

# Materialized risks at Hyosung Corporation

May 2024

**Company:** Hyosung Corporation

**Meeting date:** March 2024

**Proposal(s):** 2.1.1–2.2 Elect directors

## How the funds voted

At the annual meeting of Hyosung Corporation, a South Korean industrial conglomerate, the Vanguard-advised funds did not support the reelection of the chair, vice chair, or independent director.<sup>1</sup> When evaluating the reelection of these directors, we assessed that the board did not take appropriate steps to address materialized risks at the company.

## The funds' proxy voting policies

As articulated in the funds' proxy voting policies, the Vanguard-advised funds assess matters of material risk-oversight failure on a case-by-case basis, taking into consideration the facts and circumstances at the company in question. If there are instances in which it has been determined that a board has failed in its oversight role, the funds may not support the election of directors deemed responsible, generally based on their functional or committee-level responsibilities.

When we identify material risk-oversight failures, we will endeavor to engage with the company to express our concerns and understand actions the company and its board are taking to address the underlying issues. Our focus is on understanding how boards aim to effectively identify, monitor, and manage material risks and take appropriate action in response to materialized risks.

<sup>1</sup> Vanguard's Investment Stewardship program is responsible for proxy voting and engagement on behalf of the quantitative and index equity portfolios advised by Vanguard (together, "Vanguard-advised funds"). Vanguard's externally managed portfolios are managed by unaffiliated third-party investment advisors, and proxy voting and engagement for those portfolios are conducted by their respective advisors. As such, throughout this document, "we" and "the funds" are used to refer to Vanguard's Investment Stewardship program and Vanguard-advised funds, respectively.

## Analysis and voting rationale

Both the chair and vice chair at Hyosung Corporation—who are members of the company's founding family—have been implicated in numerous legal issues. Recently, the chair was convicted of multiple types of embezzlement and the vice chair was fined for violating the Korean Foreign Exchange Transactions Act and implicated in an embezzlement case. These convictions and accusations of wrongdoing surrounding the chair and vice chair gave us concern about the directors' fitness to serve on the board.

In 2022, we engaged with company representatives and discussed the legal matters involving the chair and vice chair. Company representatives confirmed that the directors in question continued to play an active role on the board and at the company.

When we assessed the matters on the ballot at Hyosung's 2024 annual meeting, our research and analysis of the company's governance practices gave rise to questions about the company and board's actions related to the chair and vice chair's misconduct. In our analysis of the company's public materials, we found that the company did not communicate a plan to review or improve its internal controls following the legal matters involving the chair and vice chair. Our analysis of the company's public materials also gave rise to questions regarding potential entrenchment on the board and/or management team, which we have observed at other large, family-run industrial conglomerates in South Korea (also known as chaebols).

Only three directors were put forward for election at the 2024 annual meeting: the chair, vice chair, and one independent director, all of whom had served on the board with the chair and vice chair in prior years. As a result of our research and analysis, we assessed that the independent director was partly responsible for what we determined to be a lack of action by the board related to the convictions and accusations of wrongdoing involving the chair and vice chair. Given our questions and concerns regarding the chair and vice chair's actions and fitness to serve on the board, the Vanguard-advised funds did not support the reelection of the chair, vice chair, or independent director at the company's 2024 annual meeting. This decision was also based on our inability to determine via the company's public disclosures that the board had taken appropriate steps to address the directors' wrongdoing and company's internal controls.

The chair and vice chair of Hyosung Corporation also served on the boards of the company's subsidiaries, Hyosung TNC and Hyosung Advanced Materials. The funds voted against certain directors on the subsidiary companies' boards due to similar concerns.

We will look to engage with Hyosung Corporation and its subsidiary companies in the future and will continue to assess board actions related to these matters, as appropriate.

Vanguard publishes information regarding its voting and engagement activities, including the funds' proxy voting policies, Insights, and quarterly reports, to promote good corporate governance practices and to provide public companies and investors with our perspectives on important governance topics and key votes. This is part of our effort to provide useful disclosure of Vanguard's investment stewardship activities. We aim to provide clarity on Vanguard's positions on governance matters beyond what a policy document or a single vote can provide.

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