Triodos Investment Management

RESMED INC

MEETING DATE	Thu, 16 Nov 2017 15:00 pm	TYPE	AGM	ISSUE DATE	Fri, 03 Nov 2017
MEETING LOCATION	9001 Spectrum Center Blvd., San Diego, California 92123, USA				
CURRENT INDICES	S&P500				
SECTOR	Surgical and medical instruments and apparatus				

	PROPOSALS	ADVICE
1a	**Re-elect Michael Farrell** 2020 Term Director. Chief Executive.	**For**
1b	**Elect Karen Drexler** 2020 Term Director. Newly nominated independent non-executive director.	**For**
1c	**Re-elect Jack Wareham** 2020 Term 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	**Appoint the Auditors** KPMG proposed. Non-audit fees represented 1.24% 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. However, 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.	**Oppose**
3	**Amend 2009 Incentive Award Plan** Shareholders are being asked to approve the proposed amendments to the ResMed Inc. 2009 Incentive Award 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 and performance grants. The Amendment would provide for the following material changes: (i) an increase in the number of shares of common stock reserved for issuance under the 2009 Plan by 7,392,471 shares, such that there would be 19,000,000 shares available for new grants, less grants made after June 30, 2017 and before stockholder approval of the Amendment; (ii) imposition of a maximum award amount which may be granted under the 2009 Plan to a non-employee director in a calendar year, which, when taken together with any other cash fees earned for services as a non-employee director during the calendar year, has a total value of $700,000, or $1,200,000 in the case of a non-employee director who is also serving as chairman of the board of directors; (iii) an increase in the maximum amount payable pursuant to cash-denominated performance awards granted to any Code Section 162(m) "covered employee" in any calendar year from $3,000,000 to $5,000,000; (iv) an extension of the existing prohibition on the payment of dividends or dividend equivalents on unvested awards to apply to all awards, including time-based restricted stock, deferred stock and stock payments and (v) an extension of the term of the 2009 Plan by four years so that the plan expires on September 11, 2027. The Company also seeks re-approval of the performance goals under the plan. There are concerns with the Plan as 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. As a result, Triodos opposes this resolution.	**Oppose**

4 Advisory Vote on Executive Compensation **Oppose**

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: CDB.

The use of a sole performance condition, TSR, for PSU awards is not considered best practice. Best practice is to have at least two or more performance conditions, operating interdependently. The CEO's fiscal 2017 awards are considered excessive at 674% of salary. During fiscal year 2017, in addition to the annual program grants made in November 2016, the Company made special grants to two named executive officers in recognition of their services. Such one-off payments for services within the remit of what is reasonably expected of an executive position are not supported.

Based on this rating, Triodos opposes 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 supports a one year frequency.

SUPPORTING INFORMATION FOR RESOLUTIONS

Proposal 4 - Advisory Vote on Executive Compensation

Disclosure: C- Annual incentives are paid out based on performance against global and/or regional adjusted net sales and adjusted net operating proft targets. Targets are disclosed. Long term incentives are provided in the form of Performance Share Units (PSUs) and time-vested options or restricted stock units (RSUs). PSUs are granted subject to performance against total shareholder return (TSR) targets. Performance targets are disclosed. It is noted that the Company received 83% support on its say-on-pay vote at the last AGM which was a decrease from prior years. The Company has attributed this to the fact that ResMed's compensation practices are more aligned with US compensation practices than those at ASX companies, combined with an expectation by some Australian shareholders that the US-based executive team should have compensation that reflects a different labor market. It is believed that the Company should address these concerns.

Balance: D- Fiscal 2017 annual bonus payouts are not considered excessive being below 200% of salary. The use of a sole performance condition, TSR, for PSU awards is not considered best practice. Best practice is to have at least two or more performance conditions, operating interdependently. The CEO's fiscal 2017 awards are considered excessive at 674% of salary. During fiscal year 2017, in addition to the annual program grants made in November 2016, the Company made special grants to two named executive officers in recognition of their services. Such one-off payments for services within the remit of what is reasonably expected of an executive position are not supported.

Contract: B- Change-in-control payments are subject to double-trigger provisions. However, 'good reason' and 'cause' are not appropriately defined.

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Researcher: Jide Ajomale
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

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