

Investment Stewardship

Vote Bulletin: Hyundai Development Co.

Company	HDC Hyundai Development Co. (294870-KR)
Market and Sector	South Korea, Engineering & Construction
Meeting Date	29 March 2022
Key Resolutions ¹	Item 2.3: Elect Kwon In-so as Outside Director Item 4.2: Amend Articles of Incorporation
Key Topics	Company impacts on people, human capital management
Board Recommendation	The board recommends shareholders vote FOR item 2.3, and AGAINST item 4.2
BlackRockVote	BlackRockvoted AGAINST items 2.3 and 4.2

Overview

HDC Hyundai Development Co. (HDC) provides construction and engineering services, undertakes property development, housing, civil engineering, and has various overseas projects. Headquartered in Seoul, South Korea, HDC was created in 2018 following a spin-off from its parent company, HDC Holdings.

In the past 12 months, HDC has been under intense scrutiny for its involvement in two high-profile, fatal construction incidents in Gwangju, South Korea:

- On 9th June 2021, a five-story building collapsed during a demolition process, resulting in numerous casualties and severe injuries to bystanders.² In its review of the incident, The Ministry of Land, Infrastructure and Transport (MOLIT) stated that HDC, the main contractor of the redevelopment project, had engaged in illegal multi-layered subcontracting resulting in a poorly regulated process that indirectly contributed to the fatal incident.
- On 11th January 2022, HDC was involved in another incident where six site workers were killed at an apartment building under-construction. On 18th March 2022, MOLIT released a statement detailing the results of a three-month investigation into the incident conducted by the Accident Investigation Committee (AIC). The AIC determined that overall inadequate management of the worksite with substandard quality control and supervision of concrete work was the leading cause of the collapse.³

¹ <https://dart.fss.or.kr/dsaf001/main.do?rcpNo=20220315001231> (only in Korean)

² <http://www.koreaherald.com/view.php?ud=20210809000179>

³ https://www.molit.go.kr/english/USR/BORD0201/m_28286/DTL.jsp?id=eng_mltm_new&mode=view&idx=3022

In January, following the second incident, Chung Mong-gyu, Chairman of HDC Holdings and HDC's effective controlling shareholder, stepped down to take responsibility.⁴

Following a special investigation by the Ministry of Employment and Labor (MOEL) into operations at 12 of HDC's current large-scale construction sites, in March 2022, the ministry assessed that the company has insufficient on-site safety management. The investigation found 636 violations of the Occupational Safety and Health Act; the ministry took judicial action against 305 of the cases, and fined HDC approximately KRW 840 million (USD 689K) for the remaining 330 cases.⁵

Rationale for BlackRock's vote

Item 2.3: Elect Kwon In-so as Outside Director (AGAINST)

Given the loss of life, gravity of the situation, serious damage to the company's reputation and value⁶, as well as the material failure in oversight by the board in health and safety-related issues, we did not support the re-election of the sole incumbent director standing at the 2022 AGM.

Our clients' financial interests depend on the long-term performance of the companies in which they are invested. As described in the BlackRock Investment Stewardship (BIS) [Engagement Priorities](#) and [Approach to Engagement on Human Capital Management](#), we seek to understand how companies are building business resilience and managing risks. We look to companies to put in place appropriate board oversight, due diligence processes and remediation efforts, and to provide disclosure of their performance in mitigating adverse impacts on people that could arise from their business practices. This may help reduce companies' exposure to material legal, regulatory, operational, and reputational risks and enhance stakeholder engagement.

In February 2022, following the second incident, as part of HDC's safety improvement efforts, the company appointed a new Chief Safety Officer.⁷ The board also proposed to establish a board-level Safety and Health Committee composed of at least one director with health and safety expertise (item 4.3) at the 2022 Annual General Meeting of Shareholders (AGM). The newly proposed committee will have a clear mandate to evaluate construction sites on safety-related issues pursuant to relevant laws, ensuring regular reporting on construction accidents and operational issues at least once a quarter. Responsibilities of the committee will also include, among other things, proposing measures to improve safety, health and quality control.

BIS acknowledges these recent efforts from HDC to improve its health and safety oversight. However, there were two separate fatal incidents in the past 12 months and the findings of the subsequent investigations by several governmental/regulatory bodies revealed repeated lack of oversight by HDC at its construction sites. In addition, as of 27th January 2022, the Serious Accidents Punishment Act (SAPA) is in effect, which further emphasizes the importance of a company's approach to health and safety oversight of its operations.⁸

Therefore, BIS' view is that the company's efforts are belated. We signaled our concerns as a long-term investor on behalf of our clients about insufficient health and safety oversight by the board and executive management in our voting at the 2022 AGM.

As fiduciary to our clients, BIS will continue to monitor the progress of HDC in the implementation of its new Safety and Health Committee and the communication of timely, fulsome disclosures on its policies and performance in relation to health and safety-related issues. It is important that HDC demonstrates that it is

⁴ <https://en.yna.co.kr/view/AEN20220314004052320>

⁵ https://world.kbs.co.kr/service/news_view.htm?lang=e&Seq_Code=168303

⁶ As of 21st March 2022, the share price of HDC has fallen approximately 32% since the January 11 fatal incident, according to FactSet data.

⁷ <http://www.koreaherald.com/view.php?ud=20220223000728>

⁸ Announced in January 2021, the Serious Accidents Punishment Act (SAPA) expressly places responsibility for workplace accidents and occupational illnesses on the top decision-maker of the business concerned, usually the Chief Executive Officer, in addition to broadening the scope of obligations and strengthening penalties for violations. For more: https://www.kimchang.com/en/insights/detail.kc?sch_section=4&idx=22887

addressing the operations and health and safety weaknesses that resulted in fatal incidents. We believe enhanced health and safety oversight will help the company in its business operations, allow it to start rebuilding trust with its stakeholders and ultimately better position HDC to deliver durable profitability for shareholders. BIS will also continue to monitor the company's progress on managing other risks associated with its operations.

Item 4.2 Amend Articles of Incorporation – (AGAINST)

BIS voted not to support the shareholder proposal to amend HDC's Articles of Incorporation. While we support the spirit of the proposal, we determined that long-term shareholder interests are best served when there is a reasonable threshold for filing shareholder proposals. We are concerned that the low threshold proposed here risks imposing unnecessary costs on the company or constraints on corporate decision-making. We do not consider it helpful to enable a potentially large number of proposals from shareholders whose interests are not necessarily aligned with those of the broader shareholder base.

The full resolution reads as follows (translated from Korean):

- 1) *A shareholder who held minimum of one share out of 1,000 issued shares for at least six months shall be eligible to submit an advisory proposal concerning environmental, social, and governance matters. He or she shall submit the proposal in writing or any means, including electronic means, no later than six weeks before the date of the shareholders' meeting.*
- 2) *A shareholder may request to include the method of proposal pursuant to the Commercial Act Article 363.*
- 3) *A director shall report the advisory proposal to the board of directors, upon which, the board shall include the proposal in the shareholders' meeting agenda unless otherwise contradictory to the relevant law or articles of incorporation. In such case, the shareholder submitting a proposal shall be given the opportunity to explain the agenda item in the shareholders' meeting.*
- 4) *As per the shareholders' meeting resolution of the advisory proposal, the method shall follow Article 26, and the outcome of the resolution shall not obligate the company.*
- 5) *In case of which the proposal has been passed, the company shall report the feasibility and detailed plans in the first general shareholder's meeting after the meeting in which the proposal was submitted. In case the company fails to report the context, the company shall explain the reason.*

BIS recognizes that current Korean law limits shareholders' ability to put forth proposals on resolutions not currently defined in the Commercial Act as shareholder voting items, including proposals related to environmental, social and governance (ESG) issues. In principle, we agree that the proposal to introduce non-binding advisory votes could contribute to strengthening minority shareholders' rights, and potentially provide a meaningful and productive way for shareholders to voice their views on important issues, including ESG-related matters, for the board's consideration. This would also complement the board's intention to drive safety improvement efforts at the company.

However, we believe that there should be a carefully determined and sufficient threshold for the tabling of shareholder proposals, particularly as ease of filing risks potentially distracting and time-consuming proposals being submitted by some shareholders whose interests are not necessarily aligned with those of the broader shareholder base. Furthermore, this may potentially impose unnecessary costs on the company or constraints on corporate decision-making to the detriment of long-term investors, such as BlackRock's clients.

About BlackRock Investment Stewardship (BIS)

Our clients depend on BlackRock to help them achieve their investment goals. These clients include public and private pension plans, governments, insurance companies, endowments, universities, charities and ultimately individual investors, among others. Consistent with BlackRock's fiduciary duty as an asset manager, BIS' purpose is to support companies which we invest for our clients in their efforts to create long term durable financial performance.

BIS serves as an important link between our clients and the companies they invest in – and the trust our clients place in us gives us a great responsibility to advocate on their behalf. That is why we are interested in hearing from companies about their strategies for navigating the challenges and capturing the opportunities they face. As we are long-term investors on behalf of our clients, the business and governance decisions that companies make will have a direct impact on our clients' investment outcomes and financial well-being.

We look to boards and executive management to demonstrate that they are taking into consideration the interests of long-term shareholders and other stakeholders. Our, often multi-year, dialogue with the leaders of these companies provides us the opportunity to improve our understanding of, and provide feedback on, the governance and sustainability (ESG) risks and opportunities that are material to their businesses and thus to their ability to generate long-term returns for our clients. For those clients who have given us authority, we vote proxies in their best long-term financial interests, in line with our public [voting guidelines](#) and informed by our analysis of company disclosures and, where relevant, our engagements.⁹

To support investors' assessment, it is helpful when companies provide timely, accurate, and comprehensive disclosure on all material governance and business matters, including sustainability-related issues. This transparency allows shareholders to better understand and assess how relevant risks and opportunities are being effectively identified and managed. Where company reporting and disclosure is inadequate or we believe the approach taken may be inconsistent with sustainable, long-term value creation, we will engage with a company and/or vote in a manner that signals our concerns.

We are committed to transparency in the stewardship work we do on behalf of clients. We inform clients about our engagement and voting policies and activities through direct communication and through disclosure on our [website](#). For shareholder meetings where a vote might be of particular interest to clients, we may publish a vote bulletin after the meeting, disclosing and explaining how we voted on key proposals.

Want to know more? blackrock.com/stewardship
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⁹ As detailed in our [Global Principles](#), proxy voting involves logistical issues which can affect BlackRock's ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a "best-efforts" basis.