

Materialized risks at Hyundai Elevator

May 2024

Company: Hyundai Elevator Co., Ltd
(Hyundai Elevator)

Meeting date: March 28, 2024

Proposal(s): Items 2.1–2.4: Elect directors

How the funds voted

At the 2024 annual meeting of Hyundai Elevator, a South Korean industrial company, the Vanguard-advised funds supported the election of all proposed directors.¹ We assessed that the board took appropriate actions in response to materialized risks involving the recently resigned board chair.

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.

¹ 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

Between 2014 and 2023, Hyundai Elevator was involved in a lawsuit filed by one of its major shareholders seeking compensation for damages to the company caused by loss-making derivative contracts from 2006 to 2013. The case was finalized in March 2023, when the South Korean Supreme Court ordered both the then-current board chair and CEO to pay KRW 170 billion in damages and KRW 19 billion in compensation, respectively. The CEO resigned in 2016, and following the verdict, the board chair resigned in December 2023.

In circumstances of materialized risks involving members of the board, we look for boards to take appropriate action to address the underlying risks and provide clear disclosures to shareholders regarding such actions.

In response to the Supreme Court's finding of liability, the Hyundai Elevator board of directors publicly acknowledged the need for improvements to the company's corporate governance practices, and the company published improvement measures. The company proactively reached out to investors, including Vanguard's Investment Stewardship team. In our engagement before Hyundai Elevator's 2024 annual meeting, Hyundai Elevator leaders described steps the

company had taken to reform its corporate governance practices and sought feedback on enhanced internal controls, some of which were already underway. Among the actions taken, the board appointed an independent director as the board chair, further delineated the roles of CEO and board chair, and enhanced committee independence by appointing independent directors as committee chairs. Hyundai Elevator also enhanced its director nominations process and established both an Internal Transaction Committee and a Risk Management Committee within the board. In our assessment, these enhancements would be in the interests of shareholders over the long term.

Based on the company's response to the incident, including fulsome public disclosures, the resignation of the then board chair, and the company's proactive approach to seeking input from investors on improvements to internal controls, we determined that the board had taken appropriate action to address the materialized risks. As a result, the funds supported the election of all directors put forward for election at Hyundai Elevator's 2024 shareholder meeting. We plan to continue monitoring the progress of these corporate governance reforms and enhancements to internal controls.

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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