Triodos Investment Management

CISCO SYSTEMS INC.

MEETING DATE	Mon, 11 Dec 2017 10:00 am	TYPE	AGM	ISSUE DATE	Fri, 24 Nov 2017
MEETING LOCATION	Cisco campus, Building 9, 260 East Tasman Drive, San Jose, California 95134				
CURRENT INDICES	S&P500				
SECTOR	Telephone and telegraph apparatus				

	PROPOSALS	ADVICE
1a	**Re-elect Carol A. Bartz** Non-Executive Lead Director. Not considered independent owing to a tenure of over nine years. There is insufficient independent representation on the Board.	**Oppose**
1b	**Re-elect M. Michele Burns** Non-Executive Director. Not considered independent owing to a tenure of over nine years. There is insufficient independent representation on the Board. It is noted that 13.5% opposed her re-election last year.	**Oppose**
1c	**Re-elect Michael D. Capellas** Non-Executive Director. Not considered independent owing to a tenure of over nine years. In addition, until 2011 he served as CEO of VCE Company, which is a joint venture formed by EMC and the Company. There is insufficient independent representation on the Board.	**Oppose**
1d	**Re-elect Amy L. Chang** Independent Non-Executive Director.	**For**
1e	**Re-elect Dr. John L. Hennessy** Non-Executive Director. Not considered independent owing to a tenure of over nine years. There is insufficient independent representation on the Board. It is noted that 13.4% opposed his re-election last year.	**Oppose**
1f	**Re-elect Dr. Kristina M. Johnson** Independent Non-Executive Director.	**For**
1g	**Re-elect Roderick C. McGeary** 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**
1h	**Re-elect Charles H. Robbins** 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**
1i	**Re-elect Arun Sarin** Non-Executive Director. Not considered independent owing to an aggregate tenure of over nine years as before being re-appointed to the Board in 2009, he served on the Board from September 1998 to July 2003. There is insufficient independent representation on the Board.	**Oppose**
1j	**Elect Brenton L. Saunders** Independent Non-Executive Director.	**For**
1k	**Re-elect Steven M. West** 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 Audit committee which is not fully independent which Triodos does not support.	**Oppose**

2 Amend 2005 Stock Incentive Plan **Oppose**

It is proposed to approve the Amendment and Restatement of the 2005 Stock Incentive Plan. The Amended Stock Plan permits the granting of stock options, stock grants, stock units and SARs by the Plan Administrator. The Compensation Committee has been designated as the Plan Administrator. The Board of Directors may, however, at any time terminate the functions of the Compensation Committee and reassume all powers and authority previously delegated to the Compensation Committee. The maximum value of stock awards granted during a single fiscal year under the Plan will not exceed USD 800,000.

There are concerns with the Plan as the it has various elements bundled together, and although parts of it can benefit the majority of employees, it can still be used as a vehicle for potentially excessive executive payments. As performance conditions may be attached to awards at the Compensation Committee's discretion, 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, and be insufficiently challenging. In addition, maximum award limits are excessive.

Triodos opposes this resolution.

3 Amend Executive Incentive Plan **Oppose**

Authority is sought to approve the Cisco Systems, Inc. Executive Incentive Plan as amended and restated. The maximum amount of any awards that can be paid under the Amended EIP to any participant during any fiscal year (instead of performance period) is USD 10,000,000. Individuals eligible to participate in the Amended EIP awards are executive officers and key employees of Cisco, in each case, as determined by the Compensation Committee. The payment to each participant is based on an individual bonus target for the performance period set by the Compensation Committee. 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. In addition, maximum award limits are considered excessive.

Triodos opposes this resolution.

4 Advisory Vote on Executive Compensation **Abstain**

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.

There is good disclosure of performance targets related to short- and long-term incentives, but not with respect to individual performance factors. Annual bonus awards are considered to be excessive at over 200% of base salary. The time-based RSUs generally vest in four equal annual installments on each annual anniversary of the award date which is not considered sufficiently long-term. Under the 2005 Stock Incentive Plan, each outstanding award that is subject to vesting provisions, and each PRSU will vest in full in the event that the Company is acquired by merger or asset sale, unless the award or related agreement is assumed or replaced by the acquiring entity, or in the event there is a hostile change in control or ownership of Cisco, or a change in the majority of the members of the Board as a result of one or more contested elections for board membership.

The compensation rating is: CCC.

Based on concerns, Triodos abstains on 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 recommends a one year frequency.

6 Appoint the Auditors **Oppose**

PwC proposed. Non-audit fees represented 0.29% of audit fees during the year under review and 0.44% 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 seven years. There are concerns that failure to regularly rotate the audit firm can compromise the independence of the auditor.

Triodos opposes this resolution.

7 Shareholder Resolution: Report on Lobbying Payments and Policy **For**

Proposed by: The Unitarian Universalist Association and two undisclosed filers

The Proponent requests that the Board prepare a report disclosing (i) Company policy and procedures governing lobbying, (ii) Payments by the Company used for (a) direct or indirect lobbying or (b) grassroots lobbying communications, (iii) The Company's membership in and payments to any tax-exempt organisation that writes and endorses model legislation, and (iv) A description of management's decision making process and the Board's oversight for making such payments.

Proponent's Supporting Argument: The Proponent argues that the Company lists its membership in the Chamber of Commerce, which has spent over USD 1.3 billion on lobbying since 1998. But it fails to comprehensively disclose all of its major trade association memberships, such as its membership in the Business Roundtable, which spent USD 34.95 million on lobbying in 2015 and 2016. Nor does the Company disclose its payments to trade associations or the amounts used for lobbying. Absent a system of accountability, company assets could be used for objectives contrary to Cisco's long-term interests.

Board's Opposing Argument: The Board is against this proposal as it believes the proposal to be unnecessary and not be in the best interests of the Company or its shareholders. The Board argues that the disclosure Cisco already provides on its own website regarding its public policy engagement approach, Cisco's compliance with existing disclosure laws and regulations relating to lobbying, and the voluntary restraints Cisco has long imposed on itself regarding the scope of its public policy-related activities provide a significant level of transparency and accountability to Cisco's shareholders.

SUPPORTING INFORMATION FOR RESOLUTIONS

Proposal 2 - Amend 2005 Stock Incentive Plan

The Plan is presented as an omnibus plan, which means that bundled within the same official plan there are various incentive plan elements aimed at rewarding different groups of employees, officers and executives. These plans permit the granting of options, stock appreciation rights, restricted stock, restricted stock units, performance grants and dividend equivalents. However, it is noted that the Compensation Committee retains the power to select employees to receive awards and determine the terms and conditions of awards (and also note that 'management employees' appear most likely to be the principal beneficiaries of the Plan).

Proposal 4 - Advisory Vote on Executive Compensation

Disclosure: C- There is good disclosure of performance targets related to short- and long-term incentives, but not with respect to individual performance factors. Annual cash incentives are based on the Company's achievement against pre-established revenue and operating income measures and individual performance. The Company granted long-term incentives in the form of performance-based restricted stock units (PRSUs) and time-based RSUs. PRSUs are based on the following performance measures: operating cash flow; earnings per share (EPS); and relative total shareholder return (TSR) multiplier.

Named executives earn performance-related restricted share units (PRSUs)(72%)and time-based RSUs (28%) under the Company's long-term incentive plan. PRSUs are based on the following performance measures: operating cash flow; earnings per share (EPS); and relative total shareholder return (TSR) multiplier.

Balance: C- Annual bonus awards are considered to be excessive at over 200% of base salary. The time-based RSUs generally vest in four equal annual installments on each annual anniversary of the award date which is not considered sufficiently long-term. Any earned PRSUs will be settled following the completion of the three-year performance period, which is welcomed.

Contract: C- Under the 2005 Stock Incentive Plan, each outstanding award that is subject to vesting provisions, and each PRSU will vest in full in the event that the Company is acquired by merger or asset sale, unless the award or related agreement is assumed or replaced by the acquiring entity, or in the event there is a hostile change in control or ownership of Cisco, or a change in the majority of the members of the Board as a result of one or more contested elections for board membership. The Company has double-trigger provisions in place, which is welcomed.

Researcher: Sika Neckles
Email: pircresearch@pirc.co.uk

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