Ocado Group Plc (Ocado) is a UK online grocery retailer that specializes in developing and supplying online retailing technology (including distribution logistics) to other grocers. The company’s CEO is one of the founders and owns more than 3% of Ocado’s share capital.

BlackRock Investment Stewardship (BIS) has engaged regularly with Ocado over the last several years to discuss a range of corporate governance and sustainable business matters that we believe contribute to a company’s ability to deliver the durable, long-term shareholder returns our clients depend on to meet their financial goals. This has included conversations about remuneration, board diversity and human capital management, as well as the development of the company’s broader sustainability agenda, which BlackRock believes can be defining factors in companies’ long-term prospects.

Our most recent engagements have been with the new Board Chair, who was appointed to the role at the company’s 2021 annual general meeting (AGM), and the company’s Head of Corporate Responsibility. We used these discussions to explore the Board Chair’s priorities for continuing to evolve the company’s governance, as well as to understand the key elements of the company’s new sustainability strategy, “Ocado Unlimited”. We also exchanged views with the board about the proposals for the renewal of the executive remuneration policy (discussed in more detail below).

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BLACKROCK
Rationale for BlackRock’s vote

Item 2: Approve Remuneration Policy (AGAINST)

Item 20: Amend Value Creation Plan (AGAINST)

BIS did not support the extension of the Value Creation Plan introduced in 2019, and the Remuneration Policy of which it formed a significant part, due to our concerns about its appropriateness as a tool for measuring performance and incentivizing management.

As discussed in our commentary, “Incentives aligned with value creation,” we believe companies benefit from disclosing how their compensation policies and outcomes are consistent with the economic interests of long-term shareholders. We find it helpful when any situation where there may be perceived or actual misalignment is explained in detail and justified in terms of how it serves shareholders’ interests.

As we explained in our previous Vote Bulletin, which outlined our votes at the company’s 2020 AGM, we have had long-standing concerns about the company’s use of executive pay plans based on share price growth. This performance measure underpinned both the Growth Incentive Plan, which ran from 2014 to 2019, and the Value Creation Plan (VCP) that was introduced in 2019 at the time of the last executive remuneration policy renewal. BIS has had longstanding concerns about the assessment of management’s performance solely by reference to shareholder returns, which can be subject to numerous factors outside of management’s control. This type of plan is also designed to target an outcome that the executives themselves – as significant shareholders themselves – are already incentivized to achieve. It is notable that around 24% of the company’s shareholder opposed the introduction of the VCP in 2019.

The board indicated to us ahead of the 2022 AGM that it intended to extend the life of VCP by three years (to 2025), and to increase the size of the pool of shares available to be awarded under the plan. We noted our continuing concerns with the use of the VCP to measure performance and incentivize management, but the board responded that, following their consultation with shareholders, they decided to proceed. BIS therefore determined not to support the approval of the extension of the VCP, and also not to support the approval of the renewed Remuneration Policy of which it formed a significant part.

Item 11: Re-elect Andrew Harrison as Director (AGAINST)

Item 12: Re-elect Emma Lloyd as Director (AGAINST)

Item 13: Re-elect Julie Southern as Director (AGAINST)

BIS voted against the re-election of members of the Remuneration Committee to reflect our concerns about remuneration practices at the company.

As discussed in our market-level voting guidelines for European, Middle Eastern and African securities, when we have concerns about a company’s remuneration policies, we signal our views through engagement. If engagement doesn’t address our concerns, we may not support proposals to approve the remuneration policy, or, as in this case, the plan itself. We may also determine not to support the re-election of members of the Remuneration Committee. Given our views on Ocado’s remuneration approach, we did not support the re-election of members of the board’s Remuneration Committee to reflect our concerns that the extension of the VCP was not in shareholders’ interests due to the issues noted above. We believe investor concerns were clearly signaled by the level of dissent when the VCP was first introduced. In our view, this had not been sufficiently considered in the decision to propose the extension of the VCP.

Our decision to not support Ms. Southern also reflected a level of concern about the lack of progress that had been made in the company’s reporting on its sustainability agenda. While we recognize that certain progress has been made in building out the agenda itself, we see corresponding disclosures as insufficient to provide the information necessary for shareholders to assess the company’s position and performance on key sustainability-related issues. In particular, we note that, despite the business having evaluated current
disclosures and the requirements associated with potential disclosure under established reporting frameworks such as the Global Reporting Initiative (GRI) or the Sustainability Accounting Standards Board (SASB) Standards (as outlined in the company’s 2021 annual report), no progress has yet been made in reporting under such frameworks, nor any indication given about the intention to do so. Given the responsibility of the board’s Audit Committee under its Terms of Reference to review the company’s reporting and advise on whether it provides necessary information to shareholders, we look to Ms. Southern, as the chair of the Audit Committee, to address the need for improvement in this area.

Finally, we noted that at the time of the AGM only three of the board’s thirteen members were female. To ensure there is appropriate diversity of perspectives, we look to boards to draw directors from a broad and diverse pool of candidates, and have an approach to diversity aligned with any applicable market-level standards or initiatives designed to support diversity (particularly gender and ethnic diversity) among board members. Specifically, in the United Kingdom we look to companies to be meeting the targets set by (and/or be on a clear pathway to meeting the future targets of) the Hampton Alexander Review and the Parker Review (which recommends that female representation be at least 33% on corporate board and Executive Committees (inclusive of direct reports) to be achieved at FTSE 350 companies by the end of 2020). These are considered best practice in the market.

In this case, with three of thirteen members being female, the Ocado board does not meet the 33% female representation target. However, we were conscious that the single appointment to the board in the last meeting cycle was of a female director, and that with this appointment the company reported meeting the Parker Review target in respect to minority ethnic group representation. The company also disclosed that it is committed to increasing further the percentage of women and ethnically diverse individuals on the board and at the senior management level, with a specific plan to recruit an additional female director in the short-term. The overall percentage of the board that is female is also impacted by the current presence of five male executive board members, which the Board Chair acknowledges needs to be reviewed. On the basis of this thoughtful approach to increasing diversity, we supported the re-election of the remaining members of Ocado’s Nomination Committee.

As described in our Global Principles, we are interested in diversity in the board as a means to promoting diversity of thought and avoiding ‘group think.’ In our experience, greater diversity in the boardroom contributes to more robust discussions and more innovative and resilient decisions. High-performing boards play an important role in developing strong management teams, on which the long-term success of companies depend. It is our view that diversity in the boardroom leads to better long-term economic outcomes for companies, and therefore contributes to the durable, long-term value creation on which our clients’ investments depend to meet their financial goals.

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2 The recommendations of the Hampton-Alexander Review were for female representation of at least 33% on corporate board and Executive Committees (inclusive of direct reports) to be achieved at FTSE 350 companies by the end of 2020. Further, the Parker Review sets the target of at least one board-level director from a minority ethnic group to be appointed at FTSE 100 companies by the end of 2021 and at FTSE 250 companies by the end of 2024.
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.

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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3 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.