Triodos Investment Management

CHIPOTLE MEXICAN GRILL INC

MEETING DATE	Wed, 13 May 2015 8:00 am	TYPE AGM	ISSUE DATE Fri, 08 May 2015
MEETING LOCATION	The Westin Denver Downtown, 1672 Lawrence Street, Denver, Colorado		
CURRENT INDICES	S&P500		
SECTOR	Eating places		

	PROPOSALS	ADVICE
1.01	**Elect John Charlesworth** Non-Executive Director. Not considered independent owing to a tenure of over nine years. There is insufficient independent representation on the board.	**Withhold**
1.02	**Elect Kimbal Musk** Non-Executive Director. Not considered independent as Chipotle Cultivate Foundation, the Company's charitable foundation has granted The Kitchen Community, a non-profit organization founded and chaired by Mr. Musk, $250,000. There is insufficient independent representation on the board.	**Withhold**
1.03	**Elect Monty Moran** Co-CEO. There are concerns about the Company's leadership structure as two CEOs represents an excess of power at the head of the Company.	**Withhold**
1.04	**Elect Pat Flynn** Non-Executive Director. Not considered independent owing to a tenure of over nine years. There is insufficient independent representation on the board. He is chair of the Nomination committee and less than 20% of the Board are women and the recent appointment did not improve the gender balance. Triodos opposes this resolution.	**Withhold**
1.05	**Elect Steve Ells** Chairman and CEO. Combined roles at the head of the Company which Triodos does not support. There should be a clear division of responsibilities at the head of the Company between the running of the board and the executive responsibility for the running of the Company's business. No one individual should have unfettered powers of decision. Combining the two roles in one person represents a concentration of power that is potentially detrimental to board balance, effective debate, and board appraisal.	**Withhold**
1.06	**Elect Stephen Gillett** Independent Non-Executive Director. He is newly appointed to the Board and his appointment does not improve the gender balance on the Board which is insufficient. Triodos opposes this resolution.	**Withhold**
2	**Advisory vote on executive compensation** The Company has submitted a proposal for shareholder ratification of its executive compensation policy and practices. The voting outcome for this resolution reflects the balance of opinion on the adequacy of disclosure, the balance of performance and reward and the terms of executive employment. The compensation rating is: CDC. As there is limited disclosure with regards to performance targets attached to the annual bonus and long-term incentives and concerns over the Compensation Committee's wide area of discretion used, when determining awards for officers, Triodos opposes this resolution.	**Oppose**
3	**Appoint the auditors** Ernst & Young proposed. Non-audit fees represented 59.30% of audit fees during the year under review and 46.28% on a three-year aggregate basis. This level of non-audit fees raises serious concerns about the independence of the statutory auditors. Furthermore, the current auditor has been in place for more than ten years. There are concerns that failure to regularly rotate the audit firm can compromise the independence of the auditor. Triodos opposes this resolution.	**Oppose**

4 Approve the Amended and Restated Stock Incentive Plan **Oppose**

The Board is seeking shareholders' approval of the Amended and Restated Stock Incentive Plan. If this proposal is approved, 2,200,000 shares will be added to the number of shares authorised for issuance under the 2011 Stock Incentive Plan, increasing the number of available shares under the Plan to 3,008,288; eligible persons who may receive equity awards under the Plan will be expanded to include consultants and other advisers and the material terms of the performance goals under the Plan for purposes of Section 162(m) of the Internal Revenue Code will be approved for five additional years.

The Compensation Committee administers the 2011 Stock Incentive Plan, and has broad authority to do all things necessary or desirable, in its sole discretion, in connection with plan administration. The Compensation Committee will select who will receive equity awards; determine the number of shares covered thereby; and, subject to the terms and limitations expressly set forth in the 2011 Stock Incentive Plan, establish the terms, conditions, and other provisions of the equity awards. The impact of a merger or other reorganization of Chipotle on outstanding stock options, stock appreciation rights and Full Value Awards granted under the 2011 Stock Incentive Plan shall be determined in the Compensation Committee's sole discretion. Currently, executive officers, officers, other employees, and non-employee directors of the Company and its subsidiaries are eligible to participate in the Plan. The Plan authorises the Compensation Committee to grant non-qualified and incentive stock options, stock appreciation rights and full value awards, including restricted stock, restricted stock units, performance shares, deferred share units, phantom stock or share-denominated performance units. The maximum number of shares that may be covered by awards granted under the 2011 Stock Incentive Plan to any single participant during any calendar year is 700,000. The Compensation Committee determines when each stock option becomes exercisable, including the establishment of performance vesting criteria, if any.

The Board's request to extend the number of shares available under the Plan would result in a dilution rate of 6.95%. It is considered that any share award scheme with the potential to transfer in excess of 5% of outstanding share capital to management participants in five or fewer years to be overly dilutive. Also, there are concerns about the lack of transparent performance measures and the wide area of discretion over the performance criteria attached to awards under the Plan. It is considered that stock options without performance conditions are unsuitable long-term incentives as they do not necessarily match rewards with management performance. Based on these concerns, Triodos opposes this resolution.

5 **Eliminate a provision requiring the election of directors to be by plurality vote** **For**

The Board is seeking shareholders' approval to amend the Company's Restated Certificate of Incorporation to remove a requirement for the election of directors to be by plurality vote.

Under a plurality voting standard, the nominees for election as directors who receive the greatest number of votes cast in their favour at a shareholder meeting are elected to the Board, up to the maximum number of directorships to be filled at that meeting. As a result, under a plurality voting standard in an uncontested election, each nominee is elected or re-elected to the Board so long as a single vote is cast in favour of his or her election, regardless of the number of shareholders who might not be satisfied with his or her qualifications or performance. The Company states that over the past several years, many companies have eliminated plurality voting in uncontested elections and adopted "majority voting" by-laws or standards that provide shareholders with more influence over the outcome of uncontested elections for directors. Majority voting standards provide a means to register dissent by authorizing shareholders to vote "against" director nominees in uncontested elections, and provide that, in such elections, a nominee will not be elected or re-elected, or will offer to resign from the board, if the votes "against" election exceed the votes "for" election.

If this amendment is approved at the annual meeting, the Board intends to adopt amendments to its Amended and Restated Bylaws to provide for a majority vote standard, via a requirement that any incumbent nominee for election to the Board in an uncontested election receiving a greater number of votes "against" election than "for" election will be required to submit his or her resignation from the Board, and the Board would then make a determination as to whether or not to accept such resignation.

It is considered that true accountability will only take place when director resignations are irrevocable by the Board and all directors are put for shareholder approval every year. However, it is considered that, on balance, implementing the Majority Plus voting system in the Company's Certificate of Incorporation is a positive move. Triodos supports this resolution.

6 **Board proposal to eliminate supermajority voting** **For**

The Board is seeking shareholders' approval of the Amended and Restated Certificate of Incorporation to remove supermajority voting requirements.

At the annual meeting of shareholders held May 15, 2014, shareholders owning more than a majority of shares voted at the meeting voted in favor a shareholder proposal requesting that the Company eliminate supermajority voting provisions from its Certificate of Incorporation. Under its existing Amended and Restated Certificate of Incorporation, as amended, an affirmative vote of the holders of at least two-thirds of outstanding common stock is required for the shareholders to remove directors from the Board, or to adopt, amend or repeal any Bylaw. In accordance with the request set forth in the shareholder proposal, the Board is recommending an amendment to our Amended and Restated Certificate of Incorporation, as amended, to delete these super majority voting provisions.

Triodos supports the elimination of supermajority provisions is supported as it increases shareholder rights regarding influence over company Bylaws.

7 Approve a proxy access bylaw **Oppose**

The Board is seeking shareholder approval to amendment the Company's Amended and Restated Bylaws to provide a means for shareholders to include shareholder-nominated director candidates in its proxy materials for annual meetings of shareholders.

The Board began to seriously consider the possible adoption of a proxy access bylaw following receipt of the shareholder proposal set forth in Proposal 8. The proposal provides for a proxy access Bylaw under which a shareholder or group of not more than 20 shareholders owning an aggregate of not less than 5% of the Company's outstanding common stock for a minimum of three years may nominate candidates for election to its Board at an annual meeting, and require it to list such candidates in its proxy materials for the meeting. The proposal further provides that such proxy access nominees will be limited to a number of candidates not exceeding 20% of the Board. The non-binding shareholder proposal in Proposal 8 calls for the Company to adopt a 3%/three year ownership standard, would not limit the number of shareholders who could aggregate their holdings for purposes of meeting the ownership standard, and calls for a limit on the number of proxy access candidates of 25% of the Board. The Board believes that the higher ownership threshold, restrictions on shareholders aggregating ownership of shares, and lower cap on the number of shareholder nominees that are proposed in this proposal are more appropriate for Chipotle and in shareholders' best interests as allowing proxy access with lesser ownership requirements and other precautions than those included in this proposal may encourage potentially costly and disruptive contested elections. Furthermore, the Board also states that the limits on aggregation in this proposal allow a reasonable number of shareholders to join together to list a nominee in the proxy materials, while helping to provide assurance that proxy access will not be subject to abuse by short-term investors or investors without a substantial investment in the Company.

While the Company's intention to adopt a proxy access Bylaw is welcomed and would further enhance shareholder democracy, it is considered that the limits imposed by the Company are too restrictive. Triodos does not support this resolution.

8 Shareholder Resolution: Proxy access **For**

Proposed by: Not disclosed.

Shareholders ask the Board of directors to adopt, and present for shareholder approval, a proxy access bylaw, which shall require the Company to include in proxy materials prepared for a shareholder meeting at which directors are to be elected the name, Disclosure and Statement of any person nominated for election to the Board by a shareholder or group. The bylaw should provide that a nominator (which may be a group of shareholders) must have beneficially owned 3% or more of the Company's outstanding common stock continuously for at least three years before submitting the nomination and give the Company written notice of the information as required about the nominee A statement not exceeding 500 words may also be submitted in support of the nominee.

The Board has submitted a counter-proposal, modifying the limits requested by the proponent, so that under the Board's proposed proxy access Bylaw, a shareholder or group of not more than 20 shareholders owning an aggregate of not less than 25% of the Company's outstanding common stock for a minimum of three years may nominate candidates for election to its Board at an annual meeting.

The move would strengthen shareholder democracy, which is supported, and it is considered that the proposal would help to increase independent representation on the Board which currently is insufficient. Furthermore, the requested threshold for holding requirement for nominators is considered reasonable. In addition, in light of the major governance concerns with director compensation, lack of Board independence and poor compensation package rating, the nomination of new Board members would facilitate greater independence in the oversight of the company. Triodos supports this resolution.

9 Shareholder Resolution: Specification of equity awards in equity compensation plans **For**

Proposed by: Not disclosed

Shareholders urge the Compensation Committee to adopt a policy that all equity compensation plans submitted to shareholders for approval under Section 162(m) of the Internal Revenue Code will specify the awards to senior executive officers only that will result from performance. This policy shall require shareholder approval of quantifiable performance metrics, numerical formulas and payout schedules for at least a majority of awards to the senior executive officers. The proponent states that The Company's 2014 advisory vote on executive compensation received support from only 23 percent of shareholders, which shows a disconnect between executive pay and long-term Company performance that warrants dramatic change. The Company's current Stock Plan uses an array of performance measures, which the Committee chooses to determine awards, at its discretion. The proponent does not believe such complete discretion for the Committee gives shareholders confidence that executive pay will be properly aligned with Company performance.

The Board opposes the proposal stating that recognising that the say-on-pay vote held at the 2014 annual meeting did reflect significant shareholder concern with its executive compensation programs, the Committee responded by completely redesigning the officer equity award structure for 2015. The Board also argues that implementation of this proposal would significantly restrict the ability of the Committee to structure equity awards in the manner it believes will best drive the creation of shareholder value. It is important for the Committee to have the ability to respond to changing conditions in the business, the competitive landscape, the makeup of the officer team, and other factors. The Company states that the proposal is vague and ambiguous in a number of respects, making it unclear how the policy would be implemented.

It is considered that the undisclosed variety of individual performance factors affords too much discretion with regards to the metrics used by the Compensation Committee. Shareholders cannot determine if these factors are sufficiently challenging, hindering comparative analysis of compensation practice with the Company's peer group. The Company's Proxy Statement was seriously lacking in disclosure of performance targets and metrics used, and as such it is believed that a policy as requested by the proponent would be in the best interests of the Company and its shareholders. Triodos supports this resolution.

10 Shareholder Resolution: Adoption of a stock retention policy for senior executives **For**

Proposed by: Not disclosed

Shareholders urge the Compensation Committee of the Board of Directors to adopt a policy requiring that senior executives retain a significant percentage of shares acquired through equity compensation programmes until reaching normal retirement age or terminating employment with the Company. The proponent encourages the use of equity-based compensation for senior executives, but is concerned that the Company's senior executives are generally free to sell shares received from the Company's equity compensation plans. In the proponent's opinion, the Company's current share ownership guidelines for its senior executives do not go far enough to ensure that the Company's equity compensation plans continue to build stock ownership by senior executives over the long-term. The proponent argues that requiring senior executives to only hold shares equal to a set target loses effectiveness over time.

The Board opposes the proposal stating that it prohibits both hedging and pledging of shares of stock by officers and the members of the Board, which is consistent with a vast majority of publicly-traded companies in the U.S. If the Company were to adopt a policy that required officers to retain 75% of the net after-tax shares associated with all equity compensation awards received by the officers, their ability to realise the value created when they drive increases in shareholder value, and to diversify their personal financial portfolios, may be adversely impacted. The Company argues that one potential impact of a policy restricting its officers' ability to realise value from their equity compensation awards is the creation of an incentive for officers to terminate their employment relationship with the Company.

It is considered that the Board has provided a relatively valid argument as to why retaining stock would be detrimental to the retention of Executive officers. However, a meaningful long-term shareholding requirement is a straightforward means of better alignment of executives' interests with those of long-term shareholders, which is a stated objective of the Company's own compensation policy. Triodos supports this resolution.

11 Shareholder Resolution: Restrict acceleration of of vesting of equity awards in the event of a change in control **For**

Proposed by: Not disclosed

Shareholders ask the Board of directors to adopt a policy that in the event of a change in control, there shall be no acceleration of vesting of equity awards granted to any named executive officer, provided, however, that the board's Compensation Committee may provide in an applicable grant or purchase agreement that any unvested award will vest on a partial, pro rata basis up to the time of the named executive officer's termination, with such qualifications for an award the Committee may determine. According to last year's proxy statement, a change in control as of December 31, 2013 could have accelerated the vesting of $217 million worth of long-term equity to Company's four senior executives, with $174 million going to the co-CEOs, Steve Ells and Monty Moran. The proponent is unpersuaded by the argument that executives somehow "deserve" to receive unvested awards, as to accelerate the vesting of unearned equity on the theory that an executive was denied the opportunity to earn those shares seems inconsistent with a "pay for performance" philosophy worthy of the name.

The Board's statement in opposition states that the significant amounts realisable from outstanding, unvested equity awards in the event of a change in control are a direct result of dramatic increases in shareholder value that the executive team has driven. Had the officers realised the amounts recited by the proponent, the amounts would have resulted from increases in the Company's market capitalisation from approximately $8.3 billion as of the grant date for the oldest awards reflected in the proponent's numbers, to approximately $16.5 billion as of the date used to calculate the total amounts that would have been realised. The Board argues that the Company's equity awards only provide for acceleration of vesting following a change in control if the employment of the recipient is terminated within close proximity to the change in control, or if the award would otherwise be terminated following the change in control. The "double-trigger" acceleration terms of the Company's stock-only share appreciation rights (SOSAR) and other equity awards can be critically important in retaining executives if a change in control is pending. Although the Committee may determine in particular circumstances that it would be inappropriate for an equity award to include a provision allowing, in at least some circumstances, for the full acceleration of an equity award in the event of termination of the recipient's employment following a change in control, the policy proposed by the shareholder proponent would rob the committee of its discretion to include such provisions in any awards.

Although the Company has double trigger provisions in place with regards to its equity awards, the award agreement for outstanding SOSARs also provides that in the event of a change in control under the Company's 2011 Stock Incentive Plan, any unvested SOSARs will automatically vest as of the date of the change in control, unless the SOSARs are replaced with an award. The acceleration of unvested stock pursuant to a change in control is not supported where there is no reference to performance. Triodos supports this resolution.

12 Shareholder Resolution: Sustainability report **For**

Proposed by: Not disclosed.

Shareholders request the Company issue an annual sustainability report describing the Company's short- and long-term responses to environmental, social and governance (ESG)-related issues. The report should include objective quantitative indicators and goals relating to each issue where feasible, be prepared at a reasonable cost, omit proprietary information, and be made available to shareholders by October 2015. The report should address relevant policies, practices, metrics and goals on topics such as: greenhouse gas emissions, pesticide use management, waste minimization, energy efficiency, labour standards and practices, and other relevant environmental and social impacts. The proponent argues that managing and reporting ESG business practices helps companies compete in a business environment characterised by finite natural resources, changing legislation, and heightened public expectations. Transparent, substantive reporting allows companies to gain strategic value from existing sustainability efforts and identify emerging risks and opportunities. ESG issues can pose significant risks to business. Without proper disclosure, investors and other stakeholders cannot adequately ascertain how the company is managing these risks and opportunities.

The Board opposes the proposal as it believes that through its constant efforts to expand its Food With Integrity mission, the Company is driving more positive change in the nation's food supply than any other restaurant company. Over 155 million pounds of meat the Company purchased in 2014 – representing about 95% of its meat purchases – adhered to the standards it requires for its Responsibly Raised brand. In 2014 the Company exceeded its goal of purchasing 20 million pounds of local produce. The Company also purchased over 6 million pounds of organically grown produce in 2014, including about 76% of its cilantro, about 54% of its oregano, and about 2% of its avocados. Notwithstanding the Company's demonstrated commitment to sustainability, including through its Food With Integrity mission and the direct benefits it confers, the Board does not believe that a separate effort to generate, distribute, and update comprehensive reporting on its sustainability achievements represents an efficient or prudent use of resources. While the Company does report a number of key measures related to its Food With Integrity mission in press releases and its filings with the SEC, and include much of the same information, as well as additional information about other sustainability aspects of the business, on its web site – content that it intends to expand in the future – it believes that preparing a sustainability report of the type proposed would require a sizeable expansion of the types and amount of information it gathers, analyses and discloses.

Producing an annual sustainability report is widely accepted as best practice for large companies, particularly those with significant ESG risks. It is a basic tool to assist shareholders to manage the ESG risks in their investment portfolios. It is hard to see why it is a problem for the Company to bring its ESG reporting together in a sustainability report. Triodos supports this resolution.

SUPPORTING INFORMATION FOR RESOLUTIONS

Proposal 2 - Advisory vote on executive compensation

Disclosure: C - There are concerns that the Compensation Committee is not fully independent. There is limited disclosure with regards to performance targets attached to the annual bonus and long-term incentives.

Balance: D - In light of the lack of disclosure provided in the Company's proxy statement, we cannot assess whether targets are challenging. There are concerns over the Compensation Committee's wide area of discretion used, when determining awards for officers. The Company grants share appreciation rights, which can vest within two years of the date of grant.

Contract: C - The Company has not defined "good reason" appropriately. Some of the Company's equity will immediately vest upon a change in control. Disclosed severance and change in control awards have the potential to be excessive.

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