Triodos Investment Management

# WPP PLC

| | | | | | |
|---|---|---|---|---|---|
| MEETING DATE | Wed, 07 Jun 2017 12:00 pm | TYPE | AGM | ISSUE DATE | Wed, 24 May 2017 |
| MEETING LOCATION | 100-110 Euston Road, London NW1 2AJ | | | | |
| CURRENT INDICES | FTSE 100, FTSE EuroFirst | | | | |
| SECTOR | Media Agencies | | | | |

| | PROPOSALS | ADVICE |
|---|---|---|
| 1 | **Receive the Annual Report**<br>Strategic report meets guidelines. Adequate employment and environmental policies are in place and relevant, up-to-date, quantified, environmental reporting is disclosed. The Company also disclosed the proportion of women on the Board, in Executive Management positions and within the whole organisation.<br>Triodos supports this resolution. | **For** |
| 2 | **Approve the Dividend**<br>A final dividend of 37.05 pence per share is proposed, which brings the total dividend for the year under review to 56.60 pence per share. This payment is covered by earnings. | **For** |
| 3 | **Approve the Remuneration Report**<br>**Disclosure:** Overall disclosure is considered acceptable.<br>**Balance:** Sir Martin Sorrell's remuneration for 2016 totaled £48,148,000, of which £46,310,000 was in relation to variable pay and dividend equivalents. A vast majority of this award is in relation to the shares awarded in 2012 under the last cycle of the Leadership Equity Acquisition Plan (LEAP) which vested in full on 7 March 2017. The CEO's awards which vested under the LEAP plan have a value of £41,560, 000 including any amounts attributed to dividend accrual and share appreciation. This is equivalent to 3614% of his base salary, which far exceeds the acceptable threshold of 200% of salary. Excluding share price appreciation and dividend accrual, the CEO's LEAP award vesting would amount to £18,529,000, which represents more than 16 times his salary. Dividend equivalents paid to the CEO on vested LEAP shares amount to £4,339,000, which is 3.8 his base salary. While this award is solely linked to TSR performance, increases in total CEO pay over the last five years (+36% in average) are not in line with the changes in Company's TSR performance over the same period (+24.7%). Similarly, the long term incentive award granted to the CEO in the year under the Executive Performance Share Plan (EPSP) is considered excessive at 975% of salary. Finally, the use of such excessive incentive awards is not supported as his existing level of shareholding in the Company is considered sufficient to incentivise the CEO's perfomance (see supporting information below).<br>Rating: AE.<br>Triodos opposes this resolution. | **Oppose** |

| | | |
|---|---|---|
| **4** | **Approve Remuneration Policy**<br>Main policy changes include some reduction in variable incentive maxima for current and new executives (see supporting information below). These changes, although welcomed, are considered insufficient to support the policy.<br>**Disclosure:** Overall policy disclosure is adequate. Maximum benefits for Executive Directors are disclosed.<br>**Balance:** The maximum potential award under all incentive schemes is considered excessive at the newly reduced level of 1000% of salary. Long-term incentive awards are now granted under the Executive Performance Share Plan (EPSP). The EPSP's performance period is five years which is considered sufficiently long term. It is noted that the plan is not linked to non-financial performance conditions. The absence of non-financial parameters to assess Executives' long-term performance is considered contrary to best practice as such factors allow the remuneration policy to focus on the operational performance of the business as a whole and the individual roles of each of the senior executives in achieving that performance. Furthermore, the performance measures are applied independently and awards can vest regardless of the performance in respect to other elements. Dividend equivalent payments on share awards are permitted under the policy. Such payments misalign shareholder and executive interests as shareholders must subscribe for shares in order to receive dividends whereas participants in the scheme do not.<br>**Contracts:** For new executive recruits, the aggregate maximum face value for annual short- and long-term variable compensation will be 8 times base salary, which is lower than the current Group Chief Executive's maximum level. For a new joiner, the contract may commence with a notice period of up to two years reducing to the standard 12 months over time. This is considered inappropriate. The remuneration committee, in exceptional circumstances, has the discretion to determine that for good leavers, awards vest other than subject to performance conditions and pro-rating. This is considered an inappropriate level of discretion.<br>Contractual arrangements for the CEO are not in line with the rest of the Group as there are special provisions in his contract. There are additional severance provisions on a change of control. In the event of a change of control of WPP, the Company has agreed to indemnify the CEO, with the prior approval of share owners, with respect to any related personal US tax liability. This liability could arise under provisions (Section 280G) which disallow tax deductions for certain compensation payments made to 'highly compensated individuals' when the compensation is paid following a change in control. The Company states that based on a recent review, it is unlikely that any section 280G payment will be made. Unless Sir Martin Sorrell is terminated for cause, he will be treated as having retired on leaving the Company and will be treated as a good leaver.<br>Rating: ADD.<br>Based on the concerns noted above, Triodos opposes this resolution. | **Oppose** |
| **5** | **Approve the Sustainability Report**<br>Adequate environmental and employment policies are in place and some quantifiable environmental reporting is disclosed. Gender balance at all levels of the Company is disclosed. Acceptable proposal. | **For** |
| **6** | **Re-elect Roberto Quarta**<br>Chairman. Independent upon appointment. | **For** |
| **7** | **Re-elect Dr Jacques Aigrain**<br>Independent Non-Executive Director. | **For** |
| **8** | **Re-elect Ruigang Li**<br>Independent Non-Executive Director. | **For** |
| **9** | **Re-elect Paul Richardson**<br>Finance Director. Twelve months rolling contract. | **For** |
| **10** | **Re-elect Hugo Shong**<br>Independent Non-Executive Director. | **For** |
| **11** | **Re-elect Sir Martin Sorrell**<br>Chief Executive Officer. | **For** |
| **12** | **Re-elect Sally Susman**<br>Independent Non-Executive Director. | **For** |

| | | |
|---|---|---|
| 13 | **Re-elect Solomon Trujillo**<br>Independent Non-Executive Director. | **For** |
| 14 | **Re-elect Sir John Hood**<br>Independent Non-Executive Director. | **For** |
| 15 | **Re-elect Nicole Seligman**<br>Senior Independent Director. Considered independent. | **For** |
| 16 | **Re-elect Daniela Riccardi**<br>Independent Non-Executive Director. | **For** |
| 17 | **Elect Tarek Farahat**<br>Newly-appointed independent Non-Executive Director. | **For** |
| 18 | **Appoint the Auditors**<br>Deloitte proposed. Non-audit fees represented 35.10% of audit fees during the year under review and 43.75% on a three-year aggregate basis. This level of non-audit fees raises some concerns about the independence of the statutory auditor. Furthermore, the current auditor has been in place for more than seven years. There are concerns that failure to regularly rotate the audit firm can compromise the independence of the auditor.<br>Triodos opposes this resolution. | **Oppose** |
| 19 | **Allow the Board to Determine the Auditor's Remuneration**<br>Standard proposal. | **For** |
| 20 | **Issue Shares with Pre-emption Rights**<br>The authority is limited to 33.3% of the share capital and another 33.3% in connection with a Rights Issue. All directors are standing for annual re-election. This resolution is in line with normal market practice and expires at the next AGM.<br>Triodos supports this resolution. | **For** |
| 21* | **Authorise Share Repurchase**<br>The authority is limited to 10% of the Company's issued share capital and will expire at the next AGM. This resolution will not be supported unless the Board has set forth a clear, cogent and compelling case demonstrating how the authority would benefit long-term shareholders. As no clear justification was provided by the Board, Triodos opposes this resolution. | **Oppose** |
| 22* | **Issue Shares for Cash**<br>Authority is limited to 5% of the Company's issued share capital and will expire at the next AGM. Within acceptable limits. | **For** |
| 23* | **Issue Shares for Cash for the Purpose of Financing an Acquisition or Other Capital Investment**<br>The Board is seeking approval to issue up to an additional 5% of the Company's issued share capital for cash for use only in connection with an acquisition or a specified capital investment. Such proposal is not supported as it is considered that the 5% limit sought under the general authority above is sufficient. Best practice would be to seek a specific authority from shareholders in relation to a specific transactions if such situation arises. As this is not the case, Triodos opposes this resolution. | **Oppose** |

**** = Special resolution***

## SUPPORTING INFORMATION FOR RESOLUTIONS

### Proposal 3 - Approve the Remuneration Report

The total remuneration of the CEO for the year under review amounts to £48,148,000. It is noted that 92.5% of this payment is linked to variable incentive rewards. Overall, it is considered that the CEO has a significant beneficial interest in the Company's ordinary share capital, as he holds 21,283,153 shares representing 1.60% of the Company's share capital with current market value of circa £365 million (based on share price on 16 May 2017). This holding, which includes the consequence of the vesting of previous awards during his extensive period in office, is of a size to invalidate many of the assumptions underpinning his bonus and long-term awards. The shares already held should provide him with substantial alignment with shareholders and incentive to perform. The issue for the company is not his retention, it is his succession and replacement.

**Proposal 4 - Approve Remuneration Policy**

The maximum annual bonus opportunity of the Group chief executive is reduced to 400% (previously 435%) and for the Group Chief Financial Officer to 250% (300%). A minimum of 40% of the achieved bonus will be delivered in deferred shares (ESA). The maximum annual Executive Performance Share Plan (EPSP) opportunity of the Group Chief Executive is being reduced to 600% of base salary (previously 975%) and for the Group Chief Financial Officer to 300% of base salary (400%). This means the Chief Executive's maximum opportunity is reduced from 1410% of salary to 1000% of salary. In practice, these changes will have the effect of reducing the CEO's overall maximum pay opportunity, before any account is taken of share price appreciation or dividends, by 27% or £4.8 million. The maximum incentive award, the combination of short- and long-term incentives, for a new appointee to the Board, is being reduced to 8 times base salary (previously 1375%) . Pension for the CEO is reduced to 30% of salary (previously 40%) and for new directors pension is set at 25% of base salary.

**Proposal 14 - Re-elect Sir John Hood**

In 2016, a significant number of share owners voted against the Implementation Report of the Compensation Committee. The committee understands that the majority of share owners voting against the Implementation Report did so because of the level of the 2015 single figure of the Executive Directors, which was driven largely by the maturity of a legacy five-year long-term incentive plan award under LEAP.

**Proposal 23 - Issue Shares for Cash for the Purpose of Financing an Acquisition or Other Capital Investment**

The Company has stated that this additional authority will only be used to fund one or more acquisitions or specified capital investments, in line with the Pre-Emption Group Guidelines. This recommendation is not supported by PIRC.

Researcher: Jide Ajomale
Email: pircresearch@pirc.co.uk



Pensions & Investment Research Consultants Limited
8th Floor, Suite 8.02, Exchange Tower
2 Harbour Exchange Square
E14 9GE

Tel: 020 7247 2323
Fax: 020 7247 2457
http://www.pirc.co.uk