Triodos Investment Management

XYLEM INC

MEETING DATE	Tue, 12 May 2015 11:00 am	TYPE	AGM	ISSUE DATE	Fri, 08 May 2015
MEETING LOCATION	Xylem World Headquarters, 1 International Drive, Rye Brook, New York 10573				
CURRENT INDICES	S&P500				
SECTOR	Pumps and pumping equipment				

	PROPOSALS	ADVICE
1a	**Elect Patrick K. Decker** President and Chief Executive Officer	**For**
1b	**Elect Victoria D. Harker** Independent Non-Executive Director.	**For**
1c	**Elect Markos I. Tambakeras** Non-Executive Chairman. Not considered independent as he has served on the board of the Company and its predecessor, ITT, for an aggregate time of over nine years. There is insufficient independent representation on the board.	**Oppose**
2	**Ratification of the appointment of Deloitte & Touche LLP** Deloitte & Touche proposed. Non-audit fees represented 2.52% of audit fees during the year under review and 12% on a three-year aggregate basis. This level of non-audit fees does not raise serious concerns about the independence of the statutory auditors. The current auditor has been in place for less than five years.	**For**
3	**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: BDB. Overall compensation is overweight in time-based incentives as nly 34% of long-term incentive awards have performance conditions attached, sufficient details of which are not disclosed. Based on these concerns, Triodos opposes this resolution.	**Oppose**

4 Shareholder Resolution: Reincorporate in Delaware **Oppose**

Proposed by John Chevedden. The Proponent requests the Board of Directors to change the Company's jurisdiction of incorporation from Indiana to Delaware. According to the Proponent, the Indiana Business Corporation Law is less shareholder-friendly than Delaware's corporation code especially following the 2009 Indiana amendments and such change would benefit shareholders. The Proponent argues that according to the 2009 Indiana amendments, a director will not be liable for any action or failure to act 'regardless of the nature of the alleged breach of duty, including breaches of the duty of care, the duty of loyalty and the duty of good faith' unless the breach or failure constituted willful misconduct or recklessness. The Proponent argues that the default rule of Indiana law is that only the board, and not shareholders, may amend a company's bylaws; shareholders can amend the bylaws only if the company's charter specifically provides for that right. In addition, the Proponent argues that, Indiana has more anti-takeover provisions than Delaware, including control share acquisition and poison pill endorsements. The Board recommends shareholders oppose and argues that, with respect to anti-takeover provisions and with respect to the concern with some Indiana statutory provisions, the control share acquisition provisions under the Indiana Business Corporation Law (IBCL), and the anti-takeover protections offered by the control share acquisition provisions, do not apply to the acquisition of shares of the Company's common stock, as the Company does not have the requisite number of beneficial shareowners within the State of Indiana. The Board argues that, while the IBCL permits the issuance of rights and the adoption of poison pill plans, it does not insulate boards of directors from their fiduciary duty responsibilities in adopting such plans.

Delaware is not generally considered to be more favourable to shareholders than other jurisdictions and none of the benefits cited are sufficient to justify the change in incorporation. Triodos opposes this resolution.

SUPPORTING INFORMATION FOR RESOLUTIONS

Proposal 3 - Advisory vote on executive compensation

Disclosure: B- In fiscal 2014, annual cash incentives payouts under the Annual Incentive Plan (AIP) were based on the following performance measures: EPS (target: 2.00), free cash flow conversion (CFC) (target: 100%), revenue (target: 3,940) and cost reduction (target: 169). Individual performance was assessed against each NEO's individual objectives related to strategic objectives which are disclosed in the compensation analysis. The Company awarded long term incentives in the form of Performance Share Units (PSUs) (33%), time-based Restricted Stock Units (RSUs) (33%) and stock options (34%). PSUs cliff vest at the end of three years and are based on a pre-set, three-year ROIC metric. Specific targets are not disclosed in the compensation analysis.

Balance: D- Performance targets that determine the award of annual cash incentives are considered challenging. For 2014, most of the financial measures were below target. Only 34% of long-term incentive awards have performance conditions attached, sufficient details of which are not disclosed. Stock options vest in three equal annual installments and cannot be exercised prior to vesting. Overall compensation is overweight in time-based incentives.

Contract: B-The Company has a compensation 'claw back' policy. Acceleration of all outstanding equity awards is triggered by a change in control.

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