

BAXTER INTERNATIONAL INC.

MEETING DATE	Tue, 02 May 2017 9:00 am	TYPE	AGM	ISSUE DATE	Mon, 24 Apr 2017
MEETING LOCATION	One Baxter Parkway, Deerfield, Illinois 60015				
CURRENT INDICES	S&P500				
SECTOR	Surgical and medical instruments and apparatus				

PROPOSALS		ADVICE
1a	Re-elect Jose (Joe) E. Almeida 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.	Oppose
1b	Re-elect Thomas F. Chen Independent Non-Executive Director.	For
1c	Re-elect John D. Forsyth Non-Executive Director. Not considered independent owing to a tenure of over nine years. There is insufficient independent representation on the Board. He is chair of the Remuneration committee which is not fully independent which Triodos does not support.	Oppose
1d	Re-elect Munib Islam Independent Non-Executive Director.	For
1e	Re-elect Michael F. Mahoney Independent Non-Executive Director.	For
1f	Re-elect Carole J. Shapazian Non-Executive Director. Not considered independent owing to a tenure of over nine years. There is insufficient independent representation on the Board.	Oppose
1g	Re-elect Thomas T. Stallkamp Non-Executive Director. Not considered independent owing to a tenure of over nine years. There is insufficient independent representation on the Board.	Oppose
1h	Re-elect Albert P.L. Stroucken Non-Executive Director. Not considered independent owing to a tenure of over nine years. There is insufficient independent representation on the Board.	Oppose
2	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: DCD. Annual bonus payouts to the CEO was excessive and represented 270% of base salary, which is excessive. However, long-term awards were granted at under 200% of base salary during the year under review. Stock options vest one-third per year over a three-year period, starting on the first anniversary of the grant date, which is not considered sufficiently long-term. Based on these concerns, Triodos opposes this resolution.	Oppose

3 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 recommends a one year frequency.

4 Appoint the Auditors

Oppose

PwC proposed. Non-audit fees represented 3.28% of audit fees during the year under review and 30.20% on a three-year aggregate basis. This level of non-audit fees raises some concerns about the independence of the statutory auditor. 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.

5 Shareholder Resolution: Proxy Access

For

Proposed by: John Chevedden.

The Proponents request the Board increase the limit of shareholders who are allowed to aggregate their shares to equal 3% of stock owned continuously for three years from 20 shareholders to 50 shareholders.

Proponents Supporting Argument: The Proponent argues that under current provisions, even if the 20 largest public pension funds were able to aggregate their shares, they would not meet the 3% criteria for continuous 3-years at most companies examined by the Council of Institutional Investors. Additionally many of the largest investors of major companies are routinely passive investors who would be unlikely to be part of the proxy access shareholder aggregation process. Under this proposal it is unlikely that the number of shareholders who participate in the aggregation process would reach an unwieldy number due to the rigorous rules management adopted for a shareholder to qualify as one of the aggregation participants. Plus it is easy for management to reject an aggregating shareholder because management simply needs to find one of a list of its requirements lacking.

Boards Opposing Argument: In December 2015, Baxter adopted a proxy access bylaw, which Baxter believes strikes the appropriate balance between providing stockholders with meaningful proxy access rights, on the one hand, and protecting the interests of all stockholders by mitigating the potential for misuse by stockholders whose interests are not aligned with the majority of its long-term stockholders, on the other hand. Baxter believes the proponent's requested change to Baxter's proxy access bylaw is potentially disruptive and is unnecessary for the proper functioning of proxy access. Allowing a group of 50 shareholders the ability to use the proxy access bylaw provision could impose a significant administrative burden on Baxter given the need to verify that each member of the group met (and continued to meet through the annual meeting date) the eligibility requirements of the bylaws.

SUPPORTING INFORMATION FOR RESOLUTIONS

Proposal 2 - Advisory Vote on Executive Compensation

Disclosure: D- Annual cash incentives are based on adjusted EPS (60%), adjusted sales (20%), free cash flow (20%). The Company granted long-term incentives in the form of stock options (50%) and performance stock units (PSUs) (50%). For 2016, financial objectives for PSU awards include adjusted operating margin (50%) and three-year growth in shareholder return (GSV)(50%). The overall transparency of the Company's reporting is not considered transparent. The Company provides clear targets for the funding of the bonus pool, but actual payouts are based on individual performance,

for which no disclosure was provided.

Balance: C- Executive compensation is in-line with peer group averages. Annual bonus payouts to the CEO was excessive and represented 270% of base salary, which is excessive. However, long-term awards were granted at under 200% of base salary during the year under review. Stock options vest one-third per year over a three-year period, starting on the first anniversary of the grant date, which is not considered sufficiently long-term. The Compensation Committee uses its discretion to award additional bonuses and long-term awards for 'exceptional circumstances' such as a joining bonus.

Contract: D- The Company has a compensation claw back policy. Severance payouts exceed 300% of base salary. The Company does not state whether change-in-control payments are subject to double-trigger provisions.

For Private Circulation only

©*Copyright 2017 PIRC Ltd*

Researcher: Rasheed Rambaran
Email: pircresearch@pirc.co.uk

Information is believed to be correct but cannot be guaranteed. Opinions and recommendations constitute our judgement as of this date and are subject to change without notice. The document is not intended as an offer, solicitation or advice to buy or sell securities. Clients of Pensions & Investment Research Consultants Ltd may have a position or engage in transaction in any of the securities mentioned.



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>

Regulated by the Financial Conduct Authority