Triodos Investment Management

POWER INTEGRATIONS INC

MEETING DATE	Fri, 21 May 2021 14:00	TYPE	AGM	ISSUE DATE	Tue, 11 May 2021
MEETING LOCATION	Virtual-Only Meeting: https://power.webex.com/power/onstage/g.php?MTID=[illegible]46bbaef7b8a6				
CURRENT INDICES	PIRC Global				
SECTOR	Semiconductors and related devices				
FYE	31 Dec 2020				

	PROPOSALS	ADVICE
1.1	**Elect Wendy Arienzo - Non-Executive Director** Independent Non-Executive Director.	**For**
1.2	**Elect Balu Balakrishnan - Chief Executive** Chief Executive.	**For**
1.3	**Elect Nicholas E. Brathwaite - Non-Executive Director** Non-Executive Director. Not considered independent owing to a tenure of over nine years. Triodos withholds this resolution.	**Withhold**
1.4	**Elect Anita Ganti - Non-Executive Director** Independent Non-Executive Director.	**For**
1.5	**Elect William George - Chair (Non Executive)** Non-Executive Director. Not considered independent owing to a tenure of over nine years. It is a generally accepted norm of good practice that the Chair of the Board should act with a proper degree of independence from the company's management team when exercising his or her oversight of the functioning of the Board. Not considered independent owing to a tenure of over nine years and there is insufficient independent representation on the Board. Triodos withholds this resolution.	**Withhold**
1.6	**Elect Balakrishnan S. Iyer - Non-Executive Director** Non-Executive Director. Not considered independent owing to a tenure of over nine years and there is insufficient independent representation on the Board. Triodos withholds this resolution.	**Withhold**
1.7	**Elect Jennifer Lloyd - Non-Executive Director** Independent Non-Executive Director.	**For**
1.8	**Elect Necip Sayiner - Non-Executive Director** Independent Non-Executive Director.	**For**
1.9	**Elect Steven J. Sharp - Non-Executive Director** Non-Executive Director. Not considered independent as he is former Non-Executive Chairman and CEO and has served for a tenure of over nine years. There is insufficient independent representation on the Board.	**Withhold**

2 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 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.

The compensation rating is: ADA.

Triodos opposes this resolution.

3 Amend Restricted Stock Plan **For**

It is proposed to approve a stock option plan for employees and corporate officers. The Board would receive the authority to set beneficiaries and other conditions. There seem to be no performance criteria besides employment and tenure.

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 clearly performance criteria and conditions. Most employees are eligible to participate in the plan which involves stock units. Triodos encourages governance practices that increase employee shareholding.

Triodos supports this resolution.

4 Amend All Employee Option/Share Scheme **For**

It is proposed to amend the 1997 Employee Stock Purchase Plan. The Board have proposed to increase the maximum number of shares of common stock that may be issued under the Purchase Plan by 500,000 shares and to make certain other non-material changes to the Purchase Plan. As of December 31, 2020, a total of 420,560 shares remain available for future purchases and subject to the plan being approved, a maximum of 7,500,000 of our authorized but unissued or reacquired shares of common stock may be issued under the Purchase Plan. For full detail on the proposed amendments, see page 25 of the 2021 Proxy Statement. The proposed plan is open to all employees on an equal basis, and it is considered corporate governance best practice to allow employees a chance to participate in and benefit from share ownership.

Triodos supports this resolution.

4 Ratify Deloitte & Touche LLP as Auditors **Oppose**

Deloitte proposed. Non-audit fees represented 14.23% of audit fees during the year under review and 13.81% 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 and there are concerns that failure to regularly rotate the audit firm can compromise the independence of the auditor.

Triodos opposes this resolution.

SUPPORTING INFORMATION FOR RESOLUTIONS

Proposal 2 - Advisory Vote on Executive Compensation

Disclosure: A - The peer groups used for the purpose of pay comparison have been fully disclosed by the company. 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 performance-based long term incentive consisted of Performance-Based Equity Incentive Awards that were subject to the following performance metrics and weighting: 35% Net Revenue, 35% Non-GAAP Operating Income and 30% Strategic Goals. In 2020, the Compensation committee also approved grants for Restricted Stock Units (RSUs) and Performance-Based Share Units (PRSUs). The RSUs typically have a four-year vesting period with one-fourth of the RSUs vesting on each anniversary of the grant-date over four years. The PRSUs were subject to the company's revenue compound annual growth rate (CAGR) for the three-year period ending December 31, 2022.
Balance: D - 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 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. 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 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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