United Church of Canada Treasury

Q4 2018

October 1st - December 31st

Proxy Voting Report

Responsible investment for a sustainable economy

SHARE
SHAREHOLDER ASSOCIATION for RESEARCH & EDUCATION

Proxy Voting Highlights Q4 2018

Meetings

Type

Special	2
Total	2

100% Special

Jurisdiction

Canada	2
Total	2

Canada 100%

Proposals

	Votes consistent with / contrary to Management Recommended Votes	No. Votes
All Proposals	100% consistent	2
Management Proposals	100% consistent	2
Shareholder Proposals	0	0

The share buyback boom requires greater investor scrutiny

Share repurchases by companies in North America are soaring. Companies are buying their own shares back from shareholders at rates not seen since 2007. In Canada, the Toronto Stock Exchange's Buyback Index reached 7,000 in October, well above its past range of 4,000 to 6,000.[1] In the United States, share repurchases have increased by 42 percent from 2016. In 2018, the number of shares repurchased exceeded the number of shares issued.[2]

Like most aspects of investing, share repurchases have some advantages for investors, but also some drawbacks. Investors tend to like repurchases because they get cash for the shares they sell back to the company. Repurchases also decrease the company's pool of shares, which usually increases the market price of its shares as a result. Finally, share repurchases are often seen as putting a "floor" on the market value of shares, because the share price is unlikely to fall below the amount the company is paying for its own shares. Share repurchases are a boon to companies who need a short-term prop for their share price, especially companies in cyclical boom-and-bust industries such as oil.

However, the share price increases that companies create buying back their shares are somewhat illusory, in that they are not based on the companies' revenues, assets, or other measures of performance. Share repurchases can also produce misleading financial numbers. By reducing the number of shares a company has, repurchases automatically increase financial results measured on a per-share basis or on a ratio, such as earnings per share or return on equity. In these cases, the company's earnings or returns are not really larger; they are simply distributed over a smaller number of shares, creating the appearance of better financial results without a real improvement in those results.

Another drawback of share repurchases is that when companies use large amounts of money to buy back their shares, they cannot invest that money in making their business more sustainable and productive by, for example, purchasing new equipment, making sure employee pension plans are fully funded, or reducing their greenhouse gas emissions.

One of SHARE's biggest concerns about share repurchases is that they can also inflate executives' pay. Executives are usually paid in shares, or in "units" that will vest as shares after a period of time. The higher the value of the shares, the greater the value of the executives' compensation. Moreover, the performance targets companies often use as the basis for executives' incentive pay are the very financial measures that can be inflated by repurchasing shares, such as earnings per share. As a result, by buying back their companies' shares, executives can effectively increase their own pay as well as making their shareholders happy - in the short term, at least - without doing anything to improve company performance.

Shareholders at Cisco Systems (CSCO) filed a proposal to address this issue at the company's annual meeting on December 12, 2018. The shareholder proposal asked Cisco to refrain from using earnings per share or financial ratios such as return on equity in executives' incentive pay plans - measures that are inflated when companies buy back their shares - unless the company adjusts the number of its shares to account for the effect of share repurchases on those financial measures. SHARE voted for this proposal. It would rectify the way share repurchases inflate those measures of executive performance, making it more likely to reflect how well executives actually did their jobs.

Cisco opposed this proposal. The company argued that its share repurchases have little effect on executives' incentive pay. It said the adjustment shareholders were proposing would only have made a difference of one percent in the executives' vested share awards. However, one percent of their awards is not a trivial amount. For the CEO alone, one percent of his awards that vested in 2018 was worth US$90,000, hardly pocket change.

Cisco Systems's share repurchases have diverted a substantial amount of capital from other uses. In its 2018 fiscal year Cisco spent US$17.7 billion on share repurchases. That's slightly more than it spent on all of its research and development plus sales and marketing for the same year. It's also substantially more than the company's net income for 2018, which was US$110 million.

Share repurchases can be good for investors and companies. But given their potential drawbacks, investors need to look closely at how much companies are spending to repurchase their shares and what the consequences are likely to be, such as redirecting capital away from other productive uses or inflating executive pay. A reasoned approach to the use of corporate resources, with a focus on the long term, is most likely to contribute to a sustainable, inclusive and productive economy.

[1] https://ca.spindices.com/indices/strategy/sp-tsx-composite-buyback-index

[2] Eric Reguly, "Trump's cherished wealth effect could be a mirage", *The Globe & Mail*, online edition, 9 Nov 2018. https://www.theglobeandmail.com/business/commentary/article-trumps-cherished-wealth-effect-could-be-a-mirage/

LOBLAW COMPANIES LIMITED Canada

Ticker Symbol	**LBLCF**	ISIN	**CA5394811015**
Meeting Date	**18-Oct-2018**	Meeting Type	**SPECIAL**

Custodian	Account No.	Ballot Shares	Unavailable Shares	Vote Date	Vote Confirmed
RBC INVESTOR SERVICES	**000805121**	**6105**	0	26-Sep-2018	Yes

Item	Proposal	Proposed By	Vote	For/Against Management
1	Approve the special resolution, the full text of which is set forth in Appendix "A" to the management proxy circular of Loblaw Companies Limited dated September 19, 2018 (the "Circular"), authorizing an arrangement pursuant to section 192 of the Canada Business Corporations Act under which Loblaw Companies Limited will, among other things, spin out its 61.6% effective interest in Choice Properties Real Estate Investment Trust, all as more particularly described in the Circular.	Management	For	For

Comments: This transaction will sell Loblaws' interest in its former REIT, Choice Properties, to George Weston, which is Loblaws' controlling shareholder. Loblaws' shareholders will receive 0.135 George Weston share for each Loblaws share they own. This is comparable to their current interest in Choice Properties. After the transaction, Loblaws' shareholders will own about 17% of George Weston, and they will be entitled to dividends from both companies. Loblaws no longer needs to own real estate because most of its stores are leased and its business model relies more on internet sales. Overall, the deal is reasonable.

THOMSON REUTERS CORPORATION Canada

Ticker Symbol	**TRI**	ISIN	**CA8849031056**
Meeting Date	**19-Nov-2018**	Meeting Type	**SPECIAL**

Custodian	Account No.	Ballot Shares	Unavailable Shares	Vote Date	Vote Confirmed
RBC INVESTOR SERVICES	**000805121**	**9100**	0	06-Nov-2018	Yes

Item	Proposal	Proposed By	Vote	For/Against Management
1	The special resolution, the full text of which is set forth in Appendix A to the management proxy circular of Thomson Reuters Corporation dated October 16, 2018 (the "Circular"), approving the plan of arrangement under Section 182 of the Business Corporations Act (Ontario) under which Thomson Reuters Corporation will (i) make a cash distribution of US$4.45 per common share, or approximately US$2.5 billion in the aggregate and (ii) consolidate its outstanding common shares (or "reverse stock split") on a basis that is proportional to the cash distribution, all as more particularly described in the Circular.	Management	For	For

Comments: The terms of this transaction are reasonable.

The Shareholder Association for Research and Education (SHARE) is a non-profit organization based in Vancouver, British Columbia. Since its creation in 2000, SHARE has provided leadership, expertise and advocacy in the area of responsible investment and active share ownership. SHARE assists institutional investors in implementing responsible investment strategies through our Active Ownership Services, including:

- Pension Investment & Governance Education
- Proxy Voting & Advisory Services
- Shareholder Engagement
- Responsible Investment Advisory Services

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