

How to Boost Shareholder Activism in Asia – Lessons from the Korean Experiences –

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Who is SER?

□ PSPD

- People's Solidarity for Participatory Democracy
- Civil rights advocate NGO founded in 1994
- Funded by membership fee & private donation

□ SER (old PEC-PSPD)

- Participatory Economy Committee under PSPD
- Minority shareholder activism since Jan. 1997
- Lawyers, CPAs, professors: volunteer service
- Established affiliated research center in 2001
CGCG (Center for Good Corporate Governance)
for providing CG information
- Spinoffed from PSPD in Aug. 2006
Renamed *SER (Solidarity for Economic Reform)*
- Launched *KCGF (Korea CG Fund)*
for institutional investor activism (details later)



□ SER's Activities

- ◆ Monitoring individual companies
 - * attending shareholders' meeting
 - * recommending 'independent' outsider directors
 - * filing legal suits

- ◆ Monitoring economic & corporate policy
 - * lobbying National Assembly & Government

- **5 Target companies (until 2001)**

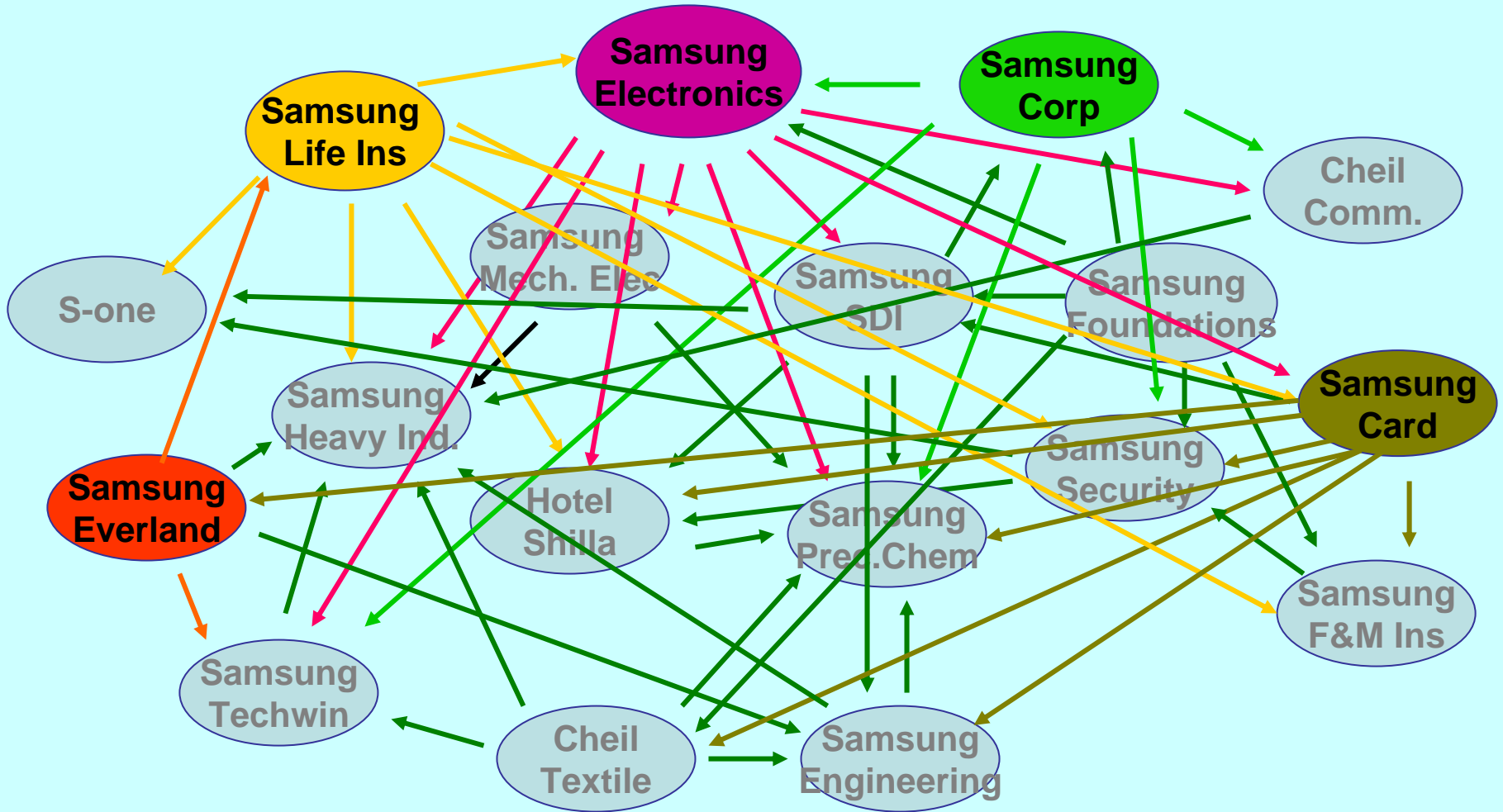
– Samsung Electronics	Samsung Group
– SK Telecom	SK Group
– Hyundai Heavy Industries	Hyundai Group
– LG Semi-Conductor → Dacom	LG Group
– Daewoo Corp (bankrupt)	Daewoo Group

- Extended to 50 companies since the establishment of CGCG

□ SER's Accomplishments

- Derivative suit against Samsung Electronics: prevailed
 - * Chairman Kun-Hee Lee & 10 current and former directors
 - * Supreme Court: liable for KRW 20 billion.
- Derivative suit against directors of LG Chemical: prevailed
 - * Chairman Bon-Moo Koo & other family members
 - * District Court: liable for KRW 40 billion
- Shareholder proposal against SK Telecom
 - * recommendation of resignation of Chairman Tae-Won Chae & Chairman Gil-Seung Son who were both convicted. Finally They resigned.
- Amendments of 'Commercial Act', 'Securities and Exchange Act', 'Fair Trade Act', and 'Inheritance Tax Act' etc.
- Enactment of 'Securities Class Action Act'
 - * grounds: stock price manipulation, misrepresentation, false disclosure, accounting manipulation and failed audit
- Bringing criminal charges against Chairman Mong-Koo Jung of Hyundai Motors Group

Samsung Group's Ownership Structure



Lack of Active Institutional Investors

- Domestic institutional investors
 - minority shareholders, short-term investors, and directly or indirectly associated with Chaebols.
 - very passive at exercising shareholder rights
 - e.g. voting 99% in favor of management at shareholders' meetings

- Foreign investors
 - Their shareholdings grew remarkably (in a sense, too much) after the crisis. Long-term investors relatively.
 - raise sensitivity of stock prices to CG issues
 - However, passive at exercising shareholder rights as well
 - Usually stick to 'Wall Street Rule'; "Why do you hold shares whose management you do not support?"
 - Hostile takeover threats by foreign investors are very rare; SK Corp vs Sovereign, KT&G vs Steal Partners

◆ Distribution of Share Ownership in KRX (%)

	Domestic Institutional Investor							Other Companies	Individual	Foreign Investor
	sub Total	Securities	Insurance	Inv't trust	Bank	Mer't bank	Pension fund			
1996	30.67	1.97	6.95	5.26	10.64	0.96	4.89	14.75	30.75	13.00
1999	16.91	0.69	2.71	8.50	2.97	0.96	1.07	19.11	25.87	21.69
2002	15.85	0.72	2.26	5.98	5.51	0.68	0.70	20.15	22.33	36.01
2005	19.60	0.53	2.17	6.80	6.90	0.21	2.98	18.27	18.43	39.73

◆ Turnover Rate of Shareholdings in KRX (turns in a year)

	Domestic Institutional Investor							Other Companies	Individual	Foreign Investor
	sub total	Securities	Insurance	Inv't trust	Bank	Mer't bank	Pension fund			
1996	1.54	5.14	0.99	3.36	0.78	1.64	0.21	0.33	5.02	1.08
1999	6.92	23.78	3.31	8.54	4.97	5.73	1.48	0.94	19.71	1.72
2002	5.02	26.89	1.89	7.76	1.24	4.19	7.90	0.92	18.55	1.83
2005	2.39	11.51	1.12	4.61	0.46	4.25	2.23	0.52	9.82	1.50

New Challenge : KCGF

- Korea Corporate Governance Fund launched in June, 2006.
 - ➔ aim at funding US\$ 400 mil in this year
 - ➔ investing at under-valued companies due to poor CG
 - ➔ long-term investment (more than 3 years), constructive dialogue with management, actively exercising shareholder rights

- Prof. Jang and CGCG provide consulting to KCGF.
 - ➔ Consulting fee is donated to public foundation for assisting NGOs in Korea and Asia.

- Our hope is to establish new model for institutional investors' activism in Korea, just like we have done by minority shareholder activism for last 10 years.