Triodos Investment Management

KADANT INC

MEETING DATE	Thu, 16 May 2019 11:00 am	TYPE	AGM	ISSUE DATE	Tue, 14 May 2019
MEETING LOCATION	One Technology Park Drive, Westford, Massachusetts 01886				
CURRENT INDICES	PIRC Global				
SECTOR	Paper industries machinery				

PROPOSALS	ADVICE

1 **Elect Jonathan W. Painter** — **For**

Chief Executive Officer.

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 performance targets used to award the variable payout have not been fully disclosed and quantified. The annual incentive award made during the year under review is considered to be overly excessive as it amounts to more than 200% of base salary. The Company uses adjusted performance metrics for most elements of compensation. Maximum long-term award opportunities are not limited to 200% of base salary, which raises concerns over the potential excessiveness of the remuneration structure. The Company uses only one performance metrics to determine the payout of the long term performance awards. Retention awards make up a significant portion of the long-term incentives and therefore the scheme does not link pay to performance. Variable remuneration payouts are considered to be excessive as they represent more than 200% of base salary. The Company does not have an appropriate clawback policy in place as it only allows for the recoupment of payment if in the event of misconduct by an officer. Potential severance entitlements in a change of control scenario are considered excessive as they exceed three times the base salary. The Compensation Committee has full discretion to accelerate the vesting of awards upon a change of control, which is a concern. 'Good reason' is not defined appropriately, such that the Remuneration Committee is able to apply discretion when determining the status of a departing executive. The compensation rating is: EDE.
Triodos opposes this resolution.

3 **Approve Restricted Stock Unit grants to certain non-employee directors** — **Oppose**

It is proposed to approve a restricted share plan for certain non-employee directors. The Board would receive the authority to set beneficiaries and other conditions. After allotment, shares will be restricted for three years, which is not considered to be sufficiently long term. The Company states that exercise of shares will be based on targets, which at this time remain undisclosed.
Plans to increase employee shareholding are considered to be a positive governance practice, as they can contribute to alignment between employees and shareholders. On the other hand, executives are also among the beneficiaries: it is considered that support should not be given to stock or share option plans that do not lay out clear performance criteria, targets and conditions. In addition, it is considered that non-executive directors should receive only fixed fees, as variable compensation may align them with short-term interests and not with long-term supervisory duties. On this basis, opposition is recommended.

4 **Appoint the Auditors** — **For**

KPMG proposed. No non-audit fees were paid during the year and they represented 0.07% of audit fees on a three-year aggregate basis. This level of non-audit fees does not raise serious concerns about the independence of the statutory auditor.

SUPPORTING INFORMATION FOR RESOLUTIONS

Proposal 2 - Advisory Vote on Executive Compensation

Disclosure: E The peer groups used for the purpose of pay comparison have been fully disclosed by the Company. However, the performance targets used to award the variable payout have not been fully disclosed and quantified. The Company has not provided the fees it paid the Compensation Consultants. The disclosure of these fees is encouraged in the interests of greater transparency.
Balance: D 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. Executive compensation is aligned with peer group averages. However, the annual incentive award made during the year under review is considered to be overly excessive as it amounts to more than 200% of base salary. 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. Maximum long-term award opportunities are not limited to 200% of base salary, which raises concerns over the potential excessiveness of the remuneration structure. The Company uses only one performance metrics to determine the payout of the long term performance awards. Instead of the use of a sole performance metric, it would be preferred that payout be linked to at least two or more performance metrics, with the inclusion of a non-financial performance criteria. Retention awards make up a significant portion of the long-term incentives and therefore the scheme does not link pay to performance. Variable remuneration payouts are considered to be excessive as they represent more than 200% of base salary. Performance shares have a three-year performance period, which is a market standard. However, a five-year performance period is considered best practice.

Contract: E Change-in-control payments are subject to double-trigger provisions. However, the Company does not have an appropriate clawback policy in place as it only allows for the recoupment of payment if in the event of misconduct by an officer. Potential severance entitlements in a change of control scenario are considered excessive as they exceed three times the base salary. The Compensation Committee has full discretion to accelerate the vesting of awards upon a change of control, which is a concern. 'Good reason' is not defined appropriately, such that the Remuneration Committee is able to apply discretion when determining the status of a departing executive. The Company maintains a supplemental executive retirement plan for the benefit of certain officers, which is not in line with best practice.

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