Triodos Investment Management

# CHIPOTLE MEXICAN GRILL INC

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| MEETING DATE | Wed, 11 May 2016 8:00 am | TYPE AGM | ISSUE DATE Sat, 30 Apr 2016 |
| MEETING LOCATION | Grand Hyatt Denver, 1750 Welton Street, Denver, Colorado | | |
| CURRENT INDICES | S&P500 | | |
| SECTOR | Eating places | | |

| | PROPOSALS | ADVICE |
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| 1.01 | **Elect Albert S. Baldocchi**<br>Non-Executive Director. Not considered independent as he has served on the Board for more than nine years. There is insufficient independent representation on the Board.<br>The Audit committee is not fully independent which Triodos does not support. | **Withhold** |
| 1.02 | **Elect Darlene J. Friedman**<br>Non-Executive Director. Not considered independent as she has served on the Board for more than nine years. There is insufficient independent representation on the Board.<br>The Remuneration committee is not fully independent which Triodos does not support. | **Withhold** |
| 1.03 | **Elect John Charlesworth**<br>Non-Executive Director. Not considered independent as he has served on the Board for more than nine years. There is insufficient independent representation on the Board. | **Withhold** |
| 1.04 | **Elect Kimbal Musk**<br>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 (representing less than 10% of the total 2015 donations to The Kitchen Community). There is insufficient independent representation on the Board. | **Withhold** |
| 1.05 | **Elect Monty Moran**<br>Co-CEO. | **For** |
| 1.06 | **Elect Neil W. Flanzraich**<br>Lead Director. Not considered independent as he has served on the Board for more than nine years. There is insufficient independent representation on the Board. | **Withhold** |
| 1.07 | **Elect Pat Flynn**<br>Non-Executive Director. Not considered independent as he has served on the Board for more than nine years. There is insufficient independent representation on the Board. [newline[He is chair of the Nomination committee and less than 20% of the Board are women which Triodos does not support. | **Withhold** |
| 1.08 | **Elect Stephen Gillett**<br>Independent Non-Executive Director. | **For** |
| 1.09 | **Elect Steve Ells**<br>Chairman and Co-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. A withhold vote is recommended. | **Withhold** |

**2 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 compensation rating is: CCE.

There is a concern over compensation being potentially excessive due to the Compensation Committee's use of discretion when awarding annual bonuses. The Committee may approve discretionary bonuses to reward particularly strong individual achievement or overall performance. Maximum long-term award opportunities are not limited to 200% of base salary. Based on these concerns, Triodos opposes this resolution.

**3 Appoint the auditors** **Oppose**

Ernst & Young LLP proposed. Non-audit fees represented 67.57% of audit fees during the year under review and 66% on a three-year aggregate basis. This level of non-audit fees raises serious concerns about the independence of the statutory auditors. 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.

**4 Amend Articles: to eliminate a provision limiting the ability to call special meetings of shareholders to only the Board of Directors or the Chairman of the Board** **Oppose**

The Company has put forward a resolution requesting shareholders to approve an amendment to the Company's amended and restated Certificate of Incorporation, to eliminate a provision limiting the ability to call special meetings of shareholders to only the Board or the Chairman of the Board. The Board argues that the Company's shareholders do not have the right to call special meetings. The Board argues that if shareholders approve the proposal, bylaw amendments conditionally adopted by the Board would become effective providing that it will be required to call a special meeting of shareholders upon the written request of one or more holders who own shares representing at least 25% of the outstanding shares of the Company's common stock.

The right to call a special shareholder meeting provides shareholders with a way of communicating with the Board and debating and voting on issues with the rest of shareholders, which in itself enhances shareholders' rights. However, the 10% threshold recommended by the Proponent in resolution eight is considered more appropriate. Triodos does not support this resolution.

**5 Amend Articles: provide a means for shareholders to include shareholder-nominated director candidates in proxy materials for annual meetings of shareholders** **Oppose**

The Company has put forward a resolution requesting shareholders to approve amendments to the Company's Amended and Restated Bylaws to provide a means for shareholders to include shareholder-nominated director candidates in the Company's proxy materials for annual meetings of shareholders, which is commonly known as 'proxy access'. The Board argues that 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 the Board at an annual meeting, and require the Company to list such candidates in the its proxy materials for the meeting and also that such proxy access nominees will be limited to a number of candidates not exceeding 20% of the Board. The Board argues that the shareholder proposal in Proposal 6 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 are more appropriate.

The move, that would strengthen shareholder democracy, is supported, and it is considered that the proposal would help to increase independent representation on the Board. Furthermore, the requested threshold for holding requirement for nominators is considered sufficient. Furthermore, the nomination of new Board members would facilitate greater independence in the oversight of the Company. However, the threshold porposed in resolution six is considered more appropriate. Triodos opposes this resolution.

**6 Shareholder Resolution: Proxy Access** **For**

Proposed by: n/d. The Proponent requests the Board to adopt a "proxy access" bylaw. This would allow shareholders who have held at least 3% of the Company's relevant issued shares for three years or more to nominate candidates for election to the Board. The Company would be obliged to include such nominees on the general meeting proxy form. The resolution includes proper procedural safeguards for the nomination process. The nominators will be required to certify that their shares were acquired as normal investment business and not for ancillary purposes. The Proponent argues that proxy access is a fundamental shareholder right that will make directors more accountable and enhance shareholder value. The Board recommends shareholders oppose and argues that the Company's binding proxy access proposal on resolution five better balances the interests of all shareholders in having a strong voice on the Board, but also in avoiding potential disruption of a Board.

The move, that would strengthen shareholder democracy, is supported, and it is considered that the proposal would help to increase independent representation on the Board. Triodos supports this resolution.

**7 Shareholder Resolution: Retention of Equity Awards** **For**

Proposed by: n/d. The Proponents request shareholders to adopt a policy requiring that senior executives retain a significant percentage of shares acquired through equity compensation programs until reaching normal retirement age or terminating employment with the Company. The shareholders recommend that the Committee adopt a share retention percentage requirement of at least 50 percent of net after-tax shares. The Proponents argue that 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 Board recommend shareholders oppose and argues that this proposal, which would put restrictions on our officers' ability to realize such rewards, would undermine, rather than improve, the alignment of officer interests with those of shareholders. The Board argues that the vesting and payout of the equity compensation awards made to the executive officers in 2015 and 2016 have been based on a three-year performance period which results in strong alignment of the officers' interests with those of shareholders as a whole, as well as significant retention value from the awards. The Board also argues that the Company prohibits both hedging and pledging of shares of our stock by officers and the members of the Board.

The proposal would help potentially prevent disproportionately high compensation to officers based on changes in market price alone and will better align the interests of executives with the interests of shareholders and the Company. Triodos supports this resolution.

**8 Shareholder Resolution: Right to Call Special Meetings** **For**

Proposed by: n/d. The Proponents request the Board of Directors to amend the Company's bylaws to give holders in the aggregate of 10% of the Company's outstanding common stock the power to call a special shareowner meeting. The Proponents argue that a shareholder right to call a special meeting is a way to bring an important matter to the attention of both management and shareholders outside the annual meeting cycle. The Board recommends shareholders oppose and argues that the proposal conflicts with the Company's proposal four which calls for shareholders to approve amendments to the Company's certificate of incorporation to remove restrictions on the right to call special meetings of shareholders.

The right to call a special shareholder meeting provides shareholders with a way of communicating with the Board and debating and voting on issues with the rest of shareholders, which in itself enhances shareholders' rights. The 10% threshold recommended by the Proponent is considered acceptable. Triodos supports this resolution.

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| 9 | **Shareholder Resolution: Annual Sustainability Report**<br>Proposed by: n/d. The Proponents request the Board of Directors to issue an annual sustainability report describing the Company's short- and long-term responses to ESG-related issues including objective quantitative indicators and goals relating to each issue where feasible and be made available to shareholders by October 2016. The Proponents argue that the report should address relevant policies, practices, metrics and goals on topics such as: greenhouse gas emissions, pesticide use management, food safety waste minimization, energy efficiency, labor standards and practices, and other relevant impacts. Also, the Proponents recommend that the Company consider using the GRI Sustainability Reporting Guidelines to prepare the report and also evaluate the Equitable Food Initiative, a collaborative effort of retailers, workers and growers focused on reducing risks in food supply chains, including food safety risks. Also, the Proponents believe that the recent E.coli outbreaks traced to several of the Company's restaurants warrant greater transparency. The Board recommends shareholders oppose and argues that the Company has made a deliberate decision not to report in the way the proposal is requesting, preferring to devote resources instead to taking actions, adopting practices, and communicating these efforts in areas that have a positive impact on the sustainability of the Company's business. The Board argues that the Company has a team dedicated to assessing the environmental impact of the Company's restaurant operations through key initiatives. Also, the Board argues that it published multiple pieces on the Company's website about its sustainability efforts.<br>It is considered that reporting on sustainability issues is in shareholders' interests both as a means of informing shareholders of potential risks and opportunities faced by the company, but also as a means of ensuring that the management and board of a company gives due consideration to these issues. The Board has not indicated why it considers that such a report would be prohibitively expensive, and the fact that many companies already produce them suggests that this is not the case. Triodos supports this resolution. | **For** |
| 10 | **Shareholder Resolution: Report on the Feasibility of Linking Executive Compensation to Sustainability Performance**<br>Proposed by: n/d. The Proponents request the Board of Directors to prepare a report assessing the feasibility of integrating sustainability metrics into the performance measures of senior executives under the Company's compensation incentive plans. The Proponents argue that effectively managing for sustainability offers positive opportunities for companies, and believe should be a key area in which executives should be evaluated. The Board recommends shareholders oppose and argues that the Compensation Committee has carefully crafted an executive compensation program structured around performance measures that it believes are most important in driving the responsible, long-term growth of business. The Board argues that sustainability is important, but the Company's ultimate goals are to grow its business responsibly and thereby create long-term shareholder value, and the existing incentive compensation programs create strong incentives for executive officers to accomplish those goals.<br>The resolution is not prescriptive, leaving discretion to the compensation committee to choose measures, targets and appropriate weightings. As the resolution is reasonably framed, and it is in the interests of shareholders, Triodos supports this resolution. | **For** |

## SUPPORTING INFORMATION FOR RESOLUTIONS

### Proposal 2 - Advisory Vote on Executive Compensation

The Company has achieved: an average level of disclosure; an average balance for rewards; and a very poor approach to contracts with executives.

**Disclosure: C**- Annual cash incentives are based on the following performance measures: income from operations, new restaurant average daily sales, comparable restaurant sales increases, and new restaurant weeks of operation. The Committee also considered the Company's level of achievement against key initiatives (building restaurateur cultures, setting salaried managers up for success, developing outstanding crew members, extraordinary customer service and throughput, and focusing on the fundamentals of the Company's business. The Company has disclosed the financial targets for its short-term incentives but has not provided information with respect to the key initiatives. The Company granted long-term incentives in the form of performance share awards which have a three-year performance-contingent vesting period based on the Company's relative performance return versus a restaurant industry peer group in three measures: average revenue growth, net income growth, and total shareholder return.

**Balance: C**- The Company discloses that due to the food-borne illness incidents that negatively impacted results, the Company performance factor was zero, resulting in no annual cash payouts. However, there is a concern over compensation being potentially excessive due to the Compensation Committee's use of discretion when awarding annual bonuses. The Committee may approve discretionary bonuses to reward particularly strong individual achievement or overall performance. Maximum long-term award opportunities are not limited to 200% of base salary.

**Contract: E**- The Company does not have single trigger provisions for the acceleration of vesting of outstanding equity awards following a change in control. The Company has not defined good reason.

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