BlackRock

Investment Stewardship Group

Voting bulletin: A.P. Moller-Maersk A/S

As part of our fiduciary duty, BlackRock's Investment Stewardship (BIS) team 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, social, and governance factors that potentially have material economic, operational or reputational ramifications for the company. 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, and (where relevant) provide information around our engagement with the issuer.

These Voting Bulletins are made public on, or shortly after, the day of the meeting.

Company	**A.P. Moller-Maersk A/S**
Meeting Date	23rd March 2020
Market	Denmark
Resolutions[1]	**Items 5a, 5c**: Re-elect Directors Jim Hagemann Snabe and Robert Maersk Uggla **Item 7c**: Approve Guidelines for Incentive-based Compensation for Executive Management and Board
Board Recommendation	FOR all management items presented
BlackRock Vote	BlackRock ABSTAINED on the re-election of the above-mentioned directors (items 5a Director Snabe and 5c Director Maersk Uggla) for poorly structured executive pay. Both directors are members of the remuneration committee. We are also concerned that Director Snabe holds an excessive number of board mandates, raising concerns with his ability to exercise sufficient oversight on this board; We voted AGAINST item 7c to Approve Guidelines for Incentive Compensation for Executive Management and Board for the guidelines not setting challenging performance conditions for executive pay

We are publishing this bulletin to share our perspective on our vote against the company's incentive compensation guidelines proposal and to explain our vote to hold directors accountable for compensation policies that are not sufficiently aligned with long-term shareholders' interests, and in Mr. Snabe's case, for being over-committed. Further, this company is in a high impact sector and, thus, we provide insight into our engagement on climate risk and on our analysis of its related disclosures and the business practices underlying them.

Overview

A.P. Moller-Maersk A/S (“Maersk”) is a Danish shipping company engaged in worldwide integrated transportation and logistics.

As part of our routine analysis for annual general meetings (AGMs), BIS regularly reviews board composition and executive pay as these are standard items on an AGM agenda. In particular, we are concerned that Maersk’s executive remuneration approach does not use sufficiently challenging performance metrics.

As we describe in BIS’ Europe, Middle East, and Africa proxy voting guidelines, BlackRock believes that companies should identify those performance measures most directly tied to shareholder value creation. We also believe that emphasis should be on those factors within management’s control to create economic value over the long-term, which should ultimately lead to sustained shareholder returns over the long-term. We are wary of companies using only “output” metrics such as earnings per share (“EPS”), total shareholder return (“TSR”), or share price. Maersk’s executive pay policy provides for long-term incentive schemes which do not require the achievement of predetermined performance conditions beyond share price in order to vest.

Given these concerns, we abstained on the re-election of members of the remuneration committee, consistent with our preferred approach to hold members of the relevant key committee of the board accountable for governance concerns. In Denmark, shareholders do not have the option to vote against the re-election of board members.

Additionally, we explain in our voting guidelines our concerns relating to directors’ ability to fulfill their duties effectively. Given the nature of the role, it is important a director has flexibility for unforeseen events and therefore only takes on the maximum number of non-executive mandates that provides this flexibility.

In our view, Chairman Jim Hagemann Snabe holds an excessive number of mandates. In addition to his role at Maersk, he is the board chair of Siemens AG and a non-executive director of Allianz SE. This raises substantial concerns about his ability to exercise sufficient oversight on Maersk’s board.

Rationale for the BlackRock Vote

Based on our analysis of company disclosures, BlackRock withheld support from the following agenda items:

5a Re-election of Director Jim Hagemann Snabe for serving on the Remuneration Committee that did not establish challenging performance conditions for executive pay and for serving on an excessive number of boards (ABSTAIN)

5c Re-election of Director Robert Maersk Uggla for serving on the Remuneration Committee that did not establish challenging performance conditions for executive pay (ABSTAIN)

7c Approve Guidelines for Incentive-based Compensation for Executive Management and Board given the lack of performance metrics beyond share price in the company’s long-term incentive plans (AGAINST)

BlackRock supported management on all other proposals.

Discussion on climate risk

The meeting agenda is routine and there are no shareholder proposals relating to governance or sustainability topics. However, the issue of climate risk is a material factor for the company.

Relevant for the company, and the shipping industry more broadly, is the International Marine Organization’s (IMO) 0.5% global cap on the content of sulphur in fuels which became effective on January 1st, 2020. It will be enforced through a ban on carrying non-compliant fuels on vessels, except for vessels which have installed “scrubbers” to clean the exhaust gases. This regulation is viewed by many as the biggest single change in the shipping industry in decades. Maersk has reported on how it is prepared for compliance with the regulation, and we are confident that the board and executive team is focused on this regulatory risk. The company listed failure to implement the IMO 2020 strategy for mitigating cost impact as the second biggest risk to it achieving its 2020-2024 business plan. The company as has outlined some mitigation strategies and has reported a significant decline in likelihood of risk from 2019 to 2020.

Maersk was one of the companies that BIS wrote to in December 2017, asking the company to review the TCFD's recommendations and consider reporting in alignment with them. We sent letters to CEOs and General Counsels at over 100 of the most carbon-intensive companies globally in BlackRock's equity portfolio. The company is on the Climate Action 100+ focus list of companies[2].

Climate risk was not on the shareholder meeting agenda through a separate climate proposal[3] at the 2020 annual meeting. In line with our usual evaluation process, given the climate risk inherent in the business, we reviewed Maersk's public reporting (2019 Annual Report[4] and 2019 Sustainability Report[5]) to assess their progress on climate risk reporting in alignment with the TCFD framework in order to assess the quality of disclosure and related board oversight. As noted on page 17 of its Sustainability Report, the company supports TCFD and provides reporting under each of the four pillars: governance, strategy, risk management, and targets and metrics. Further, the company discloses three-year historical data on greenhouse gas (GHG) emissions, NOx and SOx emissions, which maps to the Sustainability Accounting Standards Board's (SASB) material key indicators for the marine transport industry[6].

The company has outlined two strategic targets for CO2:

1. To have net-zero CO2 emissions from our own operations by 2050, which includes having commercially viable, net-zero vessels on the water by 2030.
2. To deliver a 60% relative reduction in CO2 emissions by 2030 compared to 2008 levels.

This level of reporting is consistent with our view that companies should articulate publicly how sector relevant sustainability risks and opportunities, for instance those identified by the TCFD and in the SASB framework, are integrated into business strategy.

We will continue to monitor the board and management's governance and material sustainability practices, and we intend to provide feedback on the quality of relevant disclosures.

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1. Full meeting agenda and resolutions can be accessed at https://investor.maersk.com/shareholder-services/annual-meeting.
2. A listing of Climate Action 100+ companies is available at https://climateaction100.wordpress.com/companies/. In January 2020, BlackRock joined Climate Action 100+, an investor-led corporate engagement initiative encouraging companies to improve climate risk disclosure and align their business strategies with the goals of the Paris Agreement. This was a natural progression of our stewardship efforts on climate risk, building on the work we have done to promote enhanced governance practices, target setting and disclosures in companies.
3. We observe relatively fewer sustainability-related shareholder proposals in Europe compared to the US. During the course of the past European voting season there were 14 shareholder proposals related to environmental or social matters compared to 165 in the US. See p. 3 at https://www.blackrock.com/corporate/literature/whitepaper/viewpoint-europe-listed-companies-governance-shareholders-votes-cast-february-2020.pdf.
4. Maersk's 2019 Annual Report available at https://investor.maersk.com/static-files/984a2b93-0035-40d3-9cae-77161c9a36e0.
5. Maersk's 2019 Sustainability Report available at https://investor.maersk.com/static-files/7159c0ac-f547-465b-bc64-1dc05c6a7fd5.
6. See the SASB's Transportation Sector Marine Transportation guidance at https://www.sasb.org/wp-content/uploads/2014/09/TR0301_ProvisionalStandard_Marine.pdf.