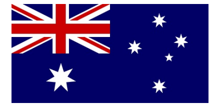
Triodos Investment Management

SIMS METAL MGMT LTD

Meeting Date:	Thu, 13 Nov 2014 10:30am	**Type:**	AGM	**Issue date:**	Mon, 03 Nov 2014
Meeting Location:	The Westin, Heritage Ballroom, 1 Martin Place, Sydney NSW				
Current Indices:	PIRC Global				
Sector:	Steel				

	PROPOSALS	ADVICE
1	**Receive the Annual Report** Non-Voting Agenda Item.	**Non-Voting**
2	**To re-elect Mrs Heather Ridout** Independent Non-Executive Director.	**For**
3	**To re-elect Mr John DiLacqua** Non-Executive Director. Not considered independent as he has served on the board for more than nine years. However, there is sufficient independent representation on the Board. Acceptable proposal.	**For**
4	**To re-elect Mr Chris Renwick** Independent Non-Executive Director.	**For**
5	**To elect Ms Deborah O'Toole** Newly appointed Independent Non-Executive Director.	**For**
6	**To elect Ms Georgia Nelson** Newly appointed Independent Non-Executive Director.	**For**
7	**Appoint the auditors: Deloitte Touche Tohmatsu** Newly appointed external auditor. It is replacing PricewaterhouseCoopers in this role. The rotation of the auditor is welcomed. Acceptable proposal.	**For**

8 Approve the Remuneration Report **Oppose**

In accordance with Section 250R of the Australian Corporations Act, the directors are seeking approval of the remuneration report. The Act does not require directors to act on approval of the resolution and the vote is advisory.

Disclosure: Overall disclosure is good. The policy statement is clear and concise.

Balance of Performance and Reward: Total remuneration comprises both a fixed and variable component, which consists of both short and long term incentives.

Short-Term Incentive (STI) plan: The STI award is capped at 200% of fixed remuneration for the new group CEO. It is based on Group ROCCE (80%) and individual non-financial goals (20%). The introduction of a financial gateway based on ROCCE is welcomed. However, best practice would be for these two metrics to operate interdependently. There are no deferral period attached to annual bonus awards.

Long-Term Incentive (LTI) plan: The target LTI awards are set at 200% of fixed remuneration for the Group CEO and are made of performance rights and options. Performance rights awards are based on the achievement of equally weighted TSR and EPS performance targets, which are adequately disclosed. However, the performance period is three years, without a further holding period beyond vesting, which is not sufficiently long-term. On the other hand, options awarded vest in three equal tranche over three years, based on absolute share price growth and continued service. The use of such awards is not considered acceptable as the correlation between share price and Company financial performance is often beset by exogenous factors that can sometimes override executive performance. The vesting period is also not considered sufficiently long-term.

Contracts: Contracts for executives are in line with best practice. The contractual notice period for the CEO is 3 months, by either party. There are concerns over the absence of clawback provisions for any of the incentive schemes.

Summary: Maximum potential awards under all incentive schemes are considered highly excessive for the CEO as they can amount to 400% of his fixed remuneration. In addition, the absence of clawback provisions is not considered adequate. Triodos does not support this resolution.

9 To approve the participation in the Sims Metal Management Long Term Incentive Plan by Mr Claro **Oppose**

The Board is seeking shareholder approval for the purposes of ASX Listing Rule 10.14 for the grant of 219,248 Performance Rights and 172,866 Options to the CEO and MD, Mr Claro, under the terms of the Company's Long Term Incentive (LTI) Plan. The target LTI awards are set at 200% of fixed remuneration for the Group CEO, which is considered excessive, especially when combined with STI plan maximum potential award. Performance rights awards are based on the achievement of equally weighted TSR and EPS performance targets, which are adequately disclosed. However, the performance period is three years, without a further holding period beyond vesting, which is not sufficiently long-term. On the other hand, options awarded vest in three equal tranche over three years, based on absolute share price growth and continued service with no other performance conditions. The use of such awards is not considered acceptable as the correlation between share price and Company financial performance is often beset by exogenous factors that can sometimes override executive performance. The vesting period, in tranches over three years, is also not considered sufficiently long-term. Finally, no clawback provisions are in place for the LTI awards.

Based on concerns over the short vesting period and lack of performance conditions for the stock option grant along with the potentially excessive awards, Triodos does not support this resolution.

10	**Approve termination benefits for employees holding managerial or executive offices** The Board is seeking shareholders' approval for the purposes of section 200B and 200E of the Corporations Act so that termination benefits may be paid or provided to relevant executives without breach of the Corporation Act. Under the current rules, shareholders' approval has to to be sought when termination benefits exceed one year's annual average base salary of the relevant person. In case this limit is exceeded then a breach of the Corporation Act can occur even if the person receiving the benefit is entitled to the benefit under their contractual arrangements. If Shareholder approval is obtained to Resolution 9, then the Group will be able to provide termination benefits to Relevant Executives up to the maximum scope, including payments of annual bonus and/or outstanding LTI awards. Such termination are considered inadequate. The current requirements of the Corporation Act are considered in line with best practice. Removing the obligation to seek shareholders approval for the payment of termination benefits in excess of one year's salary can potentially lead to excessive and inappropriate payouts. If any additional severance payments need to be made to a key executive, they can still be submit for shareholders' approval and be approved if necessary. Based on these concerns, Triodos does not support this resolution.	**Oppose**

Supporting Information for Resolutions

Proposal 4 - He is the designated 'independent director' of Mitsui, which holds 18% of the Company's issue share capital.

Proposal 8 - Pursuant to the Corporations Act, if the resolution to adopt the Remuneration Report receives a "no" vote of at least 25% of the votes cast at two consecutive AGMs, a resolution must then be put to shareholders at the second AGM as to whether another general meeting of the Company should be held within 90 days at which all Directors (other than the Managing Director), who were in office at the time the Board approved the second Remuneration Report, would need to stand for re-election. The resolution to adopt the Remuneration Report at the previous AGM did not receive such a "no" vote.

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