Triodos Investment Management

# POWER INTEGRATIONS INC

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| MEETING DATE | Wed, 22 May 2019 14:00 | TYPE | AGM | ISSUE DATE | Wed, 22 May 2019 |
| MEETING LOCATION | 5245 Hellyer Avenue, San Jose, California 95138 | | | | |
| CURRENT INDICES | PIRC Global | | | | |
| SECTOR | Semiconductors and related devices | | | | |

| | PROPOSALS | ADVICE |
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| 1.1 | **Elect Wendy Arienzo**<br>Independent Non-Executive Director. | **For** |
| 1.2 | **Elect Balu Balakrishnan**<br>Chief Executive. | **For** |
| 1.3 | **Elect Nicholas E. Brathwaite**<br>Non-Executive Director. Not considered independent owing to a tenure of over nine years. There is insufficient independent representation on the Board. | **Oppose** |
| 1.4 | **Elect William George**<br>Non-Executive Chair. Not considered independent owing to a tenure of over nine years. There is insufficient independent representation on the Board. | **Oppose** |
| 1.5 | **Elect Balakrishnan S. Iyer**<br>Non-Executive Director. Not considered independent owing to a tenure of over nine years.<br>Chair of the Audit Committee which is not fully independent which Triodos does not support. | **Oppose** |
| 1.6 | **Elect Necip Sayiner**<br>Independent Non-Executive Director. | **For** |
| 1.7 | **Elect Steven J. Sharp**<br>Non-Executive Director. Not considered independent as he is former Non-Executive Chairman and CEO. There is insufficient independent representation on the Board. | **Oppose** |
| 2 | **Advisory Vote on Executive Compensation**<br>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. The use of non-GAAP metrics prevents shareholders from being able to assess fully whether the performance targets are sufficiently challenging. Awards under the annual-incentive plans are tied to multiple performance conditions. Maximum long-term award opportunities are not limited to 200% of base salary, which raises concerns over the potential excessiveness of the remuneration structure. Performance measures attached to long-term incentives do not duplicate those attached to other awards. Potential severance entitlements in a change of control scenario are considered excessive. 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.The compensation rating is: BCD.<br>Triodos opposes this resolution. | **Oppose** |

**3 Amend Existing Long Term Incentive Plan** **Oppose**

The Company has put forward a resolution requesting shareholders to renew the Power Integrations, Inc. 2016 Incentive Award Plan (2016 Plan). The 2016 Plan permits the Company to grant restricted stock unit awards, performance stock unit awards and performance cash awards. The 2016 Plan is open to all employees and is administered by the Board which may delegate administration to a committee. The Board has the authority to determine who will be granted awards; when and how each award will be granted; what type of award will be granted; the provisions of each award; the number of shares of common stock subject to, or the cash value of, an award; and the fair market value applicable to an award. The aggregate number of shares of common stock of the Company that may be issued pursuant to awards from and after the effective date will not exceed 1,500,000 shares. Pursuant to the 2016 Plan, a maximum of USD 250,000 shares of common stock subject to performance stock unit awards may be granted to any one participant during any one fiscal year; and a maximum of USD 10,000,000 may be granted as a performance cash award to any one participant during any one fiscal year.

As performance conditions may be attached to awards at the Board's discretion, there are concerns that it 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, the maximum award limit is considered excessive.

Triodos opposes this resolution.

**4 Appoint the Auditors** **Oppose**

Deloitte proposed. Non-audit fees represented 15.07% of audit fees during the year under review and 22.88% 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.

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## SUPPORTING INFORMATION FOR RESOLUTIONS

### Proposal 2 - Advisory Vote on Executive Compensation

**Disclosure: B** - 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 performance-based long term incentive is subject to quantified performance targets.

**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. Awards under the annual-incentive plans are tied to multiple performance conditions, which is considered to be best 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. Performance measures attached to long-term incentives do not duplicate those attached to other awards, which is considered acceptable practice. Retention awards made up less than one-third of the awards granted to executives, which is considered to be best practice. Performance shares have a three-year performance period, which is a market standard. However, a five-year performance period is considered to be best practice. Executive compensation is aligned with peer group averages. In addition, executive compensation is aligned with companies of a similar market cap.

**Contract: D** - 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 Remuneration 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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