Investment Stewardship Group

BlackRock.

Voting Bulletin: H&M Hennes & Mauritz AB

As part of our fiduciary duty, BlackRock's Investment Stewardship team (BIS) advocates for sound corporate governance and business practices that are aligned with long-term sustainable financial performance. This objective underpins all our engagements and votes at company meetings.

We engage company leadership on key topics emphasizing governance practices including management of environmental and social factors that potentially have material economic, operational or reputational ramifications for the company.

We determine our engagement priorities based on our observation of market developments and emerging governance themes, and evolve them year over year as necessary. The BIS team's key engagement priorities include:

1. Board quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism
5. Human capital management

We are committed to enhancing the transparency of our stewardship practices. Where we believe it will help to understand our voting decisions at shareholder meetings, we will publish a Voting Bulletin explaining the rationale for how we have voted on select resolutions, and (where relevant) provide information around our engagement with the issuer.

Company	**H&M Hennes & Mauritz AB**
Market	Sweden
Meeting Date	7th May 2020
Key Resolutions	**Item 11.e:** Re-elect Christian Sievert as Director **Item 14.a:** Approve Guidelines for the Remuneration of Senior Executives **Item 14.b:** Shareholder proposal "Disclose Sustainability Targets to be Achieved in order for Senior Executives to be Paid Variable Remuneration; Report on the Performance of Senior Executives About Sustainability Targets" **Item 16:** Shareholder proposal "Eliminate Differentiated Voting Rights" **Item 17:** Shareholder proposal "Examination of Various Aspects of the Company's Collection of Data about the Personnel"
Board Recommendation	**Item 11.e:** FOR **Item 14.a:** FOR **Item 14.b:** NONE

	Item 16: NONE **Item 17:** NONE
BlackRock Vote	**Item 11.e:** AGAINST **Item 14.a:** AGAINST **Item 14.b:** FOR **Item 16:** AGAINST **Item 17:** AGAINST

Overview

H&M Hennes & Mauritz AB ("H&M") is a Swedish retailer of clothing and homeware. Its founders, the Persson family, continue to control approximately 75% of the company's voting rights through a holding investment company, Ramsbury Invest AB. At this year's annual general meeting (AGM), Karl-Johan Persson, who stepped down as CEO in January 2020, succeeded his father, Stefan Persson, as chairman of the company's board.

In recent years, we have expressed our concerns relating to H&M's board governance and executive remuneration by voting against management on these topics. Christian Sievert, the board's audit committee chair, is not considered independent, either by the company's own assessment or by BIS' director independence standards, because he represents Ramsbury on H&M's board. We opposed the election of Stefan Persson as chairman of the board in both 2018 and 2019 to hold him accountable for this poor governance practice.

At the 2019 AGM, we also voted against the company's guidelines for executive remuneration for not aligning their practices with market standards and that of many large European issuers. These standards include providing a detailed description of the performance measures used to determine the level of variable pay awarded to executives, and the implementation of a long-term share-based pay plan designed to incentivize good performance over a multi-year period. In the absence of such arrangements, companies should provide a robust explanation for not implementing them. H&M provided no such explanation.

The company's lagging remuneration practices may, in our view, be tied to the fact that the board lacks a stand-alone remuneration committee, which is considered standard governance practice across most European markets.

Rationale for BlackRock vote

Item 11.e: Re-elect Christian Sievert as Director (AGAINST)

We are voting against Mr. Sievert for serving as a non-independent chair of the board's audit committee. As Mr. Sievert is also the most senior member of the board following the retirement of Stefan Persson, our vote against his re-election is intended to signal our on-going concerns relating to the company's failure to develop its board structure and practices more broadly. We see the establishment of a stand-alone board remuneration committee as increasingly important given the lack of progress on evolving executive remuneration (discussed further below).

Item 14.a: Approve Guidelines for the Remuneration of Senior Executives (AGAINST)

As was the case last year, the level of transparency around H&M's executive pay practices continues to fall below market standards. Performance metrics for the short-term incentive are very loosely described, and there is the potential for the board to award discretionary (i.e. non-performance-based) bonuses to executives. There is also still no long-term incentive that assesses performance over a multi-year period.

H&M's failure to evolve its executive remuneration guidelines is not in keeping with increasing market-wide expectations. Notably, the requirements in the revised Shareholder Rights Directive asks that companies across the European Union establish a clear and understandable remuneration policy that describes the different components of fixed and variable remuneration, including clear criteria for variable pay awards and details of how performance will be assessed against those criteria. As detailed in our proxy voting guidelines, we expect companies to provide full disclosure of the performance measures selected for variable pay plans, how such plans are implemented for executive directors (including in comparison to others in management positions), and what use has been made of benchmarking to their peers. We see the shift in the company's management structure to being independent of the founding family as another clear catalyst for evolving its remuneration practices in keeping with our guidelines. As in 2019, the company did not provide relevant disclosure or a justification for not doing so.

Item 14.b: Disclose Sustainability Targets (and related information) (FOR)

The company's remuneration guidelines indicate in basic terms that levels of variable pay for executives depend on the fulfilment of targets, including group-wide financial targets, sustainability targets, and individual targets within the executive's area of responsibility. However, as noted above, H&M does not provide sufficient transparency around these targets.

This shareholder proposal requests additional information relating to H&M's sustainability targets and other aspects of variable pay for executives. The proposal specifies that the company should, "fully disclose the sustainability targets that must be fulfilled… [and] the members of the executive management team… to which [the targets] apply." Also requested are, "the ratios of fixed to variable pay" and an explanation of whether (and if so how) "comparable companies have been taken into account" when setting the remuneration guidelines.

BIS supported this shareholder proposal as we see the information requested as information that shareholders can reasonably expect companies to provide. As noted above, our proxy voting guidelines make clear our desire that companies provide equivalent information to that sought in this shareholder proposal, and many companies across Europe commonly do so. In this case, knowing how the emphasis that H&M places on sustainability is implemented practically through executive-level remuneration is a key part of understanding how pay incentivizes the delivery of strategy.

Item 16: Eliminate Differentiated Voting Rights (AGAINST)

This shareholder proposal seeks to amend the company's articles to ensure that all shares have equal voting rights. Currently, the company's A shares (held solely by Ramsbury) carry ten votes each, whereas B shares entitles its holder to one vote.

BlackRock believes that the appropriate corporate governance structure for public companies is for all shares to carry equal voting power, so as to align voting rights with a shareholder's economic interest. However, there was no detail in this proposal around how the "equalization" of the two share classes would be implemented in practice, and in particular what (if any) compensation the founding family could expect to receive from a reduction in their voting rights, which we believe would be usual practice in these circumstances. Despite our clear preference for "one share, one vote", we were not able to support this shareholder proposal given the lack of important details from the shareholder proponent.

Item 17: Examination of Various Aspects of the Company's Collection of Data about the Personnel (AGAINST)

This shareholder proposal asks the company for an examination of various aspects of the company's collection of personnel data. However, the resolution does not provide a supporting rationale. In the absence of any detail from the shareholder proponent as to why they have put this proposal forward, we did not support the proposal.