Triodos Investment Management

ADOBE SYSTEMS INCORPORATED

MEETING DATE	Wed, 13 Apr 2016 9:00 am	TYPE	AGM	ISSUE DATE	Thu, 31 Mar 2016
MEETING LOCATION	151 Almaden Boulevard, San Jose, California 95110				
CURRENT INDICES	S&P500				
SECTOR	Prepackaged software				

	PROPOSALS	ADVICE
1a	**Elect Amy L. Banse** Independent Non-Executive Director.	**For**
1b	**Elect Edward W. Barnholt** Non-Executive Director. Not considered independent as he has been on the Board for over nine years. There is insufficient independent representation on the Board.	**Oppose**
1c	**Elect Robert K. Burgess** Non-Executive Director. Not considered independent as he has been on the Board for over nine years. It is noted that he is the former CEO of Macromedia which was acquired by Adobe in 2005. There is insufficient independent representation on the Board.	**Oppose**
1d	**Elect Frank A. Calderoni** Independent Non-Executive Director.	**For**
1e	**Elect James E. Daley** Non-Executive Director. Not considered independent as he has been on the Board for over nine years. There is insufficient independent representation on the Board.	**Oppose**
1f	**Elect Laura B. Desmond** Independent Non-Executive Director.	**For**
1g	**Elect Charles M. Geschke** Co-Chairman, former Executive and Co-Founder. It is believed that a former executive may not have sufficient detachment to objectively assess executive management and strategy, which is a key requirement for a Chairman.	**Oppose**
1h	**Elect Shantanu Narayen** Chief Executive Officer and President.	**For**
1i	**Elect Daniel L. Rosensweig** Independent Non-Executive Director.	**For**
1j	**Elect John E. Warnock** Co-Chairman, former Executive and Co-Founder. It is believed that a former executive may not have sufficient detachment to objectively assess executive management and strategy, which is a key requirement for a Chairman.	**Oppose**

2 **Approve 2003 Equity Incentive Plan** **Oppose**

The Board is seeking approval of the amended 2003 Equity Incentive Plan (the Plan) which includes the increment of the number of shares by 10 million shares, provision of a maximum annual limit of director compensation (equity and cash) and clarification of certain changes to the Plan.

As of January 29, 2016, awards covering 9,974,722 shares were outstanding under the existing share reserve, and 41,774,179 shares remained available for future awards under the existing share reserve. If shareholders approve the 2003 Plan as amended to increase the share reserve, then the maximum aggregate number of shares that may be issued under the 2003 Plan will be increased from 265,999,620 to 275,999,620. The Company states that is has an annual burn rate of 1.7%, with the plan representing 55.53 % of the outstanding share capital. The Plan is considered to be overly dilutive as it represents more than 50% of the Company's issued share capital.

It is considered that, as performance conditions may be attached to awards at the Compensation Committee's discretion, there are concerns that awards under the Plan will not necessarily be subject to sufficiently robust performance targets (if any). As a result, shareholders cannot assess whether the Plan will operate to align participants' incentives with shareholders' interests.

Based on the issues above, Triodos oppose this resolution.

3 **Approve a 2016 Executive Cash Performance Bonus Plan** **Oppose**

The Board is seeking approval of the 2016 Executive Cash Performance Bonus Plan, which will allow bonuses paid to employees to qualify as deductible performance-based compensation. The maximum bonus payment for any performance period, under this plan, is $5,000,000 multiplied by the number of complete fiscal years contained within the performance period. The Plan allows the Compensation Committee wide-ranging discretion in selecting and applying performance measures and targets. Since shareholders do not know what performance measures and targets will be used under the Plan, they are unable to assess their appropriateness and robustness.

Based on the issues above, Triodos oppose this resolution.

4 **Appoint the Auditors** **Oppose**

KPMG proposed. Non-audit fees represented 11.29% of audit fees during the year under review and 26.44% on a three-year aggregate basis. This level of non-audit fees does not raise serious concerns about the independence of the statutory auditor. 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 therefore oppose this resolution.

5 Advisory Vote on Executive Compensation **Oppose**

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 disclosure provided by the Company is not considered market best-practice. The Company used peer groups for the purpose of pay comparison but did not disclose specific performance targets that determine awards disclosed for annual bonus. The performance factors for long-term awards are disclosed. The annual bonus is awarded at 60% of financial metric, 15% of non-financial metric and 25% of individual goal results. The non-financial metric (defined as Customer Advocacy in the annual report) is disclosed but lack sufficient detail and are boiler plate. Long-term awards are granted half in the form of Performance Share Awards that vest for three years based on three years performance, and half as Time- Based Restricted Stock Units that vest annually for three years. For fiscal year 2015, the CEO's annual cash award was not considered excessive. The Company awarded long-term incentives in the form of stock options, to which no performance targets are attached, based on the value of the Company's stock. Only a single objective, Total Shareholder Return is used as a performance metric for Performance Share Programme. The three year performance period used under the Long-Term performance plan is not considered sufficiently long term. Retention awards are in place for the CEO which is not considered a performance based award. The Company does not have automatic acceleration of awards in a change-of-control, but awards also subject to certain acceleration provision. Lastly, the Company provides no definition of "good reason". However, there is a clawback policy in place.
The compensation rating is: CCE.
Only a single objective, Total Shareholder Return is used as a performance metric for Performance Share Programme. The three year performance period used under the Long-Term performance plan is not considered sufficiently long term. Retention awards are in place for the CEO which is not considered a performance based award. Based on these concerns, Triodos oppose this resolution.

SUPPORTING INFORMATION FOR RESOLUTIONS

Proposal 5 - Advisory Vote on Executive Compensation

Disclosure: C- The disclosure provided by the Company is not considered market best-practice. The Company used peer groups for the purpose of pay comparison but did not disclose specific performance targets that determine awards disclosed for annual bonus. The performance factors for long-term awards are disclosed. The annual bonus is awarded at 60% of financial metric, 15% of non-financial metric and 25% of individual goal results. The non-financial metric (defined as Customer Advocacy in the annual report) is disclosed but lack sufficient detail and are boiler plate. Long-term awards are granted half in the form of Performance Share Awards that vest for three years based on three years performance, and half as Time- Based Restricted Stock Units that vest annually for three years.
Balance: D- For fiscal year 2015, the CEO's annual cash award was not considered excessive. The Company awarded long-term incentives in the form of stock options, to which no performance targets are attached, based on the value of the Company's stock. Only a single objective, Total Shareholder Return is used as a performance metric for Performance Share Programme. The three year performance period used under the Long-Term performance plan is not considered sufficiently long term. Retention awards are in place for the CEO which is not considered a performance based award.
Contract: E- The Company does not have automatic acceleration of awards in a change-of-control, but awards also subject to certain acceleration provision. Lastly, the Company provides no definition of "good reason". However, there is a clawback policy in place.

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Researcher: Immad Riaz
Email: pircresearch@pirc.co.uk

PIRC

Pensions & Investment Research Consultants Limited
8th Floor, Suite 8.02, Exchange Tower
2 Harbour Exchange Square
E14 9GE

Tel: 020 7247 2323
Fax: 020 7247 2457
http://www.pirc.co.uk

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