Triodos Investment Management

VERIZON COMMUNICATIONS INC

MEETING DATE	Thu, 02 May 2019 8:45 am	TYPE	AGM	ISSUE DATE	Wed, 24 Apr 2019
MEETING LOCATION	Rosen Shingle Creek, 9939 Universal Boulevard, Orlando, Florida				
CURRENT INDICES	S&P500				
SECTOR	Telephone communications, except radiotelephone				

	PROPOSALS	ADVICE
1.1	**Elect Shellye L. Archambeau** Independent Non-Executive Director.	**For**
1.2	**Elect Mark T. Bertolini** Independent Non-Executive Director.	**For**
1.3	**Elect Vittorio Colao** Independent Non-Executive Director.	**For**
1.4	**Elect Melanie L. Healey** Independent Non-Executive Director.	**For**
1.5	**Elect Clarence Otis, Jr.** Senior Independent Director. Not considered independent owing to a tenure of over nine years. There is sufficient independent representation on the Board.	**For**
1.6	**Elect Daniel H. Schulman** Independent Non-Executive Director. He is Chair of the Remuneration committee which is not fully independent which Triodos does not support.	**Oppose**
1.7	**Elect Rodney E. Slater** Non-Executive Director. Not considered independent owing to a tenure of over nine years. However, there is sufficient independent representation on the Board.	**For**
1.8	**Elect Kathryn A. Tesija** Independent Non-Executive Director.	**For**
1.9	**Elect Hans E. Vestberg** Chairman 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.	**Oppose**
1.10	**Elect Gregory G. Weaver** Independent Non-Executive Director. He is Chair of the Audit committee and not all members are fully independent which Triodos does not support.	**Oppose**
2	**Appoint the Auditors** EY proposed. Non-audit fees represented 12.39% of audit fees during the year under review and 11.81% 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. 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 included non-financial metrics into the annual bonus structure, which is considered best practice. For the year under review, annual bonus payouts are considered to be excessive as they represent more than 200% of base salary. Awards under the annual-incentive plans are tied to multiple performance conditions, which is considered best practice. Performance metrics are replicated under different incentive plans, raising concerns that executives are being rewarded twice for the same performance. Maximum long-term award opportunities are not limited to 200% of base salary, which raises concerns over the potential excessiveness of the remuneration structure.The compensation rating is: AED.

Triodos opposes this resolution.

4 Shareholder Resolution: Eliminate Above-Market Earnings in Executive Retirement Plans For

Proposed by: The Association of BellTel Retirees Inc

The Association of BellTel Retirees Inc proposes that the Board of Directors adopt a policy that prohibits the practice of paying above-market earnings on the non-tax-qualified retirement saving or deferred income account balances of senior executive officers.

Supporting Argument: The Association of BellTel Retirees Inc states that Verizon offers senior executive officers far more generous retirement saving benefits than rank-and-file managers and other employees receive under the company's tax-qualified saving plans. The Association of BellTel states that one costly and unjustifiable feature is the payment of an above-market rate of return on the multi-million dollar non-tax-qualified savings and deferred income account balances of senior executives.The Verizon Executive Deferral Plan allows executives to contribute or defer compensation significantly above applicable IRS limits on contributions to 401(k) and other tax-qualified savings plans, IRS limits, including without limit the long-term incentive compensation that represents the bulk of their annual income.The Association of BellTel states that proxy advisor Institutional Shareholder Services supported this proposal in its 2018 proxy analysis report, stating that "while it is common to maintain additional supplemental retirement accounts for executives, providing above-market earnings on investment options is not common market practice." The ISS report also noted that the "practice of paying above-market earnings increases the expense to shareholders and is not considered a best practice." The Association of BellTel Retirees Inc states above-market earnings on non-qualified accounts are not performance-based and thus do nothing to align management incentives with long-term shareholder interests. In addition, gross disparities between retirement benefits offered to senior executives and other employees risk potential morale problems and reputational risk.

Opposing Argument: The Board of Directors recommends that shareholders vote AGAINST this proposal. The Board states that it opposes this proposal because it misrepresents the investment returns paid to participants in Verizon's Executive Deferral Plan, which we refer to as the Deferral Plan. The board states that the proponent's claim that Verizon pays senior executives an "above-market" rate of return on their account balances in the Deferral Plan is inaccurate. The Board further states none of the 28 hypothetical investment options offered under the Deferral Plan pay a premium above what can be earned in the market. All but one of the hypothetical investment options simply mirror the performance of the investment options available under Verizon's tax-qualified 401(k) savings plan. The Board states that the one additional hypothetical investment option, which we refer to as the Moody's investment option, offers a return equal to the long-term, high-grade corporate bond yield average as published by Moody's Investor Services Inc. Because the Moody's investment option offers a cash-based, interest only return, under an SEC rule, earnings on balances invested in that option may be reportable as "above-market" in the proxy statement year in any given year. In 2018, earnings from the Moody's investment option did not constitute "above-market" earnings under this rule.

PIRC Analysis: While it is true that none of the executives whose remuneration was reported for the 2018 fiscal year earned "above-market" interest, "above-market" interest was earned by several executives whose remuneration was reported for 2017 and it is clearly available on some of the Company's non-qualified pensions arrangements. Preferential treatment for executive pensions, especially given the substantial equity awards they are given each year, is not governance best practice. Support for the resolution is recommended.

5 Shareholder Resolution: Introduce an Independent Chairman Rule **For**

Proposed by: The AFL-CIO Reserve Fund

The AFL-CIO Reserve Fund proposes that the Board takes the steps necessary to adopt a policy to require that the Chairman of the Board shall be an independent director.

Supporting Argument: The AFL-CIO Reserve Fund suggests that the Company's Chairman of the Board, Mr. Lowell McAdam, previously served as CEO of the Company between 2011 and 2018. With the appointment of Mr. Hans Vestberg as CEO, the Company announced that Mr. McAdam will continue as Non-Executive Chairman. AFL-CIO Reserve Fund Further states that The Board, led by its Chairman, is responsible for protecting shareholders' long-term interests by providing oversight of management in directing the corporation's affairs. The The AFL-CIO Reserve Fund further states that this Board oversight function can be diminished when the Chairman is not an independent director. The AFL-CIO Reserve Fund states that the Chairman should be an independent director who has not previously served as an executive of the Company. The AFL-CIO states that it believes that an independent Chairman will strengthen the independent leadership of the Board and enhance management accountability to shareholders.

Opposing Argument: The Board of Directors recommends that shareholders vote AGAINST this proposal. The Board states that it fundamentally disagrees with the proposal's rigid and prescriptive approach to the important issue of Board leadership. The Board believes that decisions concerning its leadership structure, including whether an independent Chairman is appropriate, should be based on the unique circumstances and challenges confronting Verizon at any given time, and should take into account the individual skills and experience that may be required in an effective Chairman at that time. As a result, the Board regularly reviews and assesses the effectiveness of its leadership structure. When conducting its assessment, the Board considers, among other things, whether the current structure is appropriate to effectively address the specific business challenges and opportunities posed by our industry and the long-term interests of our shareholders. Furthermore the Board states that it has also has adopted policies to ensure that the independent Directors of the Board are fully involved in the operations of the Board and its decision making. All Directors have the opportunity to review Board agendas and request changes in advance of meetings, and all have unrestricted access to management. The Board staes that the independent Directors typically meet in executive session at each Board meeting. Given the robust corporate governance practices Verizon has put in place to ensure full involvement of all Directors and facilitate communication and independent oversight, the Board believes that shareholders are best served by allowing it to retain the flexibility to determine which Director is most qualified to lead the Board at any given time.The Board further states that it understands that leadership structures evolve and that having an independent Chairman could, at some future point, be in the shareholders' best interest. However, the Board believes that eliminating its flexibility to do what is in the best interests of shareholders by instituting a general policy that would require an independent Chairman is unnecessarily rigid and unwise.

PIRC Analysis: 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. It is considered that an independent Chairman can provide independent oversight of management and facilitates clearer lines of accountability with respect to corporate decisions. Support is recommended.

6 **Shareholder Resolution: Report on Online Child Exploitation** **For**

Proposed by: The Catholic United Investment Trust.

The Catholic United Investment Trust requests that the Board take the steps necessary to report on online child exploitation.

Supporting Argument: The Catholic United Investment Trust states that Verizon Communications (Verizon) is a leading Internet Service Provider (ISP), a retailer of mobile communication devices, and a growing provider of digital content online. The Catholic United Investment Trust further states that The US Department of Justice's 2016 National Strategy for Child Exploitation Prevention and Interdiction notes that "mobile devices have fundamentally changed the way offenders can abuse children," and "apps on these devices can be used to target, recruit or groom, and coerce children" or "stream video of child sexual abuse" in real-time. The Catholic United Investment Trust states that Information and Communications Technology (ICT) companies have many best practices-beyond parental controls-to combat Child Sex Abuse Material (CSAM), including: creating digital tools to remove CSAM online and offering such tools to peers; supporting public policy that better protects children online; corporate detection software that triggers alerts when CSAM has been searched for or downloaded; or child-protective practices over public WiFi, among others. The Catholic United Investment Trust states that they believe that ICT companies lacking adequate policies, practices, and disclosures to address child sexual exploitation could suffer substantial negative impacts regarding reputation, heightened regulation, adverse publicity, or legal risk. Shareholders request that the Board of Directors issue a report on the potential sexual exploitation of children through the company's products and services, including a risk evaluation, at reasonable expense and excluding proprietary or confidential information, by March 2020, assessing whether the company's oversight, policies and practices are sufficient to prevent material impacts to the company's brand reputation, product demand or social license.

Opposing Argument: The Board of Directors recommends that shareholders vote AGAINST this proposal. The Board states that Verizon recognizes that it has an important role to play in combatting the use of the internet to exploit children. The company is a leading provider of internet access services and also offer digital platforms for user-generated content through Verizon Media Group. The Board states that IT realises that the same tools that empower our customers to communicate with family and friends can also be misused by predators to disseminate child sexual abuse material and groom children for abuse. The Board states that it devotes extensive resources and employ a number of best practices in the fight against these predators. These include working closely with the National Center for Missing and Exploited Children (NCMEC) and the Internet Watch Foundation to stop predators from distributing child sexual abuse material and trafficking children for sex online, employing cutting-edge technology that scans images and videos uploaded to our servers against an industry database of known child sexual abuse material and report the material we find to NCMEC, helping local law enforcement effectively execute their investigations and offering parental control products across our wireless, internet and TV businesses that enable customers to limit the types of websites and content accessible to their children and support groups that educate about online safety. The Board states that Verizon continually assesses further steps we can take to advance this critical effort. Accordingly, the Board believes that the requested report would not provide additional value to the Company's shareholders.

PIRC Analysis: Given the level of legal risk related to content governance surrounding child sexual abuse, a report assessing the impact of content policies would seem entirely resonable to allow shareholders to assess the risk to their investment of the Company's record on content governance. If the report discloses that the oversight, policies and practices are sufficient to prevent material impacts to the Company's reputation, product demand or social license, this will go some considerable way to allay shareholders' fears of long-term damage to the company and will provide protection in the case of legal challenge. Support for the resolution is recommended.

7 Shareholder Resolution: Assess Feasibility of Cyber Security and Data Privacy as a Performance Measure for Senior Executive Compensation **For**

Proposed by: The Trillium P21 Global Equity Fund

The Trillium P21 Global Equity Fund requests the Human Resources Committee of the Board of Directors publish a report assessing the feasibility of integrating cyber security and data privacy performance measures into the Verizon executive compensation program.

Supporting Argument: The Trillium P21 Global Equity Fund states Verizon has made several policy commitments regarding data privacy and data security. However, there is significant evidence that Verizon has not been successful at implementing those commitments, faces significant challenges to doing so, and/or engages in risky behavior. In 2016, Fortune reported that "Verizon's division that helps Fortune 500 companies respond to data breaches, suffered a data breach of its own . . . [including] information on some 1.5 million customers of Verizon Enterprise." The Trillium P21 Global Equity Fund Further states that In July 2017, the Washington Post reported that a "communication breakdown and a vacationing employee were the reasons it took more than a week to close a leak [in June] that contained data belonging to 6 million Verizon customers." In October 2017, it was announced that all 3 billion accounts in subsidiary Yahoo had been breached prior to its acquisition by Verizon. The Trillium P21 Global Equity Fund further states that while the tech industry refuses to scan emails for information to sell to advertisers, Verizon unit Oath continues to do so and pitches these services to advertisers. The Trillium P21 Global Equity Fund states that as these risks are significant, we believe it is advisable for the board to explore integrating cyber security and data privacy performance measures into the Verizon executive compensation program. The Trillium P21 Global Equity Fund further states Verizon Short-Term Incentive Plan included adjusted EPS, free cash flow, total revenue, and diversity and sustainability. Cyber security and data privacy are vitally important issues for Verizon and should be included too, as it would incentivize leadership to reduce risk, enhance financial performance, and increase accountability.

Opposing Argument: The Board of Directors recommends that shareholders vote AGAINST this proposal. The Board states that hat Verizon's approach to managing cybersecurity and data privacy risk is the most effective way to prevent security incidents. The Board states that it expects Verizon's executives to take all necessary steps to protect Verizon's systems and networks from unauthorized access or damage and maintain strong and meaningful privacy and security protections for our customers' information. However, the Board does not think that adding cybersecurity and data privacy targets into Verizon's executive compensation program would have the presumed effect of preventing a network or data security breach because there is not necessarily a correlation between an executive's actions and the prevention of cyber or data security incidents. For example, a company's networks and information systems may be infiltrated by a malicious state actor even though an executive has taken all reasonable precautions and allocated substantial resources to protective technologies, security and privacy protocols and employee training. The Board further states that it does not view cybersecurity and data privacy performance measures as analogous to the adjusted EPS, free cash flow, total revenue, and diversity and carbon abatement performance metrics that Verizon uses in its short-term incentive awards. While there are mathematical and/or scientifically accepted methodologies for quantifying such metrics and assessing a company's performance in those areas from period to period, at this time there is no general accepted methodology for measuring "success" in the area of cybersecurity and data privacy. For these reasons, the Board states that it does not believe that incorporating the proposed measures into Verizon's executive compensation program would have the intended effect of improving the Company's cybersecurity and data privacy risk management programs and policies.

PIRC Analysis: While the Company argues that there is no commonly accepted practice or methodology for "measuring 'success' in the area of cybersecurity and data privacy performance", there was also, until recently, no accepted methodology of measuring diversity or sustainability, both of which are now easily measurable. Cyber security measures would seem no less susceptible to quantitative analysis than workplace injury rates or chemical spills, or any other health and safety metric, all of which are commonly used as performance metrics. Moreover, tying all executives' bonuses to performance against cyber security metrics would have the added benefit of focusing the entire team on this growing and serious risk rather than leaving it to the responsibility solely of the executives with specific responsibility for these issues. Incorporating viable performance metrics that quantify an executive officer's performance in cyber security and data privacy matters, given the importance of this issue to investors, is a resonable request and would be of benefit to investors. A vote for the resolution is recommended.

8 **Shareholder Resolution: Severance Payments** **For**

Proposed by: Jack K. and Ilene Cohen

Jack K. and Ilene Cohen state proposes that Board should seek shareholder approval of any senior executive officer's new or renewed compensation package that provides for severance or termination payments with an estimated total value exceeding 2.99 times the sum of the executive's base salary plus target short-term bonus

Supporting Argument: Jack K. and Ilene Cohen state While we support generous performance-based pay, we believe that requiring shareholder ratification of "golden parachute" severance packages with a total cost exceeding 2.99 times base salary plus target bonus better aligns compensation with shareholder interests. Jack K. and Ilene Cohen further states the majority of termination payments result from the accelerated vesting of outstanding Performance Stock Units (PSUs) and Restricted Stock Units (RSUs). If a senior executive terminates within a year after a "change in control," all outstanding PSUs immediately "vest at target level performance" . Jack K. and Ilene Cohen further state had the executive not terminated, the PSUs would not vest until the end of the performance period (up to three years later) - and could be worthless if performance or tenure conditions are not satisfied. This practice effectively waives performance conditions that justify Verizon's annual grants of "performance-based" restricted stock. ack K. and Ilene Cohen state that they believe Verizon's severance policy should be updated to include the total cost of termination payments, including the cost of accelerated vesting of RSUs and PSUs that otherwise would not have been earned or vested until after the executive's termination.

Opposing Argument: The Board of Directors recommends that shareholders vote AGAINST this proposal. The Board states that Verizon already has a longstanding policy to obtain shareholder ratification of any new executive employment agreement or severance agreement that provides for severance benefits with a total cash value exceeding 2.99 times the sum of the executive's base salary plus target short-term incentive opportunity. The proposal would significantly expand this policy by including the total estimated value of outstanding equity awards in the calculation of severance benefits. The Board believes that the proposal is not in the best interests of shareholders. The Board states that The Board also believes that the proposal could have an adverse effect on Verizon's ability to recruit and retain leadership talent because a significant portion of the executives' annual compensation would be uncertain and at risk for at least the first four months of the year until a shareholder vote could be held. The Board further states that the proposal directly conflicts with Verizon's shareholder-approved, broad-based Long-Term Incentive Plan, which expressly provides for acceleration of outstanding equity awards in the event of an involuntary termination following a change in control of the Company. The Board believes that this provision encourages our executive officers, who might be distracted by a potential loss of employment, to remain with the Company and diligently work to achieve Board- and shareholder- approved goals, including completing a transformative transaction and any related transition process. The Board states that by effectively requiring the elimination of this important retention tool, the proposal could increase risk for shareholders in change in control transactions.

PIRC Analysis: The acceleration of unvested stock pursuant to any termination, with or without a change in control undermines both the service and performance requirements that such awards are supposed to make effective. Vesting of equity awards where no performance achievements have been met and where service requirements have also not been met is therefore poor governance. In addition, large potential payments that are automatically triggered by a change in control could compromise an executive's judgement on a potential M&A deal and create a conflict of interest between his or her potential earnings and any value it brings to shareholders. Support for the resolution 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. The performance-based long term incentive is subject to quantified performance targets for PSUs and RSUs.

Balance: E 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. For the year under review, annual bonus payouts are considered to be excessive as they represent more than 200% of base salary. Awards under the annual-incentive plans are tied to multiple performance conditions, which is considered best practice. Performance metrics are replicated under different incentive plans, raising concerns that executives are being rewarded twice for the same performance. 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. 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. Executive compensation is not aligned with peer group averages. In addition, executive compensation is not aligned with companies of a similar market cap.

Contract: D The Company maintains a supplemental executive retirement plan for the benefit of certain officers; which is not in line with best practice. 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. The Compensation Committee has full discretion to accelerate the vesting of awards upon a change of control, which is a concern. 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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