Triodos Investment Management

DS SMITH PLC

MEETING DATE	Tue, 05 Sep 2017 12:00 pm	TYPE	AGM	ISSUE DATE	Tue, 22 Aug 2017
MEETING LOCATION	Allen & Overy LLP, One Bishops Square, London E1 6AD				
CURRENT INDICES	FTSE MidCap				
SECTOR	Containers & Packaging				

	PROPOSALS	ADVICE
1	**Receive the Annual Report** Strategic report meets guidelines. Adequate employment and environmental policies are in place and relevant, up-to-date, quantified, environmental reporting is disclosed. The Company also disclosed the proportion of women on the Board, in Executive Management positions and within the whole organisation. Triodos supports this resolution.	**For**
2	**Approve the Dividend** A final dividend of 10.6 pence per share is proposed, which brings the total dividend for the year under review to 15.2 pence per share. This payment is covered by earnings.	**For**
3	**Approve Remuneration Policy** The proposed policy remains widely unchanged, except for the introduction of a Performance Share Plan (PSP) award limit of 400% of salary in exceptional recruitment circumstance. Together with the annual bonus opportunity of 200% of salary, it yields an aggregate annual variable pay of 600% of salary, which is considered highly excessive. Furthermore, there are some concerns over the overall excessiveness of the remuneration structure. The CEO maximum potential opportunity under all incentive schemes amounts to 425% of salary, more than two-folds of the recommended limit. Concerns also remain over certain features of the annual incentive schemes. The PSP is measured over a three- year performance period, which is not sufficiently long term. The additional two-year post-vesting period is however appreciated. The performance conditions on the PSP are solely linked to financial metrics, without any due consideration to non-financial KPIs such as ESG related measures. In addition, the PSP do not operate interdependently. It is also noted that both the annual bonus and PSP share same performance conditions in Return on Average Capital Employed (ROACE), which in turn reward Executives twice for similar performance. This is not acceptable, considering also the higher weightings allocated to this performance metric under both plans. The payment of accrued dividends on vested shares is not supported. Best practice would require dividend accruals after the vesting date and not the the period between grant date and vesting date. Finally, the Termination Policy provides the Remuneration Committee with the discretion to waive performance conditions and dis-apply time pro-rating on outstanding share incentives for a good leaver. Such use of discretion is not acceptable. Rating: ADD Triodos opposes this resolution.	**Oppose**

4 Approve the Remuneration Report **Abstain**

Disclosure: Performance conditions and targets for both Annual Bonus and long term incentives are disclosed. All share incentive awards are fully disclosed with award dates and prices.

Balance: The CEO's variable pay is equivalent to 504.67% of salary (Annual Bonus: 90.67%; LTIP: 414%) which is excessive. The high value of LTIP is partly related to the vesting of the 2014 share matching plan (SMP) awards, representing 38.7% of LTIP awards vesting during the year. The SMP, however, has been discontinued since 2014. The ratio of CEO pay compared to average employee pay is also considered not appropriate at 43:1. The CEO's salary is considered above the upper quartile of a peer comparator group, which raise serious concerns over the excessiveness of his salary. However, the changes in CEO total pay under the last five years are considered in line with changes in TSR during the same period.

Rating: AC

Triodos abstains this resolution.

5 Re-elect G Davis **Oppose**

Incumbent Chairman. Independent on appointment. However, he is Board Chairman of two other FTSE 350 companies (William Hill plc and Wolseley plc). It is considered that a chair cannot effectively represent two corporate cultures. The possibility of having to commit additional time to the role in times of crisis is ever present. Given this, a Chairman should focus his attention onto the only one FTSE 350 Company.

6 Re-elect M W Roberts **For**

Chief Executive Officer. 12 months rolling contract.

7 Re-elect A R T Marsh **For**

Executive Director. 12 months rolling contract.

8 Re-elect C P Britton **For**

Independent Non-Executive Director.

9 Re-elect I W Griffiths **For**

Independent Non-Executive Director.

10 Re-elect J C Nicholls **For**

Senior Independent Director. Considered independent.

11 Re-elect K A O'Donovan **For**

Independent Non-Executive Director.

12 Re-elect L H Smalley **For**

Independent Non-Executive Director.

13 Appoint the Auditors **Oppose**

Deloitte proposed. Non-audit fees represented 14.29% of audit fees during the year under review and 16.67% 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.

14 Allow the Board to Determine the Auditor's Remuneration **For**

Standard proposal.

15 Approve Fees Payable to the Board of Directors **For**

Authority is sought to increase the maximum aggregate amount of fees payable to the Directors in accordance with article 61 of the Company's Articles of Association from £750,000 to £1,000,000.

It is noted that aggregate fees paid to Directors are currently below the limit, in 2016/17 being £564,000. This represents 75% of the existing headroom. Given that the current headroom is almost depleted, it is acceptable that a new limit is set to offer the flexibility for future recruitments to the Board. Moreover, the Board stated that aggregate fees paid to Directors will remain below the new limit for the foreseeable future.

Triodos supports this resolution.

16 Amend 2008 Performance Share Plan **Oppose**

The Board seeks amendments of the the DS Smith 2008 Performance Share Plan (PSP), which is due to expire in September 2018. The revised and renewed PSP rules are similar in all material respects to the existing PSP rules. The main difference being that awards may be granted until 5 September 2027.

However, there are concerns over certain features of the PSP plan. The maximum opportunity under the PSP is equivalent to 300% of salary, which is considered excessive. In addition, there is an exceptional limit of 400% of salary for recruitment of Executives in an exceptional circumstance. This is also excessive considering the available annual bonus opportunity of 200% of salary. The PSP does not include any non-financial metrics and its performance conditions are not operating interdependently. Also, the three year performance period is not considered sufficiently long-term. The two-year holding period is however welcomed. Also, dividend accrued on vested shares are not supported. Furthermore, the Remuneration Committee retains the discretion not to pro-rate for time or waive performance performance conditions on outstanding PSP awards, which is not acceptable. Finally, LTIP schemes are not considered an effective means of incentivising performance and are inherently flawed. There is the risk that they are rewarding volatility rather than the performance of the company. They are acting as a complex and opaque hedge against absolute company underperformance and long-term share price falls. They are also a significant factor in reward for failure.

Triodos opposes this resolution.

17* Issue Shares with Pre-emption Rights **For**

The authority is limited to one third of the Company's issued share capital. This cap can increase to two-third of the issued share capital if shares are issued in connection with an offer by way of a rights issue. All directors are standing for annual re-election. This resolution is in line with normal market practice and expires at the next AGM.

Triodos supports this resolution.

18* Issue Shares for Cash **For**

Authority is limited to 5% of the Company's issued share capital and will expire at the next AGM. Within acceptable limits.

19* Issue Shares for Cash for the Purpose of Financing an Acquisition or Other Capital Investment **Oppose**

The Board is seeking approval to issue up to an additional 5% of the Company's issued share capital for cash for use only in connection with an acquisition or a specified capital investment. Such proposal is not supported as it is considered that the 5% limit sought under the general authority above is sufficient. Best practice would be to seek a specific authority from shareholders in relation to a specific transactions if such situation arises. As this is not the case, Triodos opposes this resolution.

20* Authorise Share Repurchase **Oppose**

The authority is limited to 10% of the Company's issued share capital and will expire at the next AGM. This resolution will not be supported unless the Board has set forth a clear, cogent and compelling case demonstrating how the authority would benefit long-term shareholders. As no clear justification was provided by the Board, Triodos opposes this resolution.

21* Meeting Notification-related Proposal **Oppose**

All companies should aim to provide at least 20 working days notice for general meetings in order to give shareholders sufficient time to consider what are often complex issues. Although the proposed change is permissible by the Companies Act, Triodos does not support this resolution.

22* **Increase in the Company's Borrowing Powers** **For**

The Board proposed to amend the Articles of Association by increasing the Directors' powers to incur borrowings as set out in Article 68 from the current limit of the greater of £3 billion and an amount equal to 2.5 times adjusted total equity, to a new limit of the greater of £5 billion and an amount equal to 2.5 times adjusted total equity. The current limit was introduced in 2015, and the proposed increase reflects the fact that the Company has grown significantly since then. The Board considers that it is prudent and timely to refresh the borrowing limit to create additional flexibility for the Company to respond to future development of the business. The Company's external borrowing is limited by existing internal controls, the financial ratios required to maintain its credit rating and the limits contained in its committed borrowing facilities and note agreements. Adopting a higher limit will not change the Company's borrowing policy and the Board believes it to be in the best commercial interests of the Group.

Triodos supports this resolution.

**** = Special resolution***

SUPPORTING INFORMATION FOR RESOLUTIONS

Proposal 19 - Issue Shares for Cash for the Purpose of Financing an Acquisition or Other Capital Investment

The Company has stated that this additional authority will only be used to fund one or more acquisitions or specified capital investments, in line with the Pre-Emption Group Guidelines. This recommendation is not supported by PIRC.

Proposal 21 - Meeting Notification-related Proposal

The proposed resolution reflects the implementation of the EU Shareholder Rights Directive into English law, which took place on 3 August 2009 as implemented by the company in its Articles of Association. Under the regulations, the minimum notice period for general meetings (other than Annual General Meetings) will increase to 21 days unless shareholders agree on a shorter notice period, in which case it may be 14 days. Shareholder approval is sought to call general meetings on 14 clear days notice.

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