Triodos Investment Management

XYLEM INC

MEETING DATE	Wed, 09 May 2018 11:00 am	TYPE	AGM	ISSUE DATE	Mon, 30 Apr 2018
MEETING LOCATION	Xylem World Headquarters, 1 International Drive, Rye Brook, New York 10573				
CURRENT INDICES	S&P500				
SECTOR	Pumps and pumping equipment				

	PROPOSALS	ADVICE
1a	**Elect Director Jeanne Beliveau-Dunn** Independent Non-Executive Director.	**For**
1b	**Elect Director Curtis J. Crawford** Independent Non-Executive Director.	**For**
1c	**Elect Director Patrick K. Decker** Chief Executive.	**For**
1d	**Elect Director Robert F. Friel** Independent Non-Executive Director. It is noted that Mr. Friel received 14.29% oppose votes at last year's general meeting.	**For**
1e	**Elect Director Victoria D. Harker** Independent Non-Executive Director. She is chair of the Audit committee which is not fully independent which Triodos does not support.	**Oppose**
1f	**Elect Director Sten E. Jakobsson** Independent Non-Executive Director.	**For**
1g	**Elect Director Steven R. Loranger** Non-Executive Director. Not considered independent as Mr. Loranger served President and Chief Executive of the ITT Corporation, from which the Company spun-off in 2011, and also served as Interim President and CEO of the Company from September 2013 to March 2014. There is sufficient independent representation on the Board.	**For**
1h	**Elect Director Surya N. Mohapatra** Independent Non-Executive Director.	**For**
1i	**Elect Director Jerome A. Peribere** Independent Non-Executive Director.	**For**
1j	**Elect Director Markos I. Tambakeras** Independent Non-Executive Chairman.	**For**
2	**Ratify Deloitte & Touche LLP as Auditors** Deloitte proposed. Non-audit fees represented 0.63% of audit fees during the year under review and 4.68% on a three-year aggregate basis. This level of non-audit fees does not raise serious concerns about the independence of the statutory auditor.	**For**

3 Advisory Vote to Ratify Named Executive Officers' 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.

With respect to PSUs, the TSR vesting scale is insufficiently broad to ensure superior awards reflect superior performance as executives may receive payouts for below median performance. Essentially rewarding the executives for performing below average. In addition, whilst the amount of reward derived from stock options is determined by share price growth, the awards of options have no performance conditions attached. Thus an increase in share price over the lifespan of an option (and falls are unusual) can reward executives even in circumstances of poor relative performance.

Potential severance awards represent over 300% of salary, and are thus excessive. There is no disclosure of a definition for 'good reason'.

The compensation rating is: CCD.

Triodos opposes this resolution.

4 Advisory Vote on Say on Pay Frequency **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.

5 Reduce Ownership Threshold for Shareholders to Call Special Meeting **For**

Proposed by: Not Disclosed.

Shareowners ask the Board to take the steps necessary (unilaterally if possible) to amend the bylaws and each appropriate governing document to give holders in the aggregate of 10% of outstanding common stock the power to call a special shareowner meeting (or the standard closest to 10% permitted by state law). This proposal does not impact the Board's current power to call a special meeting.

Proponent's Supporting Argument: The Proponent argues that scores of Fortune 500 companies allow 10% of shares to call a special meeting. Special meetings allow shareowners to vote on important matters, such as electing new directors that can arise between annual meetings. More than 100 Fortune 500 companies provide for shareholders to call a special meeting and to act by written consent. Shareholders have no right to act by written consent - hence the greater need to expand the right to call a special meeting at Xylem Inc.

Board's Opposing Argument: The Board is against this proposal as currently, holders of 25% or more of common stock have the right to call a special meeting, pursuant to a Company proposal adopted by shareholders representing more than 80% of the outstanding shares at the 2014 annual meeting. The Board continues to believe that the Company's 25% threshold to call for a special meeting provides shareholders with assurance that a reasonable number of shareholders consider a matter important enough to warrant a special meeting. For the past few years, 25% has been the most common threshold for special meeting rights at S&P 500 companies and is endorsed in the voting policies of a number of leading institutional investors.

PIRC Analysis: The right to call a special shareholder meeting provides shareholders with a way of communicating with the Board and debating and voting on issues with the rest of shareholders; which in itself enhances shareholders' rights. The threshold recommended by the Proponent is considered acceptable.

Triodos supports this resolution.

SUPPORTING INFORMATION FOR RESOLUTIONS

Proposal 3 - Advisory Vote to Ratify Named Executive Officers' Compensation

Disclosure: C- The Company has achieved an average level of disclosure. For the 2017 performance year, the Annual Incentive Plan (AIP) continued to measure team performance with equal weighting for three key financial metrics: Revenue, Operating Income, and Working Capital; as well as individual performance. In 2017, to allow for tax deductibility under Section 162(m) of the Internal Revenue Code (IRC) as in effect at the beginning of 2017, the AIP design required the Company to reach a specific annual level of adjusted net income to earn the potential maximum AIP funding of 200% of target. There are concerns over the use of adjusted metrics, as this does not permit an assessment on the challenging nature of performance targets. The 2017 LTIP awards for NEOs included: 25% performance share units (PSUs) to be earned based on a pre-set, three-year Return on Invested Capital ("ROIC") metric, 25% PSUs to be earned based on a 3-year TSR metric relative to S&P 500 (excluding financial services), 25% Time-based RSUs and 25% Stock Options.

Balance: C- With respect to PSUs, the TSR vesting scale is insufficiently broad to ensure superior awards reflect superior performance as executives may receive payouts for below median performance. Essentially rewarding the executives for performing below average. In addition, whilst the amount of reward derived from stock options is determined by share price growth, the awards of options have no performance conditions attached. Thus an increase in share price over the lifespan of an option (and falls are unusual) can reward executives even in circumstances of poor relative performance.

Contract: D- Potential severance awards represent over 300% of salary, and are thus excessive. There is no disclosure of a definition for 'good reason'.

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Researcher: Sika Neckles
Email: pircresearch@pirc.co.uk

PIRC

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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