Triodos Investment Management

ADOBE SYSTEMS INCORPORATED

MEETING DATE	Wed, 12 Apr 2017 9:00 am	TYPE	AGM	ISSUE DATE	Thu, 23 Mar 2017
MEETING LOCATION	Almaden Tower, 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 owing to a tenure of over nine years. There is insufficient independent representation on the Board. Triodos opposes this resolution.	**Oppose**
1c	**Elect Robert K. Burgess** Non-Executive Director. Not considered independent owing to a tenure of over nine years. There is insufficient independent representation on the Board. Triodos opposes this resolution.	**Oppose**
1d	**Elect Frank A. Calderoni** Independent Non-Executive Director. He is chair of the Audit committee which is not fully independent which Triodos does not support.	**Oppose**
1e	**Elect James E. Daley** Lead Director. Not considered independent owing to a tenure of over nine years. There is insufficient independent representation on the Board. Triodos opposes this resolution.	**Oppose**
1f	**Elect Laura B. Desmond** Independent Non-Executive Director.	**For**
1g	**Elect Charles M. Geschke** Non-Executive Director. Not considered independent as he is a former Executive and Co-Founder of the Company. In addition, he has served on the Board for over nine years. There is insufficient independent representation on the Board. Triodos opposes this resolution.	**Oppose**
1h	**Elect Shantanu Narayen** Chairman and CEO. Combined roles at the head of the Company. 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. Triodos opposes this resolution.	**Oppose**
1i	**Elect Daniel L. Rosensweig** Independent Non-Executive Director. He is chair of the Remuneration committee which is not fully independent which Triodos does not support.	**Oppose**
1j	**Elect John E. Warnock** Non-Executive Director. Not considered independent as he is a former Executive and Co-Founder of Adobe. In addition, he has served on the Board for over nine years. There is insufficient independent representation on the Board. Triodos opposes this resolution.	**Oppose**

2 Approve the 2003 Equity Incentive Plan as amended to increase the available share reserve by 10 million shares **Oppose**

The Company has put forward a resolution requesting shareholders to approve the Company's 2003 Equity Incentive Plan, as amended (2003 Plan) to increase the number of shares reserved for issuance by 10m shares of common stock and make certain changes to reflect changes in the accounting rules. If shareholders approve the 2003 Plan, the maximum aggregate number of shares that may be issued under the 2003 Plan will be increased from 275,999,620 to 285,999,620. The 2003 Plan permits the Company to grant stock options, stock appreciation rights, stock bonuses, stock purchase rights, restricted stock units (RSUs), performance shares and performance units, as well as for services as a director, cash-based amounts. The 2003 Plan is open to employees (including executive officers) and consultants of the Company, its subsidiary corporations or other affiliated entities and members of the Board (as of January 26, 2017, the Company had a total of 16,426 employees and consultants and nine non-employee directors). The 2003 Plan is administered by the Board and the Committee which has the power to determine the persons to whom and the times at which awards are granted, the types and sizes of such awards, and all of their terms and conditions.

Performance conditions may be attached to awards at the Committee's discretion and there are concerns that the Committee will have considerable flexibility in the payout of discretionary awards and as a result awards may not be subject to robust enough performance targets.

Triodos opposes this resolution.

3 Appoint the Auditors **Oppose**

KPMG proposed. Non-audit fees represented 24.20% of audit fees during the year under review and 19.97% on a three-year aggregate basis. This level of non-audit fees does not raise serious concerns about the independence of the statutory auditor. However, the current auditor has been in place for more than seven years. There are concerns that failure to regularly rotate the audit firm can compromise the independence of the auditor.

Triodos opposes this resolution.

4 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: CDC.

Half of the long-term incentives have no performance conditions. With respect to performance share awards, the TSR vesting scale is insufficiently broad to ensure superior awards reflect superior performance as executives may receive payouts for below median performance which essentially rewards the executives for performing below average. Also, the use of a sole performance criterion is not considered appropriate in evaluating performance. Time-based RSUs vest in equal annual installments over a period of three years starting with the first anniversary of the date of grant which is not considered sufficiently long-term.

Triodos opposes this resolution.

5 Approve the Frequency of Future Advisory Votes on Executive Compensation **1**

The Company is providing shareholders with an advisory vote on whether the advisory vote on executive compensation should be held every one, two or three years. The Board is required by Section 951 of The Dodd-Frank Wall Street Reform and Consumer Protection Act to offer this vote on the frequency of a say-on-pay proposal not less than every six years, although they have the option to offer this proposal more often.

The Board of Directors recommends an annual vote. It is considered that an annual vote on executive compensation is best practice for companies. Executive compensation comprises both fixed and variable pay elements, with the variable including share based incentive awards and cash bonuses over which the compensation committee have discretion. Decisions affecting the quantum and design of variable pay are made annually by the committee and it is therefore appropriate that shareholder approval is sought at the maximum frequency permitted by the new legislation. Contentious compensation payments and issues could occur in the intervening years between votes, if the frequency is less than annually.

Triodos supports this resolution.

SUPPORTING INFORMATION FOR RESOLUTIONS

Proposal 4 - Advisory Vote on Executive Compensation

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

Disclosure: C- Annual cash incentives are based on corporate performance (financial performance and strategic objectives) (50%) and on individual performance (50%). Performance measures consisted of: net new Digital Media Annualized Recurring Revenue (ARR); and bookings for the Adobe Marketing Cloud. In addition, the corporate performance result may be adjusted downward based on the outcome of company strategic objectives. The Company granted long-term incentives in the form of performance share awards (50%) and time-based Restricted Stock Units (RSUs) (50%). Performance share awards are based on relative total stockholder return (TSR) over a three-year performance period. There is no disclosure of the financial targets and strategic objectives for the annual incentive plan.

Balance: D- Rewarded executive compensation is above peer group averages. In addition, awarded pay for the CEO is not aligned with companies of a similar market capitalization. There is a concern over the Company not disclosing specific performance targets for the annual cash incentive schemes. Also, there is a concern over the Committee's use of discretion when awarding annual bonuses. Half of the long-term incentives have no performance conditions. With respect to performance share awards, the TSR vesting scale is insufficiently broad to ensure superior awards reflect superior performance as executives may receive payouts for below median performance. Essentially rewarding the executives for performing below average. Also, the use of a sole performance criterion is not considered appropriate in evaluating performance. Time-based RSUs vest in equal annual installments over a period of three years starting with the first anniversary of the date of grant which is not considered sufficiently long-term.

Contract: C- The Company's change of control plan provides for severance payments and fully accelerated vesting of outstanding equity awards upon an involuntary termination of employment upon or following a qualifying change of control. However, Mr. Narayen's, Chairman, President and CEO, Retention Agreement provides that all outstanding equity awards accelerate upon a change of control. Also, good reason is not defined.

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