Triodos Investment Management

RED HAT INC

MEETING DATE	Thu, 10 Aug 2017 8:30 am	TYPE	AGM	ISSUE DATE	Thu, 06 Jul 2017
MEETING LOCATION	100 East Davie Street, Raleigh, North Carolina 27601				
CURRENT INDICES	S&P500				
SECTOR	Computer programming services				

	PROPOSALS	ADVICE
1.01	**Re-elect Sohaib Abbasi** Independent Non-Executive Director.	**For**
1.02	**Re-elect W. Steve Albrecht** Non-Executive Director. Not considered independent owing to a tenure of over nine years. However, there is sufficient independent representation on the Board. He is chair of the Audit committee which is not fully independent which Triodos does not support.	**Oppose**
1.03	**Re-elect Charlene T. Begley** Independent Non-Executive Director.	**For**
1.04	**Re-elect Narendra K. Gupta** Non-Executive Chairman. Not considered independent owing to a tenure of over nine years. However, there is sufficient independent representation on the Board.	**For**
1.05	**Re-elect Kimberly L. Hammonds** Independent Non-Executive Director.	**For**
1.06	**Re-elect William S. Kaiser** Non-Executive Director. Not considered independent owing to a tenure of over nine years. However, there is sufficient independent representation on the Board.	**For**
1.07	**Re-elect Donald H. Livingstone** Independent Non-Executive Director.	**For**
1.08	**Re-elect James M. Whitehurst** President and Chief Executive Officer.	**For**
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: CDC. The CEO's maximum opportunity exceeds 200% of his base salary, which is not considered best practice. Also, awarded pay for the CEO is not aligned with companies of a similar market capitalisation. There are concerns over certain features of the equity awards. RSAs vest 25% approximately one year following the grant date, and the remainder vest ratably on a quarterly basis over the course of the subsequent three years which is not considered sufficiently long-term. Also, the Company uses revenue as a performance measure for the short-term and long-term incentives, allowing executives to be rewarded twice for the same performance. 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 38.71% of audit fees during the year under review and 33.08% 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. An oppose vote is recommended.

SUPPORTING INFORMATION FOR RESOLUTIONS

Proposal 2 - Advisory Vote on Executive Compensation

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

Disclosure: C- Annual cash incentives are based on revenue, non-GAAP operating margin, non-GAAP operating cash flow and individual performance goals. The Company granted long-term incentives in the form of operating Performance Share Units (PSUs), Total Stockholder Return (TSR) PSUs and Restricted Stock Awards (RSAs). Operating PSUs are based on growth relative to peer group companies for revenue and operating income, excluding the impact of items that are unusual in nature or infrequently occurring, or both, and the cumulative effect of changes in applicable tax and accounting rules. TSR PSUs are based on growth relative to peer group companies for TSR. The Company has disclosed the financial targets for its short-term incentives and long-term incentives and has provided information with respect to individual performance factors. However, the targets were set to a non-GAAP standards, which allows the Company discretion in adjusting the figure.

Balance: D- For fiscal 2017, annual cash awards were not excessive, with overall pay levels below peer group averages. However, the CEO's maximum opportunity exceeds 200% of his base salary, which is not considered best practice. Also, awarded pay for the CEO is not aligned with companies of a similar market capitalisation. There are concerns over certain features of the equity awards. RSAs vest 25% approximately one year following the grant date, and the remainder vest ratably on a quarterly basis over the course of the subsequent three years which is not considered sufficiently long-term. Also, the Company uses revenue as a performance measure for the short-term and long-term incentives, allowing executives to be rewarded twice for the same performance.

Contract: C- There is also a clawback policy in place, which is considered best practice. The Company's change-in-control arrangements incorporate a 'double trigger' approach for the benefits to become payable. However, the Company has not provided a definition for "good-reason".

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