Investment Stewardship Group

Voting Bulletin: Volvo 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

Our approach to investment stewardship is grounded in an expectation that the board will oversee and advise management, influencing management's approach to key business issues. When effective corporate governance is lacking, we believe that voting against the responsible director(s) is often the most impactful action a shareholder can take.

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	**Volvo AB**
Market	Sweden
Meeting Date	18th June 2020
Key Resolutions[1]	**Items 12.1, 12.4, 12.8, 12.11:** Re-elect Matti Alahuhta, James Griffith, Martina Merz and Carl-Henric Svanberg as Directors **Item 13:** Re-elect Carl-Henric Svanberg as Board Chairman **Item 15:** Approve remuneration policy and other terms of employment for executive management

[1] Full meeting resolutions can be accessed at: https://www.volvogroup.com/content/dam/volvo/volvo-group/markets/global/en-en/investors/corporate-governance/general-meeting-of-the-shareholders/2020/NOTICE-TO-ANNUAL-GENERAL-MEETING-OF-AB-VOLVO-publ.pdf.

	Item 18: Limit contributions to Chalmers University of Technology Foundation to a maximum of SEK 4 million per year
Board Recommendation	The board recommends shareholders vote FOR all items apart from item 18, for which it does not provide a recommendation.
BlackRock Vote	We voted AGAINST all key resolutions outlined above given our concerns about progress on climate-related risks reporting, the structure of executive pay at the company and the approach taken by the shareholder to micromanage company activities.

We believe that as companies face material climate risks, they must demonstrate that management have assessed how climate may impact operations and have determined an appropriate business strategy. As we describe in our commentaries on our Approach to Engagement on Climate Risk and Emissions, Engagement, and Transition to a Low-Carbon Economy, we expect robust disclosures of climate-related risks and opportunities in line with the recommendations of the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD). Greater transparency will contribute to improved market-level data, better engagements with shareholders, and more informed voting decisions aligned with long-term value creation.

Overview

Volvo AB (Volvo) manufactures and sells trucks, buses, construction equipment, and marine and industrial engines globally. Volvo is listed in Sweden.

Given the significant material climate risks for Volvo based on its business lines, we expect robust reporting on the governance framework around these risks and how they are incorporated into the company's strategy and risk management process. Volvo acknowledges the impact of climate change on its business and has set energy efficiency and greenhouse gas emissions reduction targets to 2020.[2] However, there is limited disclosure beyond this in its public reporting, and no detail on oversight or its strategy to mitigate the impact of climate risk on its business. The company's climate-related risk disclosures do not meet our expectations of a company exposed to significant material climate risks.

In our engagement with the company, it became clear that climate risk is indeed considered a strategic risk and is built into decision-making across the organization, from product planning to R&D spend. As a result, we would expect the company to already have fulsome disclosures in place, including more explicit alignment with the TCFD framework. We will look for such enhanced disclosures in its reporting next year.

In addition, we continue to have concerns about the structure of executive pay at Volvo, which we previously expressed by voting against the pay proposal at the 2019 annual general meeting (AGM). The company's new executive pay proposal does not address our concerns.

Rationale for BlackRock vote

Based on our analysis and multi-year engagements with the company, BlackRock voted against the following agenda items:

Items 12.1, 12.4, 12.8, 12.11: Re-elect Matti Alahuhta, James Griffith, Martina Merz and Carl-Henric Svanberg as Directors

[2] 2019 Annual and Sustainability Report, p. 35, https://www.volvogroup.com/content/dam/volvo/volvo-group/markets/global/en-en/investors/reports-and-presentations/annual-reports/annual-and-sustainability-report-2019.pdf

Item 13: Re-elect Carl-Henric Svanberg as Board Chairman

BIS believes board members should be held accountable for the level of oversight provided on governance matters, including executive pay, and how the management team addresses material issues, such as climate risk. Given the lack of progress the company has made on its climate disclosures and our ongoing concerns with its executive pay policy, BIS' policy is to withhold support from the re-election of those board members who are most accountable through their membership on relevant board sub-committees or, in the absence of such committees, the most senior board member. We voted against the re-election to the board of Matti Alahuhta, James Griffith and Carl-Henric Svanberg as members of the remuneration committee.

We voted against the re-election of Mr. Svanberg as Board Chair, as the most senior board member responsible for climate disclosures. In particular, we are holding Mr. Svanberg to account for the current lack of adequate climate-related risks disclosures and expect more fulsome disclosure regarding the company's long-term adaptation strategies in line with the TCFD by next year.

Additionally, as the role of director is becoming increasingly demanding, directors must be able to commit an appropriate amount of time to board and committee matters. Given the nature of the role, it is important a director has flexibility for unforeseen events and therefore only takes on the number of mandates to ensure such flexibility.

Consistent with our EMEA proxy voting guidelines, we consider Matti Alahuhta and Martina Merz to hold an excessive number of mandates. In addition to his role at Volvo, Mr. Alahuhta serves as board chair at Outotec Oyj and non-executive director at Kone Oyj and ABB Ltd. In addition to her role at Volvo, Ms. Merz serves as the CEO of ThyssenKrupp AG and non-executive director at SAF-HOLLAND SA. This raises substantial concerns about their ability to exercise sufficient oversight on Volvo's board.

Item 15: Approve remuneration policy and other terms of employment for executive management

We voted against the approval of the remuneration policy to reflect our continuing concerns, as we previously expressed by voting against the pay proposal at the 2019 annual general meeting (AGM). As we describe in our EMEA proxy voting guidelines, BlackRock supports incentive plans that foster the sustainable achievement of results. Consistent with best practice, we emphasize performance over a sustained period, generally 3-5 years, and expect performance hurdles for long-term incentive plans to be disclosed at the beginning of the period.

Where pay structures differ substantially from best practice, we expect clear disclosure explaining how the decisions are in shareholders' best long-term economic interests. Volvo's long-term incentive plan measures performance over three one-year periods, with performance hurdles being set at the beginning of each one-year period. These hurdles are not disclosed at the beginning of the plan, and no context is provided for these practices. In our view, these practices fall short and therefore warranted a vote against management.

Item 18: Limit contributions to Chalmers University of Technology Foundation to a maximum of SEK 4 million per year

A shareholder has proposed to restrict the amount the company can donate to the Chalmers University of Technology Foundation. The shareholder disagrees with the conclusions of one of the foundation's research areas. This item was proposed by the same shareholder at the 2019 AGM. We considered that this proposal strays into micromanagement and, moreover, we are generally not supportive of proposals that are overly prescriptive in nature.

We will continue to engage with the company and monitor developments, with a particular focus on progress on climate-related risk disclosures as well as the structure of and disclosure on executive pay.