concern to investors, as short-term volatility through miss-management cannot be excluded.

Ethical management

A very high percentage of Korean companies have implemented Ethical Behaviour Codes, employee training and monitoring systems on a high level. Despite these systems, however, irregularities – in particular in terms of illegal price agreements between companies – remain high.

Eco-efficiency

Rising cost of energy have highlighted a lack of performance measuring and data management in terms of environmental performance, particularly within the smaller companies and the need for further investment in energy efficiency management and technology. Korea relies on energy-intensive industries (steels & metals, industrial equipment, shipbuilding) as one of the backbones of the national industry, and its overall energy-efficiency (measured in GDP per energy unit used) is significantly higher than the OECD average, leading to some concern for the industrial outlook.

Climate Change

Under Kyoto, Korea is not obliged to cut emissions, and it is yet unclear what Korea’s status after 2012 in a post-Kyoto agreement will be. In this situation of uncertainty (mandatory emission cuts? baseline year for calculation of potential emission caps?), companies are somewhat reluctant to define their strategy or undertake significant investments. Nevertheless, GHG intensive businesses have started to look at the issues and implement GHG inventories and are looking at CDM opportunities.

Human Capital

Korea has a dedicated, hard-working and well-educated workforce. Most companies have introduced some form of performance-related incentive schemes. However, the average birth rate has decreased from 5 to less than 2 per woman in the past 40 years, i.e. the Korean population is aging fast. There is a strong need for addressing this issue, and better development & nursing of female talent.

OHS

ISO 18001 or the local forms of the safety standards are commonly applied in the industrial sector. However, there is a lack of awareness for the importance of non-conventional and emerging employee health issues, such as overwork, stress from multiple tasking, burn-outs and work-life-balance.

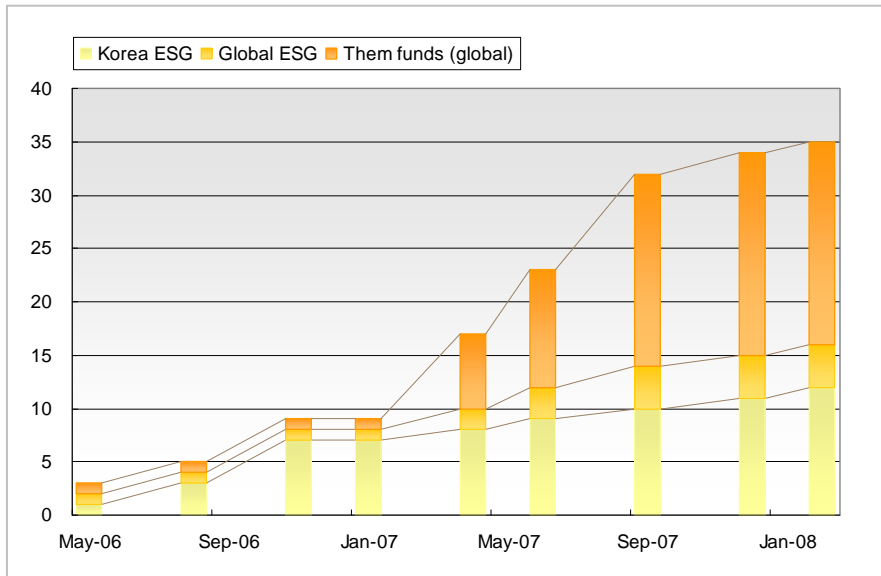
Citizenship

Korean companies traditionally feel responsible for their communities and corporate involvement in charitable activities has a long tradition. However, there is little strategic management or coordination visible within these activities at this point in time.

ESG investment in Korea

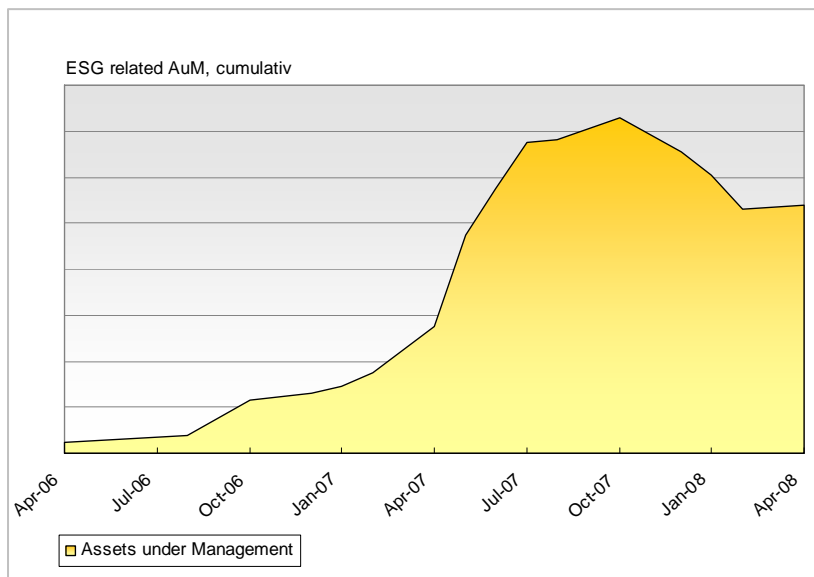
Sustainable investment (also referred to as “ESG”, “SRI”, “Responsible Investment”...) has taken off in 2006, initiated by a public bidding announcement for ESG-managed funds by the National Pension Fund.

Figure _04: number of ESG-related retail funds in Korea



However, the disappointing performance of a single thematic fund under close public scrutiny due to its heavy initial advertising and attraction of funds has negatively tainted the public perception of all ESG-related investment in Korea for the time being, reflected in the strong increase of assets managed against ESG criteria in 2007, but subsequent decrease in total AuM.

Figure _05: assets managed against ESG criteria



About SolAbility

SolAbility is a Swiss-Korean joint-venture combining traditional Korean business commitment with the latest knowledge in sustainability. SolAbility provides strategic sustainability advice to corporate clients and assesses the sustainability performance of listed Korean companies for institutional investors since 2005.

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