Triodos Investment Management

XYLEM INC

MEETING DATE	Wed, 12 May 2021 11:00 am	TYPE	AGM	ISSUE DATE	Fri, 07 May 2021
MEETING LOCATION	Virtual-Only Meeting: www.virtualshareholdermeeting.com/XYL2021				
CURRENT INDICES	S&P500				
SECTOR	Pumps and pumping equipment				
FYE	31 Dec 2020				

	PROPOSALS	ADVICE
1.a	**Elect Jeanne Beliveau-Dunn - Non-Executive Director** Independent Non-Executive Director. Triodos supports this resolution	**For**
1.b	**Elect Patrick K. Decker - Chief Executive** Chief Executive.	**For**
1.c	**Elect Robert F. Friel - Non-Executive Director** Independent Non-Executive Director.	**For**
1.d	**Elect Jorge M. Gomez - Non-Executive Director** Independent Non-Executive Director.	**For**
1.e	**Elect Victoria D. Harker - Non-Executive Director** Non-Executive Director. Not considered independent owing to a tenure of over nine years. However, there is sufficient independent representation on the Board. Triodos supports this resolution.	**For**
1.f	**Elect Steven R. Loranger - Non-Executive Director** Non-Executive Director. Not considered independent owing to a tenure of over nine years. However, there is sufficient independent representation on the Board. Triodos supports this resolution.	**For**
1.g	**Elect Surya N. Mohapatra - Non-Executive Director** Non-Executive Director. Not considered independent owing to a tenure of over nine years. However, there is sufficient independent representation on the Board. Triodos supports this resolution.	**For**
1.h	**Elect Jerome A. Peribere - Non-Executive Director** Independent Non-Executive Director.	**For**
1.i	**Elect Markos I. Tambakeras - Chair (Non Executive)** Non-Executive Chair of the Board.	**For**
1.j	**Elect Lila Tretikov - Non-Executive Director** Independent Non-Executive Director. Triodos supports this resolution.	**For**
1.k	**Elect Uday Yadav - Non-Executive Director** Independent Non-Executive Director.	**For**
2	**Ratify Deloitte & Touche LLP as Auditors** Deloitte proposed. Non-audit fees represented 1.04% of audit fees during the year under review and 0.88% 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.

Executive compensation is aligned with peer group averages. In addition, executive compensation is aligned with companies of a similar market cap. 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 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. The company uses only one performance metrics to determine the payout of performance awards. Instead of the use of a sole performance metric, it would be preferred that payout be linked to at least two or more performance metrics, with the inclusion of an non-financial performance critertia. The minimum performance period prior to vesting is less than three years, which is considered to be short term. Five-year vesting would be preferred. Xylem includes options in the LTIP which Triodos does not support.

The compensation rating is: ADA.

Triodos opposes this resolution.

4 Shareholder Resolution: Proxy Access **For**

Proponent's argument: Shareholders request that the board of directors take the steps necessary to enable as many shareholders as may be needed to aggregate their shares to equal 3% of the stock owned continuously for 3-years in order to enable shareholder proxy access. "The current arbitrary ration of 20 shareholders to initiate shareholder proxy access can be called Catch-22 Proxy Access. In order to assemble a group of 20 shareholders, who have owned 3% of company stock for an unbroken 3-years, one would reasonably need to start with 60 activist shareholders who own 9% of company stock for an unbroken 3-years because initiating proxy access is a complicated process that is easily susceptible to errors. It is a daunting process that is also highly susceptible to dropouts. The 60 activist shareholders could then be whittled down to 40 shareholders because some shareholders would be unable to timely meet all the paper chase requirements. After the 40 shareholders submit their paperwork to management - then management might arbitrarily claim that 10 shareholders do not meet the requirements (figuring that shareholders do not want a battle in court) and management might convince another 10 shareholders to drop out - leaving 20 shareholders. But the current bylaws do not allow 40 shareholders to submit their paperwork to management to end up with 20 qualified shareholders. And 60 shareholders who own 9% of company for an unbroken 3-years might determine that they own 51% of company stock when length of unbroken stock ownership is factored out."

Company's response: The board recommends a vote against this proposal. " In February 2016, we amended our By-laws to allow a group of up to 20 shareholders (counting certain groups of funds as one shareholder for this purpose) owning at least 3% of the company's outstanding shares of common stock continuously for at least 3 years to nominate and include in the company's proxy materials director nominees constituting up to 20% of our existing Board (but not less than 2 nominees), subject to the requirements of our By-laws. Prior to the adoption of this right, we closely monitored proxy access developments and reached out to shareholders representing approximately 57% of the company's outstanding shares, engaging in discussions on this topic with shareholders representing approximately 40% of the company's outstanding shares. After taking into account the feedback provided during these discussions and following the Board's deliberations on proxy access, we adopted what we believe is an appropriate proxy access framework that is consistent with market practice and provides a meaningful proxy access right to shareholders, while balancing the need to protect the interests of all our shareholders. Since then, we have continued to regularly engage with our largest shareholders to discuss our governance profile and proxy access, including conversations with shareholders representing more than 20% of our outstanding shares in 2021. These shareholders generally continue to support the 20-shareholder limit on nominating group size. In addition to best serving the interests of our shareholders, the proxy access framework described above, including the 20-shareholder limit on nominating group size, reflects proxy access provisions that are consistent with practices of other significant U.S. public companies with proxy access rights and that are widely endorsed in the voting policies of institutional investors. Specifically, the 20-shareholder limit on nominating group size, which is used by more than 90% of U.S. public companies that have adopted proxy access, strikes an appropriate balance between empowering shareholders with a meaningful right to nominate individuals to the board, while mitigating the risk of abuse as well as the risk of chaotic and unmanageable circumstances arising shortly before the company must distribute its proxy materials. This limitation also helps to ensure that the proxy access mechanism is not driven by a large number of shareholders, no single one of which has a substantial economic stake in the company."

PIRC analysis: The move, which would strengthen shareholder democracy is supported; and it is considered that the proposal would help to increase independent representation on the Board. The requested threshold for holding requirement for nominators is considered sufficient. Furthermore, the nomination of new Board members would facilitate greater independence in the oversight of the company. Support is therefore recommended.

SUPPORTING INFORMATION FOR RESOLUTIONS

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 grant of performance awards was based on the achievement of set levels of specific performance targets: Organic Revenue, Adjusted Operating Income and Free Cash Flow Conversion. The performance-based long term incentive is subject to quantified performance targets for ROIC over two years.

Balance: D - Executive compensation is aligned with peer group averages. In addition, executive compensation is aligned with companies of a similar market cap. 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 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. The company uses only one performance metrics to determine the payout of performance awards. Instead of the use of a sole performance metric, it would be preferred that payout be linked to at least two or more performance metrics, with the inclusion of an non-financial performance critertia. The minimum performance period prior to vesting is less than three years, which is considered to be short term. Five-year vesting would be preferred.

Contract: A - 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' is not defined appropriately, such that the Remuneration Committee is able to apply discretion when determining the status of a departing executive. 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. Cash severance is limited to three times base salary; which is welcomed.

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Researcher: Eliot Froment
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

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