Triodos Investment Management

KADANT INC

MEETING DATE	Tue, 12 May 2020 2:30 am	TYPE	AGM	ISSUE DATE	Fri, 08 May 2020
MEETING LOCATION	One Technology Park Drive, Westford, Massachusetts 01886				
CURRENT INDICES	PIRC Global				
SECTOR	Paper industries machinery				

	PROPOSALS	ADVICE
1.1	**Elect John M. Albertine as Director** Non-Executive Director. Not considered independent owing to a tenure of over nine years. There is insufficient independent representation on the Board. This director serves as an executive on three companies, which leads to concerns over the director's potential time commitments. In addition, individual director attendance has not been disclosed.	**Oppose**
1.2	**Elect Thomas C. Leonard as Director** Non-Executive Director. Not considered independent owing to a tenure of over nine years. There is insufficient independent representation on the Board.	**Oppose**
2	**Approve All Employee Option/Share Scheme** All employees of the company and any subsidiary of the company designated by our board of directors are eligible to participate provided that they are employees no later than the last day of the enrollment period for the next applicable plan period. As the proposed plan is open to all employees on an equal basis and has a strong participation rate, a vote in favour is recommended.	**For**
3	**Advisory Vote on Executive Compensation** 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 metrics used to award the Annual bonus have not been fully disclosed. 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. Awards under the annual-incentive plans are tied to multiple performance conditions, which is considered 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. 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. The Company maintains a supplemental executive retirement plan for the benefit of certain officers; which is not in line with best practice. Potential severance entitlements in a change of control scenario are considered excessive as they exceed three times the base salary. The compensation rating is: ACB. Triodos opposes this resolution.	**Oppose**
4	**Approve All Employee Option/Share Scheme** 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.	**Oppose**

5 Appoint the Auditors **For**

KPMG proposed. No non-audit fees were paid to the auditors in the past three years. This approach is commended.

SUPPORTING INFORMATION FOR RESOLUTIONS

Proposal 3 - Advisory Vote on Executive Compensation

Disclosure: A The Company has provided the level of fees paid to 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 metrics used to award the Annual bonus have not been disclosed. The grant of performance awards was based on the achievement of set levels of specific performance targets: Adjusted diluted EPS, Adjusted EBITDA and Free cash flow.

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 does not consider non-financial metrics in its assessment of performance. 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 metrics are replicated under different incentive plans, raising concerns that executives are being rewarded twice for the same performance. 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.

Contract: B The Company maintains a supplemental executive retirement plan for the benefit of certain officers; which is not in line with best practice. Potential severance entitlements in a change of control scenario are considered excessive as they exceed three times the base salary. Change-in-control payments are subject to double-trigger provisions. Good reason has been appropriately defined. Equity awards are subject to pro-rata vesting, which is line with best practice. 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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