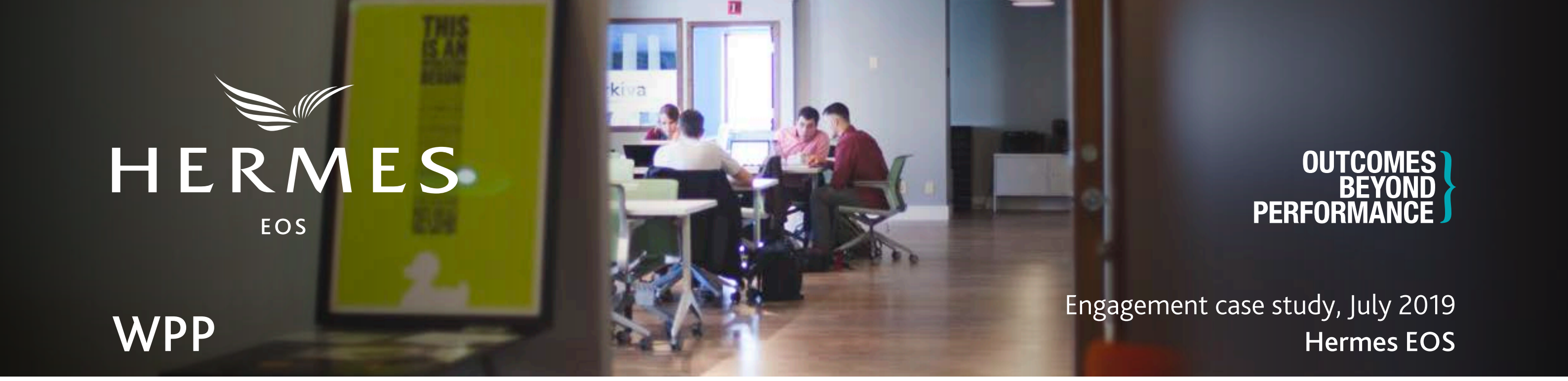

HERMES EOS

OUTCOMES BEYOND PERFORMANCE

WPP

Engagement case study, July 2019
Hermes EOS

Engagement objectives

Governance

Board effectiveness

Succession planning

Remuneration

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WPP began rebuilding shareholder confidence in 2015 with a new chair. Under his leadership, it implemented a revised remuneration policy and succession planning became a higher priority. The importance of this was underscored when the founder CEO departed. Over the last decade, Hermes EOS has pressed for these and other governance changes through engagement. We continue to engage on helping it to future-proof against industry challenges.

Background

We have been engaging with WPP since 2009 on various topics including board effectiveness, remuneration, business structure and succession planning. We started raising the issue of board effectiveness in 2011 when, despite a consultation exercise in which we and other investors voiced significant concerns, the board maintained its decision to significantly increase the salary and bonus of the founder CEO Sir Martin Sorrell. Retention was the key argument used to justify his pay package, and we started questioning the company's plans for his succession. The remuneration package was ultimately rejected by shareholders at the 2012 AGM. Somewhat surprisingly, given the ongoing debate around pay that year, Sir Martin Sorrell subsequently wrote a letter in the Financial Times where he defended his own pay package[1], a point which he defended again when a guest speaker at our 2017 client conference.

It became apparent during our conversations with the company in later years that the remuneration committee had approved the legacy long-term incentive scheme, LEAP, without conducting a sufficiently robust scenario analysis to assess its potential outcomes. The payments from the controversial long-term incentive scheme delivered excessive pay-outs peaking at £70m for FY2015 and generated significant negative press coverage for the company.

Our engagement

Over the years, we have interacted with numerous representatives of WPP at all levels, including the chair, CEO and various non-executive directors (NEDs) including chairs of the remuneration committee. We also intervened at the AGMs in 2015, 2016, 2017 and 2018. Since 2010, a key part of our engagement has been to seek changes to the remuneration policy, ensuring more reasonable levels of pay and greater alignment with business performance and the delivery of strategic objectives.

> WPP is a creative transformation business that provides an integrated offer of services in communications, experience, commerce and technology for its global client base. Until 2018 and the resignation of the founder CEO, the company had grown largely through an acquisition-focused strategy.

Given the significant management challenge stemming from the complex structure of the business, we asked the board to demonstrate that it had in place contingency, as well as short, medium and long-term succession plans for the CEO role and that these were regularly reviewed. In 2012, we began requesting that much of this work be done under the charge of a new chair, as the incumbent chair appeared unable to appropriately balance the influence of the CEO. We also pressed for a refreshment of the board to ensure it had the skills and experience necessary to effectively challenge management. More recently, we challenged the practice of maintaining an advisory board with a number of former long-serving non-executive directors.

Changes at the company and next steps

The election of a new chair at the 2015 AGM was a vital step to rebuilding shareholder confidence. Under his leadership, succession planning became a higher priority with greater transparency. The

[1] https://www.ft.com/content/ea12c3e6-aeee-11e1-a8a7-00144feabdc0

chair narrowed the pool of internal candidates as potential successors to the CEO role and increased their exposure to the board. We were also pleased that he decided to commission the company's first independent board evaluation in 2016 with a second evaluation carried out in 2018.

WPP also revised its remuneration policy in 2017 with significantly reduced pay opportunities. In 2018, the company took the opportunity, with the appointment of Mark Read as CEO, to further reduce fixed pay and the ratio of variable to fixed pay in his pay package. Finally, the company's advisory board, which is an atypical practice in the UK market, was formally disbanded in 2018. Although a number of improvements have been made to corporate governance, we continue to engage with the company over the concern that it should reduce the complexity of its group structure to enable more effective board oversight.

The plan for a scenario under which the CEO/founder would suddenly leave due to unforeseen circumstances proved useful after allegations of personal misconduct and his resignation in April 2018 and it was rapidly implemented. This served the company well while the board completed due diligence in the search for a new CEO. However, the timing was unfortunate: the new CEO inherited an overly complex business lacking agility, which requires fundamental structural changes. Also, the transition comes at one of the most challenging times for the advertising industry, which is being disrupted at various levels. We will therefore continue to engage with WPP on the fundamental changes required to future-proof it against these challenges and enable it to succeed in a much-changed competitive environment.

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We are an asset manager with a difference. We believe that, while our primary purpose is to help savers and beneficiaries by providing world class active investment management and stewardship services, our role goes further. We believe we have a duty to deliver holistic returns – outcomes for our clients that go far beyond the financial – and consider the impact our decisions have on society, the environment and the wider world.

Our goal is to help people invest better, retire better and create a better society for all.

Our investment solutions include:

Private markets
Infrastructure, private debt, private equity, commercial and residential real estate

High active share equities
Asia, global emerging markets, Europe, US, global, small and mid-cap and impact

Credit
Absolute return, global high yield, multi strategy, global investment grade, unconstrained, real estate debt and direct lending

Stewardship
Active engagement, advocacy, intelligent voting and sustainable development

Offices

London | Denmark | Dublin | Frankfurt | New York | Singapore

Why Hermes EOS?

Hermes EOS enables institutional shareholders around the world to meet their fiduciary responsibilities and become active owners of public companies. Hermes EOS is based on the premise that companies with informed and involved shareholders are more likely to achieve superior long-term performance than those without.

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