Triodos Investment Management

# HANNON ARMSTRONG SUSTNBL INFRSTR CAP INC

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| MEETING DATE | Thu, 06 Jun 2019 9:30 am | TYPE | AGM | ISSUE DATE | Fri, 31 May 2019 |
| MEETING LOCATION | 1906 Towne Center Boulevard, Suite 270, Annapolis, MD 21401 | | | | |
| CURRENT INDICES | PIRC Global | | | | |
| SECTOR | Real estate investment trusts | | | | |

| | PROPOSALS | ADVICE |
|---|---|---|
| 1.1 | **Elect Jeffrey W. Eckel**<br>Chair 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 two roles in one person represents a concentration of power that is potentially detrimental to board balance, effective debate, and board appraisal. As opposition is not a valid voting option a withhold vote is recommended. | **Withhold** |
| 1.2 | **Elect Rebecca B. Blalock**<br>Independent Non-Executive Director. | **For** |
| 1.3 | **Elect Teresa M. Brenner**<br>Independent Non-Executive Director. | **For** |
| 1.4 | **Elect Mark J. Cirilli**<br>Non-Executive Director. Not considered independent owing to a tenure of over nine years.<br>He is chair of the Remuneration committee which is not fully independent which Triodos does not support. | **Withhold** |
| 1.5 | **Elect Charles M. O'Neil**<br>Independent Non-Executive Director. | **For** |
| 1.6 | **Elect Richard J. Osborne**<br>Lead Independent Director. Considered independent. | **For** |
| 1.7 | **Elect Steven G. Osgood**<br>Independent Non-Executive Director. | **For** |
| 2 | **Appoint the Auditors**<br>EY proposed. Non-audit fees represented 10.34% of audit fees during the year under review and 9.29% 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 ten years. There are concerns that failure to regularly rotate the audit firm can compromise the independence of the auditor. | **Oppose** |

**3 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 Company uses adjusted performance metrics for most elements of compensation. For the year under review, annual bonus payouts are considered to be excessive as they represent more than 200% of base salary. Maximum long-term award opportunities are not limited to 200% of base salary, which raises concerns over the potential excessiveness of the remuneration structure. Retention awards make up a significant portion of the long-term incentives and therefore the scheme does not link pay to performance. otential severance entitlements in a change of control scenario are considered excessive as they exceed three times the base salary. The Company does not appear to have double-trigger provisions in place, which is a concern as single-trigger vesting allows for awards to automatically vest in the event of a change-of-control. The Compensation Committee has full discretion to accelerate the vesting of awards upon a change of control, which is a concern.The compensation rating is: ACE.
Triodos opposes this resolution.

**4 Transact any other Business** **Non-Voting**

Non-Voting agenda item.

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## SUPPORTING INFORMATION FOR RESOLUTIONS

### Proposal 3 - Advisory Vote on Executive Compensation

**Disclosure: A** The Company has failed to provide the fees it paid the Compensation Consultants. The disclosure of these fees is encouraged in the interests of greater transparency. The peer groups used for the purpose of pay comparison have been fully disclosed by the Company. The grant of performance awards was based on the achievement of set levels of specific performance targets. The performance-based long term incentive is subject to quantified performance targets for TSR and RSUs.

**Balance: C** The Company uses adjusted performance metrics for most elements of compensation. The use of non-GAAP metrics prevents shareholders from being able to assess fully whether the performance targets are sufficiently challenging. The Company included non-financial metrics into the annual bonus structure, which is considered best practice. For the year under review, annual bonus payouts are considered to be excessive as they represent more than 200% of base salary. Awards under the annual-incentive plans are tied to multiple performance conditions, which is considered best practice. Performance measures attached to long-term incentives do not duplicate those attached to other awards, which is considered acceptable practice. Maximum long-term award opportunities are not limited to 200% of base salary, which raises concerns over the potential excessiveness of the remuneration structure. Retention awards make up a significant portion of the long-term incentives and therefore the scheme does not link pay to performance. Performance shares have a three-year performance period, which is a market standard. However, a five-year performance period is considered best practice. Executive compensation is aligned with peer group averages. In addition, executive compensation is not aligned with companies of a similar market cap.

**Contract: E** Potential severance entitlements in a change of control scenario are considered excessive as they exceed three times the base salary. The Company does not appear to have double-trigger provisions in place, which is a concern as single-trigger vesting allows for awards to automatically vest in the event of a change-of-control. 'Good reason' is not defined appropriately, such that the Compensation Committee is able to apply discretion when determining the status of a departing executive. The Compensation Committee has full discretion to accelerate the vesting of awards upon a change of control, which is a concern. The claw-back policy is considered appropriate as it applies to short- and long-term incentives, and is not limited to cases of financial misstatement.

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