Triodos Investment Management

ADVANCED DRAINAGE SYSTEMS INC

MEETING DATE	Thu, 22 Jul 2021 10:00 am	TYPE	AGM	ISSUE DATE	Tue, 13 Jul 2021
MEETING LOCATION	Virtual-Only Meeting: www.virtualshareholdermeeting.com/WMS2021				
CURRENT INDICES	PIRC Global				
SECTOR	Plastics pipe				
FYE	31 Dec 2020				

	PROPOSALS	ADVICE
1a	**Elect Anesa T. Chaibi - Non-Executive Director** Independent Non-Executive Director.	**For**
1b	**Elect Robert M. Eversole - Non-Executive Director** Non-Executive Director. Not considered independent owing to a tenure of over nine years. There is sufficient independent representation on the Board. It is noted that the director is the Chair of the audit committee which is more than than fifty per cent independent.	**For**
1c	**Elect Alexander R. Fisher - Non-Executive Director** Independent Non-Executive Director. This director is chair of the Nomination Committee and less than 20% of the board is female (2 out of 12) and no satisfactory explanation has been provided.	**Oppose**
1d	**Elect M.A (Mark) Haney - Non-Executive Director** Independent Non-Executive Director.	**For**
1e	**Elect Anil Seetharam - Non-Executive Director** Newly appointed Non-Executive Director. Not considered independent as the director is a Managing Partner at Berkshire Partners LLC, a significant shareholder of the company. This director is newly-elected and the gender balance is not improved after his election as still less than 20% of the Board is female. Triodos opposes this resolution.	**Oppose**
2	**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. Fixed salary is relatively high at 15% of total payout, which is a positive. The STIP is based on 1-year performance, and dependent on adjusted EBITDA (60%), revenues (20%) and individual performance (20%, 'to allow for differentiation based on each NEO's performance versus individual goals and demonstrated leadership'). LTIP payout is for 50% performance-based, linked to 3-year performance on FCF and ROIC (50/50 split), which we like as it focuses more on long-term value creation. We oppose the use of options in the LTIP however as it can result in excessive risk-taking. Overall we think the remuneration structure is solid: relatively high fixed component (15%) and with the LTIP for a large part dependent on FCF generation and ROIC. Because of the use of options however, we propose to vote abstain. Triodos abstains on this resolution.	**Abstain**
3	**Ratify Deloitte & Touche LLP as Auditors** Deloitte proposed. Non-audit fees represented 0.60% of audit fees during the year under review and 0.60% 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. Triodos opposes this resolution.	**Oppose**

4 Amend Existing Omnibus Plan **Oppose**

It is proposed to amend the 2017 Omnibus Incentive Plan. The Board have proposed to amend Section 3.1 (a) of the plan to increase the shares available for issuance under the plan by 1,500,000 and extend the duration until the tenth anniversary of the proposed amendment which would be 2031. There are concerns with the Plan as the it has various elements bundled together, and although parts of it can benefit the majority of employees, it can still be used as a vehicle for potentially excessive executive payments. As performance conditions may be attached to awards at the Compensation Committee's discretion, there are concerns that the Committee 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, maximum award limits are excessive.

Triodos opposes this resolution.

SUPPORTING INFORMATION FOR RESOLUTIONS

Proposal 2 - 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 performance-based long term incentive consisted of 50% Performance Based Award, 25% Restricted Stock and 25% Non-Qualified Stock Options. The Performance Based Award is based 50% on Free Cash Flow and 50% on Return on Invested Capital.

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. The annual incentive award made during the year under review is not considered to be overly excessive as it amounts to less 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 made up less than one-third of the awards granted to executives, which is considered best practice. 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: A - Cash severance is limited to three times base salary; which is welcomed. 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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