Triodos Investment Management

INTERNATIONAL PAPER COMPANY

MEETING DATE	Mon, 10 May 2021 8:30 am	TYPE	AGM	ISSUE DATE	Fri, 30 Apr 2021
MEETING LOCATION	Virtual-Only Meeting: www.virtualshareholdermeeting.com/IP2021				
CURRENT INDICES	S&P500				
SECTOR	Paper mills				
FYE	31 Dec 2020				

	PROPOSALS	ADVICE
1a	**Elect Christopher M. Connor - Non-Executive Director** Independent Non-Executive Director.	**For**
1b	**Elect Ahmet C. Dorduncu - Non-Executive Director** Non-Executive Director. Not considered independent owing to a tenure of over nine years. Although there is sufficient independent representation on the Board, it is noted that the director is a member of the Audit committee which should comprise wholly independent directors. Triodos opposes this resolution.	**Oppose**
1c	**Elect Ilene S. Gordon - Independent Presiding Director** Independent Presiding Director. Considered independent.	**For**
1d	**Elect Anders Gustafsson - Non-Executive Director** Independent Non-Executive Director.	**For**
1e	**Elect Jacqueline C. Hinman - Non-Executive Director** Independent Non-Executive Director.	**For**
1f	**Elect Clinton A. Lewis, Jr. - Non-Executive Director** Independent Non-Executive Director.	**For**
1g	**Elect DG Macpherson - Non-Executive Director** Independent Non-Executive Director.	**For**
1h	**Elect Kathryn D. Sullivan - Non-Executive Director** Independent Non-Executive Director.	**For**
1i	**Elect Mark S. Sutton - Chair & Chief Executive** Chair and CEO. Combined roles at the head of the company. There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision. Combining the two roles in one person represents a concentration of power that is potentially detrimental to board balance, effective debate, and board appraisal. In addition, as the Chair of the Sustainability Committee is not up for election, the Chair of the Board is considered accountable for the company's Sustainability programme. As such, given the concerns over the company's sustainability policies and practice and the merging of the Chair and CEO roles, an oppose vote is recommended. Triodos opposes this resolution.	**Oppose**
1j	**Elect Anton V. Vincent - Non-Executive Director** Independent Non-Executive Director.	**For**
1k	**Elect Ray G. Young - Non-Executive Director** Independent Non-Executive Director.	**For**
2	**Ratify Deloitte & Touche LLP as Auditors** Deloitte proposed. Non-audit fees represented 14.95% of audit fees during the year under review and 22.08% 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.	**Oppose**

3 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 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. 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 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.

The compensation rating is: ACB.

Based on this rating Triodos opposes this resolution.

4 Shareholder Resolution: Written Consent **For**

Proponent's argument: Shareholders request that the board of directors take the steps necessary to enable 10% of shares to request a record date to initiate written consent. "Any action taken by written consent would still need more than 56% supermajority approval from the shares that normally cast ballots at the annual meeting. This 56% vote requirement gives substantial supermajority protection to management that will remain unchanged. Enabling 10% of shares to apply for a record date for written consent makes sense because scores of companies do not even require 01% of stock ownership to do so little as request a record date. Taking action by written consent is a means shareholders can use to raise important matters outside the normal annual meeting cycle like the election of a new director. For instance shareholders might determine that the poorest performing director is in need of replacement. Mr. Ahmet Dorduncu received 20-times as many negative votes as two of his IP director peers. With the near universal use of online annual shareholder meetings which can be only 10-minutes long, shareholders no longer have the right for engagement with other shareholders, management and directors at a shareholder meeting. Special shareholder meetings can now be online meetings which has an inferior format to even a Zoom meeting. Shareholders are also severely restricted in making their views known at online shareholder meetings because all challenging questions and comments can be screened out."

Company's response: The board recommends a vote against this proposal. "This proposal requests the company to amend our written consent right to allow holders of 10% of our shares to request a record date to initiate any written consent, which is significantly less than our existing 20% ownership threshold. We believe that our existing 20% threshold strikes the right balance between giving shareowners a meaningful right to initiate a consent action and protecting against the risk of abuse of this right by a small group of shareowners, including shareowners with special interests, to the detriment of our shareowners as a whole and the company. The Board believes that an action by written consent is not a matter to be taken lightly, and therefore procedural and other safeguards are necessary to protect all shareowners. This is especially so since shareowners would not have the same opportunity to discuss a proposed action and listen to different viewpoints in the same manner they would have if the action were taken at a meeting. Moreover, overseeing the solicitation, delivery and examination of written consents and ensuring effective communication of information among shareowners about the relevant subject matter can involve significant management commitment of time and focus and result in a company incurring significant expenses, all of which would impact the company and ultimately our shareowners as a whole."

PIRC analysis: There are emergency situations where convening a special meeting might take too long or be too difficult, and written consents may be gathered more quickly. Since the company has weak or no special meeting rights, written consent rights are very important.

Triodos supports this resolution.

SUPPORTING INFORMATION FOR RESOLUTIONS

Proposal 1i - Elect Mark S. Sutton - Chair & Chief Executive

Chair and CEO. Combined roles at the head of the company. There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision. Combining the two roles in one person represents a concentration of power that is potentially detrimental to board balance, effective debate, and board appraisal. In addition, as the Chair of the Sustainability Committee is not up for election, the Chair of the Board is considered accountable for the company's Sustainability programme. As such, given the concerns over the company's sustainability policies and practice and the merging of the Chair and CEO roles, an oppose vote is recommended.

Proposal 1j - Elect Anton V. Vincent - Non-Executive Director

Independent Non-Executive Director.

Proposal 3 - 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 Short-Term Incentive Plan was subject to the achievement specific performance metrics that were weighted as follows: 70% Adjusted Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA), 15% Revenue and 15% Cash Conversion. The Performance Share Plan was made up of Performance-based Restricted Stock Units which were subject to specific performance metrics. These were: Adjusted Return on Invested Capital (50%) and Relative Total Shareholder Return (50%).
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. 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 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 - 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.

Researcher: William Glover
Email: pircresearch@pirc.co.uk

Pensions & Investment Research Consultants Limited
8th Floor, Suite 8.02, Exchange Tower
2 Harbour Exchange Square
E14 9GE

Tel: 020 7247 2323
Fax: 020 7247 2457
http://www.pirc.co.uk

Regulated by the Financial Conduct Authority