Compensation Accomplices

Mutual Funds and the Overpaid American CEO

Mutual Fund Proxy Voting on Executive Compensation: 2007-2008

The American Federation of State, County and Municipal Employees,
The Corporate Library and The Shareowner Education Network

AFSCME
We Make America Happen

SHAREOWNER EDUCATION NETWORK

The Corporate Library®
Celebrating our 10th year

About the Sponsors

AFSCME

AFSCME is the largest union in the AFL-CIO, representing 1.6 million state and local government, health care and child care workers. AFSCME members have their retirement assets invested by public pension systems, with combined assets totaling over $1 trillion. Confidence in the markets, transparency and appropriate regulations are the foundation of their success as investors. Gerald W. McEntee, AFSCME president, chairs the AFSCME Employees Pension Plan, which as an institutional investor and active owner engages public companies on shareholder issues such as executive compensation and board accountability. The AFSCME Employees Pension Plan discloses its proxy votes at www.afscme.org

The Corporate Library

Founded in 1999, The Corporate Library is the leading independent source for corporate governance executive compensation, and director network interrelations data and risk analysis of North American public corporations. As stakeholders in the corporate governance marketplace increasingly seek to assess risk or enhance market opportunities through access to ESG data and information, The Corporate Library's cutting-edge products, research and advisory services provide the corporate governance 'G' that they need. The Corporate Library's clients gain access to in-depth and up-to-date research and information on the vast majority of North American public equities with coverage of 98 percent of U.S. and 73 percent of Canadian market capitalization. Corporate governance research is compiled by its market-leading analysts using a proprietary database of over 3,200 public companies and over 40,000 executives and directors.
www.thecorporate library.com

Shareowner Education Network

The Shareowner Education Network (SEN), a 501(c)(3) nonprofit organization, is dedicated to educating and promoting patient, long-term investment strategies for retail investors and the financial institutions that serve them. SEN will develop educational tools and outreach programs designed to give these citizen investors a better understanding of active ownership, the role of financial intermediaries and the benefits of good corporate governance. www.shareowners.org

American Federation of State, County and Municipal Employees
1625 L Street, NW
Washington, DC 20036-5687

For more information, please contact AFSCME at (202) 429-1215

An interactive version of this report is located at www.shareowners.org which will enable you to contact The Mutual Fund Pay Enablers.

Table of Contents

Executive Summary

Excessive executive pay dominated the news headlines as we follow the stories of AIG, Merrill Lynch and other financial firms distributing millions of dollars to executives in spite of failing performance. Although most profound on Wall Street, this tale repeats itself across the market whereby top executives continue to reap huge payouts not based on performance but rather, it seems, because they ask for it.

Despite the outcry from the general public, executive pay continues to rise. The 2007 median Chief Executive Officer (CEO) compensation among Standard & Poor's (S&P) 500 companies rose by 23.6 percent over 2006 levels, and median compensation at 2,313 companies tracked by The Corporate Library increased by 12.6 percent. In 2007 the CEOs of the S&P 500 companies had a median $8.8 million in total compensation.[1] Research by The Corporate Library has shown that, among S&P 500 companies, the largest increases in total compensation have correlated poorly with improvements in long-term corporate performance.[2]

In this report, "Compensation Accomplices: Mutual Funds and the Overpaid American CEO," we analyze the role that mutual funds play as large shareholders with proxy voting fiduciary responsibility. Mutual fund voting power must be brought to bear if executive pay is to be reformed by shareholders. Of the more than $12 trillion invested in mutual funds at year-end 2007, $6.52 trillion was invested in equity funds and another $713 billion was applied to hybrid funds.[3] All told, mutual funds hold about 27 percent of the market capitalization of all U.S. companies.[4] Mutual fund assets are highly concentrated, with the 10 largest fund families managing 50 percent of all fund assets.[5]

Unfortunately, our report finds that mutual funds are increasingly supportive, as a group, of management positions on proposals dealing with executive pay, despite the current outrage over CEO pay amounts and disconnection from company performance. As a group, the 26 mutual fund families had the following voting patterns:

- The average level of support for management proposals on compensation issues was 82% in 2007 and 84% in 2008, a steady increase from 75.8% in 2006.

- The average level of support for the categories of compensation-related shareholder proposals we selected was 42% in 2007 and 40% in 2008. This represents a significant decrease from the 46.5% support found in 2006.

There is some hope, however, because some mutual funds are stepping forward to vote against directors on compensation committees at some of the worst pay offenders. The average level of withheld support for certain directors – selected because they received "withhold" or "against" votes of 25% or more due to concerns over executive pay – was 42% in 2007 and 52% in 2008, suggesting that mutual funds may be increasingly willing to use their director voting clout to communicate their views on executive pay.

The data show that mutual fund families have adopted different approaches to voting on executive compensation issues; some emphasize strict limits applicable to management-proposed pay plans, others favor more specific measures suggested in shareholder proposals, and others express discontent primarily through withholding support for the reelection of certain directors deemed responsible for pay decisions. Thus, it is clear that mutual funds' voting power is not concentrated in a block.

A number of fund families including AllianceBernstein, Barclays and Ameriprise have consistently ranked as "Pay Enablers" over the four years covered by these reports. T. Rowe Price was among the "Pay Constrainers" in 2006 as well as both years covered by this study, while Templeton has been a "Pay Constrainer" in each of the last two years.

While those fund families' performances have been consistent, the rankings of other families have improved markedly since the first year of this study. The most dramatic improvements occurred at Oppenheimer, which was named a "Pay Enabler" in the 2005 study but qualified as a "Pay Constrainer" in the 2008 rankings, and AIM, a "Pay Enabler" in both 2005 and 2006 that climbed to 17th in 2007 and then tied for 3rd in 2008 to qualify as a "Pay Constrainer." Morgan Stanley also left the lower tier of our rankings—it had been dubbed a "Pay Enabler" in 2005—to rank in the top quartile in 2007 and the top half in 2008.

It is worth noting that the executive compensation voting records reviewed in this report ended on June 30, 2008 before the full impact of the financial crisis was seen and the reports of CEO pay abuse at financial firms made headlines. For the 2009 spring annual meeting season, mutual funds will revisit pay issues in light of the lessons learned last year. A full account of the impact of the crisis on mutual fund voting behavior in light of the most recent pay disclosures will have to await the August 2009 N-PX filings.

Action Recommendations

1. Mutual fund families that have been consistently categorized as "Pay Enablers" should revise their proxy voting policies to ensure that they promote responsible compensation programs that encourage the creation of long-term shareholder values and do not promote excessive risk-taking.

2. Mutual fund companies should have a uniform mechanism in their corporate governance and proxy voting policies for establishing and communicating their view of pay to boards, especially compensation committee directors.

3. Retail investors in mutual funds, whom the Shareowner Education Network calls "citizen investors", have a responsibility to critically evaluate how their mutual funds vote on pay issues and hold those funds accountable for votes that enable pay abuses.

4. The Securities and Exchange Commission (SEC) should require funds to distribute a Plain English report on proxy voting to their investors and should revise and improve the N-PX data disclosure.

Introduction

This report, "Compensation Accomplices: Mutual Funds and the Overpaid American CEO," marks the third time the American Federation of State, County and Municipal Employees ("AFSCME") and The Corporate Library have analyzed mutual fund proxy voting on executive compensation issues. Last year, the Shareowner Education Network joined us as a co-sponsor of this report. We began reviewing mutual funds' voting records on executive compensation proposals with the goal of determining whether mutual funds use their substantial power as shareholders to constrain excessive pay and encourage companies to tie executive compensation more closely to company performance. Mutual fund voting on compensation issues takes on particular urgency in the current environment as Congress, regulators, companies and shareholders debate whether shareholders should have an annual advisory vote on senior executive compensation and whether executive compensation should be more stringently regulated in the wake of the current financial crisis.

Mutual funds are required to disclose their proxy votes in N-PX filings with the Securities and Exchange Commission (SEC). This report uses those filings to analyze the voting records of 26 of the largest mainstream[6] mutual fund families on executive compensation-related proposals at corporate annual meetings from July 1, 2006 to June 30, 2007, and from July 1, 2007 through June 30, 2008. For each year, we rank the fund families according to how often they supported three types of proposals:

- Compensation-related proposals made by company management.
- Certain categories of shareholder proposals dealing with executive compensation; and
- The election of specific directors from whom holders of 25% or more of shares withheld support out of concern over executive pay.[7]

We have created a proxy voting profile on compensation issues for each fund family. Our system ranks the voting practices of these fund families from most supportive of efforts to limit executive pay and tie it more closely to company performance to least supportive of those efforts. As we did last time we issued this report, we dubbed the fund families that most consistently supported measures to rein in pay the "Pay Constrainers" and those that voted least often for such measures the "Pay Enablers."

An interactive version of this report is located at www.shareowners.org which will enable you to contact The Mutual Fund Pay Enablers.

Executive Compensation and The Role of Shareholders

In 2007, the median CEO compensation among Standard & Poor's 500 companies rose by 23.6 percent over 2006 levels and median compensation at 2,313 companies tracked by The Corporate Library increased by 12.6 percent. Those increases followed on the heels of a 9.3 percent rise from 2005 to 2006 in the broader universe. In 2007, the median S&P 500 CEO earned $8.8 million in total compensation.[8] Research by The Corporate Library has shown that, among S&P 500 companies, the largest increases in total compensation have correlated poorly with improvements in long-term corporate performance.[9]

Corporate boards and compensation committees are, in theory, vested with the responsibility to ensure that executive compensation is tied to creating value for companies and their shareholders. In practice, however, this oversight often is not robust enough, allowing pay to be decoupled from performance and pushing absolute pay levels into the stratosphere. Many factors—including CEO influence over director nominations, the complexity of pay plans and packages, the reliance on compensation consultants whose incentives may discourage objectivity and social influences such as group bias toward collegiality—undermine boards' ability and willingness to bargain at arm's length over executive compensation. Forces outside the boardroom, such as the executive labor market and the market for corporate control, constrain executive pay only in extreme cases.[10]

Accordingly, it falls to shareholders to use the mechanisms available to them to stem excessive compensation and link pay more closely to corporate performance. Many shareholders believe that such reform is necessary.

In an April 2005 report by Pearl Meyer & Partners, 75 percent of major institutional investors surveyed said that CEO pay at large companies was excessive.[11] A December 2005 survey by consultant Watson Wyatt put this figure higher, finding that 90 percent of institutional investors believe the current executive compensation system has overpaid executives.[12] Another Watson Wyatt survey found that 61 percent of corporate directors believed that most U.S. corporate executives are overpaid,[13] while a Corporate Board Member survey found that 67 percent of directors believe that U.S. company boards are having trouble controlling the size of CEO compensation.[14]

Although executive compensation is sometimes portrayed as a symbolic rather than financial issue, the financial consequences of outsized pay are meaningful for shareholders. Compensation of the five highest-paid executives of public companies increased from 5 percent of the companies' aggregate earnings from 1993 to 1995 to 9.8 percent of aggregate earnings from 2001 to 2003, according to a 2005 study. This research concluded that these pay increases could not be accounted for by company performance or the growth in overall market capitalization during the period in question.[15]

Less directly, shareholders have an interest in encouraging compensation arrangements that provide strong incentives for executives who refrain from self-dealing and make decisions that maximize the company's value. Poorly designed compensation schemes fail at these tasks and thus impose indirect costs on shareholders,[16] as evidenced most recently by the excessive risks taken by many financial services companies whose top executives' incentives were heavily focused on short-term performance metrics.[17] Indeed, the relationship between high pay and risk is reinforced by a 2005 study by Moody's Investors Service which found a link between high pay and credit risk, whereby companies paying super-sized incentive compensation packages to chief executives face a greater risk of a debt default or significant downgrade.[18] Another study which reviews compensation and risk at more than 800 companies, from 1994 to 2000 found that CEOs who received more than 50 percent of their compensation in stock options during that timeframe were typically bigger risk takers and that these CEOs delivered more big losses than big gains.[19]

At present, shareholders can influence executive compensation using two primary levers.

The first lever is their voting power. Shareholders are asked to vote on compensation-related proposals introduced by a company's board, such as compensation plans, performance goals and metrics and the repricing of stock options. Holders of shares in non-U.S. companies are asked to approve other kinds of compensation-related management proposals, including proposals to approve the board's remuneration report in the U.K. and certain other markets, and proposals to approve compensation paid to particular executives.

Shareholders also have the opportunity to vote on shareholder-sponsored proxy proposals seeking to reform compensation policies or practices in some way. Finally, shareholders may choose to withhold support from—or, in the case of companies that use a majority voting standard for director election, to vote against—candidates for election to the board, in order to express a view on those nominees' past oversight of the executive compensation function.

Academic studies indicate that shareholder voting can be effective in curbing executive compensation. A study of shareholder proposals in the mid-1990s found that executive pay at firms — where shareholder proposals on executive compensation had been approved declined by an average of $2.7 million during the two-year period after the proposal was passed, despite the fact that such proposals were not binding on the company.[20] Another study found that higher levels of "against" votes on management compensation proposals were followed by lower rates of increase in CEO pay.[21]

Case studies also support the idea that shareholder voting can play a key role in reforming compensation practices. In the 1990s, the benefit of outside director pensions, once commonplace, almost disappeared once shareholders drew widespread attention to the practice and argued that such employment-like benefits contingent on long-term service, inappropriately discouraged outside directors from challenging management. More recently, shareholder proposals which ask companies to recognize the cost of employee stock options on their income statements led to hundreds of companies agreeing to do so before expensing was required by financial accounting standards-setters. The success of these proposals also telegraphed to regulators that investors favored a blanket expensing requirement.

In 2006, a group of investors, led by the AFSCME Employees Pension Plan, began urging companies to give shareholders another voting avenue to express their opinion on top executive pay in a more concrete way: by submitting annually for a non-binding shareholder vote on the pay to the CEO and other "named executive officers"— those for whom proxy statement disclosure is provided. Modeled on a similar requirement in the U.K. and several other markets, the shareholder advisory vote would, its supporters urge, promote more performance-based compensation schemes and facilitate higher-quality dialogue between companies and their investors. Data maintained in The Corporate Library's Board Analyst database show that in the 2008 proxy season, 76 shareholder proposals on the advisory vote came to a vote at U.S. public companies; median shareholder support was just over 42 percent of shares voted, a slight increase from the support levels seen on these proposals in 2007, while 11 proposals received outright majorities.

Recent studies indicate the effectiveness of giving shareholders an advisory vote on executive compensation. A 2007 Harvard Univrtsity paper found that "Say on Pay" in the U.K. produced markedly fewer rewards for failure and lowered CEO compensation when companies had negative operating performance.[22] In a 2008 study, findings suggest that future shareholder votes on executive compensation, mandated by "Say on Pay" legislation, will create value for firms with overpaid CEOs and firms more likely to respond to shareholder votes.[23]

On April 20, 2007, legislation that required an annual shareholders advisory vote on executive compensation at U.S. public companies passed the House by a vote of 269 to 134.[24] In the Senate, Barack Obama co-sponsored a version of the legislation, which has not come to a vote. More recently, SEC chairman Mary Schapiro and Commissioner Elisse Walter have both voiced their support for an advisory vote on pay.[25]

Additionally, financial firms that receive assistance under the Troubled Asset Relief Program (TARP) will be subject to a series of restrictions on pay in some form, including a cap on pay, golden parachute payments, the clawback of previously paid compensation, the disclosure and submission of compensation to non-binding "Say on Pay" shareholder votes, the certification that compensation does not encourage excessive risk-taking and the adoption and disclosure of policies on "luxury" expenditures.

The second mechanism shareholders can use to influence executive pay is litigation that use state-law theories of waste or breach of fiduciary duty. This avenue has proved to be largely ineffectual because the standard of proof for such claims is extremely high. Courts apply the "business judgment rule," which mandates deference to board decisions unless the plaintiff can show that the board was grossly negligent. Procedural obstacles — such as the "demand" requirement for a shareholder derivative claim, as well as charter provisions exculpating directors from liability unless they benefited from the decision or acted in bad faith — also make success less likely. The court's post-trial decision for the defendants in the Disney case, in which shareholders challenged the board's conduct in connection with the hiring and firing of Disney President Michael Ovitz, illustrates the difficulty of using litigation to attack executive compensation decisions.[26]

Mutual Funds and Proxy Voting

Mutual funds, as large shareholders with proxy voting fiduciary responsibility, are well-positioned to play an important role in reforming executive compensation. Of the more than $12 trillion invested in mutual funds at year-end 2007, $6.52 trillion was invested in equity funds and another $713 billion was applied to hybrid funds.[27] All told, mutual funds hold about 27 percent of the market capitalization of all U.S. companies.[28] Mutual fund assets are highly concentrated, with the 10 largest fund families managing 50 percent of all fund assets.[29]

Mutual funds are an important vehicle for collectivizing the investments of millions of individuals who use mutual funds to save for retirement or their children's college educations. Nearly half of all U.S. households invest in mutual funds, and 64 percent hold more than half of their financial assets in mutual funds.[30]

The legal regime governing mutual funds requires that mutual funds be managed in the interests of their shareholders.[31] Until a few years ago, however, there was no requirement that mutual funds disclose how they cast votes at portfolio companies, preventing mutual fund shareholders from determining whether those votes were in their best interests.

In 2002, in response to protest from investor advocates including the AFL-CIO, the Council of Institutional Investors and The Corporate Library's Robert Monks and Nell Minow, the SEC proposed a rule mandating that mutual funds disclose both their proxy voting policies and the actual votes cast at portfolio companies. In its proposing release, the SEC emphasized the importance of mutual funds for effective shareholder oversight: "As major shareholders, mutual funds may play a vital role in monitoring the stewardship of the companies in which they invest." [32] Over strong opposition from the mutual fund industry, the SEC adopted the disclosure requirements in 2003.

Given the size of mutual funds' holdings, reform of executive compensation is unlikely to occur without their support. If there are no market-correcting mechanisms, such as the increased scrutiny of executive compensation by large investors, further regulatory intervention might be inevitable.

Fund Rankings

To provide a comprehensive picture of how each fund family dealt with pay issues as compared to other families, we created a "composite ranking" by averaging each fund family's rankings based on their votes in the categories of management proposals, shareholder proposals and director voting. From the average of those three rankings, which appears below as the "score," we rated the fund families from 1 to 26, with "1" being the most pay-constraining on compensation issues and "26" being the most pay-enabling.

Funds that scored significantly lower than their peers by failing to use their voting power in ways that would limit compensation excesses have been labeled as "Pay Enablers," while funds that scored significantly better than their peers by using their voting to constrain executive compensation have been labeled as the "Pay Constrainers." These composite ranks are set forth below for each study year:

In 2007, the "Pay Enablers" were: Ameriprise, AllianceBernstein, Columbia, American Funds, Barclays and Lord Abbett. For the same year, Templeton, T. Rowe Price, Schwab, Franklin and Legg Mason earned the designation of "Pay Constrainers."

In 2008 AllianceBernstein, Barclays, Ameriprise and Columbia made repeat appearances as "Pay Enablers," joined by MFS. The "Pay Constrainers" for 2008 were Templeton, Oppenheimer, T. Rowe Price and AIM.

A number of fund families including AllianceBernstein, Barclays and Ameriprise have consistently ranked as "Pay Enablers" over the four years covered by these reports. T. Rowe Price was among the "Pay Constrainers" in the 2006 study as well as both years covered by this study, while Templeton has been a "Pay Constrainer" in each of the last two years.

The rankings of some fund families have changed significantly since the first year of this study. The most dramatic improvements occurred at Oppenheimer, which was named a "Pay Enabler" in our 2005 study but qualified as a "Pay Constrainer" in the 2008 rankings, and AIM, a "Pay Enabler" in both the 2005 and 2006 studies that climbed to 17th in 2007 and then tied for 3rd in 2008 to qualify as a "Pay Constrainer." Morgan Stanley also left the lower tier of our rankings—it had been dubbed a "Pay Enabler" in 2005—to rank in the top quartile in 2007 and the top half in 2008.

Columbia is a family whose performance has dramatically dropped, going from being a "Pay Constrainer" in 2006 to a "Pay Enabler" in each of the last two years. Other funds with poorer performance include DWS Scudder, which was tied for 6th in 2006 and tied for 16th in 2008; MFS, which went from tied for 10th in 2006 to being a "Pay Enabler" in 2008; and Vanguard, which dropped from being a "Pay Constrainer" in 2005 to tied for 17th in 2006, 20th in 2007, and 19th in 2008.

2007 Overall Rankings

Rank	Fund Family	Score		Rank	Fund Family	Score
1	Templeton	6.00*		15 (tie)	Van Kampen	13.33
2	T. Rowe Price	6.67		17	AIM	13.67
3	Schwab	7.00		18	Fidelity	15.00
4	Franklin	8.67		19	Putnam	15.67
5	Legg Mason	10.00		20	Vanguard	16.67
6 (tie)	Morgan Stanley	10.33		21 (tie)	Lord Abbett	18.00
6 (tie)	JP Morgan	10.33		21 (tie)	Barclays	18.00
8	TIAA-CREF	10.67		21 (tie)	American Funds	18.00
9	Oppenheimer	11.33		24	Columbia	19.00
10	Scudder	11.67		25	AllianceBernstein	19.67
11	Janus	12.00		26	Ameriprise	21.00
12	MFS	12.33				
13	American Century	12.67				
14	Merrill Lynch**	13.00				
15 (tie)	Federated	13.33				

*Because Templeton did not report voting on any of the director nominees selected for this study in 2007, its overall ranking is based on an average of its rankings on shareholder proposal (5) and management proposal (7) voting.

2008 Overall Rankings

Rank	Fund Family	Score		Rank	Fund Family	Score
1 (tie)	Templeton	7.00		16 (tie)	Putnam	15.00
1 (tie)	Oppenheimer	7.00		16 (tie)	Scudder	15.00
3 (tie)	T. Rowe Price	7.67		16 (tie)	American Funds	15.00
3 (tie)	AIM	7.67		19	Vanguard	15.33
5 (tie)	Schwab	8.00		20 (tie)	Fidelity	16.00
5 (tie)	JP Morgan	8.00		20 (tie)	Lord Abbett	16.00
7	Janus	9.00		22	Columbia	17.33
8	American Century	10.67		23	Ameriprise	18.33
9	Legg Mason	11.00		24	Barclays	20.00
10	Federated	11.33		25	MFS	21.67
11	Franklin	11.67		26	AllianceBernstein	22.33
12	Morgan Stanley	13.00				
13	Van Kampen	13.33				
14 (tie)	TIAA-CREF	13.67				
14 (tie)	BlackRock**	13.67				

**Data for Merrill Lynch are reported only for 2007, and data for BlackRock are reported only for 2008, because Merrill Lynch merged its mutual fund business with BlackRock's under the BlackRock name effective October 2006 (during the reporting period for the 2007 N-PX filings).

Voting Trends

Over the past three years, average support for management proposals across all fund families has moved steadily upward, from 75.8% in 2006 to 82% in 2007 and 84% in 2008. Support for shareholder proposals has trended in the opposite direction, from 46.5% in 2006 to 42% in 2007 and 40% in 2008. Taken together, these two phenomena suggest that mutual funds are now less likely to use their clout as shareholders to reform executive compensation than they were a few years ago. It is possible that some mutual funds have chosen to express dissatisfaction by withholding support from directors serving on compensation committees, as those support levels decreased from 58% in 2007 to 48% in 2008, rather than through voting on management and shareholder proposals. (We did not analyze director voting in 2005 or 2006.)

The composition of the shareholder proposal universe changed between 2006 and 2008, with advisory vote proposals making up a much larger proportion of the total in 2008 than in 2006. As a result, a fund family's position on whether shareholders should have an advisory vote on top executive compensation had a much larger impact on its overall shareholder proposal vote tally and ranking in 2008. The fund families in this study decreased their average support for advisory vote proposals from 48% in 2007 to 43% in 2008, helping to explain the fact that overall support for these proposals remained stable year over year rather than increasing, as support levels often do in the first few years after a proposal is first submitted.

The data show an increase in the use of abstentions, especially in voting on shareholder proposals from 2007 and 2008. Fidelity and Ameriprise each abstained on 64% of the shareholder proposals in this study in 2008, and that figure resulted primarily from abstentions on advisory vote shareholder proposals. Because fund families may count abstentions as votes contrary to management's recommendations (which are generally "for" management proposals and "against" shareholder proposals) in their N-PX filings, a heavy reliance on abstentions has the potential to distort reported voting records, making a fund family seem inclined to oppose management when an abstention has much less practical effect than a vote for a shareholder proposal or a vote against a management proposal.

As in previous years, the data refute the argument, advanced with some frequency during the debate over whether mutual funds should be required to reveal their votes, that vote disclosure would lead to funds voting in lockstep with recommendations from Institutional Shareholder Services (now a division of RiskMetrics), which at the time was the dominant provider of proxy advisory services. (Since then, Glass, Lewis & Co., Proxy Governance Inc. and Egan-Jones have entered the market, in addition to specialized firms serving labor funds.) Fund families' voting records are sufficiently diverse to dispel any notion that uniformity has become the norm.

Action Recommendations

1. Mutual fund families that have been consistently categorized as "Pay Enablers" in our 2006, 2007 and 2008 analyses should revise their proxy voting policies to ensure that they promote responsible compensation programs that encourage the creation of long-term shareholder value and do not promote excessive risk-taking.

These funds should articulate an approach to executive compensation that aligns top executive interests with those of shareholders and emphasizes long-term value creation, and then ensure that their proxy voting records are consistent with this approach. Arguing that there is never cause for mutual funds to exert influence to change executive pay practices at companies whose stock they hold is no longer a credible approach. Accordingly, supporting few or no measures to reform executive compensation is hard to defend as value enhancing.

2. Mutual fund families should have a uniform mechanism in their corporate governance and proxy voting policies for establishing and communicating their views of pay to boards, especially directors serving on the compensation committee. Of course, funds' strategies will differ: Some may find the precision of shareholder proposals—which tend to deal with specific compensation practices—to be preferable, while others may view director voting as a source of greater leverage, and other funds vote against equity programs.

3. Retail investors in mutual funds, whom the Shareowner Education Network calls "citizen investors", have a responsibility to critically evaluate how their mutual funds vote on pay issues and hold those funds accountable for votes that enable pay abuses. While mutual fund investors have many reasons to select a fund—including strategy, long-term return history and fees—investors can also differentiate among funds based on voting policies regarding executive pay.

4. Mutual fund investors need transparent and easily understood information about funds' corporate governance policies and practices. In order to communicate effectively with the public, funds should be required to produce a standalone Plain English corporate governance report on proxy voting which could be distributed on fund websites and with prospectus disclosures.

The SEC should revise and improve the N-PX data disclosure by establishing standardized formatting, labeling, and reporting structures to make filings consistent and easier to use and to enable better comparison of fund voting records.

The lack of a uniform format makes automated extraction of data from N-PX filings extremely time-consuming and prone to error. Funds file N-PXs in plain-text format as well as various HTML formats, some of which contain embedded tables that prevent users from being able to search for specified text within the filings. A few fund families make deeply coded HTML filings without tables, which are most difficult to extract and parse. A requirement that funds file in a fixed-width plain-text format would substantially increase the ability of users to extract data from a large number of N-PX filings using an automated process without significant time-consuming manual intervention. It would also ensure that users interested in a small number of filings could search those filings for company names, tickers or other items of interest using their browsers' search functions.

N-PX filings exhibit a second kind of inconsistency that also frustrates analysis of the data they contain. Fund families do not use consistent terminology for important data elements; for example, in stating who is the sponsor of a management proposal, fund families use different nomenclature such as "Management," "Mgmt," "Issuer" and the like. A set of allowable values would ensure uniformity and facilitate analysis. Similarly, clarifying that descriptions such as "Shareholder Proposal 1" or "Elect a Director" are insufficiently specific, and requiring funds to describe proposals with enough detail to communicate the basic subject of the proposal, would help investors and other users understand and analyze the contents of the filings.

Finally, the SEC staff can inform funds that their N-PX filings will not be considered complete if they are missing necessary data items. One fund family, for example, included only the management recommendations for proposals and whether the votes cast were consistent with or contrary to those recommendations, but not the votes themselves, requiring users to derive that information.

Methodology

Votes Analyzed

This study examined a wide range of votes from 26 large mutual fund families[33] on compensation-related proposals that appeared on proxy ballots. Using N-PX filings with the SEC on which mutual funds disclose their votes, we analyzed the proxy voting records for which we were able to extract and parse voting data sets.[34] We examined votes on the following types of proposals put forward at annual meetings from July 1, 2006, to June 30, 2007 and July 1, 2007 to June 30, 2008:

- Compensation-related management proposals, excluding proposals that related solely to outside director compensation
- Shareholder proposals aimed at the following:
  - Giving shareholders an advisory vote on executive compensation
  - Mandating the clawback or recoupment of incentive compensation under certain circumstances
  - Disclosing of information regarding compensation consultants' conflicts of interest, or the adoption of policies addressing such conflicts (2007 only)
  - Requiring that executives retain shares obtained through equity compensation programs for a specified holding period (2007 only)
  - Implementing a pay-for-superior-performance compensation system incorporating peer benchmarking and other measures of relative performance
  - Using performance-based equity imposing performance goals before executives can realize value from stock option and restricted stock grants
  - Adopting a policy requiring shareholder approval of certain benefits under supplemental executive retirement plans or SERPs
  - Requiring shareholder approval of severance packages whose value exceeds a specified threshold
- Proposals to reelect certain directors from whom significant voting support (25% or more of shares voted) was withheld by shareholders for reasons relating to executive compensation. These directors and the companies' boards on which they served are listed in Appendix C.

We excluded from the data set proposals whose descriptions in the N-PX filings were not specific enough for us to determine whether the proposals fell within the categories described above. Vague descriptions were primarily a problem with shareholder proposals; some, for instance, were described only as "proposal on executive compensation" or "Shareholder Proposal No. 1." In some cases, we were able to match such vaguely described proposals with a proposal described in more detail by another fund family, thus allowing categorization and inclusion. Inconsistent numbering by fund families, however, sometimes made this impossible.

Similarly, proposals to "elect a director" without identifying the nominee could not be counted in the director voting analysis. As the SEC staff noted in a recent compliance alert, these kinds of vague descriptions may run afoul of the SEC rule on proxy vote disclosure, which requires fund families to "briefly identify" the matter voted on.[35]

We analyzed votes as follows: In 2007, we analyzed 44,812 votes on management compensation proposals, 11,637 votes on shareholder proposals and 2,620 votes on directors. In 2008, we analyzed 67,543 votes on management compensation proposals, 12,398 votes on shareholder proposals and 4,525 votes on directors. The breakdown of voting on the proposals across the fund families is contained in Appendix A. See Appendix B for the voting records of each individual mutual fund family.

The source for all data in the charts and tables in this report is The Corporate Library.

Votes Cast and Multiple Votes in a Fund Family

On the management compensation proposals and the shareholder proposals, votes were cast in one of three ways: "for," "against" and "abstain." Abstentions may be used when a fund does not have a policy on a particular issue, or when a fund agrees with the concerns raised by a shareholder proposal but disagrees with the specific action requested in the proposal. In calculating the percentage of proposals a fund family supported, abstentions are counted in the denominator.

A fund family may also report "no vote" on a proposal at a portfolio company. A fund may choose not to vote on a proposal at a foreign issuer where the burdens of voting, such as share blocking requirements, outweigh the benefits, or a fund may cast no vote if shares were on loan on the record date. We kept track of "no votes" for informational purposes, but they were not included in the denominator in calculating support percentages. A few fund families reported that votes were "N/A" (presumably, not available); it is unclear why that would be the case.

Most votes in director elections were cast in one of three ways: "for," "against" and "withheld." "Against" voting options generally appear on proxy cards when a company has a majority vote standard for electing directors, meaning that nominees are not legally considered elected unless they receive "for" votes from holders of a majority of shares voted. A "withhold" vote indicates that the shareholder does not support the nominee's election but the vote does not affect whether the nominee is considered legally elected. A company may have adopted a resignation policy requiring a director from whom support of a majority of shares is withheld to tender his or her resignation.

Two fund families, American Funds and Franklin, disclosed having cast "abstain" votes on five of the directors included in this study. This report is puzzling because Washington Mutual, the company to whose board all of the directors receiving abstentions were up for reelection, did not include an abstain option on its proxy card, at least as that card appears in the company's proxy statement filed on the SEC's EDGAR system. It is possible that the families, or a vendor engaged by them, erred in reporting these votes as abstentions in their N-PX filings.

It was not unusual for numerous funds in a fund family to hold the same security and thus to vote on the same agenda item. For example, six funds in the AIM fund family voted on an advisory vote shareholder proposal at Apple's 2008 annual meeting. To control for multiple occurrences of a single security across various funds in a single fund family (which would lead to overweighting of that vote relative to a vote on a security held in fewer funds), each fund family's votes on a ballot item at a given company were counted only once. In the AIM example, all six funds voted for the proposal, but that "for" vote counted only once in determining AIM's overall support levels for advisory vote proposals and shareholder proposals generally.

On occasion, funds within a fund family cast different votes on the same agenda item. In these cases, we determined whether there was a vote that predominated; in other words, if a particular vote was cast most often, that vote was used to represent the fund family's position on the agenda item. For instance, of the three funds in the American Funds family that voted on a pay-for-superior-performance proposal at JP Morgan at the 2007 annual meeting, two voted against and one voted for the proposal. We considered the fund family vote on that ballot item to be "against." Where votes numerically cancelled each other out, as when one fund in a family voted "for" an agenda item and another fund voted "against" it (and these two were the only funds in the family voting on the item), the votes were eliminated from the data set.

Approach

This study's purpose is to determine the extent to which mutual funds have voted to limit executive compensation or tie it more closely to company performance. Because the sheer number of votes makes it impractical to review each proposal and conduct company-specific research on it, we use the extent to which a fund family supported the various types of proposals as our metric. In our view, aggregate statistics on voting behavior illuminate a fund family's approach to voting, especially when examined relative to other fund families.

We recognize that in some cases, voting for a management-sponsored pay proposal or against a shareholder proposal on compensation may be in shareholders' best interests. For example, an equity compensation plan submitted for a shareholder vote may contain shareholder-friendly terms and may result in only modest dilution. Most plans, however, give the compensation committee nearly unfettered discretion in making awards and setting their terms. As a result, standard at-the-money stock options[36] and restricted stock that vest with the passage of time continue to be the norm.[37] These arrangements are not in shareholders' best interests.

Problems also plague the administration of plans geared toward providing cash incentive compensation, which shareholders may be asked to approve for tax-related reasons. Studies show that companies are likely to pay cash bonuses to executives based on windfalls (like the receipt of a litigation recovery unrelated to current business activities[38]) or luck (like changes in commodity prices or exchange rates[39]), rewarding executives for events outside their control. The inclusion in income of projected (not actual) earnings on a company's defined benefit pension plan raises similar issues. Compensation committees may set unchallenging performance targets or may change the targets midstream when it becomes apparent that actual results will fall short.

Some shareholder proposals may not be in shareholders' interests because they are poorly drafted or too restrictive. Accordingly, this study has collected data on voting on only those categories of shareholder proposals that, in our view, are most well-conceived and likely to enhance shareholder value, and it has excluded proposals that we view as too rigid or that we think would be ineffective in tying pay more closely to company performance. The proposal types included in this report are advisory vote, clawback, compensation consultants (2007 only), holding period (2007 only), pay-for-superior-performance, performance-based equity, SERP and severance. Descriptions of these shareholder proposals are set forth in Appendix A.

Appendix A – Comparative Voting Categories

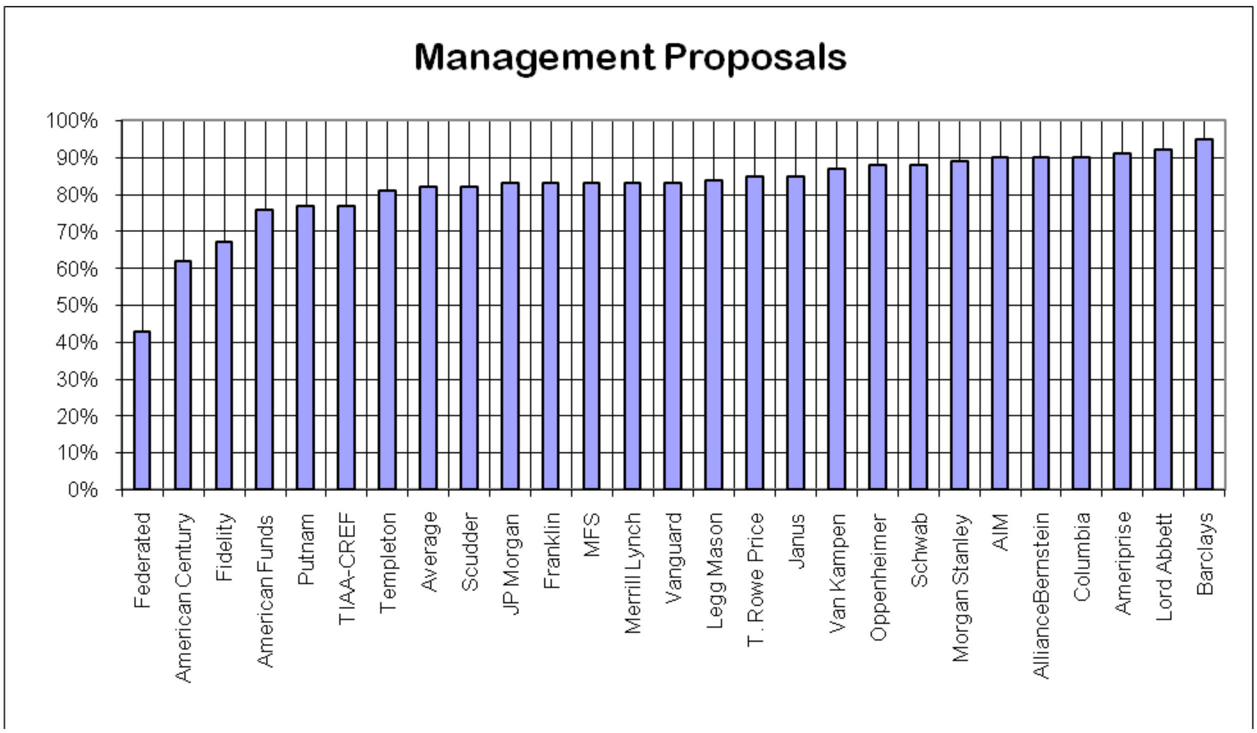
Management Proposals—Overview

Management Proposals—2007

The following chart and table compare how fund families voted on management-sponsored compensation proposals in 2007. This report considers a vote for management proposals to be less likely to serve shareholder interests.

The average voting support for management proposals increased somewhat from 76% in 2006 to 82% in 2007. Barclays had the highest level of voting support for management proposals, at 95%, with Lord Abbett, Ameriprise, Columbia, AllianceBernstein and AIM all supporting management proposals 90% or more of the time. Consistent with past studies, the fund family that was least likely to support management proposals was Federated, at 43%, followed by American Century at 62%.

The average rate of votes for management proposals in 2007 was 82%.
The median rate of votes for management proposals in 2007 was 84%.



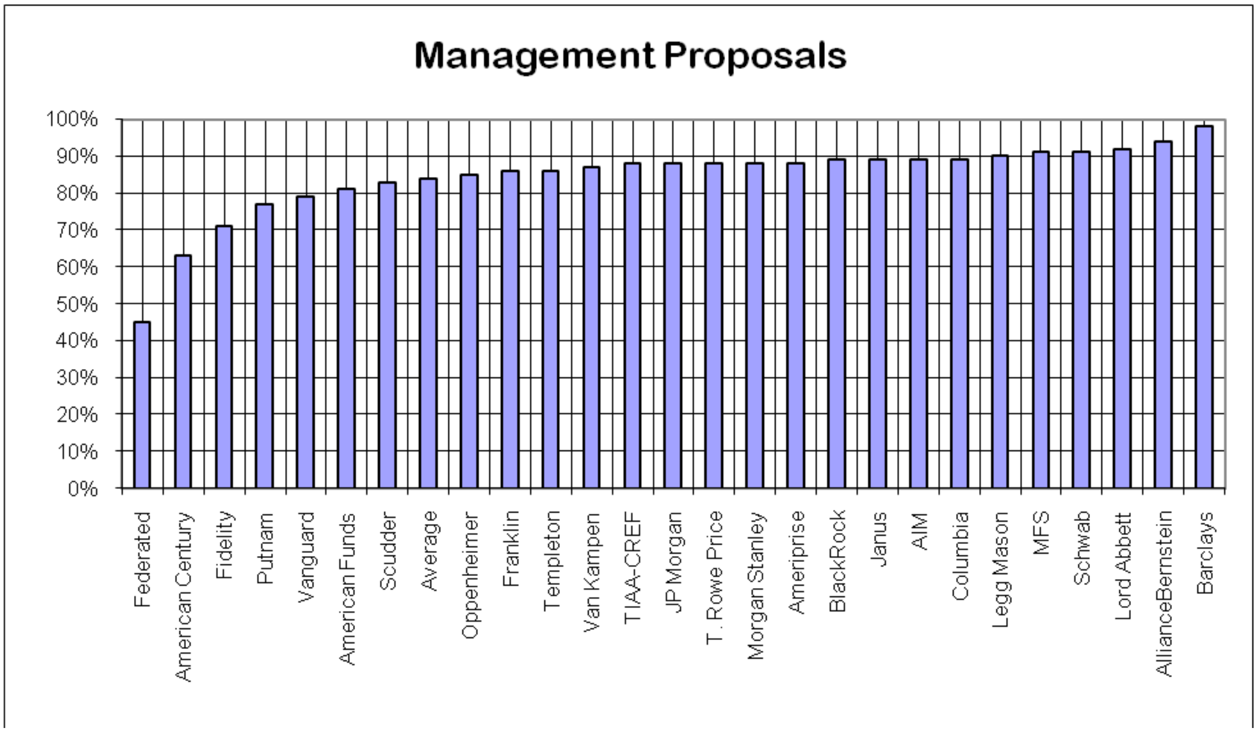
Pay Constraining	Below the Median	At the Median	Above the Median	Pay Enabling
Federated – 43%	Templeton–81%	Legg Mason–84%	T. Rowe Price–85%	AIM–90%
American Century – 62%	Scudder–82%		Janus–85%	AllianceBernstein–90%
Fidelity – 67%	J.P. Morgan–83%		Van Kampen–87%	Columbia–90%
American Funds – 76%	Franklin–83%		Oppenheimer–88%	Ameriprise–91%
Putnam–77%	MFS–83%		Schwab–88%	Lord Abbett–92%
TIAA-CREF–77%	Merrill Lynch–83%		Morgan Stanley–89%	Barclays–95%
	Vanguard–83%			

Management Proposals—2008

The following chart and table compare how fund families voted on management-sponsored compensation proposals in 2008. This report considers a vote for management proposals to be less likely to serve shareholder interests.

Overall support for management proposals increased from 2007's average of 82% to 84% in 2008. As in 2007, Barclays had the highest level of support for management proposals. AllianceBernstein, Lord Abbett, Schwab, MFS, and Legg Mason all registered 90% or greater support and Federated had the lowest level of support, at 45%.

The average rate of votes for management proposals in 2008 was 84%.
The median rate of votes for management proposals in 2008 was 88%.



Pay Constraining	Below the Median	At the Median	Above the Median	Pay Enabling
Federated—45%	American Funds—81%	TIAA-CREF—88%	BlackRock—89%	Legg Mason—90%
American Century—63%	Scudder—83%	J.P.Morgan—88%	Janus—89%	MFS—91%
Fidelity—71%	Oppenheimer—85%	T. Rowe Price—88%	AIM—89%	Schwab—91%
Putnam—77%	Franklin—86%	Morgan Stanley—88%	Columbia—89%	Lord Abbett—92%
Vanguard—79%	Templeton—86%	Ameriprise—88%		AllianceBernstein—94%
	Van Kampen—87%			Barclays—98%

Shareholder Proposals—Overview

Shareholder Proposals—2007

The following chart and table compare how fund families voted on the selected categories of shareholder-sponsored compensation proposals in 2007: advisory vote, clawback, compensation consultants, holding period, pay-for-superior-performance, performance-based equity, SERPs and severance. This report considers a vote "for" shareholder proposals to be more likely to serve shareholder interests.

Average support for shareholder proposals across all fund families was down significantly from an average of 46.5% in 2006 to 42% in 2007. Schwab supported shareholder proposals the most often, at 87%, followed by T. Rowe Price (81%) and Scudder (80%). Ameriprise, American Funds and Vanguard were the least supportive, supporting 3%, 7% and 9% of shareholder proposals in this study, respectively.

The average rate of votes for these shareholder proposals in 2007 was 42%.
The median rate of votes for these shareholder proposals in 2007 was 48%.

Pay Constraining	Above the Median	At or Near the Median	Below the Median	Pay Enabling
Schwab–87%	Templeton–69%	Columbia–50%	Van Kampen–37%	Fidelity–14%
T. Rowe Price–81%	Legg Mason–63%	JP Morgan–50%	Federated–22%	Barclays–10%
Scudder–80%	Morgan Stanley–63%	Oppenheimer–47%	Lord Abbett–22%	Putnam–10%
Janus–77%	Merrill Lynch–62%		American Century–21%	Vanguard–9%
	AIM–59%		MFS–19%	American Funds–7%
	Franklin–57%		AllianceBernstein–18%	Ameriprise–3%
	TIAA-CREF–52%			

Shareholder Proposals—2008

The following chart and table compare how fund families voted on the selected categories of shareholder-sponsored compensation proposals in 2008: advisory vote, clawback, pay-for-superior-performance, performance-based equity, SERPs and severance. This report considers a vote "for" shareholder proposals to be more likely to serve shareholder interests.

Overall, support levels for the categories of shareholder proposals included in this study decreased slightly in 2008 from 2007 levels (from 42% to 40%). Schwab again was most supportive of shareholder proposals, voting in favor 94% of the time, with Janus following closely at 91%. Least supportive were AllianceBernstein (2%), American Funds (3%), Putnam (4%) and Barclays (5%).

The average rate of votes for these shareholder proposals in 2008 was 40%.
The median rate of votes for these shareholder proposals in 2008 was 36%.

Pay Constraining	Above the Median	At or Near the Median	Below the Median	Pay Enabling
Schwab–94%	BlackRock–72%	None	Federated–34%	American Century–8%
Janus–91%	TIAA-CREF–70%		Scudder–29%	MFS–8%
Legg Mason–81%	J.P. Morgan–67%		Lord Abbett–17%	Vanguard–8%
T. Rowe Price–81%	Columbia–61%		Van Kampen–17%	Ameriprise–6%
AIM–80%	Templeton–60%			Fidelity–6%
	Franklin–57%			Barclays–5%
	Oppenheimer–40%			Putnam–4%
	Morgan Stanley–38%			American Funds–3%
				AllianceBernstein–2%

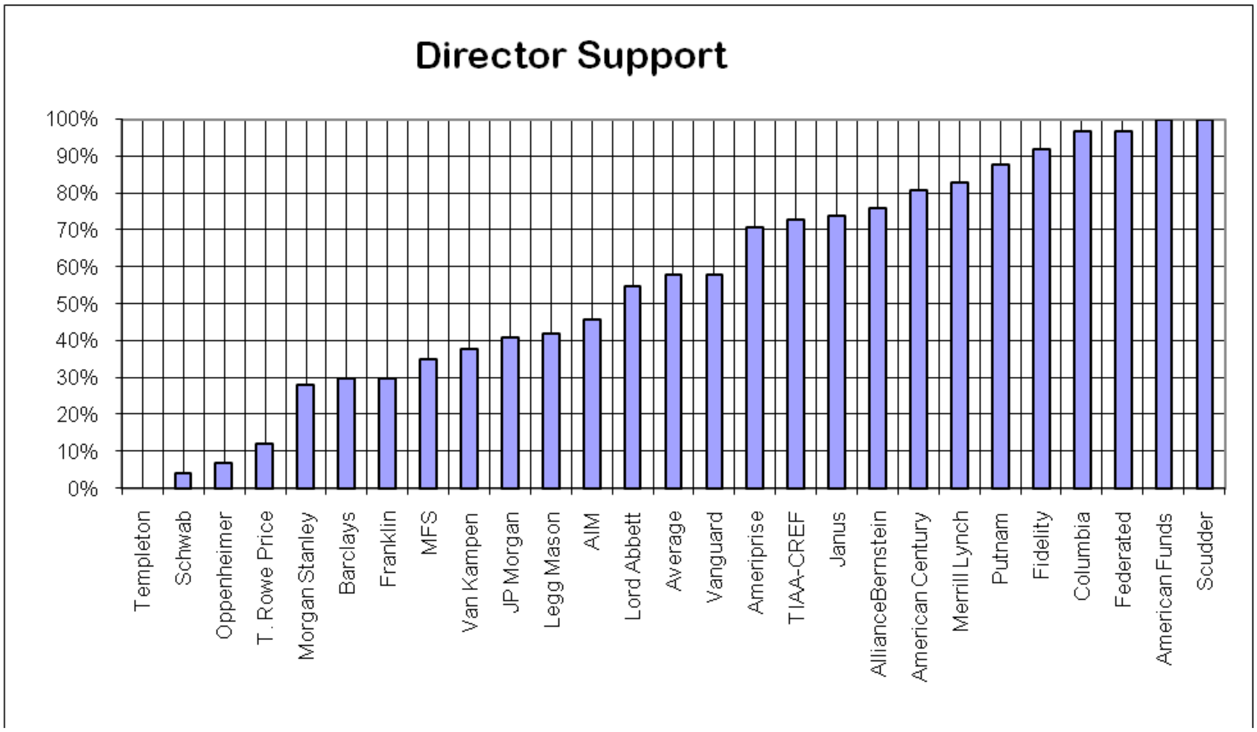
Director Voting

Directors—2007

The following chart and table compare how fund families voted on the selected director nominees in 2007. This report considers a vote "for" these directors to be less likely to serve shareholder interests. (See Appendix C for a list of the directors.)

Across fund families, support for the selected director nominees averaged 58%. Overall, shareholders supported 68% of the selected directors, indicating that mutual funds were more likely to withhold votes from directors for compensation concerns than was the average shareholder. Both Scudder and American Funds supported all of the directors on whom they cast votes, and Templeton voted for none of them.

The average rate of votes for directors in 2007 was 58%.
The median rate of votes for directors in 2007 was 56%.



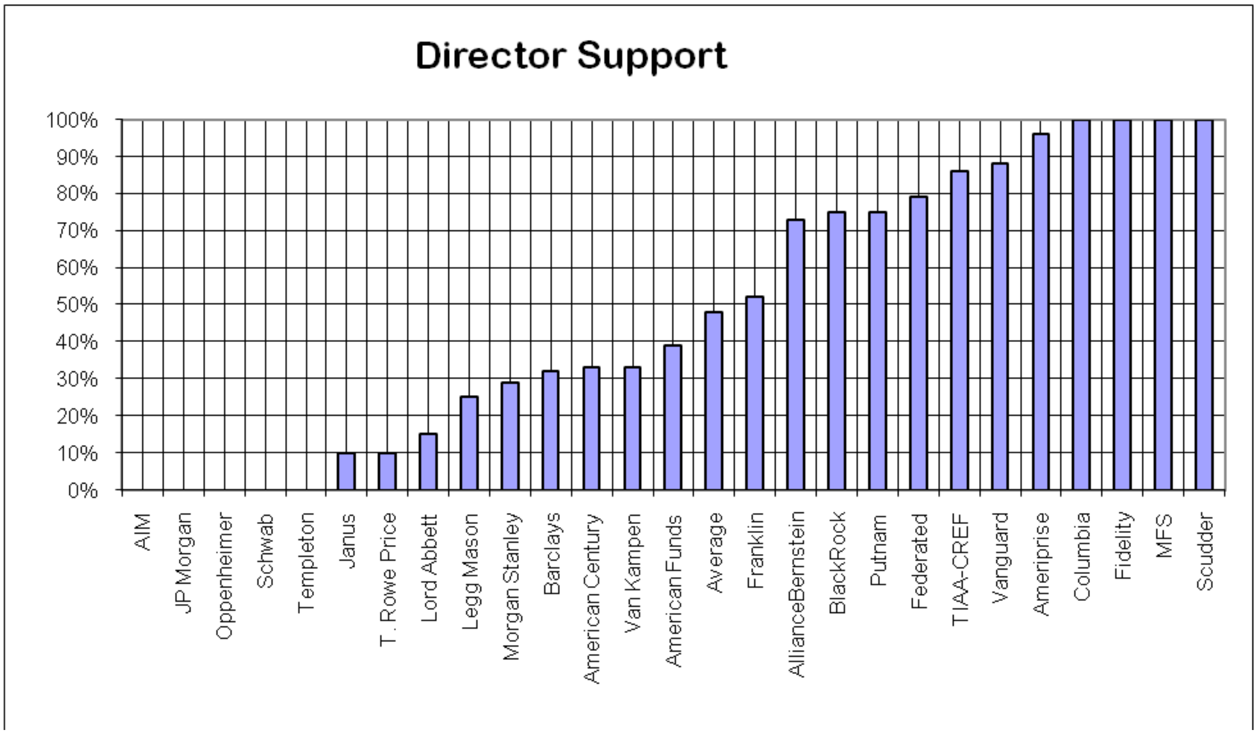
Pay Constraining	Below the Median	At or Near the Median	Above the Median	Pay Enabling
Templeton–0%	Morgan Stanley–28%	Lord Abbett–55%	Ameriprise–71%	Fidelity–92%
Schwab–4%	Barclays–30%	Vanguard–58%	TIAA-CREF–73%	Columbia–97%
Oppenheimer–7%	Franklin–30%		Janus–74%	Federated–97%
T. Rowe Price–12%	MFS–35%		AllianceBernstein–76%	American Funds–100%
	Van Kampen–38%		American Century–81%	Scudder–100%
	J.P. Morgan–41%		Merrill Lynch–83%	
	Legg Mason–42%		Putnam–88%	
	AIM–46%			

Directors—2008

The following chart and table compare how fund families voted on the selected director nominees in 2008. This report considers a vote "for" these directors to be less likely to serve shareholder interests. (See Appendix C for a list of the directors.)

Average support for directors across all fund families decreased from 58% in 2007 to 48% in 2008. Overall, shareholders supported 68% of the selected directors, again indicating that mutual funds were more likely to withhold votes from directors for compensation concerns than was the average shareholder. Four fund families—Columbia, Fidelity, MFS and Scudder—supported all of the directors on whose election they voted, while five fund families supported none of the directors.

The average rate of votes for directors was 48%.
The median rate of votes for directors was 36%.



Pay Constraining	Below the Median	At or Near the Median	Above the Median	Pay Enabling
AIM—0%	Janus—10%	American Century—33%	American Funds—39%	Ameriprise—96%
J.P. Morgan—0%	T. Rowe Price—10%	Van Kampen—33%	Franklin—52%	Columbia—100%
Oppenheimer-0%	Lord Abbett—15%		AllianceBernstein—73%	Fidelity—100%
Schwab—0%	Legg Mason—25%		BlackRock—75%	MFS—100%
Templeton—0%	Morgan Stanley—29%		Putnam—75%	Scudder—100%
	Barclays—32%		Federated—79%	
			TIAA-CREF—86%	
			Vanguard—88%	

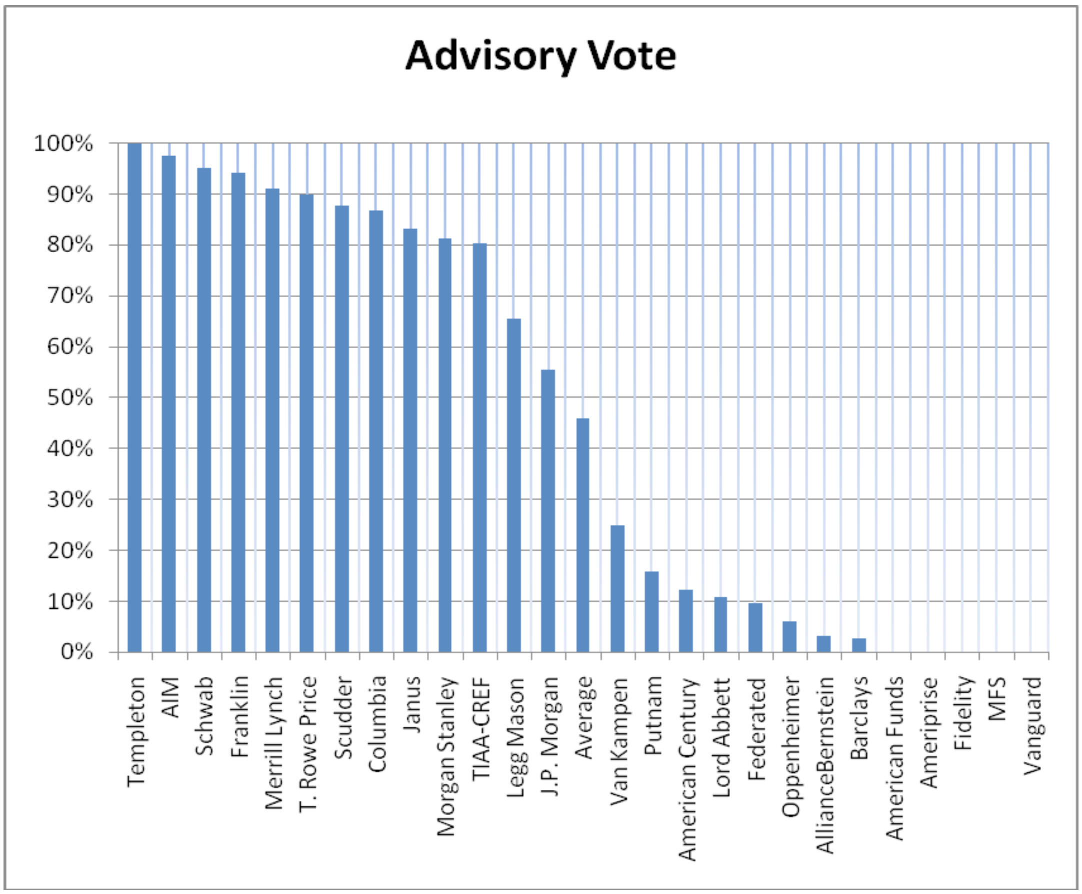
Shareholder Proposals by Category

Advisory Vote Shareholder Proposals

This shareholder proposal requests that shareholders be given the opportunity each year to cast an advisory vote on the compensation of the "named executive officers" and accompanying material in the proxy statement.

In 2007, advisory vote proposals (aka "say on pay") had the second-highest average support level across fund families of the categories studied. Only one fund family supported all of these proposals, but six fund families had support levels of 90% or higher.

The average rate of votes for these shareholder proposals in 2007 was 46%.
The median rate of votes for these shareholder proposals in 2007 was 40%.

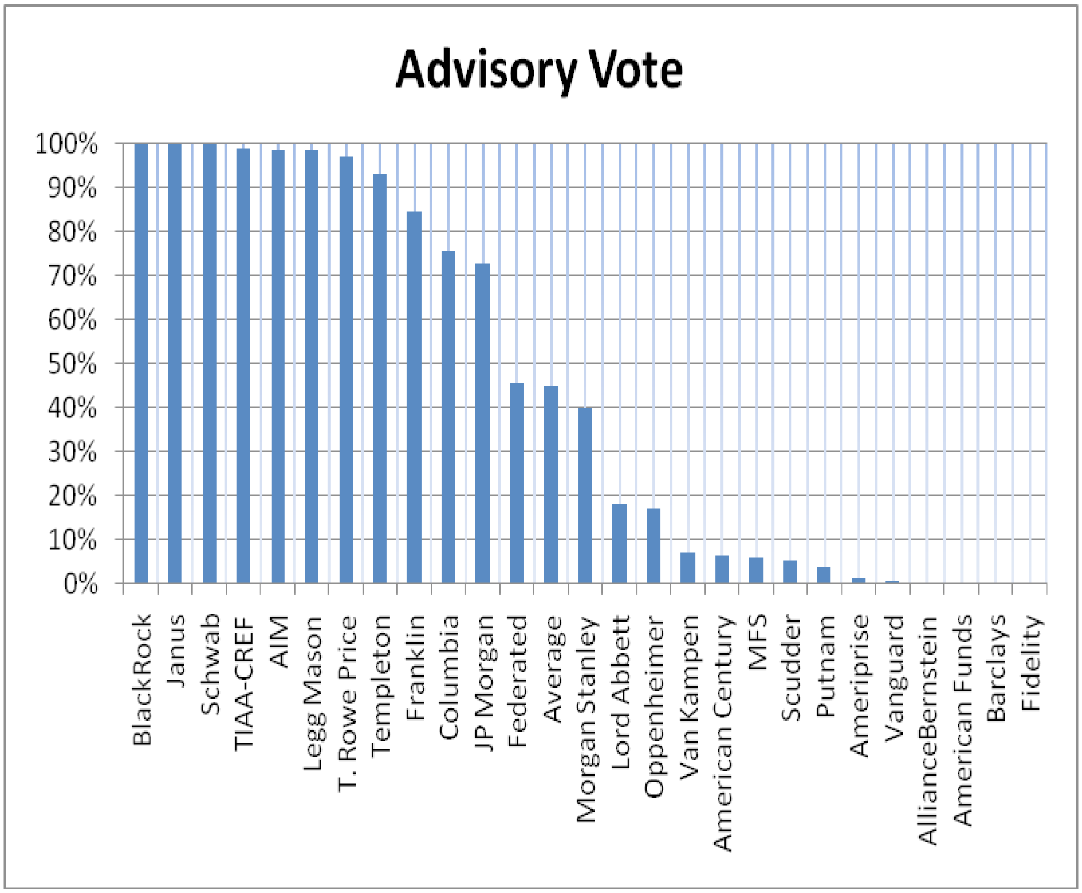


2007

Pay Constraining	Above the Median	At or Near the Median	Below the Median	Pay Enabling
Templeton–100%	Scudder–88%	None	Van Kampen–25%	AllianceBernstein–3%
AIM–98%	Columbia–87%		Putnam–16%	Barclays–3%
Schwab–95%	Janus–83%		Am. Century–12%	American Funds–0%
Franklin–94%	Morgan Stanley–81%		Lord Abbett–11%	Ameriprise–0%
Merrill Lynch–91%	TIAA-CREF–80%		Federated–10%	Fidelity–0%
T. R. Price–90%	Legg Mason–65%		Oppenheimer–6%	MFS–0%
	J.P. Morgan–56%			Vanguard–0%

As in 2007, advisory vote proposals were the second most successful category of shareholder proposal in this study in 2008, though the average support level fell to 45% from 46% in 2007. Three fund families supported 100% of advisory vote proposals, while four supported none.

The average rate of votes for these shareholder proposals in 2008 was 45%.
The median rate of votes for these shareholder proposals in 2008 was 29%.



2008

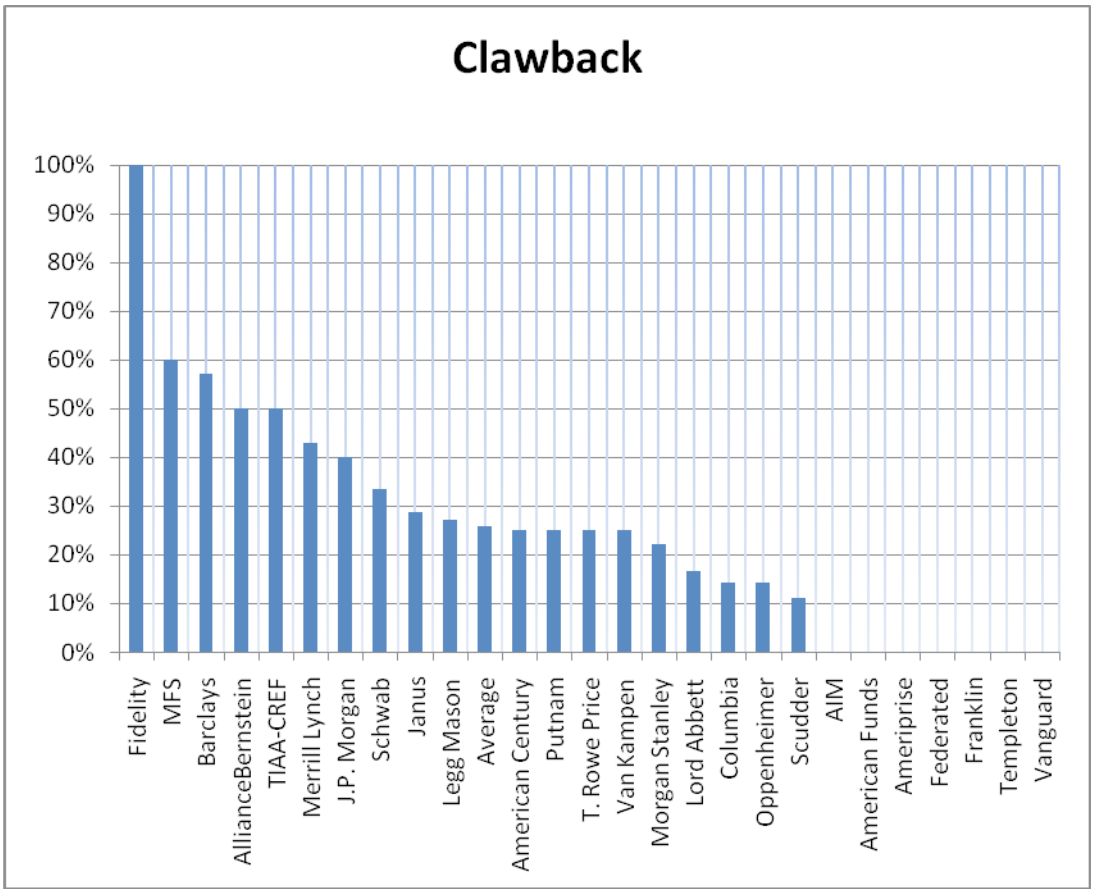
Pay Constraining	Above the Median	At or Near the Median	Below the Median	Pay Enabling
BlackRock–100%	Templeton–93%	None	Lord Abbett–18%	Ameriprise–1%
Janus–100%	Franklin–84%		Oppenheimer–17%	Vanguard–1%
Schwab–100%	Columbia–76%		Van Kampen–7%	AllianceBernstein–0%
TIAA-CREF–99%	J.P. Morgan–73%		American Century–7%	American Funds–0%
AIM–99%	Federated–46%		MFS–6%	Barclays–0%
Legg Mason–99%	Morgan Stanley–40%		Scudder–5%	Fidelity–0%
T. Rowe Price–97%			Putnam–4%	

Clawback Shareholder Proposals

This type of proposal asks the board to adopt a policy that, in the event of a significant negative financial restatement or extraordinary write-off, the board will clawback or recoup performance-based bonuses or other awards to the extent such bonuses or awards were based on results that were not actually achieved.

Clawback proposals were the least supported of the shareholder proposals surveyed in 2007, averaging only 26%. Only one fund family supported all of the clawback proposals, and seven fund families supported none.

The average rate of votes for these shareholder proposals in 2007 was 26%.
The median rate of votes for these shareholder proposals in 2007 was 25%.

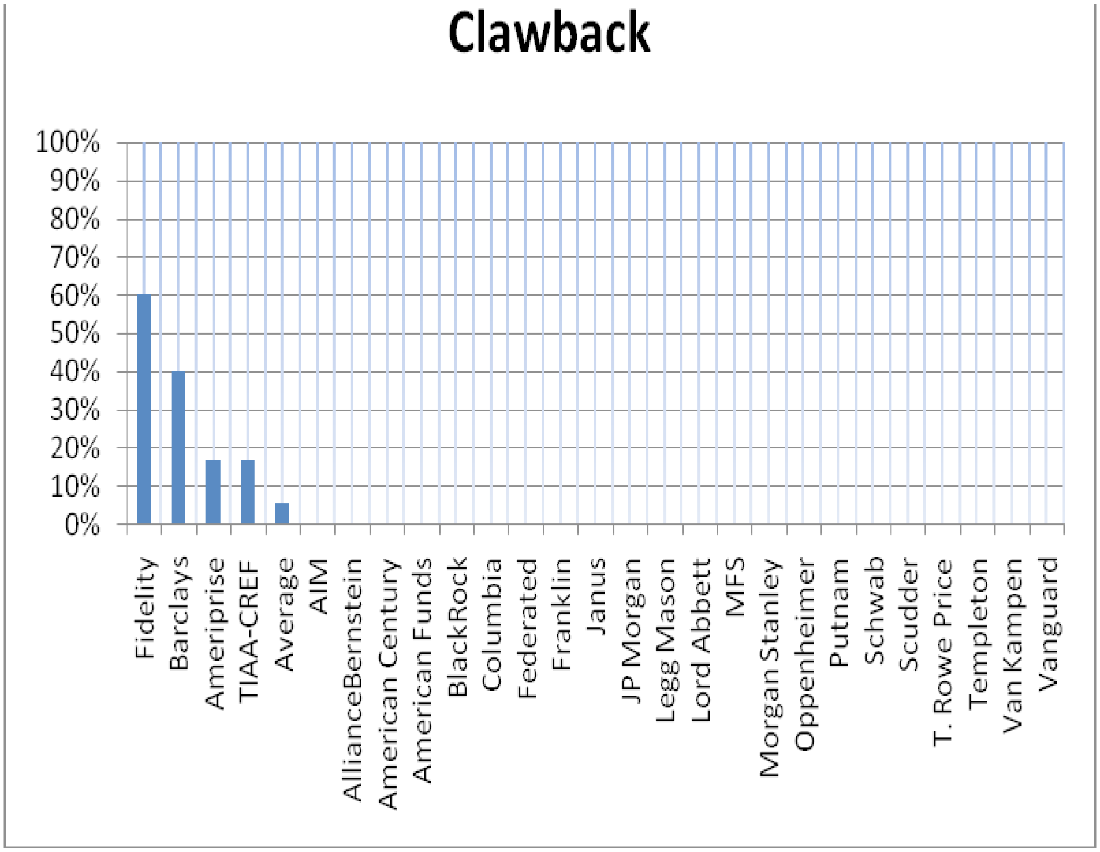


2007

Pay Constraining	Above the Median	At the Median	Below the Median	Pay Enablers
Fidelity—100%	Merrill Lynch—43%	American Century—25%	Morgan Stanley—22%	AIM—0%
MFS—60%	J.P. Morgan—40%	Putnam—25%	Lord Abbett—17%	American Funds—0%
Barclays—57%	Schwab—33%	T. Rowe Price—25%	Columbia—14%	Ameriprise—0%
AllianceBernstein—50%	Janus—29%	Van Kampen—25%	Oppenheimer—14%	Federated—0%
TIAA-CREF—50%	Legg Mason—27%		Scudder—11%	Franklin—0%
				Templeton—0%
				Vanguard—0%

Clawback proposals were the second least supported of the shareholder proposals surveyed in 2008, averaging only 5%, down sharply from 26% in 2007. No fund families supported all clawback proposals in 2008, and 22 fund families supported none of them, making 0% the median vote in 2008.

The average rate of votes for these shareholder proposals in 2008 was 5%.
The median rate of votes for these shareholder proposals in 2008 was 0%.



2008

Pay Constraining	At the Median	At the Median	At the Median
Fidelity–60%	AIM–0%	Franklin–0%	Oppenheimer–0%
Barlcays–40%	AllianceBernstein–0%	Janus–0%	Putnam–0%
Ameriprise–17%	American Century–0%	J.P. Morgan–0%	Schwab–0%
TIAA-CREF–17%	American Funds–0%	Legg Mason–0%	Scudder–0%
	BlackRock–0%	Lord Abbett–0%	T. Rowe Price–0%
	Columbia–0%	MFS–0%	Templeton–0%
	Federated–0%	Morgan Stanley–0%	Van Kampen–0%
			Vanguard–0%

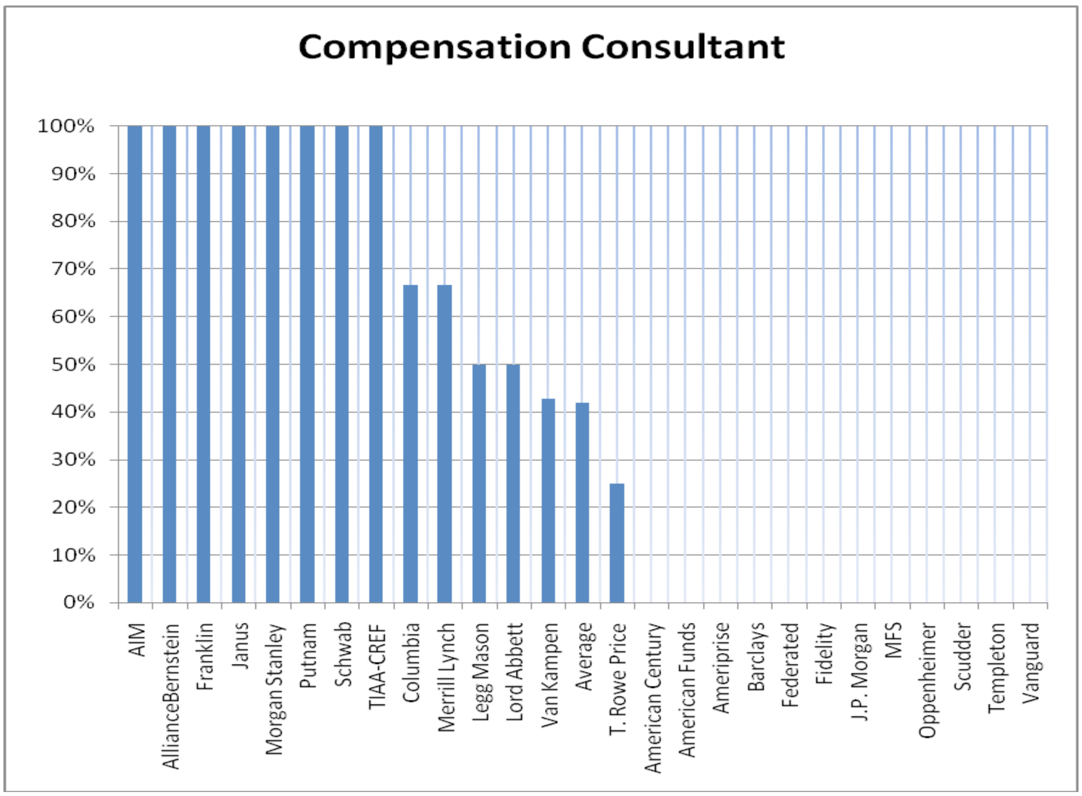
Compensation Consultant Shareholder Proposals–2007

This shareholder proposal asks the board to (a) disclose additional information regarding conflicts of interest on the part of the compensation consultant(s) that provide data and/or advice to the board's compensation committee and/or (b) adopt a policy regarding such conflicts of interest.

We analyzed votes on these proposals in 2007 but not 2008, because in 2008 only one proposal came to a vote, making the sample size too small.

These proposals were the third most successful in 2007, with average support levels of 42%. Eight fund families supported all of the proposals in this category, but twelve fund families supported none.

The average rate of votes for these shareholder proposals in 2007 was 42%.
The median rate of votes for these shareholder proposals in 2007 was 34%.



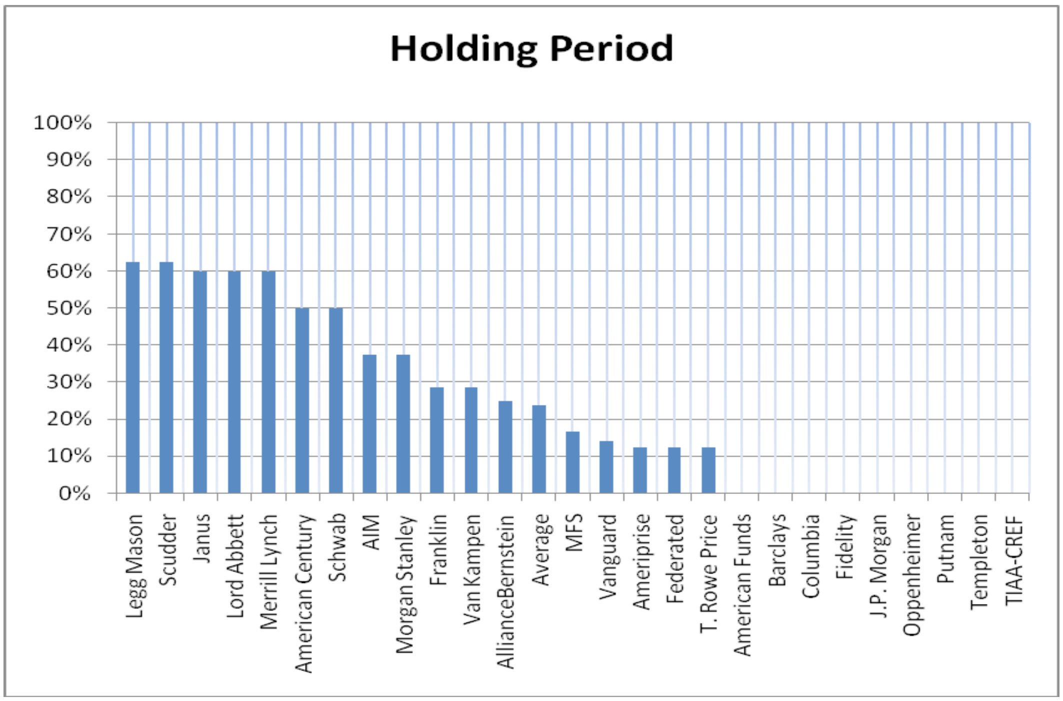
Pay Constraining	Above the Median	Below the Median	Pay Enabling	Pay Enabling
AIM–100%	Columbia–67%	T. Rowe Price–25%	American Century–0%	MFS–0%
AllianceBernstein–100%	Merrill Lynch–67%		American Funds–0%	Oppenheimer–0%
Franklin–100%	Legg Mason–50%		Ameriprise–0%	Scudder–0%
Janus–100%	Lord Abbett–50%		Barclays–0%	Templeton–0%
M. Stanley–100%	Van Kampen–43%		Federated–0%	Vanguard–0%
Putnam–100%			Fidelity–0%	
Schwab–100%			J.P. Morgan–0%	
TIAA-CREF–100%				

Holding Period Shareholder Proposals–2007

This proposal asks the board's compensation committee to adopt a policy requiring that senior executives retain a significant portion of shares obtained through equity compensation awards for the duration of employment; the proposal suggests that the retention ratio should not be lower than 75% of net after-tax shares. We analyzed votes on these proposals in 2007 but not 2008, because no proposals in this category came to a vote in 2008.

In 2007, holding period proposals were the second least successful shareholder proposal, averaging 24% support. No fund families supported every holding period proposal on which they voted, while nine supported none.

The average rate of votes for these shareholder proposals in 2007 was 24%.
The median rate of votes for these shareholder proposals in 2007 was 15%.



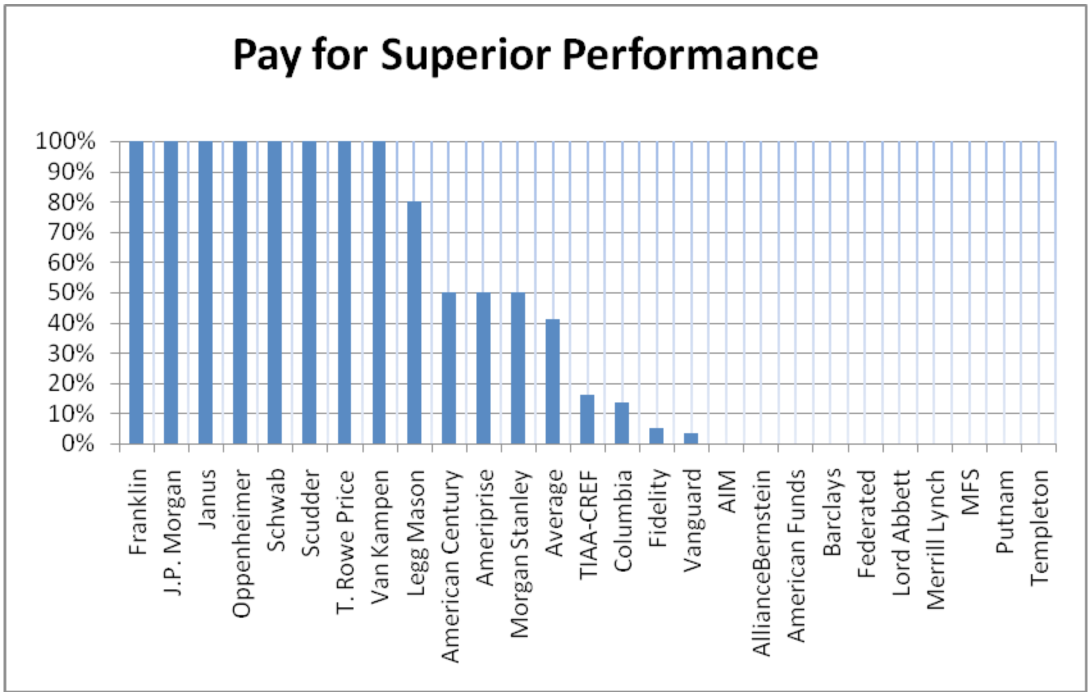
Pay Constraining	Above the Median	At or Near the Median	Below the Median	Pay Enabling
Legg Mason–63%	AIM–38%	MFS–17%	Ameriprise–13%	American Funds–0%
Scudder–63%	Morgan Stanley–38%	Vanguard–14%	Federated–13%	Barclays–0%
Janus–60%	Franklin–29%		T. Rowe Price–13%	Columbia–0%
Lord Abbett–60%	Van Kampen–29%			Fidelity–0%
Merrill Lynch–60%	AllianceBernstein–25%			J.P. Morgan–0%
American Century–50%				Oppenheimer–0%
Schwab–50%				Putnam–0%
				Templeton–0%
				TIAA-CREF–0%

Pay-for-Superior-Performance Shareholder Proposals

This proposal requests that the compensation committee establish a "pay-for-superior- performance" standard that incorporates peer-group benchmarking, requires outperformance of the peer median or mean for bonus or equity compensation payout and discloses compensation in a manner that allows shareholders to monitor the pay-performance link.

In 2007, pay-for-superior-performance proposals were the fifth most successful category. Eight fund families supported all of these proposals, while 10 fund families voted in favor of none of them.

The average rate of votes for these shareholder proposals in 2007 was 41%.
The median rate of votes for these shareholder proposals in 2007 was 15%.

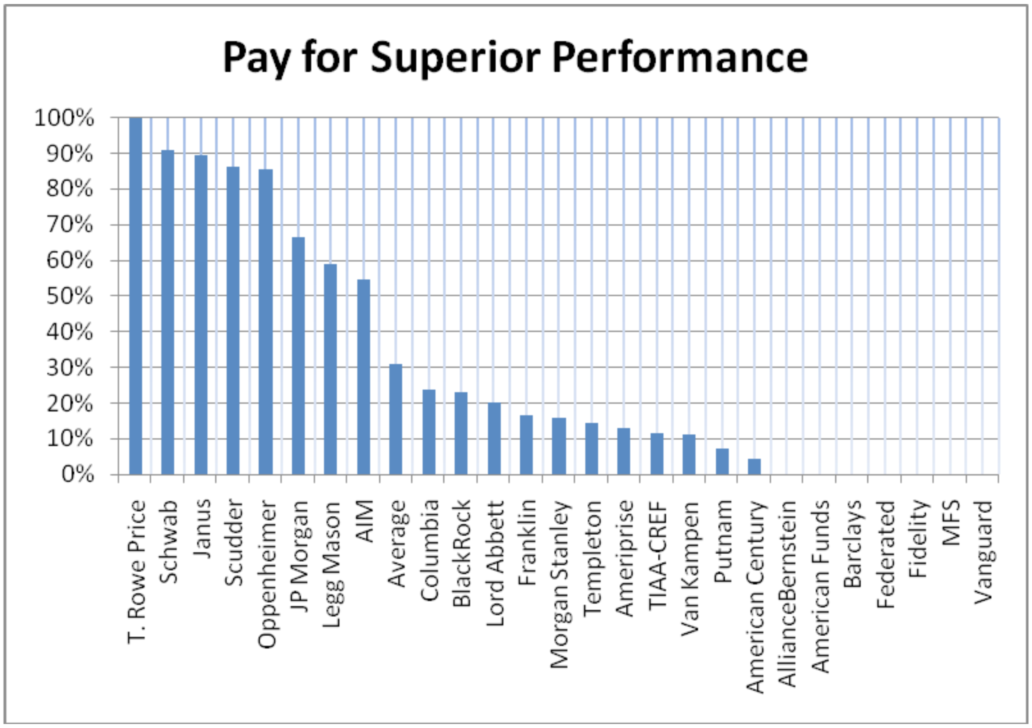


2007

Pay Constraining	Above the Median	At or Near the Median	Below the Median	Pay Enabling
Franklin—100%	Legg Mason—80%	TIAA-CREF—16%	Fidelity—5%	AIM—0%
JP Morgan—100%	Am. Century—50%	Columbia—14%	Vanguard—3%	AllianceBernstein—0%
Janus—100%	Ameriprise—50%			American Funds—0%
Oppenheimer—100%	M. Stanley—50%			Barclays—0%
Schwab—100%				Federated—0%
Scudder—100%				Lord Abbett—0%
T. Rowe Price—100%				Merrill Lynch—0%
Van Kampen—100%				MFS—0%
				Putnam—0%
				Templeton—0%

Support for pay-for-superior-performance proposals trended down from 41% on average in 2007 to 31% in 2008. Only one fund family supported all of the proposals in this category, with seven fund families supporting none.

The average rate of votes for these shareholder proposals in 2008 was 31%.
The median rate of votes for these shareholder proposals in 2008 was 15%.



2008

Pay Constraining	Above the Median	At or Near the Median	Below the Median	Pay Enabling
T. Rowe Price–100%	J.P. Morgan–67%	Franklin–17%	Ameriprise–13%	AllianceBernstein–0%
Schwab–91%	Legg Mason–59%	Morgan Stanley–16%	TIAA-CREF–12%	American Funds–0%
Janus–89%	AIM–55%	Templeton–14%	Van Kampen–11%	Barclays–0%
Scudder–86%	Columbia–24%		Putnam–7%	Federated–0%
Oppenheimer–86%	BlackRock–23%		Am. Century–4%	Fidelity–0%
	Lord Abbett–20%			MFS–0%
				Vanguard–0%

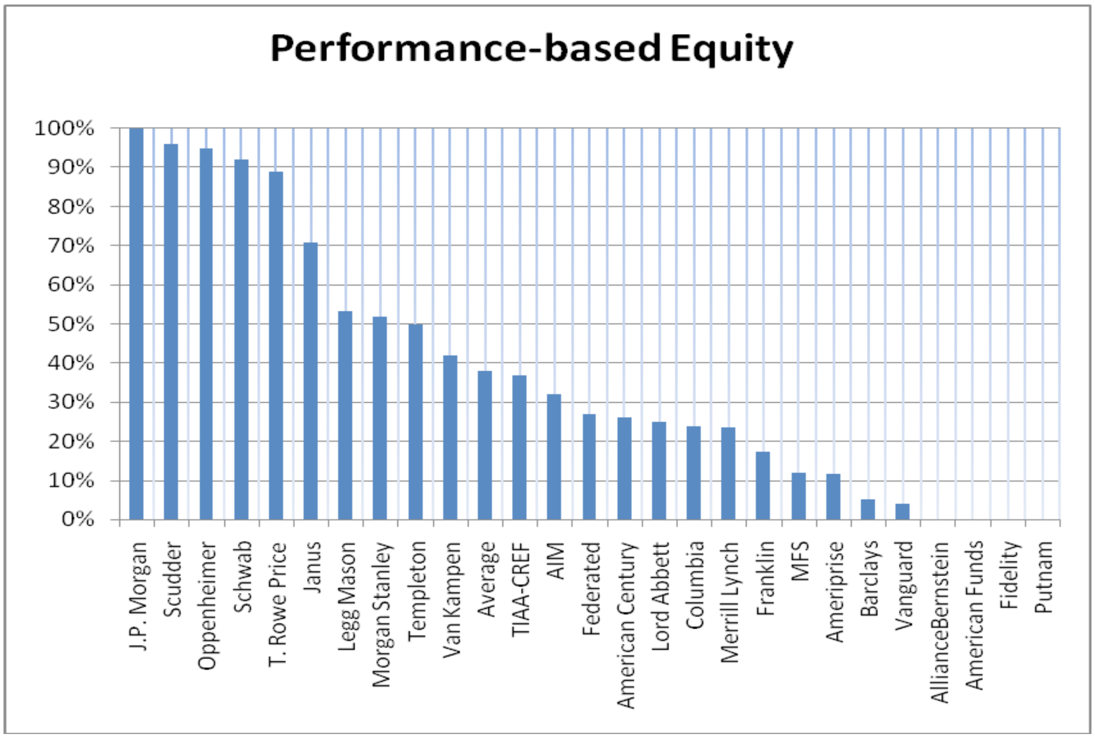
Performance-Based Equity Shareholder Proposals

This proposal seeks a policy that a significant portion of all or some forms of equity compensation be performance-based; some proposals deal only with stock options or restricted stock, while others encompass all forms of equity compensation. In the case of options, "performance-based" means indexed, premium-priced or performance-vesting options, while performance-based restricted stock is not time-vesting but rather requires achievement of specific performance goals.

Performance-based equity proposals were the third least successful shareholder compensation proposal voted on in 2007, averaging 38% support. Only one fund family supported all performance-based equity proposals, while four fund families supported none.

The average rate of votes for these shareholder proposals in 2007 was 38%.
The median rate of votes for these shareholder proposals in 2007 was 27%.

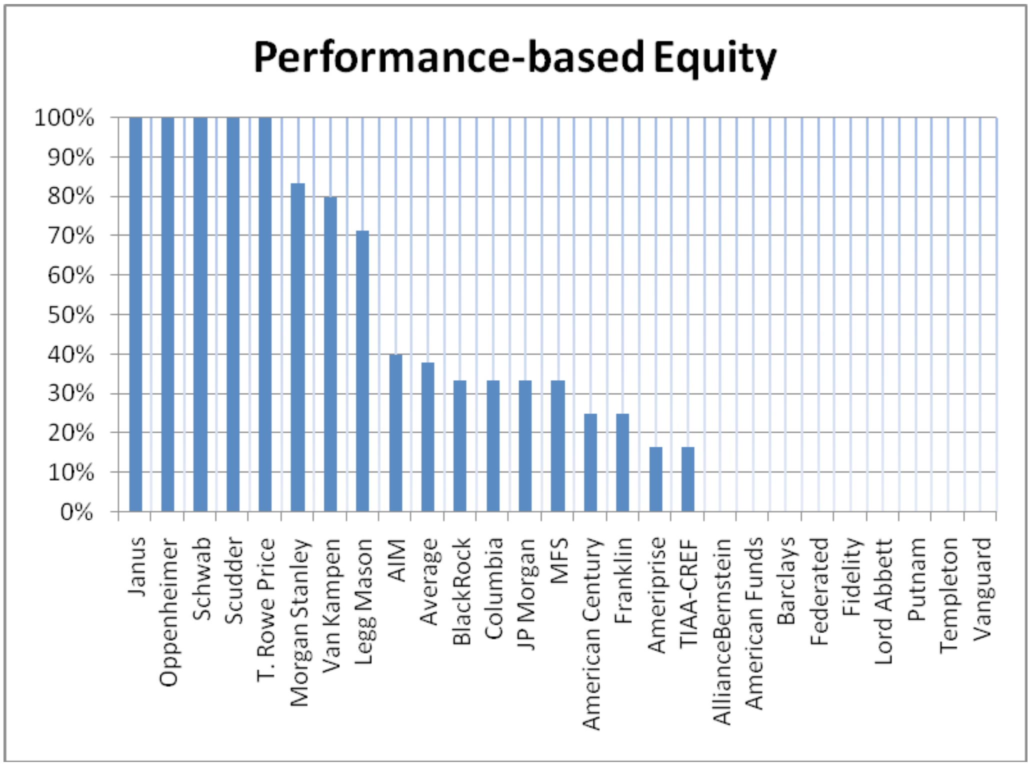
2007



Pay Constraining	Above the Median	At or Near the Median	Below the Median	Pay Enabling
J.P. Morgan—100%	Legg Mason—53%	Federated—27%	Lord Abbett—25%	AllianceBernstein—0%
Scudder—96%	Morgan Stanley—52%	American Century—26%	Columbia—24%	American Funds—0%
Oppenheimer—95%	Templeton—50%		Merrill Lynch—24%	Fidelity—0%
Schwab—92%	Van Kampen—42%		Franklin—17%	Putnam—0%
T. Rowe Price—89%	TIAA-CREF—37%		MFS—12%	
Janus—71%	AIM—32%		Ameriprise—12%	
			Barclays—5%	
			Vanguard—4%	

Performance-based equity proposals were the third most successful shareholder compensation proposal voted on in 2008, averaging 38% support. Five fund families supported all performance-based equity proposals, while nine fund families supported none.

The average rate of votes for these shareholder proposals in 2008 was 38%.
The median rate of votes for these shareholder proposals in 2008 was 29%.



2008

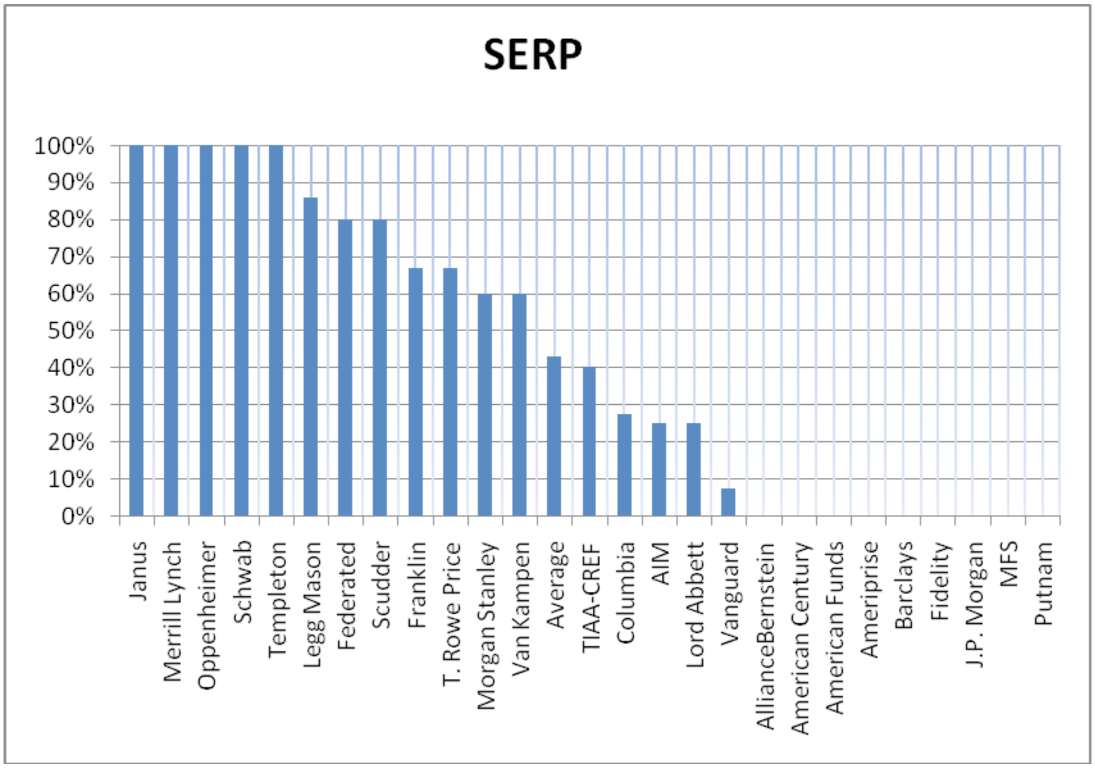
Pay Constraining	Above the Median	At or Near the Median	Below the Median	Pay Enabling
Janus – 100%	AIM – 40%	None	American Century – 25%	AllianceBernstein – 0%
Oppenheimer – 100%	BlackRock – 33%		Franklin – 25%	American Funds – 0%
Schwab – 100%	Columbia – 33%		Ameriprise – 17%	Barclays – 0%
Scudder – 100%	J.P. Morgan – 33%		TIAA-CREF – 17%	Federated – 0%
T. Rowe Price – 100%	MFS – 33%			Fidelity – 0%
Morgan Stanley – 83%				Lord Abbett – 0%
Van Kampen – 80%				Putnam – 0%
Legg Mason – 71%				Templeton – 0%
				Vanguard – 0%

SERP Shareholder Proposals

This proposal asks for a policy that shareholder approval be required for granting extraordinary retirement benefits, which are defined as receipt of additional years of service credit not actually worked, preferential benefit formulas not provided under the company's tax-qualified retirement plans, accelerated vesting of retirement benefits, and retirement perquisites and fringe benefits that are not generally offered to other company employees. Some proposals seek additional disclosure regarding supplemental executive retirement plans (SERPs).

Proposals addressing SERPs were the fourth most successful category in the study in 2007, averaging 43% support. Five fund families supported all of the proposals on which they voted, and nine fund families supported none of these proposals.

The average rate of votes for these shareholder proposals in 2007 was 43%.
The median rate of votes for these shareholder proposals in 2007 was 34%.

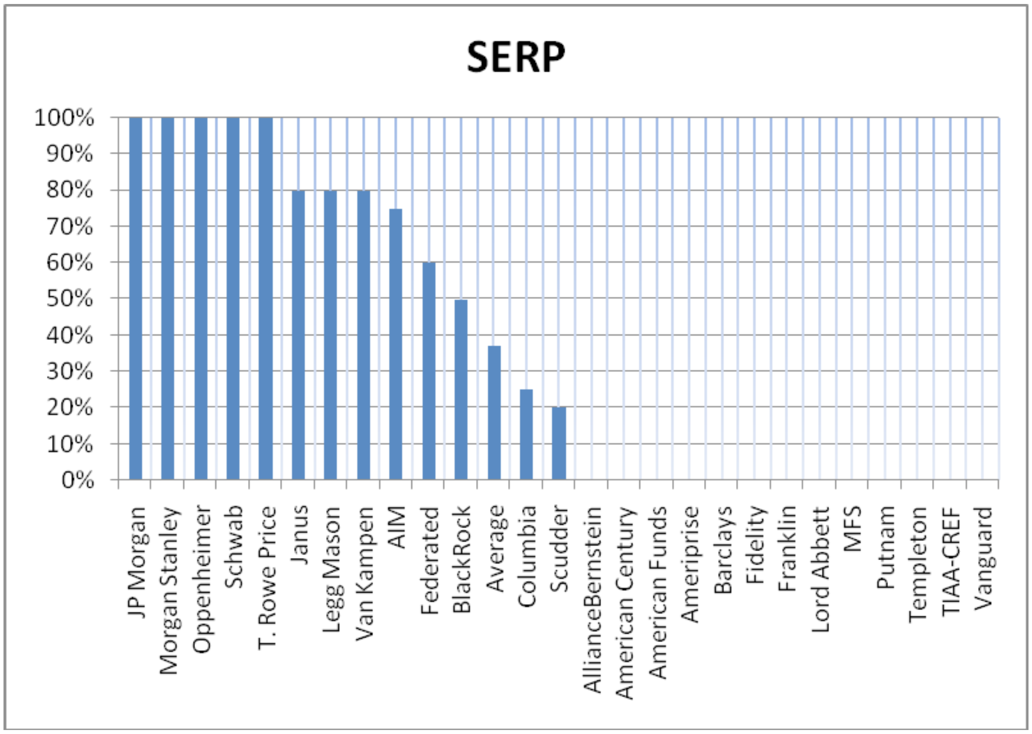


2007

Pay Constraining	Above the Median	At or Near the Median	Below the Median	Pay Enabling
Janus–100%	Federated–80%	None	Columbia–27%	AllianceBernstein–0%
Merrill Lynch–100%	Scudder–80%		AIM–25%	Am. Century–0%
Oppenheimer–100%	Franklin–67%		Lord Abbett–25%	American Funds–0%
Schwab–100%	T. Rowe Price–67%		Vanguard–7%	Ameriprise–0%
Templeton–100%	Morgan Stanley–60%			Barclays–0%
Legg Mason–86%	Van Kampen–60%			Fidelity–0%
	TIAA-CREF–40%			J.P. Morgan–0%
				MFS–0%
				Putnam–0%

Support for SERP proposals fell from 43% in 2007 to 37% in 2008; although more fund families (five) voted for all of the proposals in this category, there was also a substantial increase in the number of fund families (13) voting for none of them.

The average rate of votes for these shareholder proposals in 2008 was 37%.
The median rate of votes for these shareholder proposals in 2008 was 10%.



2008

Pay Constraining	Above the Median	At or Near the Median	Below the Median	Pay Enabling
J.P. Morgan—100%	AIM—75%	None	None	AllianceBernstein—0%
Morgan Stanley—100%	Federated—60%			American Century—0%
Oppenheimer—100%	BlackRock—50%			American Funds—0%
Schwab—100%	Columbia—25%			Amerprise—0%
T. Rowe Price—100%	Scudder—20%			Barclays—0%
Janus—80%				Fidelity—0%
Legg Mason—80%				Franklin—0%
Van Kampen—80%				Lord Abbett—0%
				MFS—0%
				Putnam—0%
				Templeton—0%
				TIAA-CREF—0%
				Vanguard—0%

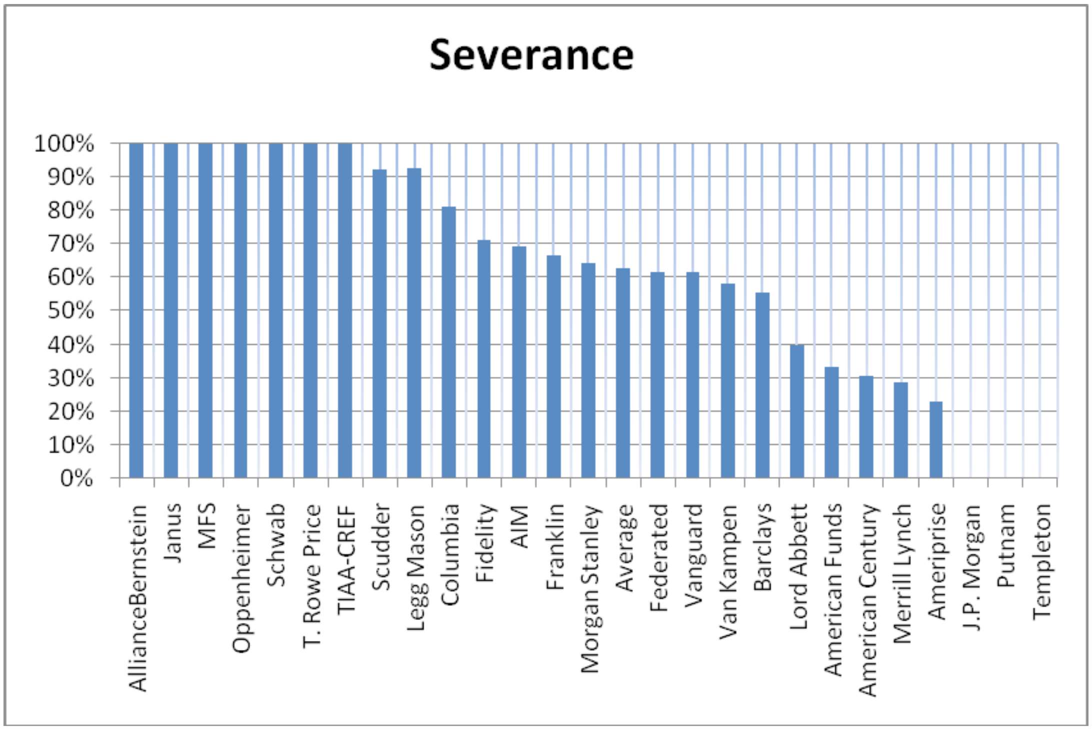
Severance Shareholder Proposals

This proposal urges the board to require shareholder approval for any severance arrangement that provides a senior executive with severance benefits whose value exceeds 2.99 times the executive's salary plus target bonus.

As in previous years, in 2007 proposals dealing with severance were the most successful category of shareholder proposal in this study, averaging 63% support. Seven fund families voted for all proposals in this category, and only three voted for none of the proposals.

The average rate of votes for these shareholder proposals in 2007 was 63%.
The median rate of votes for these shareholder proposals in 2007 was 65%.

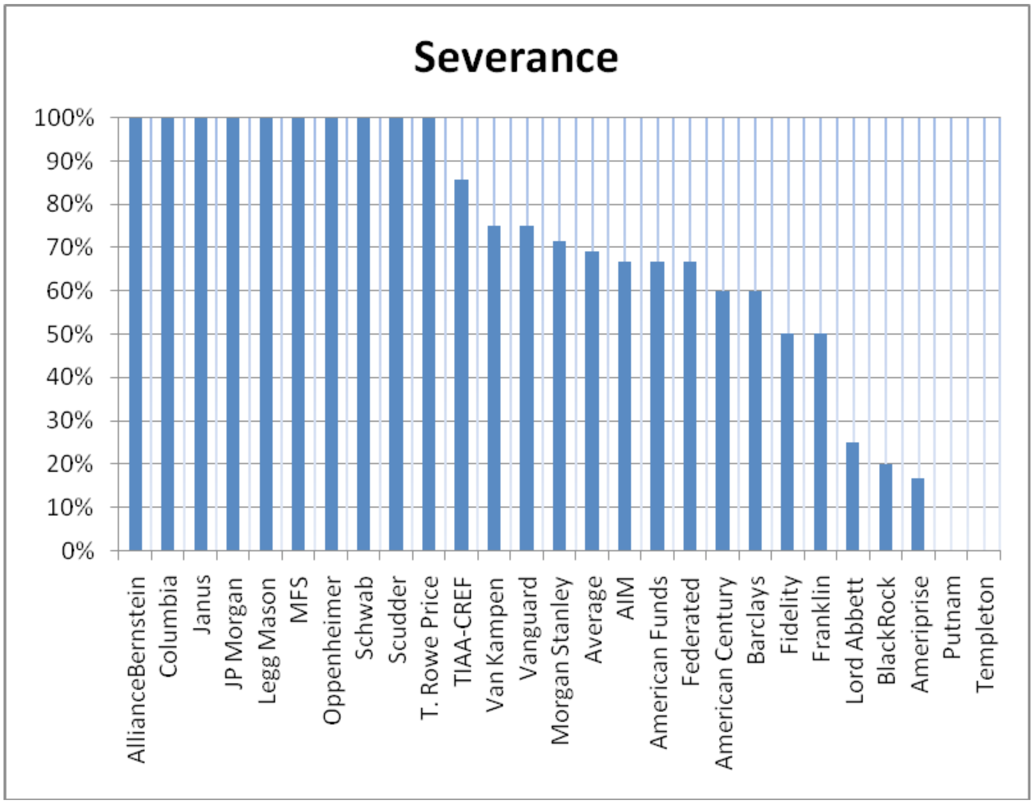
2007



Pay Constraining	Above the Median	At or Near the Median	Below the Median	Pay Enabling
AllianceBernstein—100%	Legg Mason—93%	Franklin—67%	Federated—62%	J.P. Morgan—0%
Janus—100%	Scudder—92%	Morgan Stanley—64%	Vanguard—62%	Putnam—0%
MFS—100%	Columbia—81%		Van Kampen—58%	Templeton—0%
Oppenheimer—100%	Fidelity—71%		Barclays—56%	
Schwab—100%	AIM—69%		Lord Abbett—40%	
T. Rowe Price—100%			American Funds—33%	
TIAA-CREF—100%			American Century—31%	
			Merrill Lynch—29%	
			Ameriprise—23%	

Alone among the shareholder proposal categories in this study, severance proposals increased their average support levels from 63% in 2007 to 69% in 2008. Ten fund families voted for every proposal in the category, and only two supported no severance proposals.

The average rate of votes for these shareholder proposals in 2008 was 69%.
The median rate of votes for these shareholder proposals in 2008 was 73%.



2008

Pay Constraining	Above the Median	At or Near the Median	Below the Median	Pay Enabling
AllianceBernstein–100%	TIAA-CREF–86%	Van Kampen–75%	AIM–67%	Lord Abbett–25%
Columbia–100%		Vanguard–75%	American Funds–67%	BlackRock–20%
Janus–100%		Morgan Stanley–71%	Federated–67%	Ameriprise–17%
J.P. Morgan–100%			American Century–60%	Putnam–0%
Legg Mason–100%			Barclays–60%	Templeton–0%
MFS–100%			Fidelity–50%	
Oppenheimer–100%			Franklin–50%	
Schwab–100%				
Scudder–100%				
T. Rowe Price–100%				

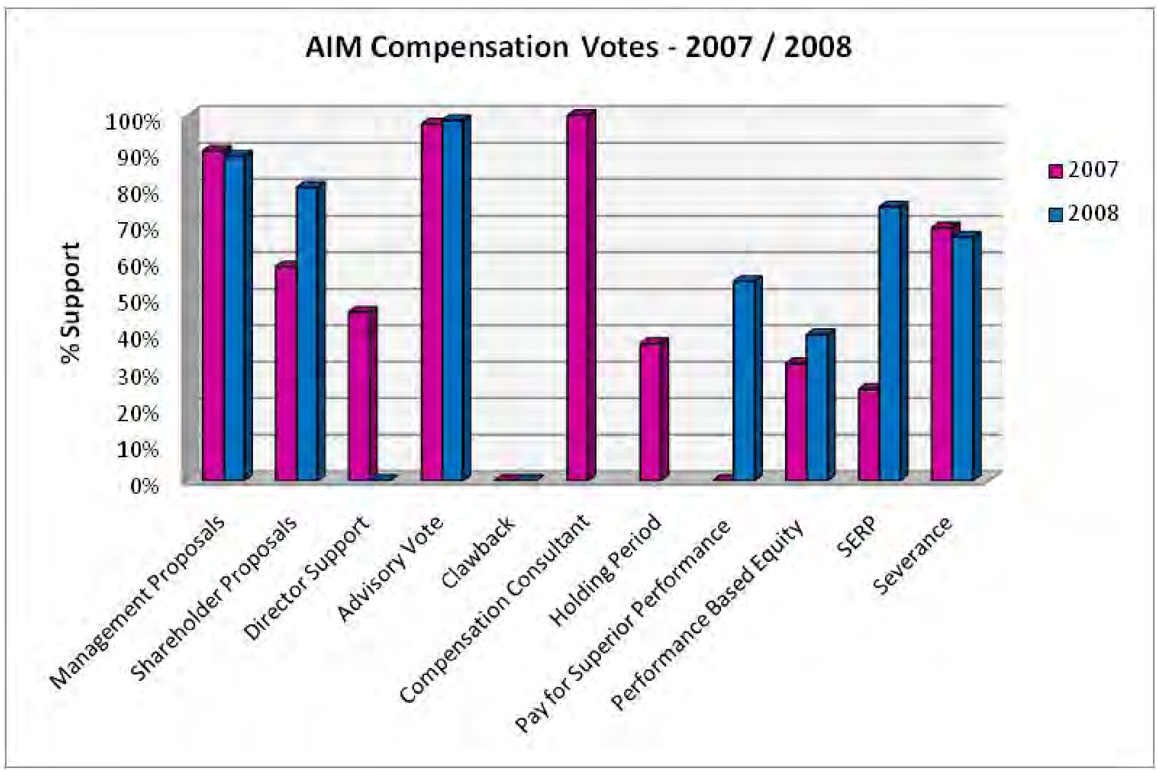
Appendix B – Mutual Fund Family Voting Breakdown

AIM Investments

Composite Rankings

2007: 17
2008: 3

AIM ranked in the middle of the pack in 2007 and vaulted into the "Pay Constrainer" range in 2008, up from a "Pay Enabler" ranking of 27th of 29 fund families in 2006. Although AIM showed consistently high support for management proposals, it also withheld votes from directors at a high rate (especially in 2008) and supported a significant percentage of shareholder proposals in the selected categories (also especially in 2008).



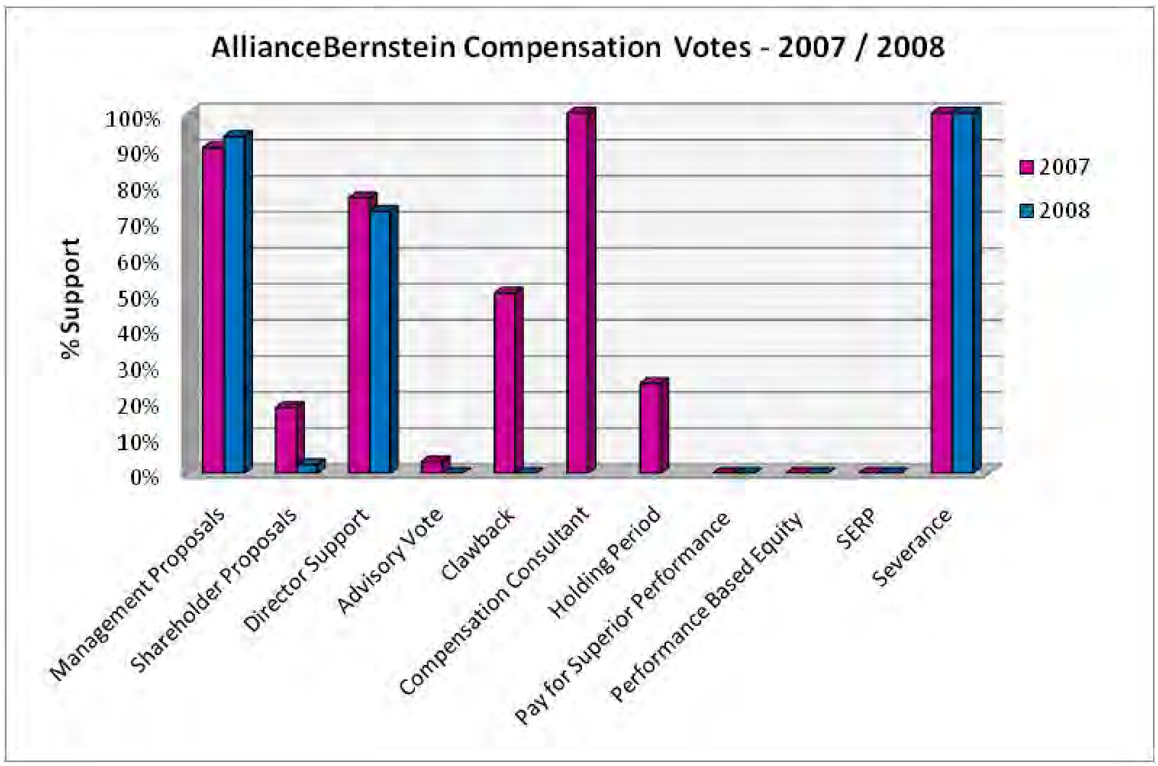
(The shareholder proposal categories "Compensation Consultant" and "Holding Period" were not analyzed for 2008.)

AllianceBernstein Investments

Composite Rankings

2007: 25
2008: 26

The AllianceBernstein fund family continued its reign in 2008 as a "Pay Enabler," ranking as the second-most pay-enabling fund family in 2007 and as the most pay-enabling family in 2008 when its support for management proposals increased and its support for shareholder proposals decreased. AllianceBernstein used none of the three types of voting we studied to reform executive compensation, supporting management proposals at the second-highest rate in both 2007 and 2008, voting for the reelection of a large proportion of the directors selected for this study and favoring very few shareholder proposals.



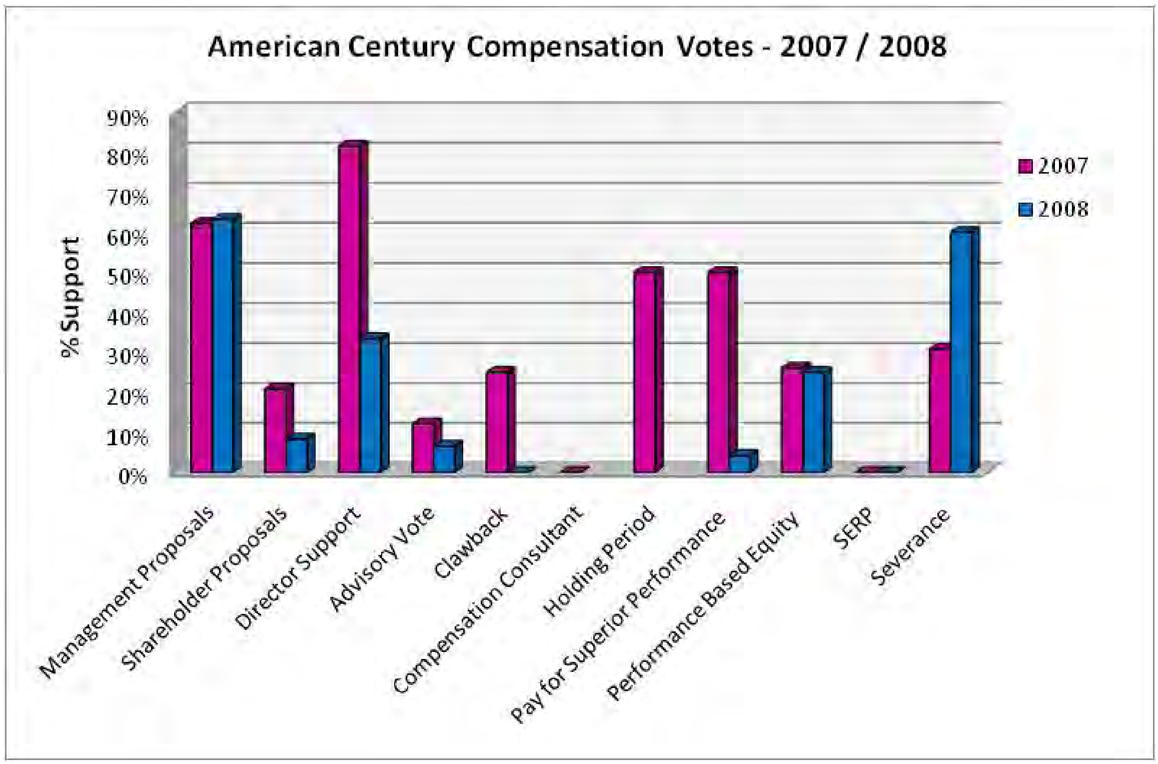
(The shareholder proposal categories "Compensation Consultant" and "Holding Period" were not analyzed for 2008.)

American Century Investment Management

Composite Rankings

2007: 13
2008: 8

American Century's overall ranking remained stable from 2006, when it tied for 13th, to 2007. It moved up to 8th in 2008. In both years, American Century voted in favor of fewer management proposals than other funds—it was second least supportive of the fund families—but supported fewer than the average number of shareholder proposals. Its improved ranking in 2008 was driven primarily by its support of fewer director nominees.



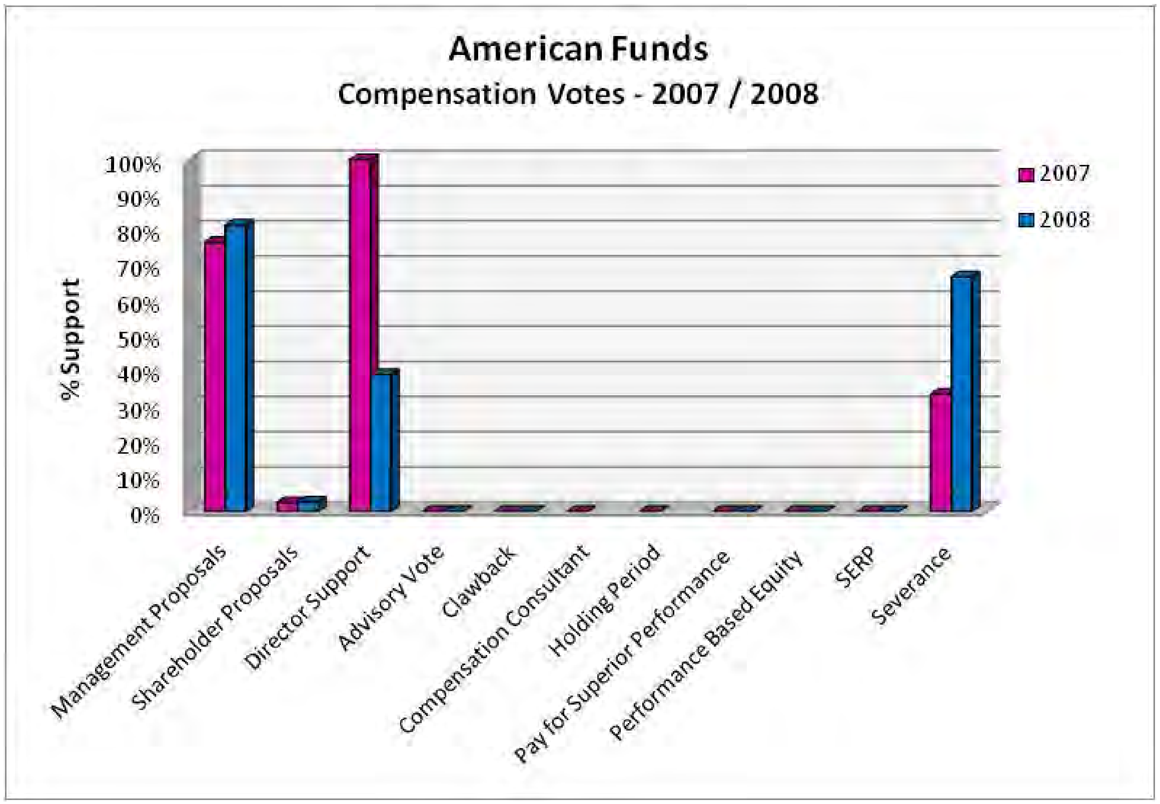
(The shareholder proposal categories "Compensation Consultant" and "Holding Period" were not analyzed for 2008.)

American Funds

Composite Rankings

2007: 21 (tie)
2008: 16 (tie)

American Funds' ranking remained relatively the same from 2006, when it ranked 23rd, to a tie for 21st and "Pay Enabler" status in 2007. Another modest improvement occurred in 2008, when American Funds moved up to tie for 16th. Its rankings are the product of a moderate level of support for management proposals, a very low level of support for shareholder proposals—lowest in 2007 and second-lowest in 2008—and a high level of support for director nominees in 2007.



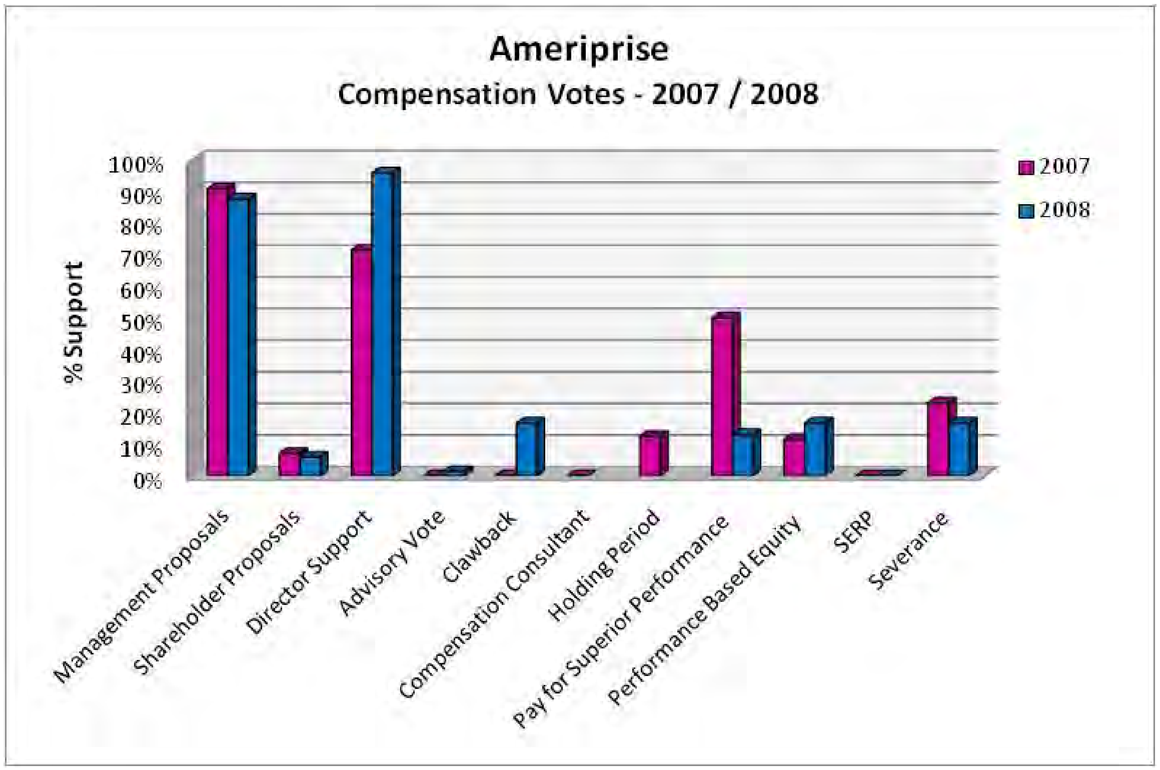
(The shareholder proposal categories "Compensation Consultant" and "Holding Period" were not analyzed for 2008.)

Ameriprise Financial

Composite Rankings

2007: 26
2008: 23

Ameriprise was one of the "Pay Enablers" in 2007, ranking last overall among the 26 fund families. That performance was the result of Ameriprise's strong support for management proposals (third highest among fund families) and directors, as well as its low ranking on shareholder proposal voting; only one fund family voted for a lower proportion of shareholder proposals in 2007. Ameriprise was also a "Pay Enabler" in 2008, improving to 23rd based on less robust support of management proposals (at the median) and modestly increased support of shareholder proposals.



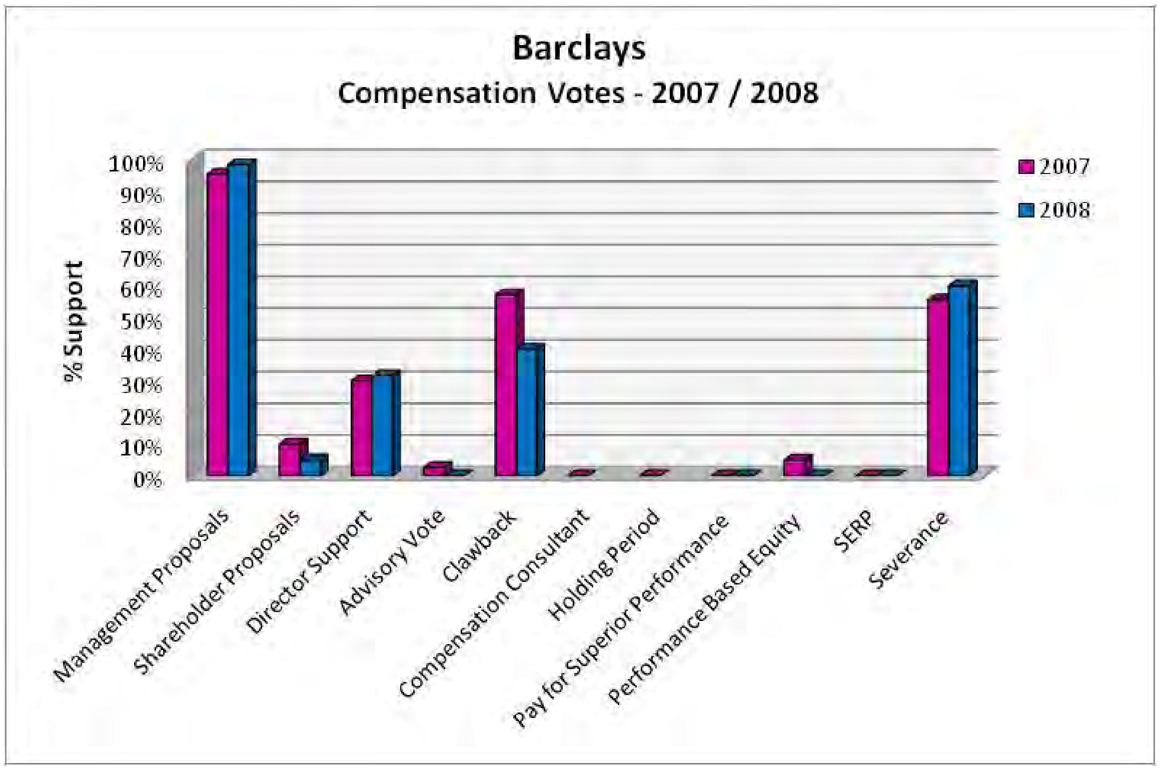
(The shareholder proposal categories "Compensation Consultant" and "Holding Period" were not analyzed for 2008.)

Barclays Global Investors

Composite Rankings

2007: 21 (tie)
2008: 24

Having been designated a "Pay Enabler" in 2006, Barclays remained a "Pay Enabler" tied for 21st in 2007, based on strong support for management proposals. It then fell back to 24th—again "Pay Enabler" status—in 2008 as a result of increases in its support for management proposals and director nominees and a decrease in its support for shareholder proposals.



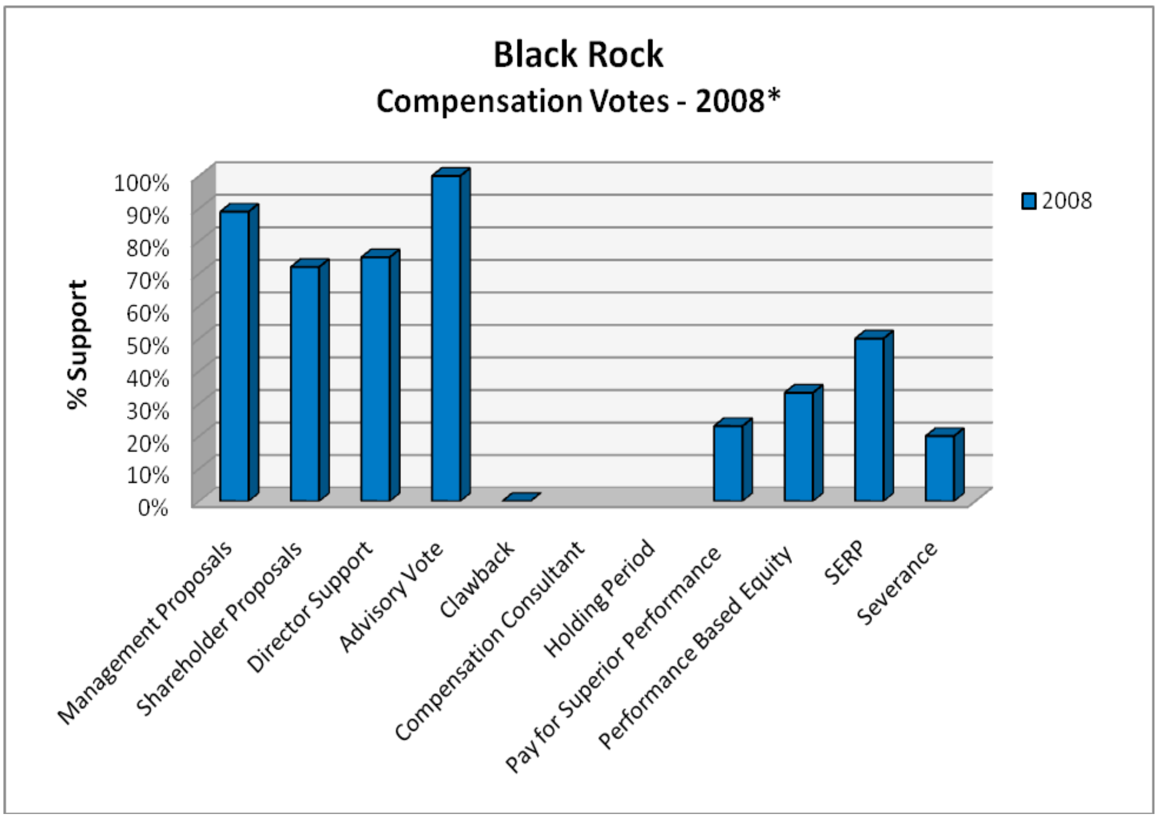
(The shareholder proposal categories "Compensation Consultant" and "Holding Period" were not analyzed for 2008.)

BlackRock

Composite Rankings

2007: Not rated
2008: 14 (tie)

BlackRock was a mid-pack fund family in 2008, at 14th, after not having been rated in 2007. (We began ranking BlackRock in the first full reporting year after it merged its mutual fund business with that of Merrill Lynch, carrying it on under the BlackRock name.) BlackRock's ranking was driven by its above-average support for management proposals, higher-than-average support for shareholder proposals and above-average level of support for director nominees in 2008.



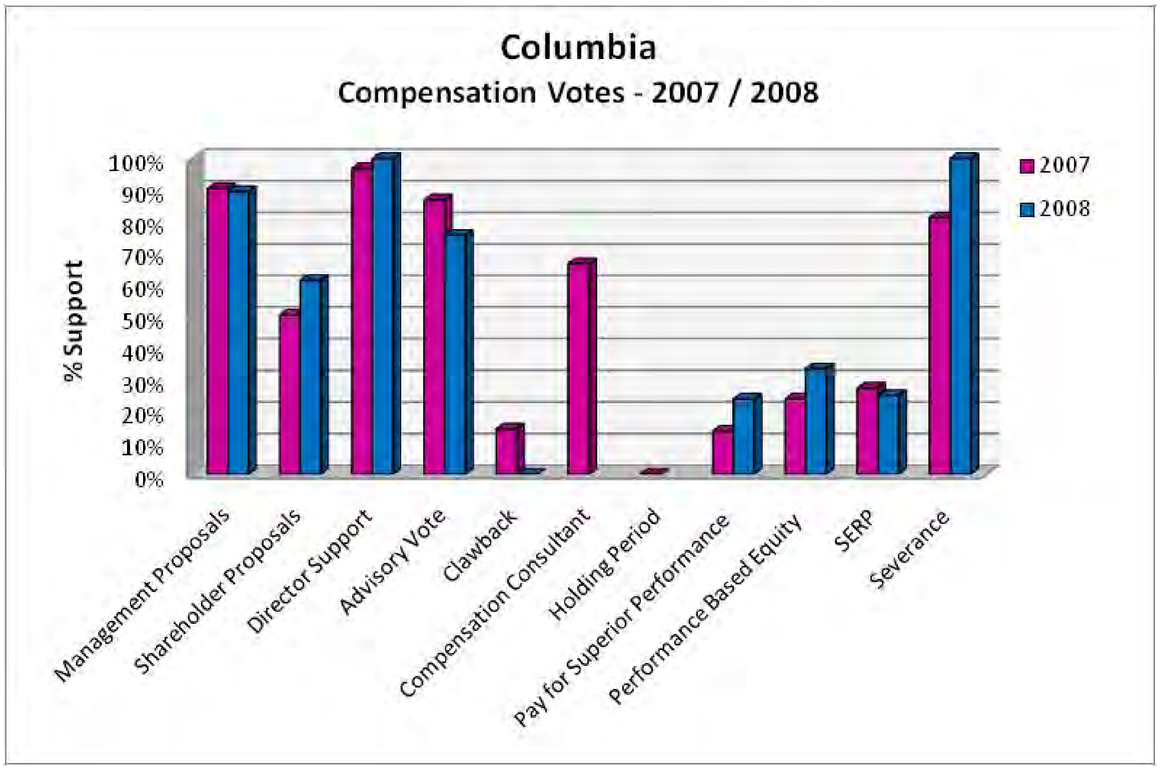
*Data for Merrill Lynch are reported only for 2007, and data for BlackRock are reported only for 2008, because Merrill Lynch merged its mutual fund business with BlackRock's under the BlackRock name effective October 2006 (during the reporting period for the 2007 N-PX filings).

Columbia Management

Composite Rankings

2007: 24
2008: 22

Columbia has seen a major change in its ranking, falling from 3rd overall and a "Pay Constrainer" designation in 2006 to 24th in 2007 (and "Pay Enabler" status) and 22nd (again a "Pay Enabler") in 2008. Columbia consistently supports management proposals and director nominees at a high rate, and favors more than the average proportion of shareholder proposals.



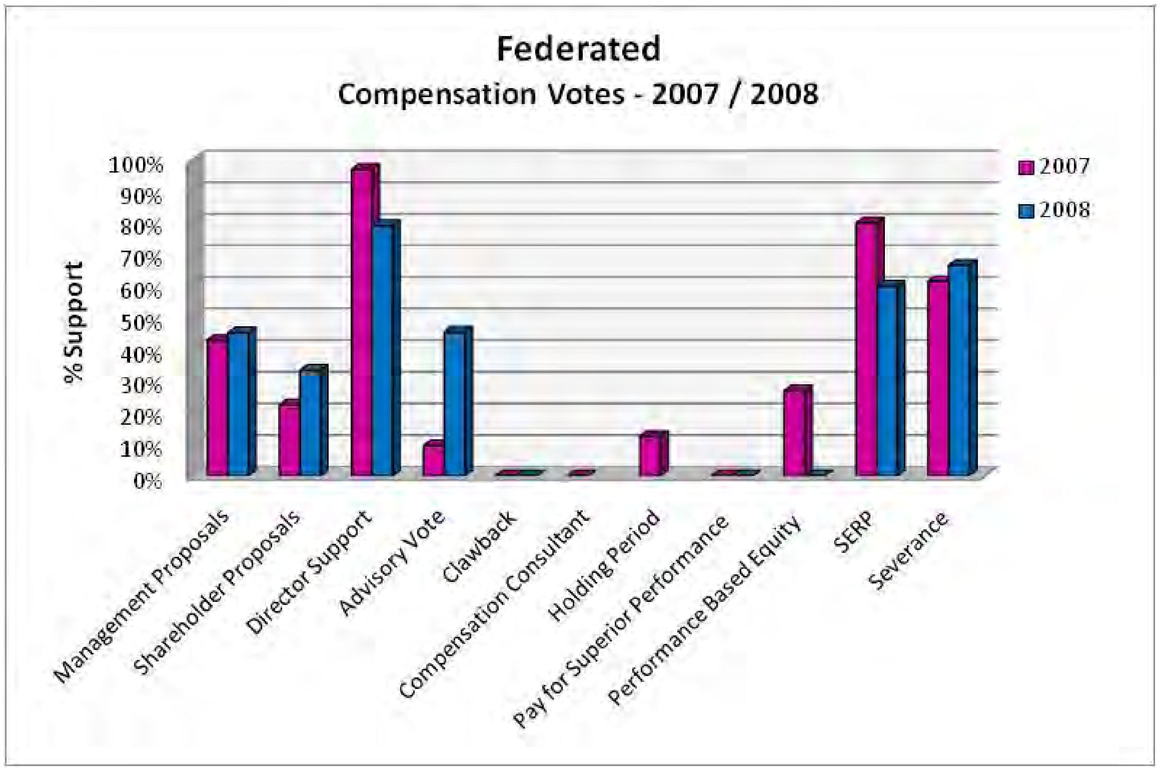
(The shareholder proposal categories "Compensation Consultant" and "Holding Period" were not analyzed for 2008.)

Federated Investors

Composite Rankings

2007: 15 (tie)
2008: 10

Federated's ranking deteriorated from 4th in 2006 to a middling finish of tied for 15th in 2007. Federated moved up in 2008 to 10th. Federated voted in favor of management proposals at the lowest rate of all fund families in both 2007 and 2008—continuing a trend established in our prior studies—but exhibited relatively low levels of support for shareholder proposals and high levels of support for director nominees.



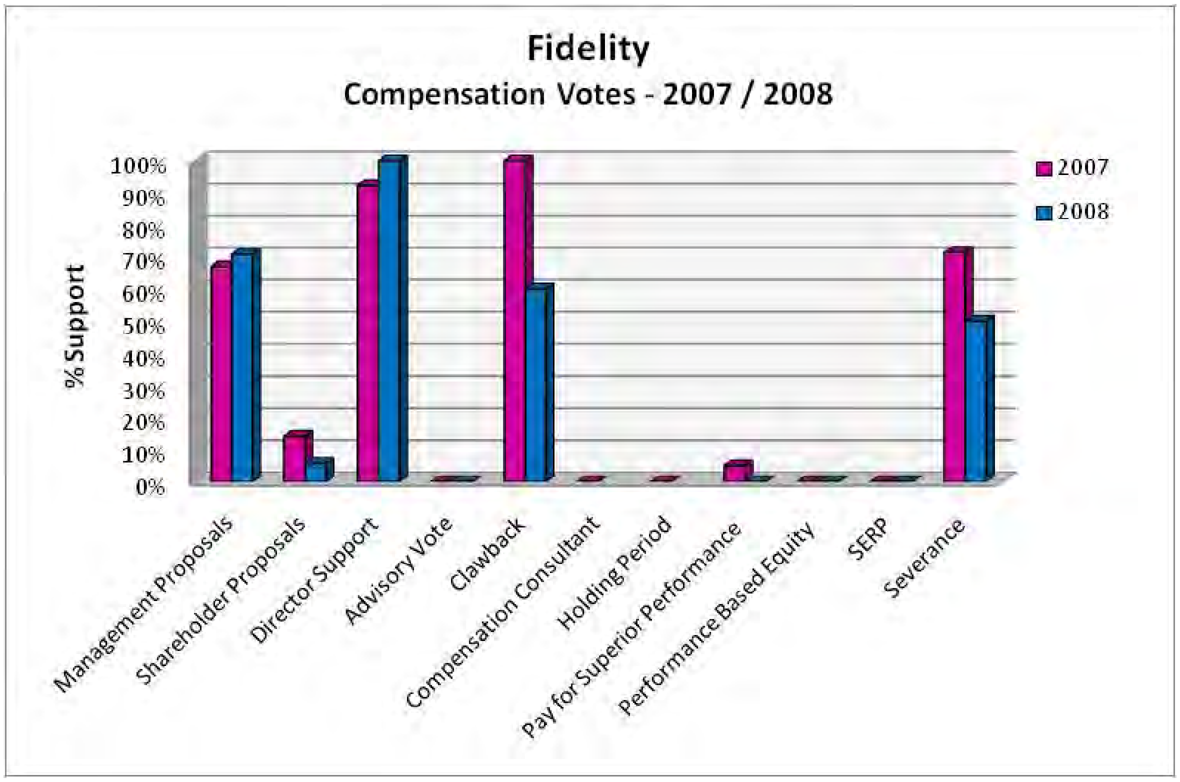
(The shareholder proposal categories "Compensation Consultant" and "Holding Period" were not analyzed for 2008.)

Fidelity Investments

Composite Rankings

2007: 18
2008: 20 (tie)

Fidelity's composite voting record remained relatively the same from 2006, when it tied for 17th, to 18th in 2007. A further small slide to 20th (tie) occurred in 2008. In both years, Fidelity has supported relatively few management proposals—the third-lowest level among fund families—as well as few shareholder proposals. Fidelity voted in favor of nearly all the directors selected for this study at companies Fidelity held in 2007, and all of them in 2008.



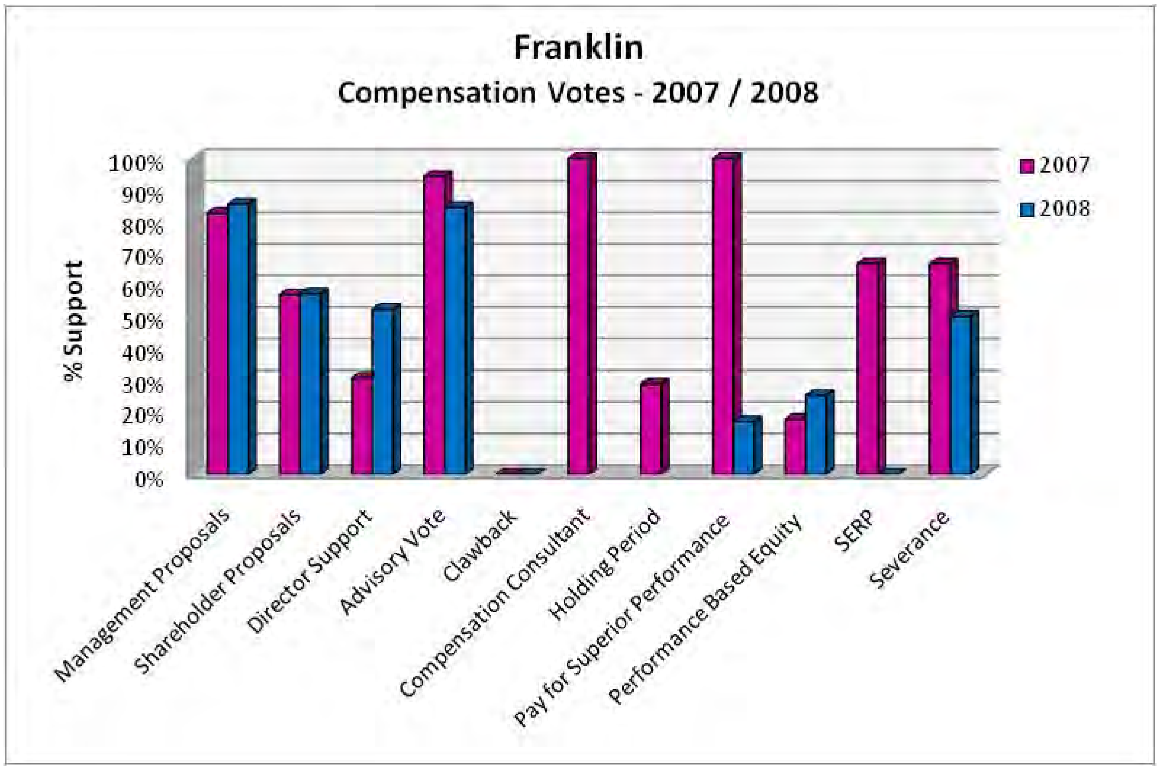
(The shareholder proposal categories "Compensation Consultant" and "Holding Period" were not analyzed for 2008.)

Franklin Funds

Composite Rankings

2007: 4
2008: 11

Franklin's ranking improved from 2006, when it tied for 10th, to a ranking of 4th and "Pay Constrainer" status in 2007. Although Franklin tends to support a high proportion of management proposals, it votes in favor of shareholder proposals at a relatively high rate. Franklin fell back to 11th in 2008, driven by a higher level of support for director nominees.



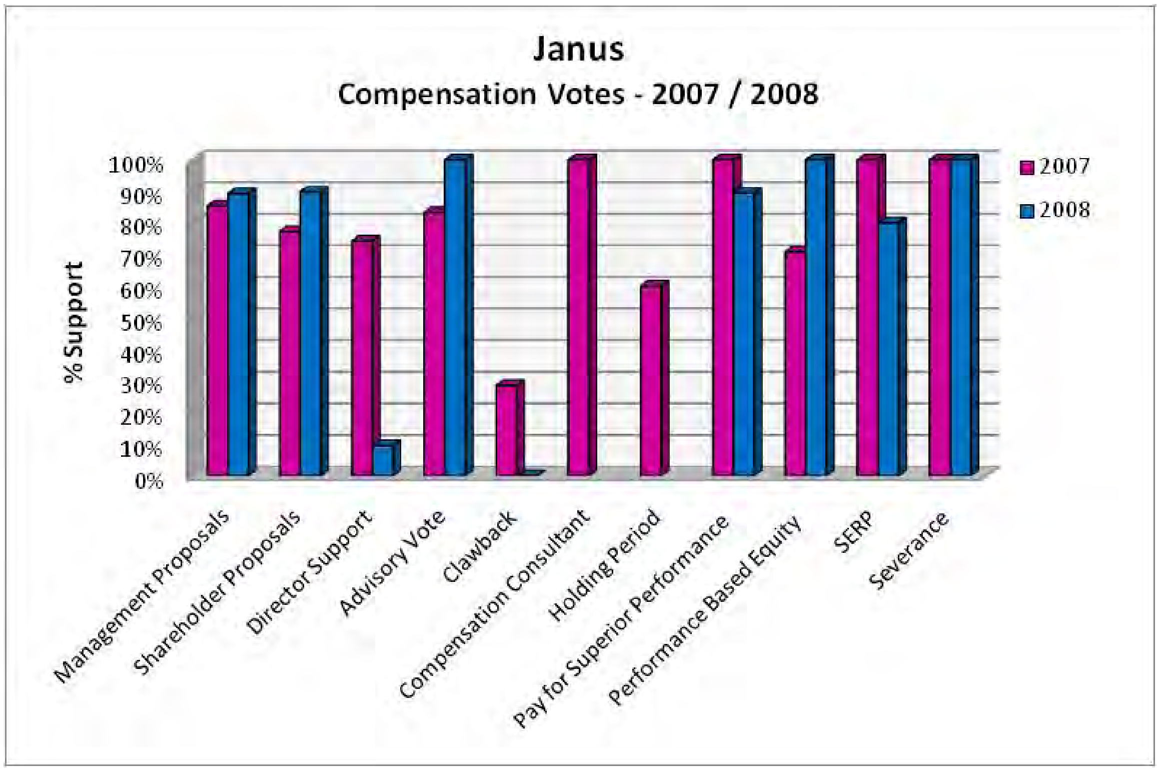
(The shareholder proposal categories "Compensation Consultant" and "Holding Period" were not analyzed for 2008.)

Janus Capital Group

Composite Rankings

2007: 11
2008: 7

Janus's ranking fell from a tie for 6th in 2006 to 11th in 2007—driven primarily by a high level of support for director nominees—before rebounding to 7th in 2008, driven by a drop in support for directors. Janus's relatively high level of support for management proposals was offset by its high level of support—fourth among fund families in 2007 and second in 2008—for shareholder proposals.



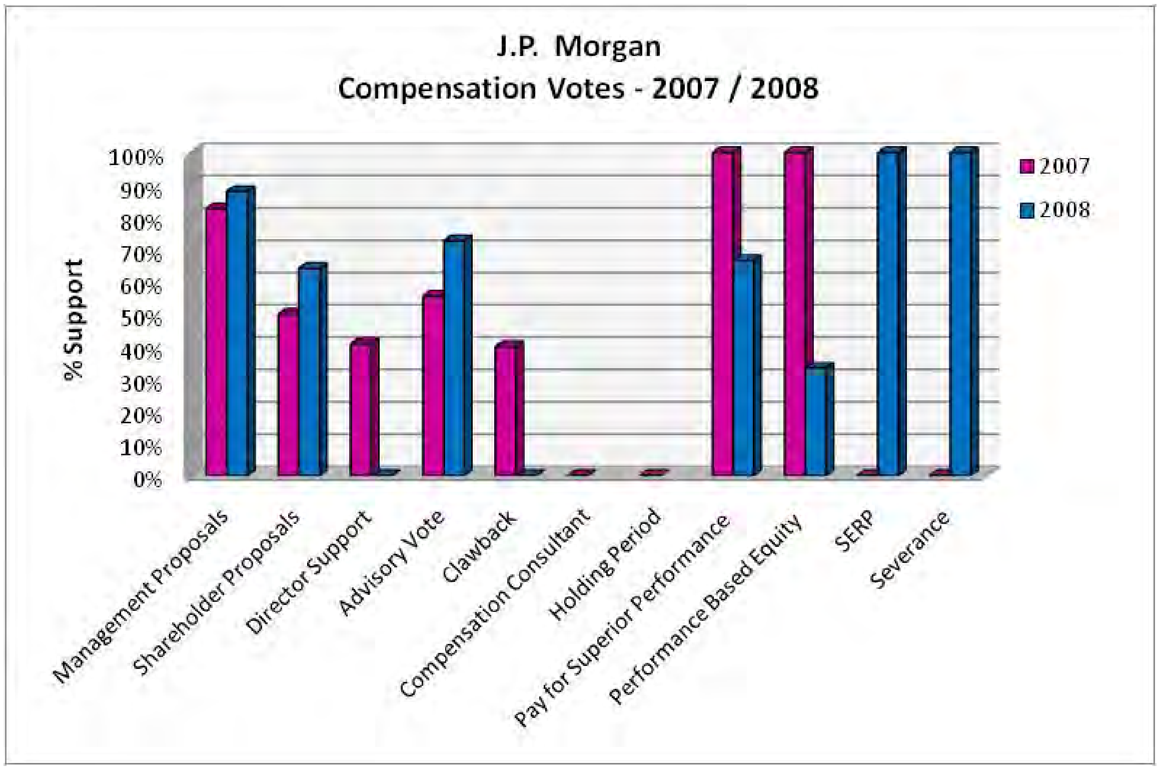
(The shareholder proposal categories "Compensation Consultant" and "Holding Period" were not analyzed for 2008.)

JP Morgan Funds

Composite Rankings

2007: 6 (tie)
2008: 5 (tie)

JP Morgan's ranking has been quite stable, moving up one place from 2006 to 2007 and then moving back down one place to tie for fifth in 2008. JP Morgan coupled relatively strong support for management proposals with significant support for shareholder proposals. Its support for director nominees was pay constraining in both years.



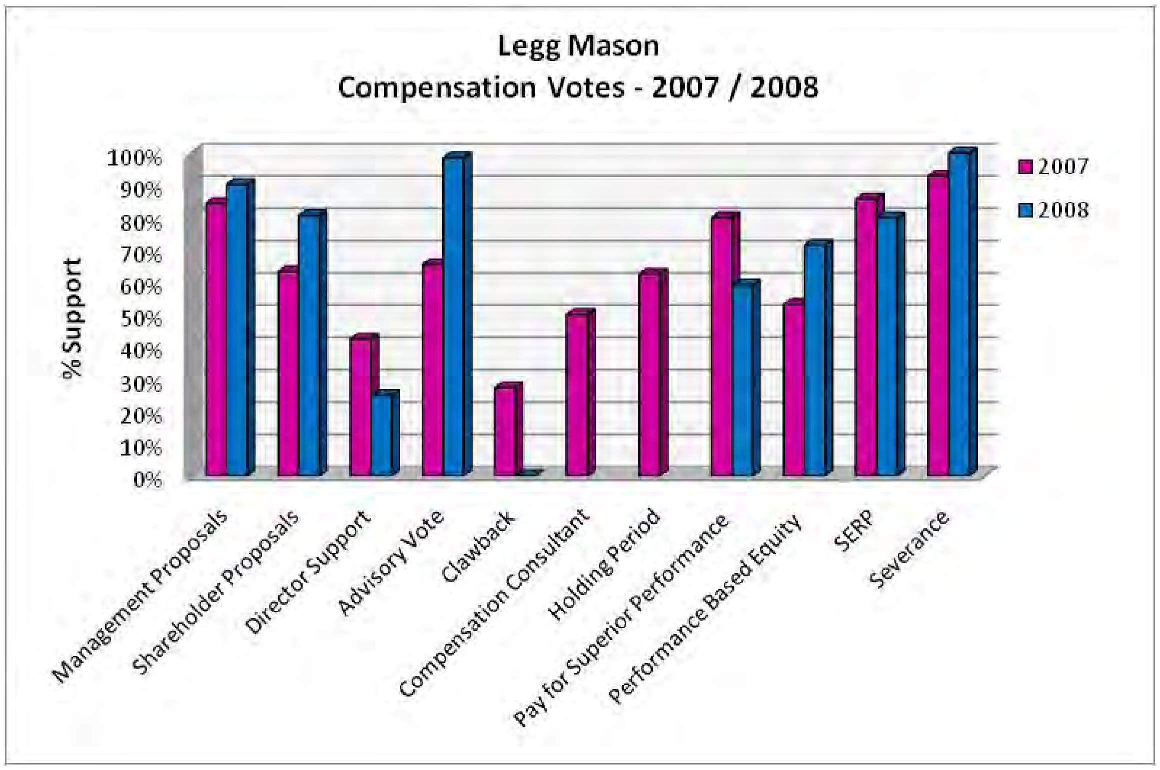
(The shareholder proposal categories "Compensation Consultant" and "Holding Period" were not analyzed for 2008.)

Legg Mason Funds

Composite Rankings

2007: 5
2008: 9

Legg Mason's ranking improved from 2006, when it ranked 8th, to 5th and "Pay Constrainer" status in 2007. It moved down several places to 9th in 2008. Although Legg Mason's support for management proposals has been robust, it consistently supports shareholder proposals at a high rate—improving every year it has been studied to sixth-highest in 2007 and third-highest in 2008. It was less supportive than average of the director nominees selected for this study in both 2007 and 2008.



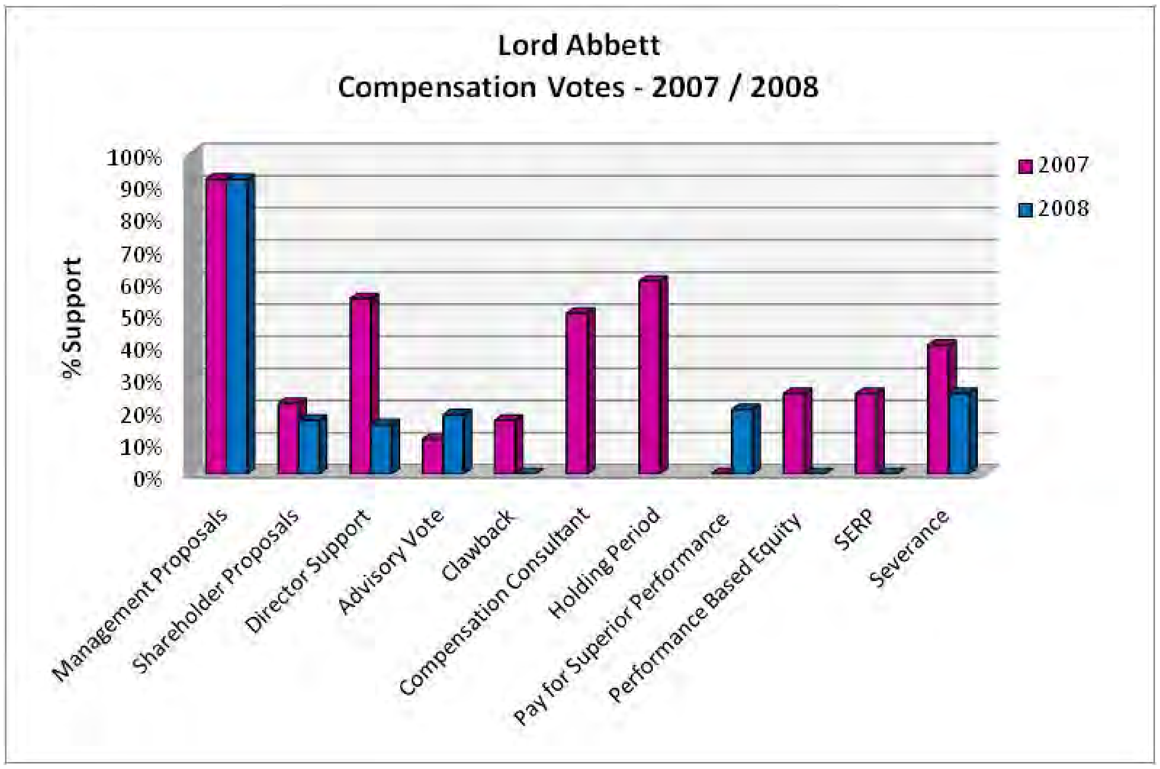
(The shareholder proposal categories "Compensation Consultant" and "Holding Period" were not analyzed for 2008.)

Lord Abbett

Composite Rankings

2007: 21 (tie)
2008: 20 (tie)

Lord Abbett's composite ranking remained stable between 2006, when it ranked 26th out of 29 fund families, and 2007, when it tied for 21st and "Pay Enabler" status out of 26 fund families. Exhibiting consistency, Lord Abbett tied for 20th in 2008. Lord Abbett's support for management proposals was among the highest of the fund families in this study in both 2007 and 2008, and its support for shareholder proposals was below-average in both years.



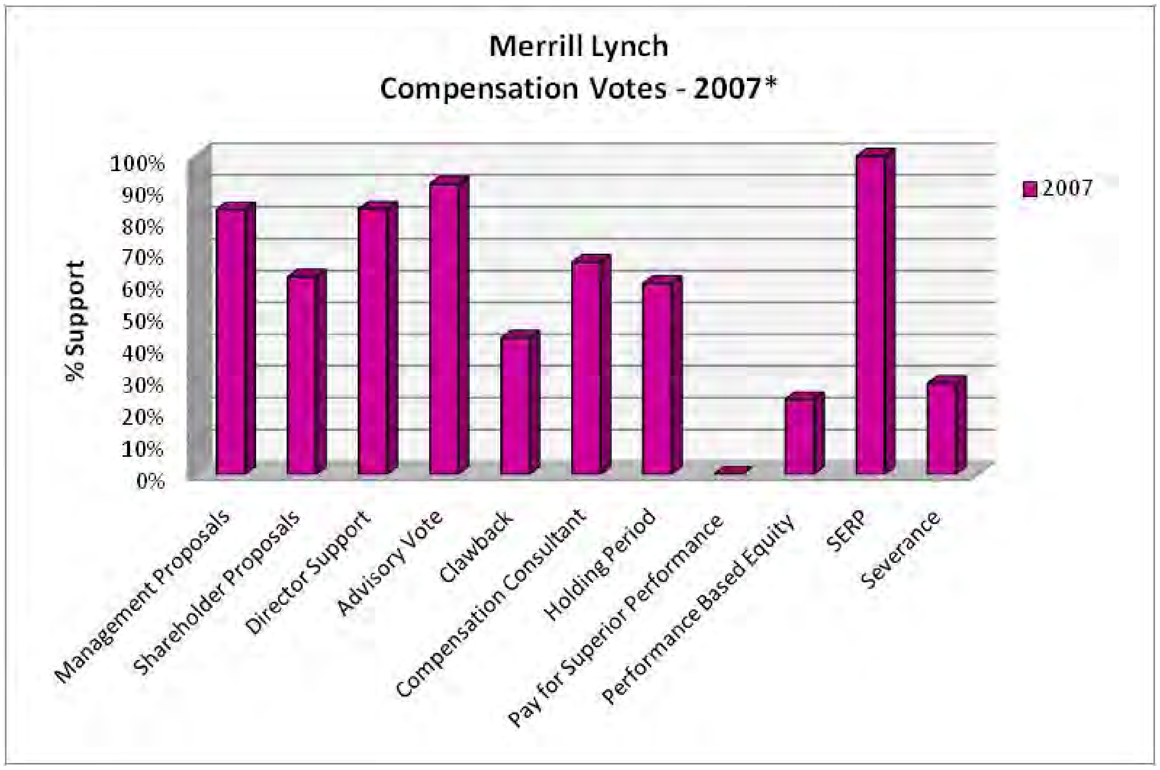
(The shareholder proposal categories "Compensation Consultant" and "Holding Period" were not analyzed for 2008.)

Merrill Lynch Investment Managers

Composite Rankings

2007: 14
2008: Not rated

Merrill Lynch boosted its ranking substantially between 2006, when it tied for 24th, and 2007, when it finished in the middle of the group at 14th. Merrill Lynch's record on management proposals, which it supported at just below the median rate (though still above the average), was complemented by a somewhat above-average rate of support for shareholder proposals. Merrill Lynch was not rated in 2008 because it had merged its mutual fund business with that of BlackRock, and the combined business is carried on under the BlackRock name.



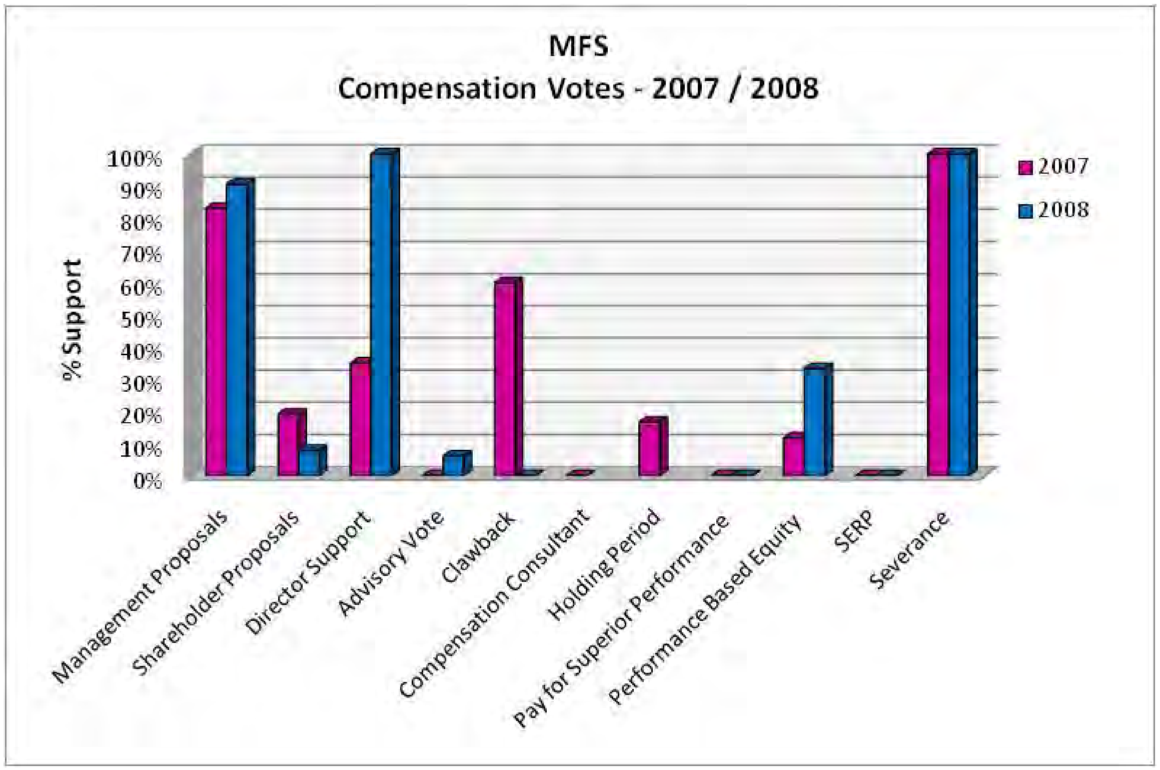
*Data for Merrill Lynch are reported only for 2007, and data for BlackRock are reported only for 2008, because Merrill Lynch merged its mutual fund business with BlackRock's under the BlackRock name effective October 2006 (during the reporting period for the 2007 N-PX filings).

MFS Investment Management

Composite Rankings

2007: 12
2008: 25

MFS's ranking has been on a downward trajectory from the 10th place (tied) it occupied in 2006. In 2007, MFS's ranking fell to 12th and 2008 saw MFS in 25th place, with "Pay Enabler" designation. These changes were driven by a higher level of support for management proposals, lower level of support for shareholder proposals and full support for director nominees in 2008.



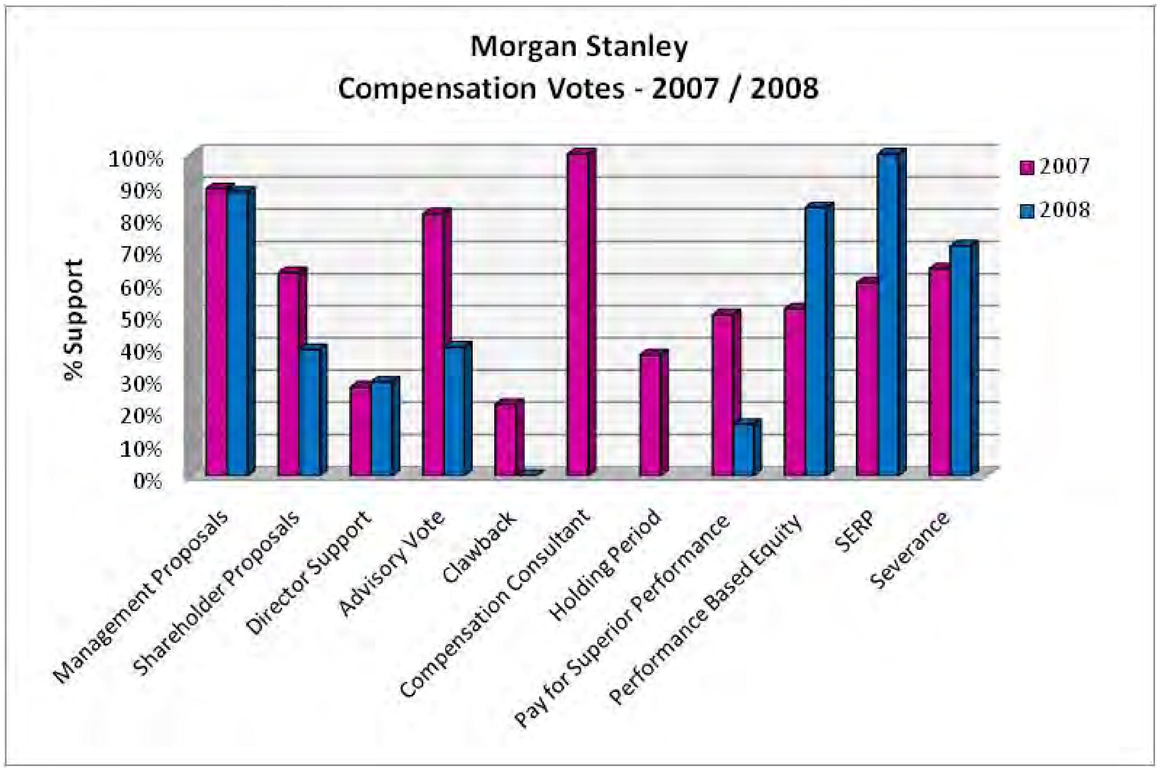
(The shareholder proposal categories "Compensation Consultant" and "Holding Period" were not analyzed for 2008.)

Morgan Stanley Funds

Composite Rankings

2007: 6 (tie)
2008: 12

Morgan Stanley has seen a significant improvement in its ranking since 2006, when it ranked 21st. It moved up to 6th place in 2007, driven by a relatively high rate of support for shareholder proposals and support for directors that was below the average and median. In 2008, Morgan Stanley slipped somewhat to 12th as a result of a 24% drop in support for shareholder proposals.



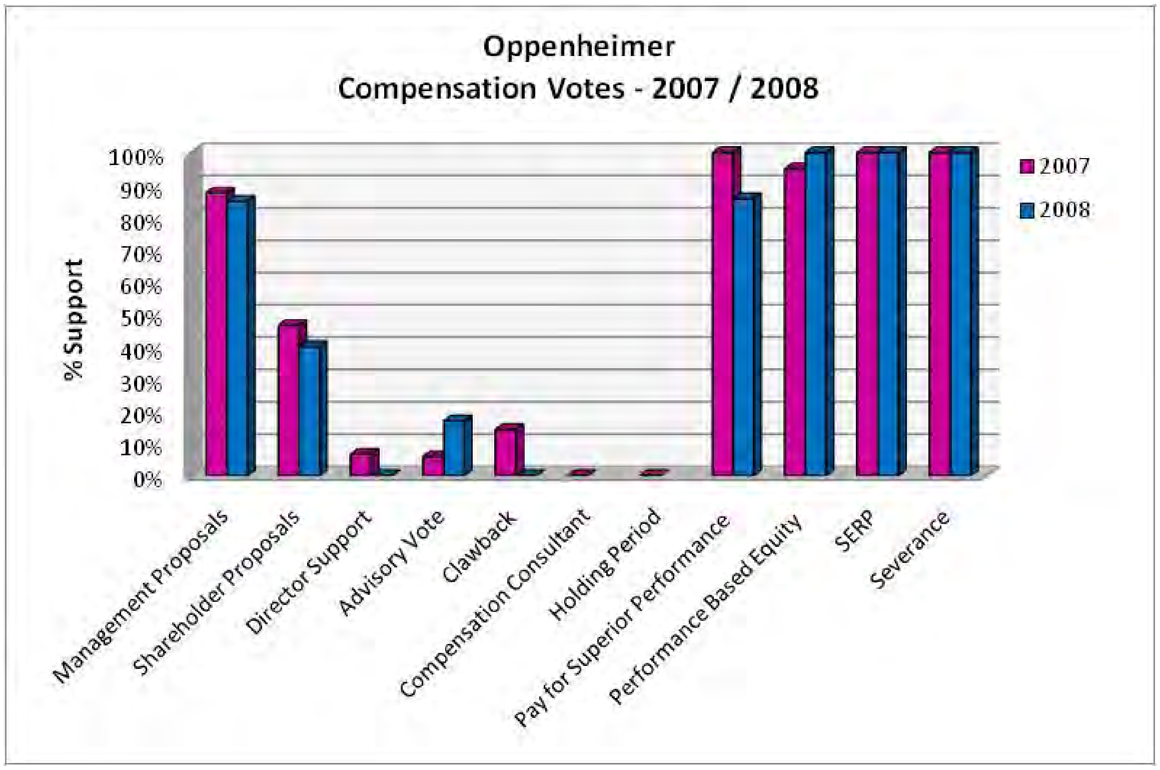
(The shareholder proposal categories "Compensation Consultant" and "Holding Period" were not analyzed for 2008.)

Oppenheimer Funds

Composite Rankings

2007: 9
2008: 1 (tie)

Oppenheimer has vaulted up the rankings over the past several years, going from a tie for 17th in 2006 to 9th in 2007 and 1st (and "Pay Constrainer" designation) in 2008. Oppenheimer benefited substantially from the introduction of the director voting category in 2007; its support for the directors selected for the study was very low in 2007 and 2008, while its support for management and shareholder proposals in both years was rather close to the median.



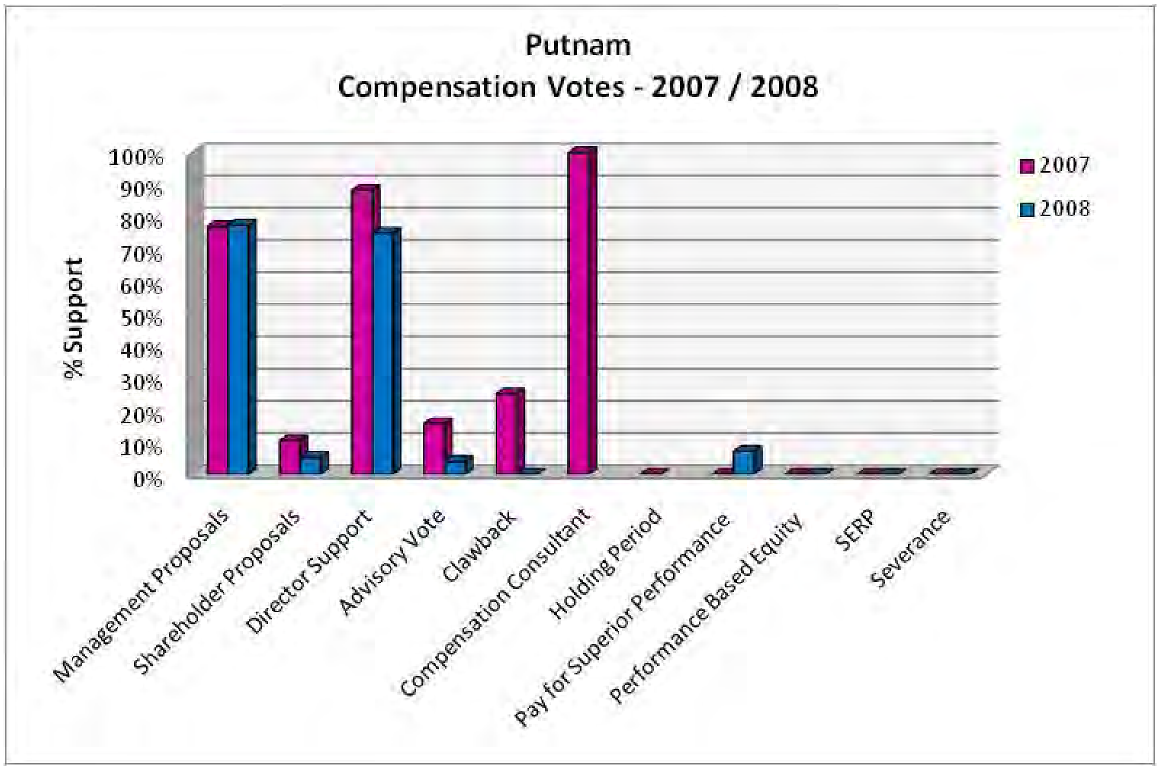
(The shareholder proposal categories "Compensation Consultant" and "Holding Period" were not analyzed for 2008.)

Putnam Investments

Composite Rankings

2007: 19
2008: 16 (tie)

A consistent mid-pack performer, Putnam's ranking has stayed roughly the same since 2006, when it ranked 15th. Putnam moved down a few spots in 2007 to 19th before recovering to 16th (tie) in 2008. Putnam's consistent below-average (and below-median) support for management proposals is offset by its low level of support for shareholder proposals and high level of support for director nominees.



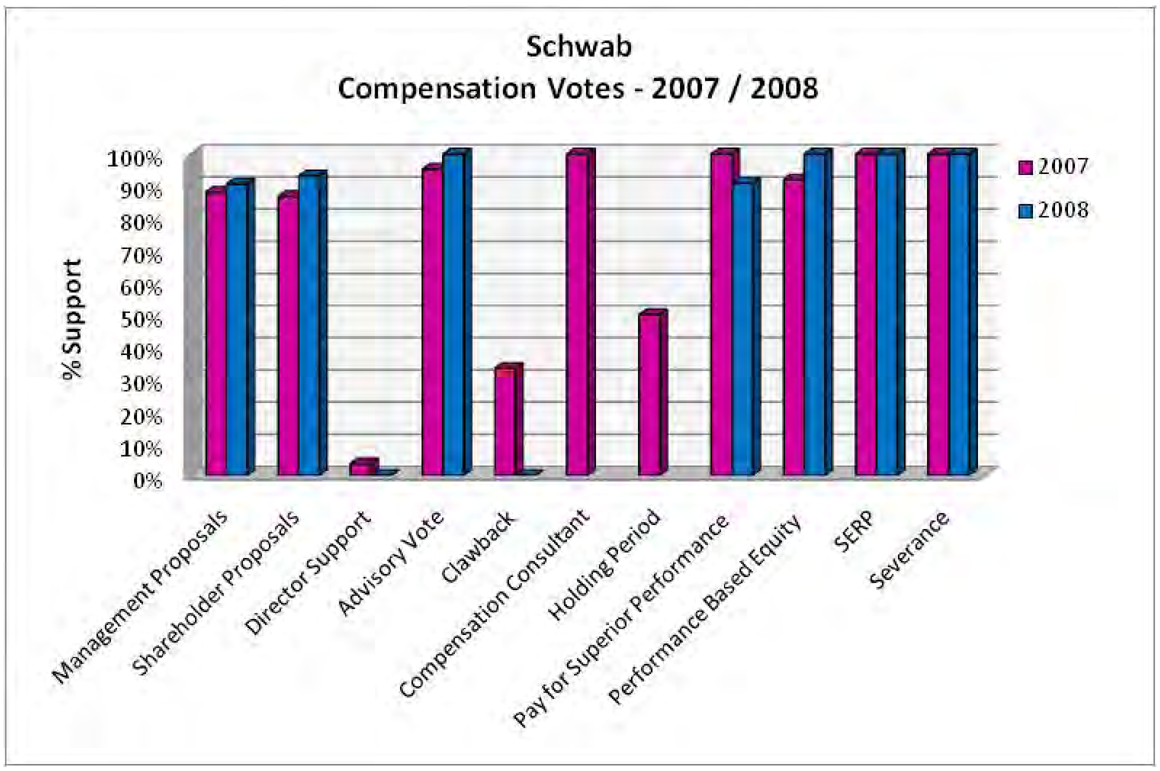
(The shareholder proposal categories "Compensation Consultant" and "Holding Period" were not analyzed for 2008.)

Schwab Funds

Composite Rankings

2007: 3
2008: 5 (tie)

Schwab has moved from a respectable but not stellar finish of 9th in 2006 into the upper reaches of the rankings. Propelled by the highest level of support for shareholder proposals among all fund families studied and the second-lowest level of support for director nominees, Schwab finished in 3rd place in 2007, earning a "Pay Constrainer" moniker. In 2008, Schwab tied for 5th, continuing to post the strongest support for shareholder proposals and tying for least supportive in director voting.



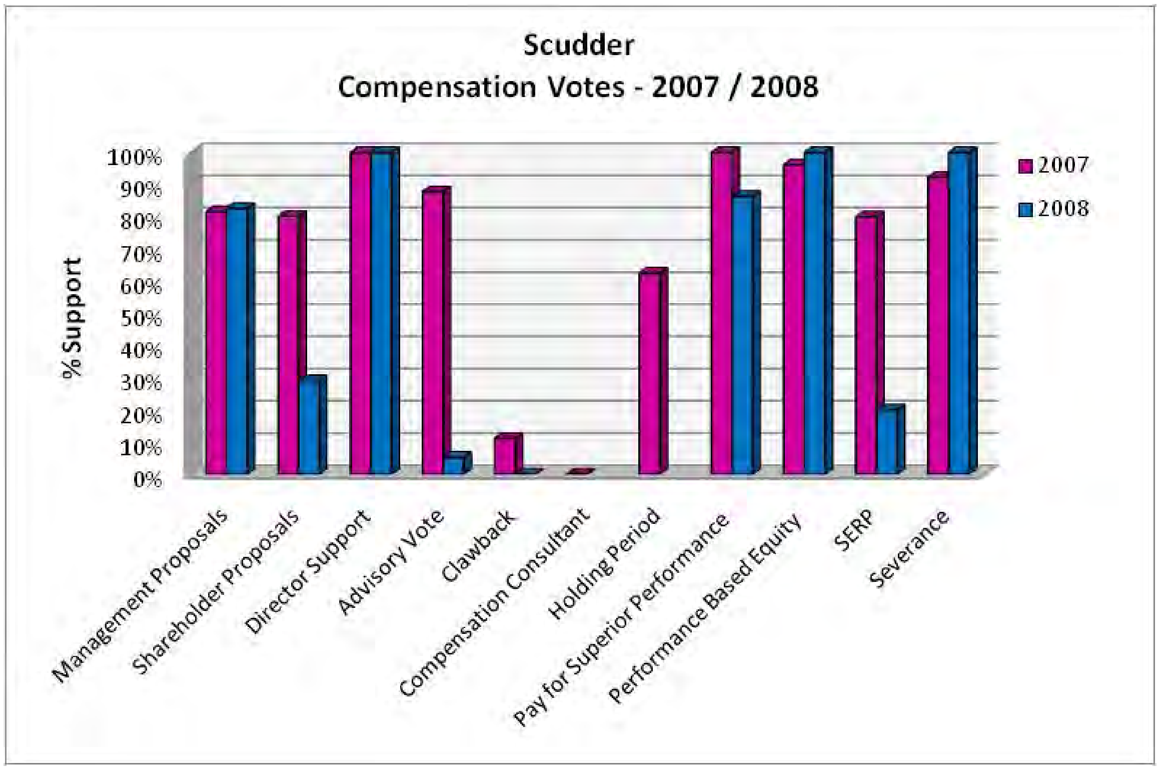
(The shareholder proposal categories "Compensation Consultant" and "Holding Period" were not analyzed for 2008.)

Scudder

Composite Rankings

2007: 10
2008: 16 (tie)

Scudder's rankings in this study have fallen from a tie for 6th in 2006 to 10th in 2007 and a tie for 17th in 2008. Scudder's strong support for shareholder proposals in 2007 was balanced by its support for all director nominees on whom it voted. In 2008, its support for shareholder proposals waned significantly and its support for director nominees remained at 100%.



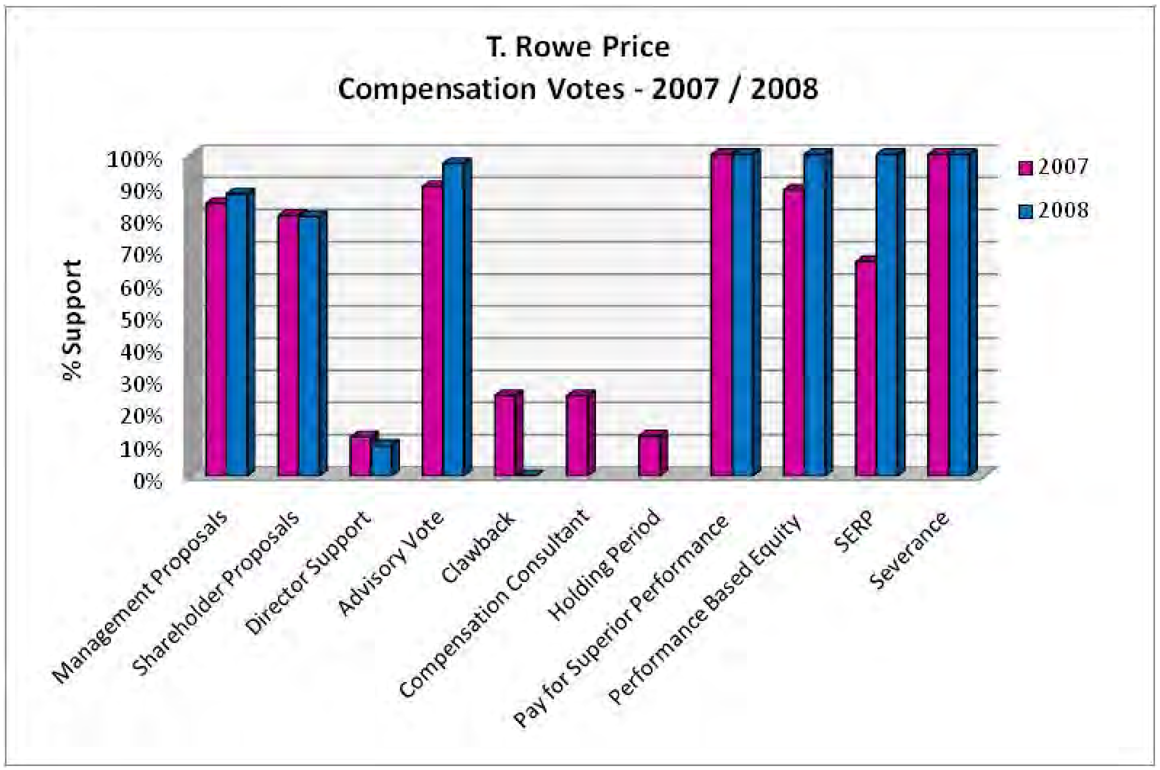
(The shareholder proposal categories "Compensation Consultant" and "Holding Period" were not analyzed for 2008.)

T. Rowe Price Group

Composite Rankings

2007: 2
2008: 3 (tie)

T. Rowe Price has been a consistently high performer in this study, ranking 2nd in both 2006 and 2007 and tying for 3rd in 2008. In all three years, T. Rowe Price has qualified as a "Pay Constrainer." T. Rowe Price does not stand out in management proposal voting, with a voting record at or slightly above the median and average rates of support. Its record of consistently voting for the types of shareholder proposals selected for this study, as well as its low rate of support for the selected director nominees, drove its high rankings in both 2007 and 2008.



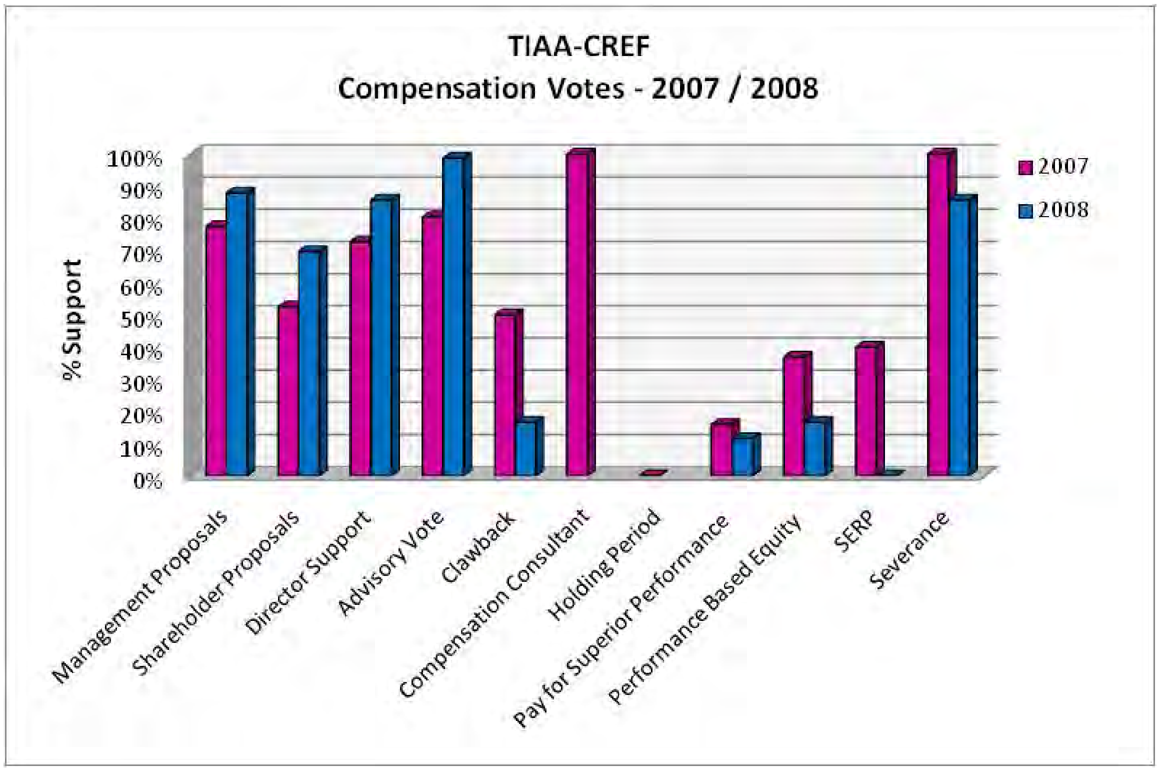
(The shareholder proposal categories "Compensation Consultant" and "Holding Period" were not analyzed for 2008.)

TIAA-CREF Asset Management

Composite Rankings

2007: 8
2008: 14 (tie)

TIAA-CREF moved downward in the rankings from 1st in 2006, when it was dubbed a "Pay Constrainer" to 8th in 2007 and to a tie for 14th in 2008. TIAA-CREF's support for shareholder proposals dipped significantly in 2007—in 2006 it had been the fourth most-supportive fund family—and its support for director nominees was above both the average and median. Although shareholder proposal support rebounded somewhat in 2008, both management proposal and director nominee support also increased, offsetting the improvement in shareholder proposal voting.



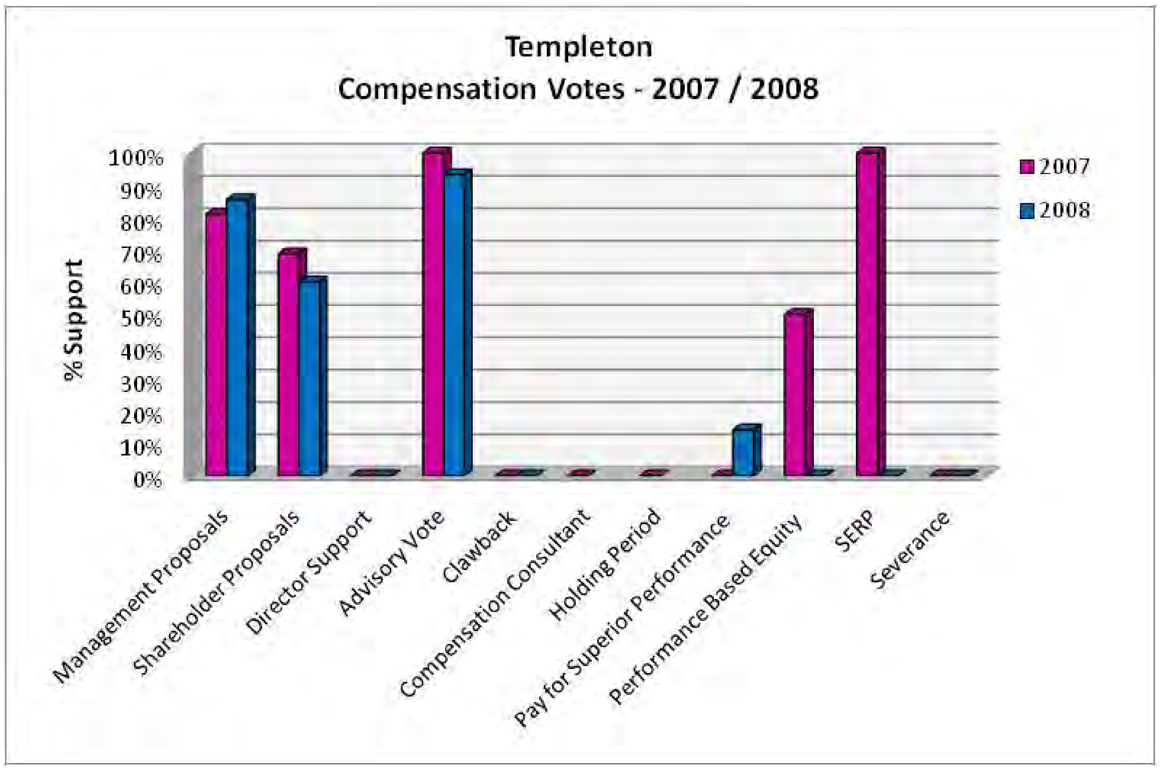
(The shareholder proposal categories "Compensation Consultant" and "Holding Period" were not analyzed for 2008.)

Templeton Funds

Composite Rankings

2007: 1
2008: 1 (tie)

Templeton's ranking has shot upward since 2006, when it tied for 10th place. In both 2007 and 2008, Templeton ranked 1st (tying for that honor in 2008) and earned "Pay Constrainer" designation. (The 2007 ranking is based only on management and shareholder proposal voting because Templeton did not report voting on any of the director nominees selected for this study.) Templeton's high rankings have been driven primarily by its strong support for shareholder proposals and, in 2008, its low level of support for director nominees.



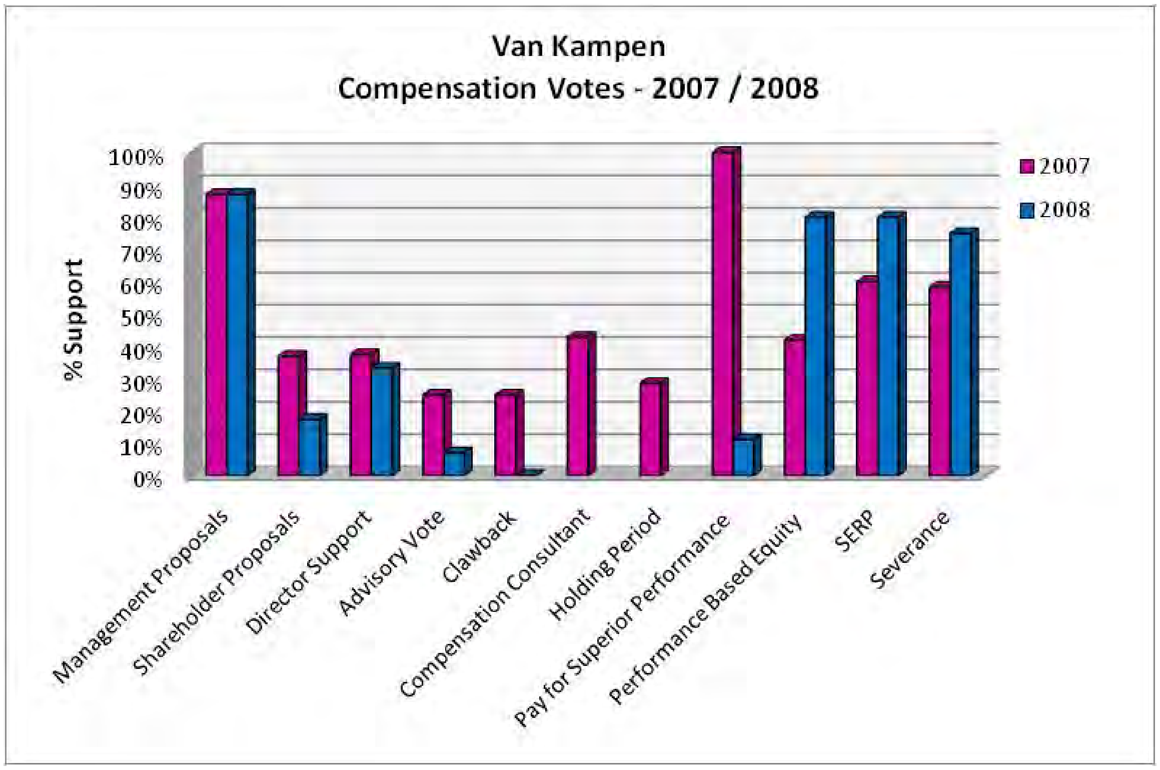
(The shareholder proposal categories "Compensation Consultant" and "Holding Period" were not analyzed for 2008.)

Van Kampen Investments

Composite Rankings

2007: 15 (tie)
2008: 13

Van Kampen has steadily improved its ranking, jumping from 22nd in 2006 to a tie for 15th in 2007 and then another uptick to 13th in 2008. Van Kampen is quite supportive of management proposals—with voting records near or slightly above the median—and its support for both shareholder proposals and director nominees places it in the middle of the pack.



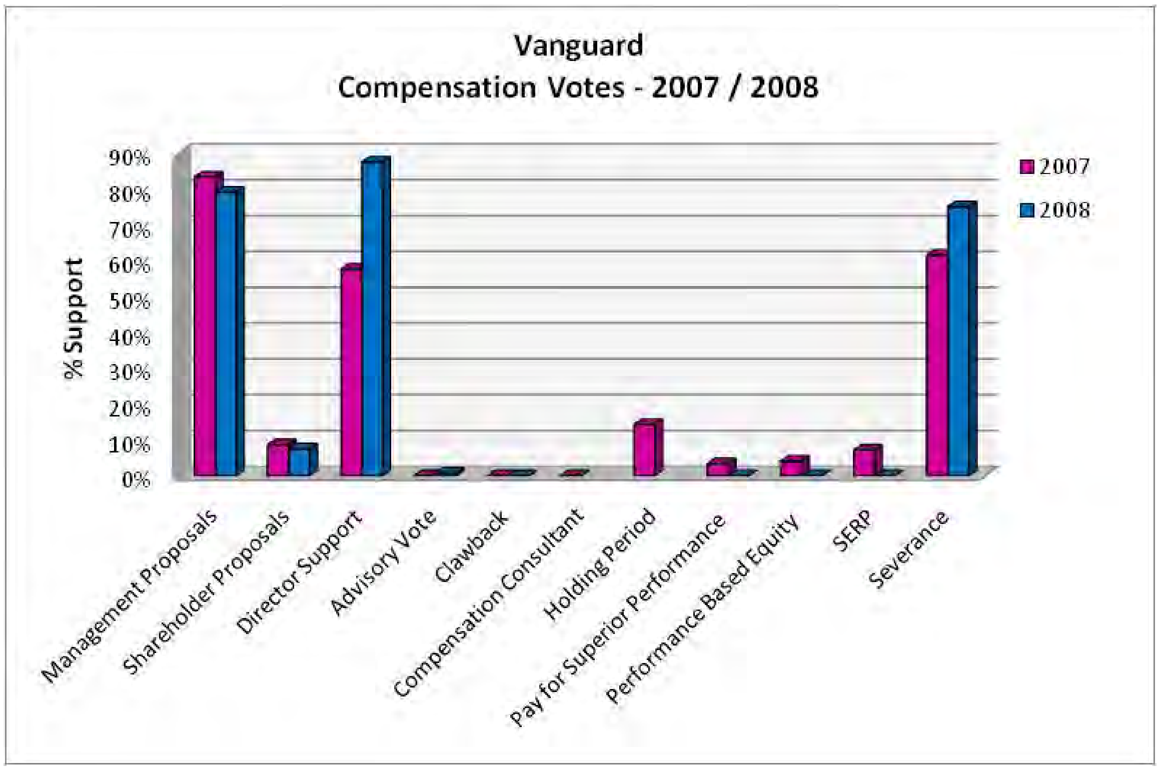
(The shareholder proposal categories "Compensation Consultant" and "Holding Period" were not analyzed for 2008.)

Vanguard Group

Composite Rankings

2007: 20
2008: 19

Vanguard's ranking has not strayed much since 2006, when it tied for 17th. In 2007, it finished in 20th place, and it improved by one position to 19th in 2008. In 2007 and 2008, Vanguard's average and below-average support for management proposals was eclipsed by very low levels of support for shareholder proposals and high levels of support for director nominees.



(The shareholder proposal categories "Compensation Consultant" and "Holding Period" were not analyzed for 2008.)

Appendix C

Directors Receiving Significant Withhold Votes

2007 Directors

Company	Director
Affiliated Computer Services	Deason
Affiliated Computer Services	Kosberg
Affiliated Computer Services	O'Neill
Affiliated Computer Services	Rossi
Apple	Campbell
Apple	Levinson
Apple	York
Brocade Communications	Vaswani
Cablevision Systems	Ferris
Cablevision Systems	Hochman
Cablevision Systems	Oristano
Cablevision Systems	Ryan
Cablevision Systems	Tese
Ceradyne	Alliegro
Ceradyne	Edelstein
Ceradyne	Lohr
Ceradyne	Moskowitz
Home Depot	Langone
King Pharmaceuticals	Jordan
Occidental Petroleum	Abraham
Occidental Petroleum	Chalsty
Occidental Petroleum	Dreier
Occidental Petroleum	Maloney
Occidental Petroleum	Segovia
Occidental Petroleum	Tomich
Textron	Clark
Textron	Evan
Textron	Powell
Toll Brothers	Marbach
UnitedHealth Group	Ballard
Yahoo	Bostock
Yahoo	Burkle
Yahoo	Kern

2008 Directors

Company	Director
Citigroup Inc.	Belda
Citigroup Inc.	Derr
Citigroup Inc.	Parsons
Hologic	Crawford
Hologic	Lavance Jr.
Hologic	Leaming
Hologic	McDaniel
Hologic	Ullian
Hologic	Wilson
Interpublic Group of Companies	Brack
KB Home	Finchem
KB Home	Lanni
King Pharmaceuticals	Wood
Occidental Petroleum	Abraham
Occidental Petroleum	Chalsty
Office Depot	Ault III
Office Depot	Bernauer
Office Depot	Bru
Office Depot	Evans
Office Depot	Hedrick
Ryland Homes	Jews
Ryland Homes	Mansour
Ryland Homes	St. Martin
Washington Mutual	Frank
Washington Mutual	Lillis
Washington Mutual	Matthews
Washington Mutual	McQuade
Washington Mutual	Stever

Endnotes

1 Hodgson, Paul. The Corporate Library, "The Corporate Library's Annual CEO Pay Survey 2007."

2 Hodgson, Paul. The Corporate Library, "2006 CEO Pay Survey," page 18.

3 Investment Company Institute, *2008 Investment Company Fact Book*, pages 110, 112.

4 *Ibid* page 11.

5 *Ibid* page 21.

6 We did not examine the voting records of any socially responsible investment funds.

7 This data point is new to our study this year; our previous two reports did not examine director withhold votes.

8 Hodgson, Paul. The Corporate Library, "The Corporate Library's Annual CEO Pay Survey 2007."

9 Hodgson, Paul. The Corporate Library, "2006 CEO Pay Survey," page 18.

10 Bebchuk, Lucian & Jesse Fried. *Pay Without Performance*, pages 53-58 (2004) (hereinafter, *Pay Without Performance*).

11 "Major Investors Critical of CEO Pay Disclosure," Pearl Meyer & Partners, April 29, 2005. Eighty-eight institutional investors with median assets of $36 billion were surveyed.

12 Press Release, "Institutional Investors Dissatisfied with U.S. Executive Pay System, Watson Wyatt Study Find," Watson Wyatt, Dec. 13, 2005. Fifty-five institutions managing $800 billion in assets were surveyed.

13 Press Release, "Corporate Directors Give Executive Pay Model Mixed Reviews," Watson Wyatt, June 20, 2006.

14 "What Directors Think – 2007 Annual Board of Directors Survey," Corporate Board Member & PricewaterhouseCoopers

15 Bebchuk, Lucian & Yaniv Grinstein. "The Growth in Executive Pay," 21 *Oxford Review of Economic Policy*, page 283 (2005).

16 *See: Pay Without Performance*, *supra* note 10, at page 19.

17 See "Testimony of Nell Minow, U.S. House Committee on Oversight and Government Reform," Mar. 7, 2008.

18 "Special Comment – CEO Compensation and Credit Risk," Moody's Investor Service, July 2005.

19 Hambrick, Donald and Gerard Sanders. "Swinging for the Fences: the Effects of CEO Stock Options on Company Risk Taking and Performance," Academy of Management Journal, 2007.

20 Thomas, Randall S. & Kenneth J. Martin. "The Effect of Shareholder Proposals on Executive Compensation" (March 12, 1999) (available on www.ssrn.com).

21 Martin, Kenneth J. & Randall S. Thomas. "When is Enough, Enough? Market Reaction to Highly Dilutive Stock Option Plans and the Subsequent Impact on CEO Compensation," (February 2003) (available on www.ssrn.com).

22 Ferri, Fabrizio and David Maber. "Solving the Executive Compensation Problem through Shareholder Votes? Evidence from the U.K.," November 2007.

23 Cai, Jie and, Ralph A. Walkling. "Shareholders' Say on Pay: Does it Create Value?" (December 08, 2008). Drexel College of Business Research Paper No. 2008-06. (available on www.ssrn.com).

24 *See: e.g.,* Grace Wong. "House Passes 'Say on Pay' Bill," CNNMoney.com (April 20, 2007) (available at http://money.cnn.com/2007/04/20/news/economy/house_executive_pay/index.htm).

25 See http://levin.senate.gov/newsroom/supporting/2009/PSI.SchapiroResponses.012209.pdf (reporting Chairman Schapiro's response to question regarding the advisory vote from Senator Carl Levin on Jan. 8, 2009); "SEC Commissioner Backs 'Say on Pay'", The New York Times (Dealbook), Feb. 19, 2009 (available at http://dealbook.blogs.nytimes.com/2009/02/19/sec-commissioner-backs-say-on-pay/?pagemode=print).

26 *See: In re The Walt Disney Company Derivative Litigation* (Delaware Chancery, August 9, 2005).

27 Investment Company Institute, *supra* note 3, pages 110, 112.

28 *Ibid* page 11.

29 *Ibid* page 21.

30 *Ibid* pages 70-71.

31 Investment Company Act of 1940.

32 SEC Release No. 33-8188, "Disclosure of Proxy Voting Policies and Proxy Voting Records by Registered Management Investment Companies," (Sept. 23, 2003).

33 We used the fund family designations provided by the families themselves, which separate votes cast by fund families under common ownership. For example, Franklin Resources Inc. owns both the Franklin and Templeton fund families and reports votes separately. As a result, we also report them separately, though we provide enough detail to permit aggregation.

34 Compensation-related agenda items reported in these filings were identified and categorized using a variety of keyword combinations in queries against the data set. Keyword examples include: incentive, option, pay, performance, compensation, bonus, severance, and executive.

35 See Office of Compliance Inspections and Examinations, Securities and Exchange Commission, Compliance Alert dated July 22, 2008, at p. 5 (available at http://www.sec.gov/about/offices/ocie/complialert0708.htm).

36 A standard stock option has an exercise price equal to the market price of the stock on the grant date. Thus, any appreciation in stock price, even if driven by market- or industry-wide factors, will result in compensation to the option holder. Indexed, premium-priced and contingent-vesting options, which are advocated in some shareholder proposals, tailor the payout more closely to the performance of the company itself.

37 *Pay Without Performance*, *supra* note 10, pages 137-46, 172-73.

38 Blanchard, Olivier Jean et al. "What Do Firms Do with Cash Windfalls?" *Journal of Financial Economics*, page 36 (1994).

39 Bertrand, Marianne and Sendhil Mullainathan. "Are CEOs Rewarded for Luck? The Ones Without Principals Are," *The Quarterly Journal of Economics*, page 116 (2001).