Triodos Investment Management

POWER INTEGRATIONS INC

MEETING DATE	Fri, 19 May 2017 14:00 pm	TYPE	AGM	ISSUE DATE	Mon, 08 May 2017
MEETING LOCATION	5245 Hellyer Avenue, San Jose, California 95138				
CURRENT INDICES	PIRC Global				
SECTOR	Semiconductors and related devices				

	PROPOSALS	ADVICE
1.01	**Elect Wendy Arienzo** Independent Non-Executive Director.	**For**
1.02	**Elect Balu Balakrishnan** President and Chief Executive Officer.	**For**
1.03	**Elect Alan D. Bickell** 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.	**Withhold**
1.04	**Elect Nicholas E. Brathwaite** Non-Executive Director. Not considered independent owing to a tenure of over nine years. There is insufficient independent representation on the Board.	**Withhold**
1.05	**Elect William L. George** Independent Non-Executive Director.	**For**
1.06	**Elect Balakrishnan S. Iyer** 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.	**Withhold**
1.07	**Elect E. Floyd Kvamme** Non-Executive Chairman. Not considered independent owing to a tenure of over 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**
1.08	**Elect Steven J. Sharp** Non-Executive Director. Not considered independent as he is the former Non-Executive Chairman and Chief Executive Officer. There is insufficient independent representation on the Board.	**Withhold**
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. Overall disclosure is not considered transparent as the Company failed to provide a financial breakdown of targets associated with equity awards, not allowing shareholders to see the exact payout for each element. The Company grants annual performance-based equity incentive awards, which function like an annual bonus, and has a one-year performance period. For the CEO's 2016 long-term equity grants, the Compensation Committee awarded 25% in the form of target PRSUs and 75% in the form of RSUs. The RSUs awards have a four-year vesting period with one-fourth of the RSUs vesting on each anniversary of the grant-date over four years, while PRSUs will vest after a three year performance period. The PRSU awards vest based on Company performance measured against a revenue target. 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. 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 supports a one year frequency.

4 Appoint the Auditors **Oppose**

Deloitte proposed. Non-audit fees represented 15.80% of audit fees during the year under review and 17.45% 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.

SUPPORTING INFORMATION FOR RESOLUTIONS

Proposal 2 - Advisory Vote on Executive Compensation

Disclosure: D- Overall disclosure is not considered transparent as the Company failed to provide a financial breakdown of targets associated with equity awards, not allowing shareholders to see the exact payout for each element. The Company grants annual performance-based equity incentive awards, which function like an annual bonus, and has a one-year performance period. These awards are based on net revenue, non-GAAP operating income and strategic goals. The Company also granted long-term equity awards in the form of performance share units (PSUs), and restricted stock units (RSUs). For the CEO's 2016 long-term equity grants, the Compensation Committee awarded 25% in the form of target PRSUs and 75% in the form of RSUs. The RSUs awards have a four-year vesting period with one-fourth of the RSUs vesting on each anniversary of the grant-date over four years, while PRSUs will vest after a three year performance period. The PRSU awards vest based on Company performance measured against a revenue target. 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.

Balance: C- Executive compensation was in line with companies of a similar market capitalisation and with peer group averages. However, equity awards made to the executives were considered excessive, and exceeded 200% of base salary. There is a concern over annual compensation being potentially excessive owing to the Compensation Committee's use of discretion as payouts are subject to individual strategic goals, for which disclosure surrounding the goals was poor. Further, in 2016, the Company awarded Mr. Balakrishnan with a $10,000 bonus for his work on patents; this type of discretionary payment is not considered best practice.

Contract: D- Upon a change of control, CEOs then-unvested shares subject to options or RSUs will vest and all then-unvested shares subject to PSUs and PRSUs shall accelerate and vest at the maximum performance level. Cash severance payout is considered excessive.

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