Triodos Investment Management

POWER INTEGRATIONS INC

MEETING DATE	Fri, 13 May 2016 14:00 pm	TYPE	AGM	ISSUE DATE	Fri, 06 May 2016
MEETING LOCATION	5245 Hellyer Avenue, San Jose, California 95138				
CURRENT INDICES	PIRC Global				
SECTOR	Semiconductors and related devices				

	PROPOSALS	ADVICE
1.01	**Elect Balu Balakrishnan** President and Chief executive Officer.	**For**
1.02	**Elect Alan D. Bickell** 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**
1.03	**Elect Nicholas E. Brathwaite** 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 William George, Ph.D.** Independent Non-Executive Director.	**For**
1.05	**Elect Balakrishnan S. Iyer** 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**
1.06	**Elect E. Floyd Kvamme** Non-Executive Chairman. Not considered independent as he has served on the Board for more than 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 which Triodos does not support.	**Withhold**
1.07	**Elect Steven J. Sharp** 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**

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: DEC. The Company has achieved: a poor level of disclosure; a very poor balance for rewards; and an average approach to contracts with executives. The Company provides a substantial portion of the annual compensation for each executive officer in the form of performance-based equity incentive awards (equity bonus). In 2015, the Compensation Committee awarded short-term incentives in the form of Performance Stock Units (PSUs) based on net revenue, non-GAAP income from operations and strategic goals. The Company has disclosed the financial targets for the equity bonus but has not provided information with respect to strategic goals. The Company granted long-term incentives in the form of of Restricted Stock Units (RSUs) and performance-based Restricted Stock Units (PRSUs). The PRSU awards vest based on Company performance measured against a revenue target.

There is a concern over compensation being potentially excessive due to the Compensation Committee's use of discretion when awarding equity bonus as payouts are subject to individual strategic goals. With respect to PRSUs, no targets were made available to shareholders, which is considered unacceptable and does not allow shareholders the opportunity to assess the challenging nature of targets. Also, the use of a sole performance criterion is not considered appropriate in evaluating performance. RSUs have no performance conditions, which is contrary to best practice. These awards vest one-fourth on each anniversary of the grant-date over four years, which is not considered sufficiently long-term. There are concerns over the Compensation Committee's wide area of discretion when making awards. Mr. Balakrishnan was awarded a bonus for his work on a patent that was assigned to Power Integrations. Mr. Petrakian was awarded as a sign-on bonus for joining the ompany in May 2015.

The Company has a compensation claw back policy and double trigger cash payments.

There is a concern over compensation being potentially excessive due to the Compensation Committee's use of discretion when awarding equity bonus as payouts are subject to individual strategic goals. With respect to PRSUs, no targets were made available to shareholders, which is considered unacceptable and does not allow shareholders the opportunity to assess the challenging nature of targets. Based on these concerns, Triodos oppose this resolution.

3 Approve the Power Integrations, Inc. 2016 Incentive Award Plan **Oppose**

The Company has put forward a resolution requesting shareholders to approve the adoption of the Power Integrations, Inc. 2016 Incentive Award Plan (2016 Plan). The 2016 Plan permits the Company to grant restricted stock unit awards, performance stock unit awards and performance cash awards. The 2016 Plan is open to all employees (as of March 1, 2016, there are 593 employees, six non-employee directors) and is administered by the Board which may delegate administration to a committee. The Board has the authority to determine who will be granted awards; when and how each award will be granted; what type of award will be granted; the provisions of each award; the number of shares of common stock subject to, or the cash value of, an award; and the fair market value applicable to an award. The aggregate number of shares of common stock of the Company that may be issued pursuant to awards from and after the effective date will not exceed 1,500,000 shares. Pursuant to the 2016 Plan, a maximum of 250,000 shares of common stock subject to performance stock unit awards may be granted to any one participant during any one fiscal year; anda maximum of $10,000,000 may be granted as a performance cash award to any one participant during any one fiscal year.

As performance conditions may be attached to awards at the Board's discretion, there are concerns that the it will have considerable flexibility in the payout of discretionary awards and as a result awards may not be subject to robust enough performance targets, and be insufficiently challenging. In addition, maximum award limit is considered excessive. As a result Triodis oppose

4	**Approve the amendment and restatement of the Power Integrations, Inc. 1997 Employee Stock Purchase Plan** The Company has put forward a resolution requesting shareholders to approve an amendment and restatement of the Company's 1997 employee Stock Purchase Plan to increase the maximum number of shares of common stock that may be issued under the Purchase Plan by 500,000 shares and to make certain other non-material changes to the Purchase Plan. If shareholders approve the proposal, a maximum of 3,500,000 of the Company's authorised but unissued shares of common stock may be issued under the Purchase Plan. The Purchase Plan is administered by the Board or a committee of the Board which has the power to determine the terms and conditions of Purchase Rights. As of March 1, 2016, approximately 530 employees, including nine executive officers, were eligible to participate in the Purchase Plan. Pursuant to the Purchase Plan, no participant may purchase shares of common stock having a fair market value exceeding $25,000 for each calendar year in which a Purchase Right is outstanding. It is considered that it is in the best interests of the company and its shareholders to provide employees with an opportunity to benefit from business success and increase their share ownership through payroll deductions. As the Plan is open to the majority of employees and is capped, at purchase price of no less than 85% of fair market value, Triodos support this resolution.	**For**
5	**Appoint the auditors** Deloitte & Touche LLP proposed. Non-audit fees represented 19.34% of audit fees during the year under review. 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 more than ten years. There are concerns that failure to regularly rotate the audit firm can compromise the independence of the auditor. Triodos oppose this resolution.	**Oppose**

SUPPORTING INFORMATION FOR RESOLUTIONS

Proposal 2 - Advisory Vote on Executive Compensation

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

Disclosure: D- The Company provides a substantial portion of the annual compensation for each executive officer in the form of performance-based equity incentive awards (equity bonus). In 2015, the Compensation Committee awarded short-term incentives in the form of Performance Stock Units (PSUs) based on net revenue, non-GAAP income from operations and strategic goals. The Company has disclosed the financial targets for the equity bonus but has not provided information with respect to strategic goals. The Company granted long-term incentives in the form of of Restricted Stock Units (RSUs) and performance-based Restricted Stock Units (PRSUs). The PRSU awards vest based on Company performance measured against a revenue target.

Balance: E- There is a concern over compensation being potentially excessive due to the Compensation Committee's use of discretion when awarding equity bonus as payouts are subject to individual strategic goals. With respect to PRSUs, no targets were made available to shareholders, which is considered unacceptable and does not allow shareholders the opportunity to assess the challenging nature of targets. Also, the use of a sole performance criterion is not considered appropriate in evaluating performance. RSUs have no performance conditions, which is contrary to best practice. These awards vest one-fourth on each anniversary of the grant-date over four years, which is not considered sufficiently long-term. There are concerns over the Compensation Committee's wide area of discretion when making awards. Mr. Balakrishnan was awarded a bonus for his work on a patent that was assigned to Power Integrations. Mr. Petrakian was awarded as a sign-on bonus for joining the ompany in May 2015.

Contract: C- The Company has a compensation claw back policy and double trigger cash payments.

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