

# Engagement case study



## SK Hynix Inc

### Background

SK Hynix is one of the world's largest semiconductor vendors. The company relies on municipal water supplies for its semiconductor fabrication facilities, creating potential operational risks as three fabs are located in high or extremely high water stress areas. As water scarcity grows, municipalities may prioritize residential over industrial users. While the company has long-term water supply agreements, their disclosure on water risk management provides limited insight into plans or risk exposure and management strategies. Additionally, the company faces challenges in supply chain transparency and labour rights management, with notable gaps in their remediation framework, which scored poorly in an external assessment.

### Action

We conducted two significant engagements with SK Hynix in the second quarter. On water management, the company has implemented water reuse initiatives and is increasing water treatment facilities at their fabs, though reuse is currently limited to cooling applications. They do not anticipate feasibility in reusing water for 'front end' rinsing or ultrapure water applications, citing operational challenges and potential yield impacts. In our labour rights discussion, the company demonstrated awareness of their ESG benchmarking performance and has taken steps to improve disclosures, particularly in response to CHRB and KnowTheChain assessments. They have established comprehensive labour and human rights policies, including specifically addressing child and migrant workers. Their supplier management system includes online assessments and onsite audits for critical suppliers, though they can only conduct detailed assessments for c8% of their 1,700 suppliers. The company prefers remediation over termination when issues arise, providing education and support particularly to their SME suppliers who may lack ESG resources.

### Verdict

In our view, SK Hynix shows mixed sustainability progress. They have implemented some water reuse initiatives, but limited scope and continued reliance on municipal water in stressed areas pose risks. Their conservative approach to water reuse in critical processes reflects careful risk management but may constrain efficiency improvements. On labour rights, while they have established comprehensive policies and assessment systems, their limited ability to conduct detailed supplier assessments and gaps in remediation frameworks suggest areas for improvement. We plan to follow up with the company about water risk later in 2025, particularly focusing on expanding water reuse beyond cooling applications.

### Engagement details:

- Sector: Information Technology

### Engagement themes:

- Human Rights, Environmental Stewardship

Source: Columbia Threadneedle Investments.

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