May 20, 2015

JOINT STATEMENT ON BUYBACKS AND MCDONALD'S PROXY ACCESS VOTE

As fiduciaries to pension funds with $860 billion in assets and responsible for the retirement security of 4.3 million participants, we rely on companies to deliver sustainable, long-term value. Sustainable economic growth depends on companies investing in their future through innovation, human capital, and growth. Companies must pursue a balanced approach to capital allocation, both reinvesting in their long-term health and distributing profit to shareowners.

We are concerned, however, that many companies have lost their balance. Productivity growth in companies used to be aligned with commensurate wage growth – a rising tide that drove decades of economic prosperity. Growing corporate coffers of cash facilitated rising capital expenditures. And U.S. companies were at the forefront of crucial innovation.

Today, however, 95 percent of corporate earnings are being distributed to shareowners, prompting us to question whether companies are adequately reinvesting for sustainable returns over the long-term. If the pendulum swings too far in favor of returning capital to shareowners, the future viability of the companies in which we invest may be placed at risk.

Trillions of dollars have been spent on share buyback programs in recent years. Buyback programs are one effective means to return capital to shareowners. However, in order to maximize shareholder value for the long-term, companies must also adequately invest in the future. Growth requires investment.

One timely illustration is McDonalds, which holds its annual shareowner meeting this week. McDonalds is facing serious performance challenges. But despite a recently announced and much needed turnaround plan, the company continues to direct capital towards an aggressive share buyback program.

We urge companies to pursue a balanced and disciplined strategy for capital allocation that promotes long-term value. We need directors who are focused on the long-term health of the companies in which we invest. And we need the ability to hold boards accountable when they place short-term interests ahead of long-term value creation. That is why long-term investors need meaningful proxy access – the ability to nominate directors using the company's proxy statement.

We support the shareholder resolution requesting proxy access at this week's McDonalds annual meeting, and at roughly 100 other companies this year. As long-term investors, we depend on our elected directors to ensure that our portfolio companies are truly managed for long-term success.

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