

MEMORANDUM

March 15, 2018

TO: Lisa Bolton, Linda Hinton, Lew Ellingson, Curt Hess, Louise Novotny, Dan Reynolds, Nell Geiser, Sara Walling
FROM: Tony Daley
RE: Shareholder Recommendations – AT&T

1. Date: **April 27, 2018, 9:00 AM (EDT) Local Time**
2. Location
 - a. Moody Performance Hall
2520 Flora Street
Dallas, TX 75201
3. Proposals
 - a. Election of 13 Directors (#1 on proxy) – Management proposal
 - i. This is a vote for individual directors
 - ii. EVALUATION
 1. **VOTE CONSCIENCE**
 - b. Auditor (#2 on proxy) – Management proposal
 - i. This is a vote to approve Ernst & Young as auditor
 - ii. EVALUATION
 1. Ernst & Young has been the auditor for AT&T and previously SBC since at least 1995. The wisdom in corporate governance circles is that such lengthy relationships become incestuous.
 2. **VOTE AGAINST**
 - c. Advisory approval of executive compensation (#3 on proxy) – Management proposal
 - i. Asks that shareholders approve the pay and the method of paying 5 top executives in company
 - ii. EVALUATION
 1. AT&T is typically considered to be overpaying its executives
 - a. In 2017, according to the Summary Compensation Table in the proxy statement AT&T paid Randal Stephenson \$28,720,720
 - i. Includes salary, value of options and stock vested, and miscellaneous perks
 - b. As of 12/31/2017, the value of Stephenson’s pension benefit was estimated to be \$57,137,312
 2. Note that this year is the first year public companies must report the relationship between CEO pay and the median compensation at the company (see pp. 92-93 of the proxy statement). At AT&T in 2017 the ratio was 366:1.
 3. **VOTE AGAINST**
 - d. Stock purchase and Deferral Plan (#4 on proxy) – management proposal
 - i. Asks shareholders to approve a plan for “mid-level and above management employees” – estimated at 6,500 managers

- ii. Plan would allow those employees to defer income through the purchase of deferred shares of AT&T company stock
- iii. Those employees would also be eligible for employer match of additional deferred shares.
- iv. The employee receives additional compensation in the event the match exceeds IRS employer contribution limits.
- v. A version of this plan has been in place since 2005. The vote here is to increase the number of available shares.
- vi. EVALUATION
 - 1. This is a plan to channel compensation for mid- to upper management in a way that is not transparent
 - 2. Lower level management and bargaining unit employees are not eligible
 - 3. **VOTE AGAINST**
- e. 2018 Incentive plan (#5 on proxy) – management proposal
 - i. This compensation plan promises to reward management employees with a combination “performance” shares and restricted stock units
 - ii. Performance standards can be for either the individual employee or the unit of the company and those standards are left to the discretion of the directors
 - iii. Restricted stock units are tied to time worked at the company. This is a reward for “showing up”
 - iv. The plan limits performance shares and restricted shares to 5% of salary
 - v. Plan also allows for the award of stock options – the ability to buy shares at a particular price in the future
 - vi. This plan would replace a similar plan from 2016
 - vii. 100,000 managers eligible to be selected to be part of this plan. Selection of employees is done through directors.
 - viii. Participants in the plan agree not to compete with AT&T for two years if they leave the company
 - ix. EVALUATION
 - 1. This is another plan to channel compensation to management that is not transparent.
 - 2. Bargaining unit employees are not eligible.
 - 3. **VOTE AGAINST**
- f. Lobbying report (#6 on proxy) – Proposal from Walden Asset Management¹
 - i. Requests that company produce an annual report on lobbying policy – direct, indirect (through trade associations) and grassroots lobbying communications. Report should also include direct and indirect expenditures as well as payments to grassroots organizations. In this report AT&T should disclose membership in any organization that produces model legislation. The report should detail decision making process on why expenditures made and why company decided to affiliate with other organizations.
 - ii. EVALUATION
 - 1. This is a good governance proposal

¹ 8 co-sponsors: The Max and Anna Levinson Foundation, The Needmor Fund, Sisters of the Holy Family, Benjamin Ewen-Campen, Benedictine Sisters of Mount St. Scholastica, Benedictine Sisters of Monasterio De San Benito, Dana Investment Advisors, and Deborah and Steven Gibson.

2. It gets at membership in ALEC which has produced model legislation on Right to Work among others pieces of legislative mischief.
 3. Given how much press Randall Stephenson received for the Tax Cuts and Jobs Act, it would be useful to know how the company was lobbying
 4. In 2017, this proposal received 35.47% of the yes-no votes
- 5. VOTE FOR**
- g. Proxy access (#7 on proxy) – Proposal from Myra Young, Independent shareholder
- i. This proposal asks shareholders to amend the bylaws to enable a shareholder or group (with no limitation on the number) of shareholders who hold at least 3% of the shares to nominate a director. No more than 25% of the current directors or 2, whichever is greater, could be nominated in this fashion. Also, this proposal allows “proxy access” directors, previously nominated but unable to secure a majority vote, to be nominated again for director.
 - ii. EVALUATION
 1. This is a good governance proposal.
 2. The current policy of AT&T allows a maximum of 20 shareholders who hold at least 3% of the shares to nominate a director. Current policy allows 20% of directors to be so nominated.
 3. This proposal increases the number of shareholders who can pool shares. Otherwise, it is almost impossible to reach the 3% threshold
 4. This proposal also increases the percentage of directors who can be so nominated to 25%.
 5. In 2017, this proposal received 30.43% of the yes-no votes
- 6. VOTE FOR**
- h. Independent Chair (#8 on proxy) – Proposal from Kenneth Steiner, Independent shareholder
- i. Requests that the Chair be an “independent” member of the Board – in other words, not employed by AT&T. This proposal gets a high percentage of votes from institutional shareholder because it curbs conflicts of interest. Both the Council of Institutional Directors and Calpers recommend independent board chairs.
 - ii. Currently, Randall Stephenson is both CEO and Chairman. AT&T has a lead director.
 - iii. EVALUATION
 1. This is a good governance proposal
- 2. VOTE FOR**
- i. Reduce vote for written consent (#9 on proxy) – Proposal from John Chevedden, independent shareholder
- i. Requests that the company take the necessary steps to ensure that shareholders can petition the company for a vote on particular items.
 - ii. EVALUATION
 1. This is a good governance proposal.
 2. The current policy of AT&T allows a super-majority (66.66%) of shareholders to change the corporate charter to permit actions by written consent.
 3. At the 2016 annual meeting, this proposal received 42.91% of the yes-no votes

4. The company further argues that 15% of shareholders can already call for a special shareholder meeting where items can be voted upon. The company believes this proposal to be superfluous.
5. **VOTE FOR**