Triodos Investment Management

DS SMITH PLC

MEETING DATE	Tue, 08 Sep 2020 9:00 am	TYPE	AGM	ISSUE DATE	Thu, 20 Aug 2020
MEETING LOCATION	350 Euston Road, London, NW1 3AX				
CURRENT INDICES	FTSE 100				
SECTOR	Containers & Packaging				
FYE	30 Apr 2020				

	PROPOSALS	ADVICE
1	**Receive the Annual Report** Strategic report meets guidelines. Adequate employment and environmental policies are in place and relevant, up-to-date, quantified, environmental reporting is disclosed. The company also disclosed the proportion of women on the Board, in Executive Management positions and within the whole organisation. Triodos supports this resolution.	**For**
2	**Approve Remuneration Policy** Changes proposed, i) Pension contributions are to be reduced for the Group Chief Executive from 30% to 20%; and Group Finance Director from 20% to 15%, ii) Extension of the circumstances where malus and clawback could apply for the Annual Bonus, iii) Broadening of the potential performance metrics under the PSP to not only allow for financial measures and relative TSR, but also strategic and ESG measures. There are some concerns over the overall excessiveness of the remuneration structure. The CEO maximum potential opportunity under all incentive schemes amounts to 425% of salary, more than two-folds of the recommended limit of 200%. Annual Bonus performance measures are financial measures, strategic measures and ESG measures. Up to half of the bonus is paid in cash and the balance is deferred into shares for a three-year period which is in line with best practice. Performance share plan (PSP), Performance measures were: adjusted EPS, three-year average adjusted ROACE and relative TSR on equal weighting. The absence of Non-financial parameters to assess Executives' long-term performance is considered contrary to best practice as such factors are generally beyond an individual director's control. Non-financial parameters allow the remuneration policy to focus on the operational performance of the business as a whole and the individual roles of each of the senior executives in achieving that performance. Vesting period is three years which is not considered sufficiently long-term, however a two-year holding period apply which is welcomed. The payment of accrued dividends on vested shares is not supported. Best practice would require dividend accruals after the vesting date and not the period between grant date and vesting date. Malus and claw back provisions apply for all variable pay. Finally, the Termination Policy provides the Remuneration Committee with the discretion to waive performance conditions and dis-apply time pro-rating on outstanding share incentives for a good leaver. Such use of discretion is not acceptable. Policy rating: BDC Triodos opposes this resolution.	**Oppose**

3	**Approve the Remuneration Report** **Disclosure:** All elements of the Single Total Remuneration Table are adequately disclosed. The increase in the CEO's salary is considered in line with that of all employees. The CEO's salary is in the median of PIRC's comparator group. **Balance:**The balance of CEO realized pay with financial performance is considered acceptable as the change in CEO total pay over the last five years is aligned to the change in TSR over the same period. Over the five-year period average CEO pay has decreased by approximately 21.98% whereas, on average, TSR has increased by 4.13%. Total realized rewards under all incentive schemes amount to 55.9% of salary (Annual Bonus: 0%; LTIP: 55.9%) which is acceptable. It is noted that for the year under review no Bonus was paid to the CEO. The ratio of CEO pay compared to average employee pay is not considered appropriate at 23:1. Rating: AB Triodos supports this resolution.	**For**
4	**Re-elect Gareth Davis** Non-Executive Chair. Independent upon appointment.	**For**
5	**Re-elect Miles Roberts** Chief Executive. Acceptable service contract provisions.	**For**
6	**Re-elect Adrian Marsh** Executive Director. Acceptable service contract provisions.	**For**
7	**Elect Celia Baxter** Independent Non-Executive Director.	**For**
8	**Elect Geoff Drabble** Independent Non-Executive Director.	**For**
9	**Elect Alina Kessel** Independent Non-Executive Director.	**For**
10	**Re-elect David Robbie** Independent Non-Executive Director.	**For**
11	**Re-elect Louise Smalley** Independent Non-Executive Director.	**For**
12	**Re-elect Rupert Soames** Senior Independent Director. Considered independent.	**For**
13	**Re-appoint Deloitte LLP as Auditors** Deloitte proposed. Non-audit fees represented 2.56% of audit fees during the year under review and 25.71% on a three-year aggregate basis. This level of non-audit fees raises some 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. Triodos opposes this resolution.	**Oppose**
14	**Authorise the Audit Committee to Fix Remuneration of Auditors** Standard proposal.	**For**

15 Approve Sharesave Plan **For**

It is proposed to the shareholders to approve the rules of the DS Smith 2020 Sharesave Plan. Under the plan the company will grant Sharesave options to employees and to satisfy these options with new issue and treasury shares, as well as existing shares purchased in the market. The Sharesave Plan is an all employee, tax-advantaged plan, which is intended to comply with UK legislation which allows the company to grant UK tax-advantaged options to UK employees. Options can only be granted to such eligible employees and full-time Directors who enter into certified savings contracts, under which monthly savings are normally made over a period of three or five years. Monthly savings by an employee under all savings contracts linked to options granted under any sharesave scheme may not exceed the statutory maximum (currently GBP 500). The price per share payable upon the exercise of an option will not be less than the statutory maximum (currently 80 per cent of the average middle-market quotation of a share on the London Stock Exchange over the three days, or one day, preceding either the date of issue of invitations to participate in the Sharesave Plan or a date specified in an invitation (or such other day or days as may be agreed with HMRC)). As the proposed plan is open to all employees on an equal basis and has a strong participation rate.
Triodos supports this resolution.

16 Approve Stock Purchase Plan **For**

It is proposed to the shareholders to approve the rules of the US Plan, which may be used for employees who are employed and resident in the US. The proposed Plan is based on the rules of the existing US Plan, which in turn were based on the existing international sharesave plan, but amended in a manner which is intended to qualify the US Plan under section 423 of the US Internal Revenue Code, a tax favourable regime. Any new or treasury shares issued under the US Plan will count towards the individual and overall plan limits of the Sharesave Plan of resolution 15. the exercise price must not be less than 85% of the market value of a share on the grant date. In order to comply with the requirements under section 423 of the US Inland Revenue Code options may not be exercised more than 27 months from the date of grant and so it is envisaged that employees will be offered savings arrangements with shorter term saving arrangements, typically two years, with options becoming exercisable at the end of the savings arrangements for a three-month period.in addition to the individual limits outlined above, no participant under the US Plan may purchase more than USD 25,000 of shares in any calendar year. As the proposed plan is open to all employees on an equal basis and has a strong participation rate, Triodos supports this resolution.

17 Approve the French Schedule to the Performance Share Plan **Oppose**

It is proposed to shareholders to approve the French Schedule to the rules of the DS Smith 2008 Performance Share Plan. There are concerns over certain features of the PSP plan. The maximum opportunity under the PSP is equivalent to 425% of salary, which is considered excessive. In addition, there is an exceptional limit of 400% of salary for recruitment of Executives in an exceptional circumstance. The PSP does not include any non-financial metrics and its performance conditions are not operating interdependently. Also, the three-year performance period is not considered sufficiently long-term. The two-year holding period is however welcomed. Also, dividend accrued on vested shares are not supported. Furthermore, the Remuneration Committee retains the discretion not to pro-rate for time or waive performance conditions on outstanding PSP awards, which is not acceptable. Finally, LTIP schemes are not considered an effective means of incentivizing performance and are inherently flawed. There is the risk that they are rewarding volatility rather than the performance of the company. They are acting as a complex and opaque hedge against absolute company underperformance and long-term share price falls. They are also a significant factor in reward for failure.
Triodos opposes this resolution.

18 Issue Shares with Pre-emption Rights **For**

The authority is limited to 33% of the company's issued share capital and expires at the next AGM. Within acceptable limits.

19* Issue Shares for Cash **For**

Authority is limited to 5% of the company's issued share capital and will expire at the next AGM. Within acceptable limits.

20* **Issue Shares for Cash for the Purpose of Financing an Acquisition or Other Capital Investment** **Oppose**
The Board is seeking approval to issue up to an additional 5% of the company's issued share capital for cash for use only in connection with an acquisition or a specified capital investment. Such proposal is not supported as it is considered that the 5% limit sought under the general authority above is sufficient. Best practice would be to seek a specific authority from shareholders in relation to a specific transaction if such situation arises. As this is not the case, an oppose vote is therefore recommended.

21* **Authorise Share Repurchase** **Oppose**
The authority is limited to 10% of the company's issued share capital and will expire at the next AGM. This resolution will not be supported unless the Board has set forth a clear, cogent and compelling case demonstrating how the authority would benefit long-term shareholders.
Triodos opposes this resolution.

22* **Meeting Notification-related Proposal** **Oppose**
All companies should aim to provide at least 20 working days notice for general meetings in order to give shareholders sufficient time to consider what are often complex issues. Although the proposed change is permissible by the Companies Act, Triodos does not support this resolution.

**** = Special resolution***

SUPPORTING INFORMATION FOR RESOLUTIONS

Proposal 20 - Issue Shares for Cash for the Purpose of Financing an Acquisition or Other Capital Investment
The company has stated that this additional authority will only be used to fund one or more acquisitions or specified capital investments, in line with the Pre-Emption Group Guidelines. This recommendation is not supported by PIRC.

Proposal 22 - Meeting Notification-related Proposal
The proposed resolution reflects the implementation of the EU Shareholder Rights Directive into English law, which took place on 3 August 2009 as implemented by the company in its Articles of Association. Under the regulations, the minimum notice period for general meetings (other than Annual General Meetings) will increase to 21 days unless shareholders agree on a shorter notice period, in which case it may be 14 days. Shareholder approval is sought to call general meetings on 14 clear days notice.

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