


<b>Meeting Date:</b>	Tue, 06 May 2014 11:00am	<b>Type:</b>	AGM	<b>Issue date:</b>	Thu, 24 Apr 2014
<b>Meeting Location:</b>	1 International Drive, Rye Brook, NY 10573				
<b>Current Indices:</b>	S&P500				
<b>Sector:</b>	Pumps and pumping equipment				

PROPOSALS	ADVICE
<p><b>1a Re-elect Sten E. Jakobsson</b> Independent, Class III Non-Executive Director. To be elected for a three year term.</p>	<b>For</b>
<p><b>1b Re-elect Steven R. Loranger</b> President and Chief Executive Officer. Class III Director, to be elected for a three year term.</p>	<b>For</b>
<p><b>1c Re-elect Edward J. Ludwig</b> Independent, Class III Non-Executive Director. To be elected for a three year term.</p>	<b>For</b>
<p><b>1d Elect Jerome A. Peribere</b> Newly appointed Independent, Class III Non-Executive Director. To be elected for a three year term.</p>	<b>For</b>
<p><b>2 Ratification of the appointment of Deloitte &amp; Touche LLP</b> Deloitte &amp; Touche LLP proposed. The total inappropriate non-audit fees were approximately 26% of audit and audit related fees during the year under review. On a three year average, inappropriate non-audit fees were approximately 11.8% of audit and audit related fees. The level of non-audit fees raises independence concerns. Therefore, an abstain vote is recommended.</p>	<b>Abstain</b>
<p><b>3 Advisory vote on executive compensation</b> The Company has submitted a proposal for shareholder ratification of its executive compensation policy and practices. The detailed commentary on the disclosures made by the company are contained in the body of this report and the voting outcome for this resolution reflects the balance of our opinion on the adequacy of disclosure, the balance of performance and reward and the terms of executive employment. The compensation rating is: BCB (2013: BCA)</p> <p>Disclosure rating: B - Specific performance targets for annual awards have been set and are considered to be challenging. However, the same cannot be said for long-term awards.</p> <p>Balance rating: C - Stock options vest in three equal installments over three years whereas Performance Share Units (PSUs) and Restricted Stock Units (RSUs) cliff-vest three years after the grant date. Stock options and RSUs represent between 34% to 46% of executives' total compensation, and are time-based vesting awards. The disclosure on the PSU award does not allow judgement as to whether the targets are demanding.</p> <p>Contracts rating: B - No cash severance payments will be made upon a change in control unless there is an employment termination, however a change in control would trigger the vesting of all outstanding equity awards.</p> <p>Based upon this rating an abstain vote is recommended.</p> <p>Note: 6.9% of shareholders did not support this resolution in 2013.</p>	<b>Abstain</b>

- |           |   |                |
|-----------|---|----------------|
| <b>4</b>  | <p><b>The approval of the performance-based provisions of the 2011 Omnibus Incentive Plan.</b></p> <p>The Company is seeking shareholders' approval on the performance goals and other performance-based provisions of the Xylem 2011 Omnibus Incentive Plan ("plan"), so that the performance-based awards made under the plan may be tax deductible. The current number of shares remaining available to serve the plan is 10,216,974 out of 18 million originally available which was just under 10% of the outstanding share capital. The Company's description of the features of the plan does not allow judgement as to whether the performance targets are demanding. Indeed, regarding the beneficiaries, the Company states that any employee, director or officer of the Company, its subsidiaries or affiliates, is eligible for awards. Also, the Company provides a vague list of potential award types and potential performance criteria without any further information. In addition, there is no individual award grant limit. Finally, there is no specific information on the vesting of awards upon a change in control but the current agreements provides for the automatic vesting of all outstanding awards, which is not in line with best practice. Based upon this analysis, an oppose vote is recommended.</p> | <b>Oppose</b>  |
| <b>5</b>  | <p><b>The approval of the performance-based provisions of the Xylem Annual Incentive Plan for Executive Officers.</b></p> <p>The company is seeking shareholders' approval on the the performance goals and other performance-based provisions of the Xylem Annual Incentive Plan for Executive Officers (the "annual bonus") to ensure that performance-based awards made under the Cash Incentive Plan will be tax deductible. It is stated that the Compensation Committee establishes the performance targets to be achieved, which are based on one or more performance measures relating to the Company as a whole or to the specific businesses of the Company, subsidiaries, operating groups, or operating units without any further details. The maximum payment made to any individuals under the annual bonus is capped at \$8 million, which is considered to be excessive. However, the current practice is to award bonuses between 60% to 80% of an executive base salary and the performance targets are disclosed and considered to be challenging. Based on this analysis, an abstain vote is recommended.</p>   | <b>Abstain</b> |
| <b>6*</b> | <p><b>Amend Articles: Allow shareholders to call a special meeting</b></p> <p>The Company is seeking shareholders' approval to an amend the Articles of Incorporation that would provide shareowners of at least 25% of the outstanding shares the right to call a special meeting of shareowners. This amendment is prompted by a shareholder proposal to provide holders of at least 10% of our outstanding shares of common stock the right to call a special meeting which received 57% of votes in favour at the 2013 Annual Meeting. After consultation with shareholders, the Board states that it decided to set the minimum threshold at 25% as it strikes an appropriate balance between enhancing shareowner rights and protecting against the risk that a small minority of shareowners, including shareowners with special interests, could call one or more special meetings that could result in unnecessary financial expenses and disruption to the business. The introduction of a right for shareholders to call a special meeting is welcomed as it provides an additional channel for shareholders to raise concerns to the Board and to debate issues. A vote in favour is recommended.</p>   | <b>For</b>     |

**7 Shareholder Resolution: Executives to retain significant stock**

**Abstain**

Proposed by: John Chevedden

The proponent requests the Compensation Committee to adopt a policy requiring senior executives to retain 50%, net after-tax, of shares acquired through equity pay programs until reaching normal retirement age and to report to shareholders regarding the policy before the next annual meeting. It states that requiring senior executives to hold a significant portion of stock obtained through executive pay plans would focus executives on the company's long-term success.

The Board recommends to vote against the proposal. It argues that the Company's share ownership guidelines, complemented by the claw-back policy and the restricting on hedging Company stock, strengthen the incentive for executives to focus on the long-term health and success of the business. It adds that the amount is excessive and would unnecessarily restrict the executives' ability to diversify their portfolios, and therefore would put the Company at a competitive disadvantage for recruiting and retaining talents.

It is considered that the Board has provided a sufficient argument as to why retaining stock would be detrimental to the recruitment and retention of Executive officers. Also, 51% to 69% of the total compensation is paid in shares, and therefore the total number of shares to be retained by an executives until retirement would be high. On the other hand, the policy would contribute to align executives with shareholders' long-term interests and prevent disproportionately high compensation to officers based on changes in market price alone. Therefore, an abstain vote is recommended.

**\* = Special resolution**

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