Triodos Investment Management

BAXTER INTERNATIONAL INC.

MEETING DATE	Tue, 08 May 2018 9:00 am	TYPE	AGM	ISSUE DATE	Mon, 23 Apr 2018
MEETING LOCATION	One Baxter Parkway, Deerfield, Illinois 60015				
CURRENT INDICES	S&P500				
SECTOR	Surgical and medical instruments and apparatus				

	PROPOSALS	ADVICE
1a	**Elect Director Jose (Joe) E. Almeida** President, 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 three roles in one person represents a concentration of power that is potentially detrimental to board balance, effective debate, and board appraisal. Triodos opposes this resolution.	**Oppose**
1b	**Elect Director Thomas F. Chen** Independent Non-Executive Director.	**For**
1c	**Elect Director John D. Forsyth** Non-Executive Director. Not considered independent owing to a tenure of over nine years. There is insufficient independent representation on the Board.	**Oppose**
1d	**Elect Director James R. Gavin, III** 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 Nomination Committee and less than 20% of the Board are women which Triodos does not suppor	**Oppose**
1e	**Elect Director Peter S. Hellman** Non-Executive Director. Not considered independent owing to a tenure of over nine years. There is insufficient independent representation on the Board.	**Oppose**
1f	**Elect Director Munib Islam** Independent Non-Executive Director.	**For**
1g	**Elect Director Michael F. Mahoney** Independent Non-Executive Director.	**For**
1h	**Elect Director Stephen N. Oesterle** Independent Non-Executive Director.	**For**
1i	**Elect Director Carole J. Shapazian** Non-Executive Director. Not considered independent owing to a tenure of over nine years. There is insufficient independent representation on the Board.	**Oppose**
1j	**Elect Director Cathy R. Smith** Independent Non-Executive Director.	**For**
1k	**Elect Director Thomas T. Stallkamp** Lead Independent Director. Not considered independent owing to a tenure of over nine years. There is insufficient independent representation on the Board.	**Oppose**
1l	**Elect Director Albert P.L. Stroucken** Non-Executive Director. Not considered independent owing to a tenure of over nine years. There is insufficient independent representation on the Board.	**Oppose**

2 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: ADD. For fiscal 2017, annual cash awards were considered to be excessive. The CEO's actual bonus for fiscal 2017 was $2,808,000, representing 216% of his base salary (200% maximum is considered as acceptable practice). Best practice states that all executives should hold at least six times base salary in stocks, currently executives hold four times base salary. There is a performance period of three years which is not considered to be sufficiently long term. Executive compensation is not aligned with peer group and with companies of a similar market capitalisation. Mr. Saccaro received additional special restricted-based stock awards in connection with an executive transition, which is scheduled to vest in four year. These kind of discretionary awards are not considered best practice.

Triodos opposes this resolution.

3 Appoint the Auditors **Oppose**

PwC proposed. Non-audit fees represented 7.23% of audit fees during the year under review and 28.26% 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.

4 Shareholder Resolution: Introduce an Independent Chairman Rule **For**

Proposed by: Kenneth Steiner.

The Proponents request that the Board adopt a policy and amend its governing documents as necessary to require the Chair of the Board of Directors whenever possible to be an independent member of the Board. The Board would have the discretion to phase in this policy for the next CEO transition implemented so it does not violate any existing agreement. If the Board determines that a Chair who was independent when selected is no longer independent, the Board shall select a new Chair who satisfies the requirements of the policy within a reasonable amount of time. Compliance with this policy is waived if no independent director is available and willing to serve as Chair. This proposal requests that all the necessary steps be taken to accomplish the above.

Supporting Argument: The Proponent argues that it is the responsibility of the Board of Directors to protect shareholders' long-term interests by providing independent oversight of management. By setting agendas, priorities and procedures, the Chairman is critical in shaping the work of the Board. Having a board chairman who is independent of management is a practice that will promote greater management accountability to shareholders and lead to a more objective evaluation of management. In 2015, 53% of the Standard & Poor's 1,500 firms separate the chairman and CEO positions. This proposal topic won 50%-plus support at 5 major U.S. companies in 2013 including 73%- support at Netflix.

Opposing Argument: The Board argues that its Lead Director provides strong, independent leadership and that the current leadership structure is the most effective for Baxter. In addition, the Board expressed the same position in its response to a similar stockholder proposal submitted in 2016 after Mr. Almeida's appointment as Chairman and Chief Executive Officer. The decreased level of support received by the 2016 proposal (approximately 30% in 2016 down from approximately 48% in 2015) indicates that company stockholders are widely supportive of the Board's position. The Board argues that Mr. Almeida's decades of experience in the medical products industry, including his previous experience as the chairman and chief executive officer of another publicly held medical device company, make him well positioned to lead Baxter's business, operations and strategy and to serve as the chairman of the Board.

PIRC Analysis: Mr Almedia has served as the Chairman & CEO of the Company since 2016. 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. Moreover; it is preferable for the Chairman to be both independent of management and free from other potential conflicts of interest.

Triodos supports this resolution.

5 Shareholder Resolution: Written Consent **Oppose**

Proposed by: Mr. Kenneth Steiner.

The Proponent requests the Board of Directors to undertake necessary steps to permit written consent by shareholders entitled to cast the minimum number of votes that would be necessary to authorize the action at a meeting at which all shareholders entitled to vote thereon were present and voting. This written consent is to be consistent with applicable law and consistent with giving shareholders the fullest power to act by written consent consistent with applicable law. This includes shareholder ability to initiate any topic for written consent consistent with applicable law.

Proponent's Supporting Argument: The Proponent argues that taking action by written consent in lieu of a meeting is a means shareholders can use to raise important matters outside the normal annual meeting cycle. A shareholder right to act by written consent and to call a special meeting are two complimentary ways to bring an important matter to the attention of both management and shareholders outside the annual meeting cycle. Taking action by written consent saves the expense of holding a special shareholder meeting. The proponent states that written consent is needed in lieu of a lack of independence on the board. The lead Director, Thomas Stallkamp, has a tenure of 17-years. Long-tenure can detract from the independence of a director no matter how well qualified.

Board's Opposing Argument: The Board argues that the proposal is contrary to the best interests of shareholders. The Board states that its current practices are designed to ensure that notice and the ability to be heard occur prior to shareholder votes; which enables a meaningful discourse before key decisions are made. The Board recommends shareholders oppose and argues that currently; shareholders of 25% of common stock have the right to call a special meeting which is an appropriate threshold; particularly when viewed together with the Company's robust corporate governance practices. The Board argues that adoption of the proposal could allow a relatively small minority of shareholders with narrow interests to call an unlimited number of special meetings to consider matters that may not be in the best interests of all of shareholders. Finally; the Board argues that its active engagement with shareholders and strong corporate governance practices make the proposal unnecessary.

PIRC Analysis: Action by written consent would circumvent the important deliberative process of a shareholder meeting. While it is considered that the Board should remain accountable to its shareholders regardless of the method of communication chosen, there are concerns that using written consent could lead to minority shareholders losing the ability to have their say on matters affecting the company.

Triodos opposes this resolution.

SUPPORTING INFORMATION FOR RESOLUTIONS

Proposal 2 - Advisory Vote on Executive Compensation

Disclosure: A- Annual incentives consist of Adjusted EPS (50%), Adjusted Net Sales (30%), and Free Cash Flow (20%). Equity is awarded under the Long-Term Incentive Programme (LTI) in the form of performance shares (PSUs)(50%) and stock options (50%). Three-year growth in shareholder value (GSV)(50%) and adjusted operating margin (50%) are the performance metrics used to award the PSUs. Peer groups are disclosed. However, the Company failed to provide the fees it paid to the Compensation Consultants. The disclosure of these fees is encouraged in the interests of greater transparency.

Balance: D- For fiscal 2017, annual cash awards were considered to be excessive. The CEO's actual bonus for fiscal 2017 was $2,808,000, representing 216% of his base salary (200% maximum is considered as acceptable practice). Best practice states that all executives should hold at least six times base salary in stocks, currently executives hold four times base salary. There is a performance period of three years which is not considered to be sufficiently long term. Executive compensation is not aligned with peer group and with companies of a similar market capitalisation. Mr. Saccaro received additional special restricted-based stock awards in connection with an executive transition, which is scheduled to vest in four year. These kind of discretionary awards are not considered best practice.

Contract: D- Baxter International Inc. has a strong compensation claw back policy in place that allows for the recoupment of payment if in the event that misconduct by an executive contributes to a restatement of the financial results. However, the company does not have double-trigger provisions in place. Good reason is not adequately defined.

Researcher: Folarin Akinsola
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