




**TIPPING THE BALANCE?** LARGE MUTUAL  
FUNDS' INFLUENCE UPON EXECUTIVE COMPENSATION

The American Federation of State, County and Municipal Employees, AFL-CIO 

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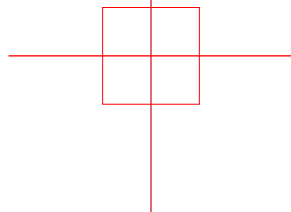
Fund Votes ([fundvotes.com](http://fundvotes.com)) is an independent project started in 2004 by economist and research analyst Jackie Cook. Fund Votes tracks mutual fund proxy voting in the U.S. and Canada. The database of over 23 million indexed proxy voting decisions by large financial institutions spans seven years of mutual fund proxy voting disclosure in the U.S. and five years in Canada. Data from Fund Votes has been used in a number of reports, including by groups such as CERES, SHARE, The Corporate Library, Investors' Environmental Health Network (IEHN) and the Center for Political Accountability. In addition, news organizations and publications, such as Reuters, the Boston Business Journal, SocialFunds and IR magazine, have cited Fund Votes findings in articles and postings.

This report was prepared by Jackie Cook, John Keenan and Beth Young.

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## Introduction

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The American Federation of State, County and Municipal Employees (AFSCME) has analyzed mutual fund voting on compensation proposals for five years. We began doing so with the goal of determining the extent to which mutual funds use their substantial power as shareholders (*as they hold more than a quarter of U.S. companies*) to shape executive compensation and the impact on shareholder value. The recent reforms aimed at addressing the causes of the financial crisis, which assign shareholders a key role in curbing inappropriate pay arrangements, heighten the importance of this question.

Mutual funds are required to disclose their proxy votes in annual 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<sup>1</sup> mutual fund families on executive compensation-related proposals at corporate annual meetings from July 1, 2009 to June 30, 2010.

We obtained our data this year from Fund Votes (fundvotes.com), an independent project started in 2004 by economist and research analyst Jackie Cook. The fund families analyzed in this report were selected by taking the largest 26 fund families based upon the assets under management invested in securities.<sup>2</sup>

Fund families are ranked according to how often they supported three broad types of proposals:

1. Compensation-related proposals made by company management, such as equity compensation plans, bonus plan performance criteria, management advisory vote on executive compensation or “Say on Pay” proposals and option exchanges;
2. Certain categories of shareholder proposals dealing with executive compensation; and
3. The election of specific directors of S&P 500 companies where 30 percent or more of shares were withheld from or voted against one or more directors for reasons related to concern over executive pay and where proxy advisory services specifically recommended voting against the selected directors for pay concerns.

Our system ranks the voting practices of these fund families from most supportive of efforts to tie executive pay to company performance and therefore, in turn, to shareholder value, to least supportive of those efforts.

A lower rank indicates more pay-constraining voting practices. Our methodology counts votes against

management proposals, for the selected categories of shareholder proposals and against or withheld from the specific problematic directors as more likely to promote responsible pay practices. We chose categories of shareholder proposals on executive pay that we believe to be most well-conceived and likely to enhance shareholder value.

As we did in our previous reports, 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.”

This year, we have done two things for the first time. We have conducted an analysis of fund family voting weighted by assets under management in U.S. equities. This is intended to provide a context for understanding the impact of mutual fund voting on executive compensation and also to profile and visually compare individual fund families on various dimensions of voting. This added analysis illustrates each fund’s overall ability to influence compensation.

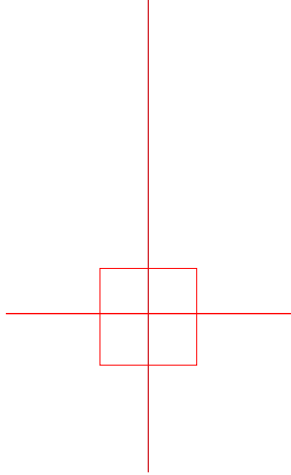
Second, we also analyzed fund family voting on a basket of ten specific ballot items or critical compensation votes. Voting records on the critical compensation votes are not considered in arriving at the overall rankings. This analysis is intended to provide a snapshot of how fund families voted on items representing the range of compensation proposals reviewed in this report. The critical compensation vote analysis has the added benefit of portraying fund family voting on an absolute basis, which complements the relative fund family rankings derived from the aggregate voting data.

We created a proxy voting profile for each fund family, which includes data on the fund family’s performance on the broad categories of voting taken into account for the overall rankings as well as on the critical compensation votes. These profiles can be found in Appendix B.

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## Executive Summary

Mutual fund voting patterns are important because mutual funds, as the most common investment vehicle for individuals and holders of more than a quarter of all U.S. equities, are collectively the “800-pound gorilla” in the shareholder world. As Vanguard founder John Bogle remarked, “The funds should demand with all their voting power that the companies they own are putting the interests of their shareholders first. This would have implications for executive compensation, nominating directors and other corporate governance matters.”<sup>3</sup>

As a group, mutual funds continue to be supportive of management-sponsored proposals dealing with executive pay, though average support levels have declined somewhat from last year. Support for management “Say on Pay” proposals, however, increased moderately from last year’s levels. Reversing an upward trend begun last year, mutual fund support for the categories of shareholder proposals selected for this report dropped significantly. Table 1 shows a continuation of the pattern we saw last year – mutual funds showed less inclination to withhold support from or vote against the directors selected for the study.

Across all 26 mutual fund families, we found the following voting patterns:

- **Decreased Support for Management Proposals:** The average level of support for management-sponsored proposals on compensation issues

decreased from 84 percent in 2008 and 2009 to 80 percent in 2010.

- **Decreased Support for Shareholder Proposals:** The average level of support for the compensation-related shareholder proposals we selected was 48 percent, down sharply from the 56 percent level found in 2009.
- **Increased Support for Directors:** The average level of support for the directors selected for this study was 55 percent in 2010, up from 50 percent in 2009 and 48 percent in 2008.
- **Increased Support for Management “Say on Pay”:** The average support level for management-sponsored “Say on Pay” (MSOP) proposals was 82 percent, up from 77 percent in 2009. The increase in MSOP support is likely the result of a change in the universe of companies holding MSOP votes: Troubled Asset Relief Program (TARP) companies were required to hold MSOP votes in 2009 but many, having repaid TARP funds, were not required to do so in 2010 (Table 1).

	2005	2006	2007	2008	2009	2010
Management Proposals	76%	76%	82%	84%	84%	80%
Shareholder Proposals	28%	47%	42%	40%	56%	48%
Director Voting			58%	48%	50%	55%
Management “Say on Pay” (MSOP)					77%	82%

With the exception of the shareholder proposals category, a lower percentage indicates greater advocacy for shareholders with respect to executive compensation.

Analyzing fund influence based upon assets under management (Table 2), we found the following:

- The three largest fund families are Vanguard, Fidelity and American, which control 59 percent of the assets held in funds that were reviewed in this report. The other 23 fund families controlled 41 percent of the assets.
- The largest fund families exhibited the most management-friendly voting patterns on the shareholder proposals and director voting broad categories.
- Vanguard, the largest fund family, was rated as the most pay enabling fund family.
- While American and Fidelity do apply a higher level of scrutiny to management proposals than the majority of fund families, they each rank in the bottom three, along with Vanguard, for shareholder proposals.
- Although many smaller fund families exhibit pay constraining voting patterns, the largest fund families with the greatest ability to affect compensation tend to be more pay enabling.

As can be seen in Table 3, funds employ different approaches among the three voting categories to address executive compensation. For example, Federated was more likely to vote against a management proposal with 47 percent support, less likely

to vote for shareholder proposals with 25 percent support and did not use its votes on directors to register any disapproval over pay, supporting 100 percent of directors. Some fund families emphasize strict limits applicable to management-proposed pay plans evidenced by lower rates of support for management proposals (American Century and Federated) others favor more specific measures suggested in shareholder proposals shown by high levels of support for shareholder proposals (Janus and Goldman Sachs); and others express discontent primarily through withholding support for the reelection of certain directors deemed responsible for pay decisions (T. Rowe Price and JP Morgan). A few fund families, those that ranked near the bottom overall, pursued none of these strategies (ING, BlackRock, Vanguard).

Of the fund families that ranked in the top ten overall, only two ranked in the top ten for all three broad categories. Dimensional, which ranked first overall, ranked first in voting on shareholder proposals and tied for first in voting on directors, but eighth in management proposal voting. Similarly, Dreyfus, second overall, also tied for first in director voting, ranked fourth in management proposal voting and ranked ninth in shareholder proposal voting. Even fund families with middling overall rankings ranked high in certain categories of voting. Federated, for example, whose overall ranking was sixteenth, ranked second in voting on management-sponsored proposals.

<b>Table 2. Fund Influence Based upon Assets under Management</b>		
	<b>Vanguard, Fidelity and American – 59 Percent of AUM</b>	<b>23 Other Funds – 41 Percent of AUM</b>
Management Proposals	75.4%	80.2%
Shareholder Proposals	3.3%	54.1%
Director Voting	81.8%	51.6%
MSOP	92.8%	80.4%

**Table 3. Fund Approaches to Voting: Fund families have adopted different approaches to voting on executive compensation issues.**

Fund family	Mgmt.	Rank	Shrhldr	Rank	Directors	Rank
American	69%	5	4%	25	86%	22
American Century	30%	1	30%	17	77%	18
BlackRock	91%	24	15%	20	86%	21
Columbia	84%	15	60%	12	97%	25
Dimensional	79%	8	99%	1	0%	1
Dreyfus	69%	4	66%	9	0%	1
DWS	81%	12	16%	19	97%	24
Federated	47%	2	25%	18	100%	26
Fidelity	67%	3	4%	24	65%	15
Franklin Templeton	77%	6	64%	10	54%	12
Goldman Sachs	89%	19	77%	5	72%	16
ING	89%	21	5%	23	78%	19
Invesco	80%	11	71%	8	48%	10
Janus	88%	18	79%	4	50%	11
JP Morgan	94%	25	53%	16	45%	9
Legg Mason	90%	22	75%	7	33%	7
Lord Abbett	94%	26	7%	22	63%	14
MFS	78%	7	56%	14	30%	6
Morgan Stanley	89%	20	76%	6	72%	17
Oppenheimer	84%	16	98%	2	0%	1
Putnam	80%	9	8%	21	39%	8
Schwab	80%	10	64%	11	61%	13
T. Rowe Price	84%	14	53%	15	7%	5
TIAA-CREF	82%	13	58%	13	79%	20
Vanguard	90%	23	2%	26	94%	23
Wells Fargo	86%	17	90%	3	0%	1

Comparisons between rankings in this year's report and those done in prior years (Table 4) are imperfect because (a) changes occurred in the fund family universe,<sup>4</sup> (b) we analyze votes on different categories of shareholder proposals and different director elections each year, (c) the composition of the management proposal universe varies each year, (d) we counted inconsistent votes on a particular ballot item by funds within a fund family differently this year, and (e) the category rankings averaged to create the overall rankings are relative. These limitations should be kept in mind when analyzing fund family performance over years.

Among many fund families, there is consistency in performance from year to year; others exhibit significant movement in one direction or the other.

- Dreyfus and Oppenheimer ranked near the bottom in 2005 and 2006, but have since risen to Pay Constrainer status.

- Wells Fargo improved its rank from lower half in 2009 to Pay Constrainer in 2010.
- Federated and TIAA-CREF were designated as Pay Constrainers in 2005 and 2006, but have since consistently dropped off in the rankings.
- Vanguard and Lord Abbett consistently are ranked near the bottom.
- BlackRock, which bought Barclays – ranked a Pay Enabler in the previous four years – ranked second-to-last this year and earned the Pay Enabler designation. (In 2009, before its voting record was combined with that of Barclay's, BlackRock ranked 18th.)
- Schwab, the top-ranked fund family last year, slipped to 10th this year.

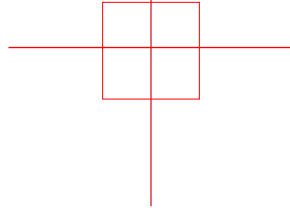
- Legg Mason, a Pay Constrainer in 2009, tied for 11th in 2010.

- Among new entrants, Dimensional ranked first overall, while ING ranked near the bottom and was designated a Pay Enabler.

**Table 4. Fund Historical Rankings by Year** (and number of fund families evaluated)

Fund family	2005 (18)	2006 (29)	2007 (26)	2008 (26)	2009 (25)	2010
Dimensional	Not Ranked			→	Not Ranked	1
Dreyfus	16	20	Not Ranked	Not Ranked	3 (T)	2
Oppenheimer	14	17 (T)	9	1 (T)	Not Ranked	3
Wells Fargo	Not Ranked			→	19 (T)	4
MFS	Not Ranked	10 (T)	12	25	9 (T)	5
Franklin Templeton <sup>5</sup>	8 (T)	10 (T)	3	7	7	6
Invesco	Not Ranked			→	16	7
Janus	5	6 (T)	11	7	Not Ranked	8
Schwab	Not Ranked	9	3	5 (T)	1	9 (T)
T. Rowe Price	12 (T)	2	2	3 (T)	8	9 (T)
American Century	1	13 (T)	13	8	Not Ranked	11 (T)
Legg Mason	6	8	5	9	3 (T)	11 (T)
Putnam	8 (T)	15	19	16 (T)	Not Ranked	13
Goldman Sachs	Not Ranked				→	14
Fidelity	10	17 (T)	18	20 (T)	9 (T)	15
Morgan Stanley	18	21	6(T)	12	12 (T)	16
Federated	3	4	15(T)	10	12 (T)	17 (T)
TIAA-CREF	2	1	8	14 (T)	11	17 (T)
JP Morgan	Not Ranked	5	6 (T)	5 (T)	Not Ranked	19
American	11	23	21 (T)	16 (T)	19 (T)	20 (T)
Columbia	Not Ranked	3	24	22	14 (T)	20 (T)
DWS	Not Ranked	6 (T)	10	16 (T)	21	22
Lord Abbett	Not Ranked	26	21 (T)	20 (T)	Not Ranked	23
ING	Not Ranked				→	24
BlackRock	Not Ranked		→	14 (T)	18	25
Vanguard	4	17 (T)	20	19	22	26

**Until shareholders of mutual funds begin to hold mutual fund managers accountable for their proxy voting, the pattern of pay-enabling votes is likely to continue. We outline specific recommendations for mutual fund shareholders on page 19.**



## Executive Compensation and the Role of Shareholders

For several decades, a heated debate has raged over the amount and form of executive compensation. In 1992, the Staff of the Division of Corporation Finance of the Securities and Exchange Commission changed its interpretation of the shareholder proposal rule to allow shareholders to submit proposals on senior executive compensation, citing “the widespread public debate concerning executive and director compensation policies and practices.”<sup>6</sup> A special report in *Business Week* in 1999 asked, “Is Greed Good?” and called executive pay numbers “staggering.”<sup>7</sup> A 1998 article in *The Wall Street Journal* entitled, “Pay for No Performance” told readers, “Welcome aboard the Chief Executive Gravy Train.”<sup>8</sup>

Executive pay has been reliably controversial for several reasons. Most recently, many point to misaligned compensation incentives as one of the causes of the financial crisis.<sup>9</sup> In a study of executive compensation at Bear Stearns and Lehman Brothers, Harvard Professor Lucian Bebchuk and two coauthors concluded that “the executives’ taking large amounts of performance-based compensation off the table based on short-term results did provide them with undesirable incentives – incentives to seek improvements in short-term results even at the cost of an excessive elevation of the risk of large losses at some

(uncertain) point in the future.”<sup>10</sup> The Financial Crisis Inquiry Commission stated bluntly in its recent report that “[c]ompensation systems – designed in an environment of cheap money, intense competition, and light regulation – too often rewarded the quick deal, the short-term gain – without proper consideration of long-term consequences.”<sup>11</sup>

The second reason why executive pay is under sharp scrutiny is the sheer amount of many executive pay packages. From 1989 through 2007, average total direct compensation<sup>12</sup> among large company CEOs increased by 167 percent.<sup>13</sup> The media highlight examples of sky-high compensation packages. *The Wall Street Journal* recently reported that Oracle’s Larry Ellison received \$1.84 billion in compensation from 2000 through 2009.<sup>14</sup>

Although executive compensation is sometimes portrayed as a symbolic rather than financial issue, the financial consequences to shareholders of outsized pay are meaningful. Compensation of the five highest-paid executives of public companies increased from 5 percent of the companies’ aggregate earnings in 1993 to 1995 to 9.8 percent of aggregate earnings in 2001 to 2003, according to a 2005 study by Lucian Bebchuk and Yaniv Grinstein. The study 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.<sup>15</sup>

Outrage has also focused on the fact that high executive pay does not necessarily require superior company performance. A 2010 study by the IRRC Institute and PROXY Governance Inc. found “no meaningful correlation between higher relative pay and higher relative returns.”<sup>16</sup> Anecdotal accounts of this disconnect are easy to find. *Forbes*, for instance, ranks the CEOs of the 500 largest U.S. companies on a pay for performance scale, highlighting CEOs such as Dean Foods’ Gregg Engles, who took home an average of \$20 million per year from 2005 to 2010 while Dean Foods’ six-year annual return of -11 percent lagged its sector.<sup>17</sup>

The divergence between CEO pay and the pay of average U.S. workers also concerns shareholders. Management guru Peter Drucker urged that the ratio between the CEO’s pay and that of the average worker should not exceed 20- or 25-to-1. Widening the ratio beyond that, he believed, “makes it difficult to foster the kind of teamwork and trust that businesses need to succeed.”<sup>18</sup> In 1989, the median compensation of a large company CEO was 75 times the average pay of production/non-supervisory workers, who account for approximately 80 percent of payroll employment. In 2008, that ratio stood at 344 to one,<sup>19</sup> and in 2009 it dropped to 263 to one.<sup>20</sup> Leo Hindery, former CEO of AT&T Broadband and its predecessor, Tele-Communications Inc., opined in *Bloomberg Businessweek* that “[t]he disparity in compensation today is an ethical embarrassment to our country, and it is certainly an affront to workers and to shareholders.”<sup>21</sup>

It is the job of corporate boards and compensation committees to negotiate executive compensation arrangements that support the creation of long-term shareholder value. As the authors of a 2008 treatise for compensation committee members exhorted, “What is needed most is courage, leadership and a spirit of independence – the willingness to ask uncomfortable questions, test the assumptions that underlie traditional past practices, strengthen accepted practices that work, say “no” when the situation warrants and chart new courses

when the rationale for old habits falls short.”<sup>22</sup> In practice, however, this oversight can fall short, allowing executive pay to become excessive.

Many factors undermine the ability and willingness of boards to bargain at arm’s length over executive compensation. These factors include CEO influence over director nominations, the complexity of pay plans and packages, the reliance on compensation consultants whose incentives may discourage objectivity and such social influences as group bias toward collegiality. Forces outside the boardroom, such as the executive labor market and the market for corporate control, constrain executive pay only in extreme cases.<sup>23</sup>

As a result, shareholders must 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 a 2008 report by Watson Wyatt, 83 percent of institutional investors and 61 percent of corporate directors surveyed said that the U.S. executive pay model has led to excessive levels of executive pay and 75 percent of both directors and investors agreed that CEO pay has hurt corporate America’s image.<sup>24</sup> A 2009 CFA Institute survey found that 75 percent of respondents were dissatisfied that compensation plans encouraged appropriate risk taking.<sup>25</sup> And a 2007 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.<sup>26</sup>

Shareholders have an interest in encouraging compensation arrangements that provide strong incentives for executives to make decisions that maximize the company’s value, but do not reward failure. Poorly designed compensation schemes fail at these tasks and thus impose indirect costs on shareholders,<sup>27</sup> 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.<sup>28</sup>

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. That study found that companies providing very large incentive compensation packages to chief executives face a greater risk of a debt default or significant downgrade.<sup>29</sup> And a 2010 study found companies with high executive compensation have a higher volatility, exhibiting extremely good performance in a buoyant market and extremely poor performance in a downturn,<sup>30</sup> while another found that CEOs who received more than 50 percent of their compensation in stock options from 1994 to 2000 were typically bigger risk-takers, and that these CEOs delivered more big losses than big gains.<sup>31</sup>

At present, shareholders can influence executive compensation in two ways. The first lever shareholders have is their voting power. Shareholders are asked to vote on compensation-related proposals put forward by a company's board, such as compensation plans, performance goals and metrics, and stock option exchanges.

Recently, shareholders gained an additional management proposal voting opportunity in the form of the shareholder advisory vote on the compensation of the named executive officers (generally the five most highly compensated officers, including the CEO). Also known as "Say on Pay," the advisory vote – basically a non-binding referendum on top executive pay arrangements – was first promoted by shareholders who pressed companies to adopt the practice voluntarily. Then, following the financial crisis, Congress required companies that received assistance under the Troubled Asset Relief Program (TARP) to give their shareholders the opportunity to cast "Say on Pay" votes starting in the 2009 proxy season. Finally, in 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act extended the "Say on Pay" vote requirement to all public companies starting in the 2011 proxy season.

## “...shareholder voting can play a key role in reforming compensation...”

Shareholders also have the opportunity to vote on shareholder-sponsored proxy proposals seeking to reform compensation policies or practices in some way. Because such proposals tend to be submitted at companies perceived as having particularly egregious executive compensation practices, there are fewer shareholder proposals on executive pay than management-sponsored proposals. This study looked at 1,373 management proposals and 110 shareholder proposals appearing on the proxy ballots of Russell 3000 companies in 2010. Accordingly, a vote on any single shareholder proposal has more impact on a fund family's broad category ranking than a vote on a single management proposal.

Finally, shareholders may choose to withhold support from or, in the case of companies that use a majority voting standard for director elections, vote against nominees 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 2009 study of "vote-no" campaigns based on pay concerns and shareholder proposals on executive compensation between 1997 and 2007 found that companies targeted by "vote-no" campaigns experienced a \$7.3 million reduction in total CEO pay and companies targeted by proposals calling for greater link between pay and performance experienced a reduction in CEO pay of \$2.3 million.<sup>32</sup> Another study found that higher levels of "against" votes on management compensation proposals were followed by lower rates of increase in CEO pay.<sup>33</sup> A 2008 study found that lower votes for compensation committee members were associated with lower "abnormal" (i.e., in excess of the expected level) CEO compensation in the following year.<sup>34</sup>

Anecdotal evidence also supports the idea that shareholder voting can play a key role in reforming compensation practices. In the 1990s, outside director pensions, which had up until then been commonplace, all but 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 asking companies to expense options led to hundreds of companies agreeing to do so before expensing was required by financial accounting standards-setters and proposals asking companies to eliminate tax gross-ups for senior executives spurred many companies to abandon the practice.

Recent studies indicate the effectiveness of giving shareholders an advisory vote on executive compensation. A 2007 Harvard University 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.<sup>35</sup> And a 2008 study found that shareholder votes on executive compensation mandated by “Say on Pay” legislation create value for firms with overpaid CEOs and for firms more likely to reform pay practices in response to shareholder votes.<sup>36</sup>

The second mechanism shareholders can use to influence executive pay is litigation using 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,<sup>37</sup> 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.<sup>38</sup>

## Mutual Funds and Proxy Voting

Individual shareholders may be willing to take the necessary steps to exercise their right to vote at corporate annual meetings. However, they are constrained in their ability to influence executive compensation by the fact that 21 percent of U.S. households’ financial assets are in mutual funds. Mutual funds, as large shareholders with proxy voting fiduciary responsibility, are well-positioned to play an important role in reforming executive compensation. Of the \$12.2 trillion invested in mutual funds at year-end 2009,<sup>39</sup> 44 percent was invested in equity funds and another 6 percent was applied to hybrid funds.<sup>40</sup> In the aggregate, mutual funds hold about 28 percent of the market capitalization of all U.S. companies.<sup>41</sup> Mutual fund assets are highly concentrated, with the 10 largest fund families managing 53 percent of all fund assets.<sup>42</sup>

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 education. Mutual funds manage 51 percent of assets in defined contribution retirement plans (such as 401(k) plans), 46 percent of Individual Retirement Accounts assets and \$3.8 trillion of assets held by Americans in taxable accounts.<sup>43</sup>

Although mutual fund investors bear the economic risks associated with ownership of securities held by the mutual fund, the voting rights associated with this ownership are not exercised by the investor in

**“Twenty-one  
percent of U.S.  
financial assets  
are in mutual  
funds”**

the mutual fund, but instead by the mutual fund managers. Put another way, mutual fund managers vote proxies in the companies owned by the fund on behalf of mutual fund investors.

The legal regime governing mutual funds requires that mutual funds be managed in the interests of their shareholders.<sup>44</sup> 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. Some observers have noted that mutual funds supported management when voting proxies where corporate executives are in a position to direct employee benefit business such as 401(k) management to fund parent companies. For example, a New York Times columnist reported that Fidelity, unlike a number of other mutual fund families, had voted against a shareholder proposal urging option expensing at Intel, noting that “Fidelity is the recordkeeper for Intel’s 401(k) plan, which held eight Fidelity funds worth \$1 billion at the end of 2003.”<sup>45</sup>

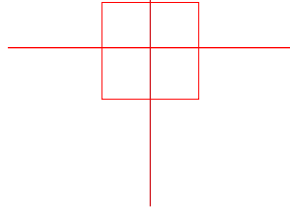
In 2002, in response to much urging from investor advocates, the SEC proposed a rule mandating that mutual funds disclose both their proxy voting policies and the actual votes cast at portfolio companies. In its proposing release, the SEC emphasized the importance of mutual funds for effective shareholder oversight: “As major shareholders, mutual funds may play a vital role in monitoring the stewardship of the companies in which they invest.”<sup>46</sup> Over strong opposition from the mutual fund industry, the SEC adopted proxy voting disclosure requirements in 2003.

Even after funds started disclosing votes, academic studies continued to find that business considerations appear to affect mutual funds’ proxy voting decisions. In a 2005 study, Davis and Kim found that voting

policies tended to be more management-friendly at the fund families with the largest amount of pension management business at Fortune 1000 firms.<sup>47</sup> Using N-PX data, Davis and Kim also looked at votes cast on common corporate governance shareholder proposals (such as board declassification and limits on severance arrangements). They found that the volume of pension business affected votes cast on four of the six proposal types.<sup>48</sup>

A 2009 study by Rasha Ashraf and two co-authors found that mutual fund voting on executive compensation-related shareholder proposals in 2004-2006 was affected by business ties between the fund and the portfolio firm at which the proposal was submitted. More specifically, the Ashraf study found that “mutual funds with business ties are more likely to vote against shareholder proposals when the proposal receives majority approval from other mutual funds or when Institutional Shareholder Services (ISS) recommends passage.”<sup>49</sup> The authors infer from this finding that funds may be more likely to support management “when the vote really counts.”<sup>50</sup> The study also found a “significant negative relation between the fees received by a mutual fund family and the likelihood that the fund votes for the shareholder proposal.”<sup>51</sup>

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, then further regulatory intervention might be inevitable. An SEC enforcement action over a case of mutual fund proxy voting conflicts would reinforce the concept that mutual funds are required to vote proxies in their clients’ best interests.



## Fund Rankings

To provide a comparative comprehensive picture of how each fund family dealt with pay issues, 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 ranked the fund families from 1 to 26, with “1” being the most pay constraining on compensation issues and “26” being the most pay enabling.

Fund families that did not use their voting power in ways that would limit compensation excesses have been labeled as “Pay Enablers,” while fund families that used their voting to constrain executive compensation have been labeled as “Pay Constrainers.” These composite ranks are set forth below for 2010 (covering voting from July 1, 2009 to June 30, 2010).

This year, the Pay Constrainers were Dimensional, Dreyfus, Oppenheimer and Wells Fargo. The Pay Enablers were Vanguard, BlackRock, ING and Lord Abbett.

We have also listed each fund’s percentage of assets under management (AUM) studied in this report (Table 5). With over \$500 billion in assets under management in equities, Vanguard, which ranked last in this study, is the largest fund family in the U.S. The fund list of assets under management can be found in Appendix E.

Table 6 shows the difference between Pay Constrainers and Pay Enablers in terms of percentage of assets

under management relative to total AUM of fund families whose voting records were analyzed for this report

### Voting Trends

Average support for management proposals across all fund families decreased somewhat to 80 percent this year, from 84 percent in both 2009 and 2008. Management-sponsored “Say on Pay” proposals, however, saw higher support levels at 82 percent in 2010. The categories of shareholder proposals selected for this study enjoyed a lower level of support, 48 percent this year, compared to 56 percent last year. Average support for the directors selected for this study, 55 percent, was up somewhat from 2009, when average support was 50 percent.

Two of the three broad categories of proposals, as well as the subcategory of MSOPs, showed increasing support for management’s positions. The decreased support for shareholder proposals may stem from a change in the makeup of the shareholder proposal universe, rather than a shift in fund attitudes toward shareholder proposals generally. In 2010, shareholder proposals asking that companies implement a “Say on Pay” vote, which enjoyed substantial shareholder support in 2009, represented a smaller proportion of the total shareholder proposal universe than they did in 2009.

The higher levels of support for MSOPs in 2010 may reflect the fact that most large TARP-funded companies, which could be expected to serve as

**Table 5. Overall Rankings in 2010**

Rank	Fund Family	Score	% AUM	Rank	Fund Family	Score	% AUM
1	Dimensional	3.33	2.0%	14	Goldman Sachs	13.33	1.0%
2	Dreyfus	4.67	0.8%	15	Fidelity	14.00	19.1%
3	Oppenheimer	6.33	1.2%	16	Morgan Stanley	14.33	0.5%
4	Wells Fargo	7.00	1.1%	17 (T)	Federated	15.33	0.6%
5	MFS	9.00	1.4%	17 (T)	TIAA-CREF	15.33	0.7%
6	Franklin Templeton	9.33	1.9%	19	JP Morgan	16.67	1.4%
7	Invesco	9.67	2.6%	20 (T)	American	17.33	15.1%
8	Janus	11.00	2.5%	20 (T)	Columbia	17.33	3.8%
9 (T)	Schwab	11.33	1.0%	22	DWS	18.33	0.7%
9 (T)	T. Rowe Price	11.33	6.2%	23	Lord Abbett	20.67	1.0%
11 (T)	American Century	12.00	2.1%	24	ING	21.00	1.5%
11 (T)	Legg Mason	12.00	1.3%	25	BlackRock	21.67	4.4%
13	Putnam	12.67	0.8%	26	Vanguard	24.00	25.1%

lightning rods for shareholder dissatisfaction, were no longer required to provide “Say on Pay” votes. Put another way, the companies holding MSOPs in 2010 volunteered to do so rather than being required to do so. A company is unlikely to volunteer if it has reason to fear that its shareholders would vote against a management-sponsored “Say on Pay” proposal. Greater support may also suggest that shareholders have refined their approaches to voting on MSOPs, which are relatively new. Data from the 2011 proxy season, in which all public companies will put up an MSOP, will help explain the voting patterns seen in 2010.

As in previous years, the data refute the argument made during the debate over whether mutual funds should be required to reveal their votes that vote disclosure would lead to a herd mentality where funds vote in lockstep with

recommendations from Institutional Shareholder Services (ISS). Fund families’ voting records are sufficiently diverse to dispel any notion that uniformity has become the norm, as evidenced by Table 10 Critical Compensation Votes (page18), where all of the votes were endorsed by ISS.

**Table 6. Pay Constrainers and Pay Enablers**

Fund	Mngmt	Shareholder	Director	AUM %
Dimensional	78.7%	99.1%	0.0%	2.0%
Dreyfus	69.2%	65.7%	0.0%	0.8%
Oppenheimer	84.4%	98.1%	0.0%	1.2%
Wells Fargo	86.1%	89.7%	0.0%	1.1%
<b>Constrainer Average</b>	<b>79.6%</b>	<b>88.2%</b>	<b>0.0%</b>	<b>5.1%</b>
Lord Abbett	94.3%	6.7%	63.2%	1.0%
ING	89.4%	4.7%	78.1%	1.5%
BlackRock	90.7%	14.6%	85.8%	4.4%
Vanguard	90.2%	1.9%	94.5%	25.1%
<b>Enabler Average</b>	<b>91.2%</b>	<b>7.0%</b>	<b>80.4%</b>	<b>32.0%</b>

## Fund Influence: Weighted Analysis of Mutual Fund Votes

While the survey focuses on 26 of the largest mutual fund families in the U.S., the size distribution amongst these is very skewed and voting power is highly concentrated.

New to the report this year, in order to get a sense of the collective impact of their votes, each fund family was given a weighting for assets under management invested in securities (“AUM in Securities”) based on data provided by Morningstar on each fund family as of November 2010. This weighting was derived by dividing each fund family’s AUM in Securities by the total amount of AUM in Securities across the 26 fund families. The weighting chart is listed in Appendix E.

The three largest fund families in this study are Vanguard, Fidelity and American (the “Big Three”), respectively accounting for 25.1 percent, 19.1 percent and 15.1 percent of the total assets invested in securities for the 26 fund families surveyed; these three families, then, effectively controlled 59.3 percent of the collective vote of the fund families surveyed. The remaining 23 fund families (“All Others”) controlled 40.7 percent of the collective voting power of the 26 fund families.

Comparing average votes cast by the “Big Three” vs. “All Others” shows that the largest mutual fund families tend not to support shareholder-sponsored compensation resolutions while generally supporting managements’ director nominees at critical withhold vote campaigns (Table 7). However, the “Big Three” were, on average, less likely to support management on management-sponsored compensation resolutions than were “All Others.”

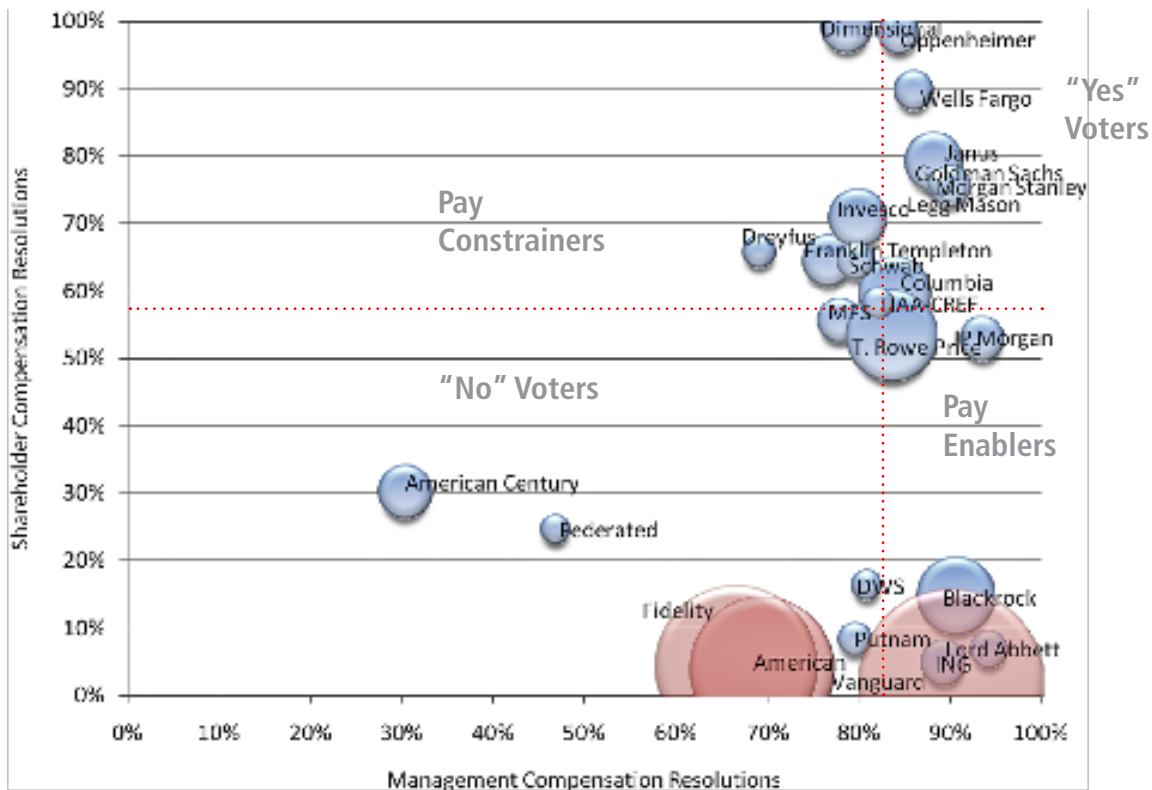
<b>Table 7. Comparison of Average Support for Proposals between “Big Three” and “All Other” Fund Families</b>	<b>Big Three</b>	<b>All Others</b>
Average Support For Management Compensation Proposals	75.4%	80.2%
Average Support For Director Nominees In Critical ‘Withhold Vote’ Campaigns	81.8%	51.6%
Average Support For Shareholder Compensation Proposals	3.3%	54.1%

Chart 1 plots each fund family on percentage support for shareholder-sponsored compensation resolutions (y-axis) and percent support for management-sponsored compensation resolutions (x-axis). The size of each bubble represents that fund family’s AUM in Securities. The chart has been divided into four quadrants by intersecting the median support for shareholder-sponsored compensation resolutions with that of management-sponsored compensation resolutions. (For Chart 1, the quadrants are split above and below the median rates for shareholder proposals at 57 percent and management proposals at 83 percent). The resulting four quadrants describe four typical voting patterns. Quadrant 1, “Pay Constrainters,” are most likely to oppose management – to support shareholder resolutions and to oppose management resolutions addressing compensation matters. Quadrant 2, called “Yes Voters,” includes fund families that are most likely to support both management and shareholder resolutions. Quadrant 3, called “No Voters,” includes fund families that are least likely to support both management and shareholder resolutions. Quadrant 4, “Pay Enablers,” are most likely to vote with management – to support management-sponsored resolutions and oppose shareholder-sponsored resolutions.

Although it may be expected that most fund families would fall either into the categories of “Pay Constrainters” (tending to oppose management on both shareholder- and management-sponsored proposals) or “Pay Enablers” (tending to vote with management), this was not the case – either with respect to the weighted vote for each category (percent AUM in Securities) or number of fund families in each category. The categories of “Yes Voters” (voting “yes” on management- and “yes” on shareholder-sponsored proposals) and “No Voters” account for 51.3 percent of AUM in Securities and over half of all fund families.

Overall, the weight of the vote falls into the categories of “No Voters” and “Pay Enablers,” while very little of the weight falls into the category of “Pay Constrainters” (Table 8). The six “Pay Enablers” are relatively much smaller than the average size (measured by AUM in Securities) of the 26 fund families in the survey.

Chart 1: Fund Families Plotted Against Shareholder and Management Compensation Proposals



Voting Profile	Quadrant	Number of Fund Families	Total AUM in Securities
Pay Constrainers	1	6	9.0%
Yes Voters	2	7	11.5%
No Voters	3	7	39.8%
Pay Enablers	4	6	39.7%

“No Voters” and “Yes Voters” are curious categories. It seems logical that fund families that are generally critical of compensation practices would be more likely to oppose management on compensation issues (“Pay Constrainers”). If they are generally satisfied with compensation practices they would be likely to vote with management on compensation issues (“Pay Enablers”).

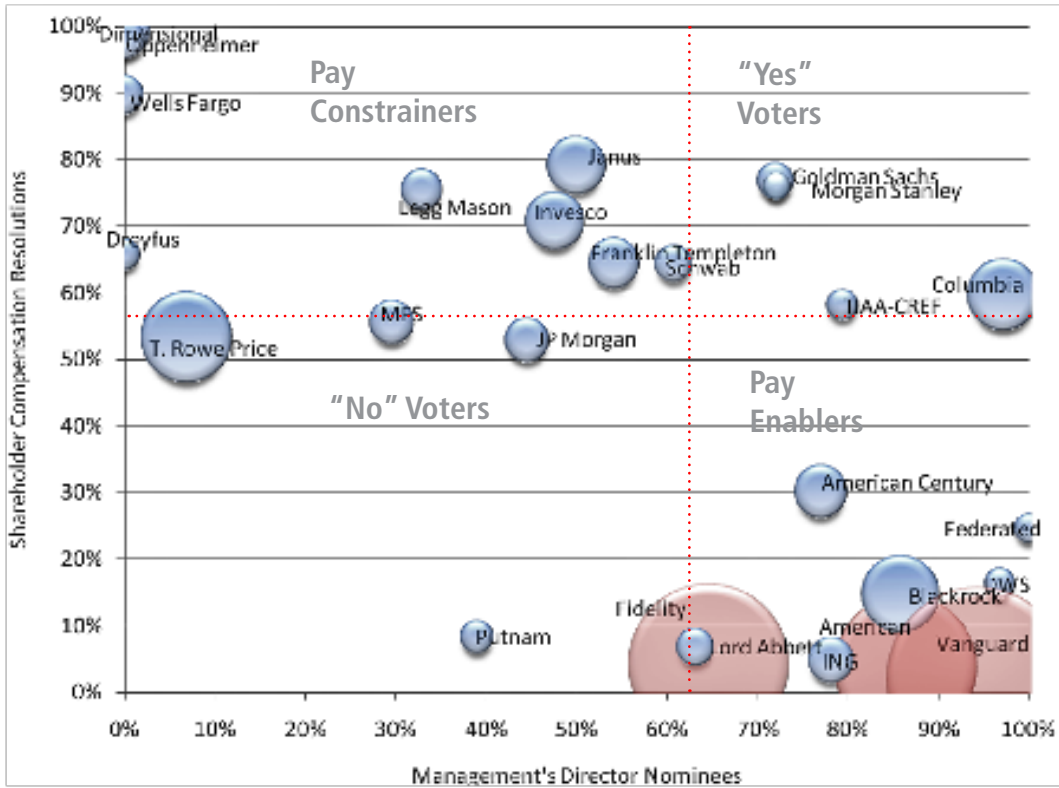
A possible explanation is that fund families that vote against management on management-sponsored compensation resolutions and with management on

shareholder-sponsored compensation resolutions (“No Voters”) are critical of existing compensation practices, yet are not in agreement with shareholder proponents on how to address the problems. Likewise, fund families that vote with shareholders on shareholder-sponsored compensation issues and with management on management-sponsored compensation issues (“Yes Voters”) may perceive the need for a change in compensation practices, yet are not

willing to defy management on existing compensation practices.

A less charitable, yet entirely plausible, interpretation of these results is that large mutual fund groups are reluctant to oppose either management or shareholder proponents unequivocally – to appear to management to be too oppositional on the one hand, or to appear to be opposing widely supported compensation reform on the other hand.

Chart 2: Fund Families Plotted Against Shareholder Compensation Proposals and Director Nominee Support



Voting Profile	Quadrant	Number of Fund Families	Total AUM in Securities
Pay Constrainers	1	9	14.4%
Yes Voters	2	4	6.0%
No Voters	3	4	9.9%
Pay Enablers	4	9	69.7%

The 2009 study by Asraf et al., cited previously, supplies another possible explanation: that fund families vote strategically, siding with management on close votes – those in which the management position is most threatened – and against management on proposals whose votes are not contested.<sup>53</sup>

Plotting funds on support for management nominees, as opposed to support for management compensation proposals, revealed an interesting rearrangement of fund families among the four quadrants.

Fund families that were more supportive of shareholder compensation resolutions were less supportive of managements’ nominees and vice versa. This is shown in Chart 2, where most mutual fund groups cluster in quadrants 1 (“Pay Constrainers”) and 4 (“Pay Enablers”).

Again, the overwhelming weight of the vote, carried by the “Big Three,” at 69.7 percent, is pay-enabling: low support for shareholder-sponsored compensation resolutions, yet above-median support for managements’ nominees. Less than 15 percent of the vote supported shareholder compensation proposals and opposed managements’ nominees. These quadrants contained most of the fund groups surveyed. “Yes Voters” and “No Voters” were far fewer and accounted for only a small percentage of the vote.

Table 9 shows distribution of fund families among four voting profiles: shareholder compensation by director nominee proposal voting.

## Critical Compensation Votes

To better illustrate how mutual fund proxy voting contributes to enabling or constraining excessive executive pay, we looked at ten selected votes representing the range of compensation proposals reviewed in this report. A detailed description of the votes and compensation issues is contained in Appendix C. In selecting votes that were representative of investor concern over compensation, we selected shareholder proposals on which shareholder voting support exceeded 35 percent support and management proposals (including director nominees) on which shareholder opposition exceeded 35 percent. In each case, proxy advisor Institutional Shareholder Services recommended that its clients vote against management's proposals or for shareholder proposals due to concerns over compensation. In most cases, these votes also attracted significant media attention. The votes selected include three director elections, two MSOPs, two management incentive plans and three shareholder proposals, one each on the subjects of equity holding period, performance-based equity and "golden coffins" (providing payments, which are widely agreed to be unrelated to performance,<sup>53</sup> to estate or beneficiaries of executives following their deaths).

### Findings

- The average level of support for critical compensation votes in 2010 was 51 percent, while the median level of support for critical votes was 54 percent.
- Of the ten votes, a majority of fund families voted to constrain pay in seven of the instances.
- The four fund families that ranked as this year's Pay Constrainters voted most consistently to constrain

pay on these specific votes. Dimensional, Oppenheimer and Wells Fargo voted to constrain pay on all of the critical compensation votes, while the fourth-best record was Dreyfus, also a Pay Constrainters.

- Seven fund families supported management's position 70 percent of the time or more, including each of this year's Pay Enablers. ING, Vanguard, Federated and American supported the least amount of critical compensation votes. Of the "Big Three," Vanguard and American ranked in the bottom four.
- Six fund families cross-voted, meaning individual funds voted differently on the same items.

## “Dimensional, Oppenheimer and Wells Fargo voted to constrain pay on all of the critical compensation votes”

### Cross-Voting

Examining fund votes on individual ballot items illustrates the instances where funds within a fund family cast different votes on the same agenda item. In the examples provided by the Critical Compensation Votes survey (Table 10), Goldman Sachs, ING, Invesco, Janus, JP Morgan and Legg Mason are the six fund families which did not vote consistently. One potential ramification of cross-voting is that the vote of one fund in a family could negate or cancel out the vote cast by another fund in the family.

At the very least, this cross-voting dilutes the fund family's overall influence. This raises the questions of whether fund families have clear and consistent proxy voting policies, sufficient proficiency in proxy voting, proper internal controls and effective communication among the managers responsible for proxy voting. Mutual fund proxy voting guidelines invariably state that proxies are voted in a way to maximize fund-holders' value. If different funds in a family repeatedly vote for and against the same proposal, there appears to be inconsistency in determining the vote that is value-maximizing.

**Table 10. Critical Compensation Voting**

	#1 ANF	#2 ANF	#3 BK	#4 MOT	#5 NBR	#6 OXY	#7 OXY	#8 VZ	#9 WAG	#10 DIS	Vote	
Critical Compensation Votes Matrix	Elect Limato (M)	Stock Plan (M)	Holding (S)	MSOP (M)	Elect Lombardi (M)	Elect Abraham (M)	MSOP (M)	Coffin (S)	Performance Based (S)	Stock Plan (M)	Percent Support	Rank
American	DNV	DNV	10	1	DNV	3	3	11	4	2	24%	23
American Century	7	7	13	2	2	21	21	14	14	11	73%	7
BlackRock	1	1	3	3	5	7	7	10	1	2	28%	21
Columbia	4	1	5	3	8	10	10	14	8	6	50%	16
Dimensional	2	2	9	7	7	9	9	11	8	12	100%	1 (T)
Dreyfus	4	4	2	3	2	9	9	4	6	7	84%	4
DWS	5	5	8	4	5	9	9	13	3	10	55%	11
Federated	1	1	2	1	1	2	2	5	2	2	21%	24
Fidelity	4	4	18	10	16	19	19	12	17	18	51%	14
Franklin Templeton	DNV	DNV	6	2	2	6	6	6	1	8	46%	18
Goldman Sachs	3	1	11/1	3/1	1	13	4/9	5/1	3/1	2/1	53%	13
ING	3	1/2	13	6	7	13	13	17	8	12	17%	26
Invesco	4	4	2/2	2	4	3/7	10	5	3	5	69%	9
Janus	2	2	3	7	1	4/10	14	3	5	3	81%	5
JP Morgan	3/2	3/2	10	2/2	2/2	21/6	2/25	1/22	1/11	23	25%	22
Legg Mason	1	1	2/6	1	1	4	4	13	2/2	4/6	70%	8
Lord Abbett	3	3	7	DNV	DNV	5	5	7	1	7	29%	20
MFS	7	7	14	DNV	1	8	8	2	6	13	67%	10
Morgan Stanley	DNV	DNV	9	6	DNV	10	10	14	10	5	55%	12
Oppenheimer	1	1	1	5	DNV	4	4	1	6	3	100%	1 (T)
Putnam	2	2	14	10	4	21	21	20	4	7	44%	19
Schwab	1	1	1	1	1	1	1	1	1	DNV	78%	6
T. Rowe Price	3	3	13	6	5	5	5	6	7	14	51%	15
TIAA-CREF	14	14	16	16	15	16	16	16	13	19	48%	17
Vanguard	12	12	15	15	12	15	15	13	14	18	17%	25
Wells Fargo	1	1	9	3	2	3	3	4	4	6	100%	1 (T)
<b>Against</b>	16	20	7	17	16	11	19	12	13	11		
<b>For</b>	6	2	16	5	5	12	4	11	9	12		
<b>Mixed</b>	1	2	3	2	1	3	2	2	3	2		

Key: ■ Against Management ■ For Management ■ Abstain ■ Mixed Voting (Against/For Management)

DNV = Did not vote

## Action Recommendations

1. Investors should periodically evaluate the proxy voting performance of the mutual funds in which they own shares. An investor should consider shifting their investments if a fund's proxy voting record does not show alignment with the investor's view of long-term value creation, provided other factors such as fees and performance are comparable.
2. Investors who invest in mutual funds through employer-sponsored benefit plans should lobby their employers to consider fund families' proxy voting records when selecting funds to be included in employees' investment choices.
3. Institutional investors should incorporate accountability for proxy voting, including the voting of mutual funds managed by institutional investment managers, into their RFP (request for proposals) evaluation process.

## Methodology

### Votes Analyzed

This study examined a wide range of votes from 26 large mutual fund families on compensation-related proposals that appeared on proxy ballots. We selected the largest fund families by assets under management that also reported a minimum number of votes in each of the broad categories of management proposals, shareholder proposals and director elections. We examined votes on the following types of proposals put forward at annual meetings from July 1, 2009 to June 30, 2010:

- Compensation-related management proposals, excluding proposals that related solely to outside director and employee compensation; we analyzed separately voting on management "Say on Pay" proposals, although they were also included in the figures for overall management proposal voting;

- Shareholder proposals aimed at the following:
  - Giving shareholders an advisory vote on executive compensation;
  - Adopting a policy that post-death payments ("golden coffins") will not be made to senior executives' estates or beneficiaries;
  - Requiring that executives retain shares obtained through equity compensation programs for a specified holding period;
  - Using performance-based equity imposing performance goals before executives can realize value from stock option and restricted stock grants;
  - Requiring shareholder approval of severance packages in which the value exceeds a specified threshold; and
- Proposals to reelect certain directors at companies where significant voting support (30 percent or more of shares voted) was withheld (or voted against) by shareholders for reasons relating to executive compensation and where proxy advisory services recommended voting against the selected directors because of pay practices. These directors and the companies on whose boards they served are listed in Appendix C.

We indexed individual votes recorded in N-PX filings against a set of management- and shareholder-sponsored proposals identified for inclusion in the study.

We analyzed 110,982 votes cast by 1,362 funds on 1,544 ballot items. Management proposals accounted for 82,647 votes on 1,373 items; 18,969 votes were cast on 110 shareholder proposals; and 7,556 votes were cast in the election of 51 directors. The breakdown of voting on the proposals across the fund families is contained in Appendix A. See Appendix B for the voting record of each individual mutual fund family.

## **Votes Cast and Multiple Votes in a Fund Family**

On the management compensation proposals and 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.

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 it 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.

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, four Wells Fargo funds voted on a shareholder proposal at Safeway to adopt a policy ending the payment of post-death benefits (“golden coffins”) to the estate or beneficiaries of executives. To present a complete picture of a fund family’s voting, all votes by individual funds within a family have been counted. In

the Wells Fargo example, all four funds voted for the proposal, so four votes “for” were counted in determining Wells Fargo’s overall support level for “golden coffin” proposals and shareholder proposals generally.

On occasion, funds within a fund family cast different votes on the same agenda item (“cross-voting”). Throughout the report, each of these votes was counted. For example, 13 Goldman Sachs funds voted on the MSOP at Occidental Petroleum. Four funds voted against the proposal, while nine supported it; therefore, four votes “for” and nine votes “against” were counted in determining Goldman Sachs’ support level for MSOPs and management proposals generally. This practice of cross-voting is explained in further detail in the forementioned “Critical Compensation Votes Discussion” section of this report.

## **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<sup>54</sup> and restricted stock that vest with the passage of time continue to be the norm.<sup>55</sup> These arrangements are often 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 (such as the receipt of a litigation recovery unrelated to current business activities<sup>56</sup>) or luck (for example, changes in commodity prices or exchange rates<sup>57</sup>), 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. We have excluded proposals that we view as too prescriptive or that we think would likely be ineffective in tying

pay more closely to company performance. We have also excluded categories of shareholder proposals for which there were very few disclosed votes among the 26 fund families. The proposal types included in this report are: advisory vote or "Say on Pay," "golden coffins," holding period, performance-based equity and severance. Descriptions of these shareholder proposals are set forth in Appendix A.

The critical compensation vote analysis provides an absolute view of fund family voting patterns, complementing the relative rankings. We selected ballot items that are representative of the range of compensation proposals reviewed in this report and were also definitive of investor concern over pay, determined through significant investor support coupled with support from Institutional Shareholder Services. Thus, someone evaluating a fund family's approach to compensation voting can use the relative rankings to assess the family's performance relative to its competitors and can learn from the critical compensation key vote analysis precisely how the fund family voted on a group of specific ballot items.

**“Until shareholders hold mutual fund managers accountable for their proxy voting, the pattern of pay-enabling votes is likely to continue. We outline specific recommendations on page 19.”**

## Appendix A – Comparative Voting Categories

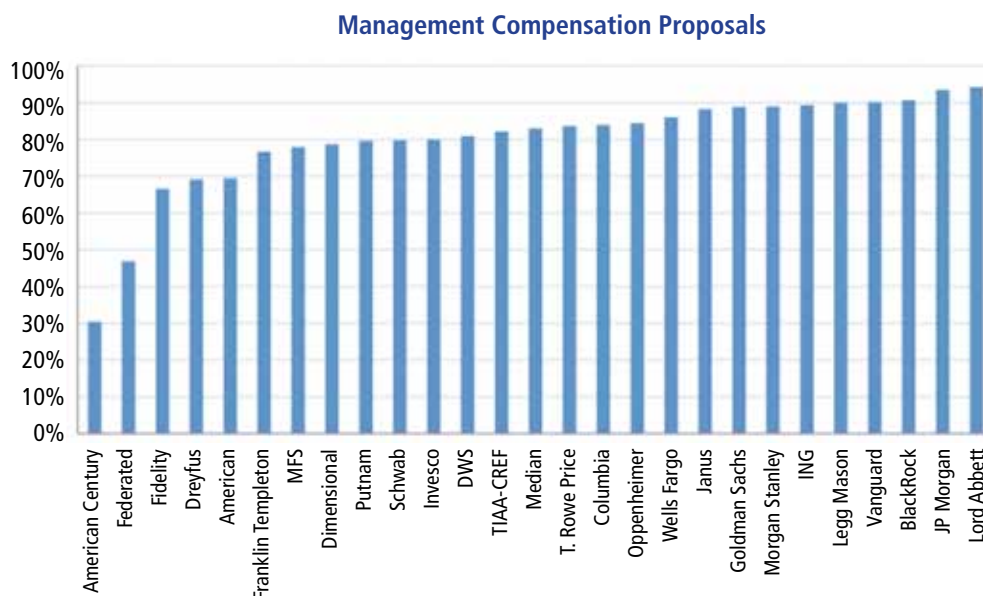
### Management Proposals

The following chart and table compare how fund families voted on management-sponsored compensation proposals in 2010. This report considers a vote for management proposals to be less likely to serve shareholder interests.

The average voting support for management proposals was down from 84 percent in 2009 to 80 percent in 2010. Lord Abbett had the highest level of voting support for management proposals at 94 percent, with JP Morgan, BlackRock, Vanguard and Legg Mason all supporting management proposals 90 percent or more of the time. The fund family that was least likely to support management proposals was American Century, at 31 percent, while Federated was the only other fund to support less than half of management proposals.

The average rate of votes for management proposals in 2010 was 80 percent.

The median rate of votes for management proposals in 2010 was 83 percent.



Pay Constraining	Below the Median	At the Median	Above the Median	Pay Enabling
American Century – 30.5%	MFS – 78%	TIAA-CREF – 82%	Wells Fargo – 86%	Legg Mason – 90%
Federated – 47%	Dimensional – 79%	T. Rowe Price – 84%	Janus – 88%	Vanguard – 90%
Fidelity – 67%	Putnam – 80%	Columbia – 84%	Goldman Sachs – 89%	BlackRock – 91%
Dreyfus – 69%	Schwab – 80%	Oppenheimer – 84%	Morgan Stanley – 89%	JP Morgan – 93.5%
American – 69.5%	Invesco – 80%		ING – 89%	Lord Abbett – 94.3%
Franklin Templeton – 77%	DWS – 81%			

## Shareholder Proposals

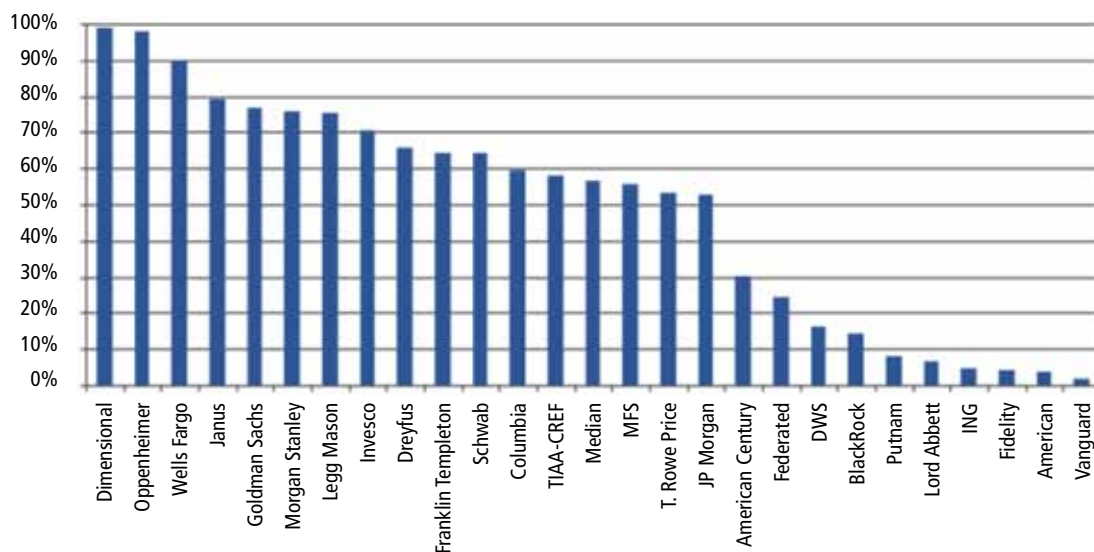
The following chart and table compare how fund families voted in the aggregate on the selected categories of shareholder-sponsored compensation proposals in 2010: advisory vote or “Say on Pay,” “golden coffins,” equity holding period, performance-based equity and severance. This report considers a vote “for” a shareholder proposal to be more likely to serve shareholder interests.

Average support for shareholder proposals dropped this year from 56 percent in 2009 to 48 percent in 2010. The decrease in aggregate support appears to have been driven by a change in the mix of shareholder proposals filed in 2010, with a decrease in popular “Say on Pay” proposals, an increase in 2009’s least supported equity holding period proposals and none of 2009’s most supported compensation consultant proposals. (This type of proposal was not filed in 2010.) Dimensional supported shareholder proposals the most often, at 99 percent, and Oppenheimer was a close second at 98 percent. Vanguard, American, Fidelity and ING were the least supportive, supporting fewer than one of every 20 shareholder proposals in this study.

The average rate of votes for these shareholder proposals in 2010 was 48 percent.

The median rate of votes for these shareholder proposals in 2010 was 57 percent.

Shareholder Proposals



Pay Constraining	Above the Median	At the Median	Below the Median	Pay Enabling
Dimensional – 99%	Legg Mason – 75%	Columbia – 60%	American Century – 30%	Putnam – 8%
Oppenheimer – 98%	Invesco – 71%	TIAA-CREF – 58%	Federated – 25%	Lord Abbett – 7%
Wells Fargo – 90%	Dreyfus – 66%	MFS – 56%	DWS – 16%	ING – 4.74%
Janus – 79%	Franklin Templeton – 64%	T. Rowe Price – 53%	BlackRock – 15%	Fidelity – 4%
Goldman Sachs – 77%	Schwab – 64%	JP Morgan – 53%		American – 4%
Morgan Stanley – 76%				Vanguard – 2%

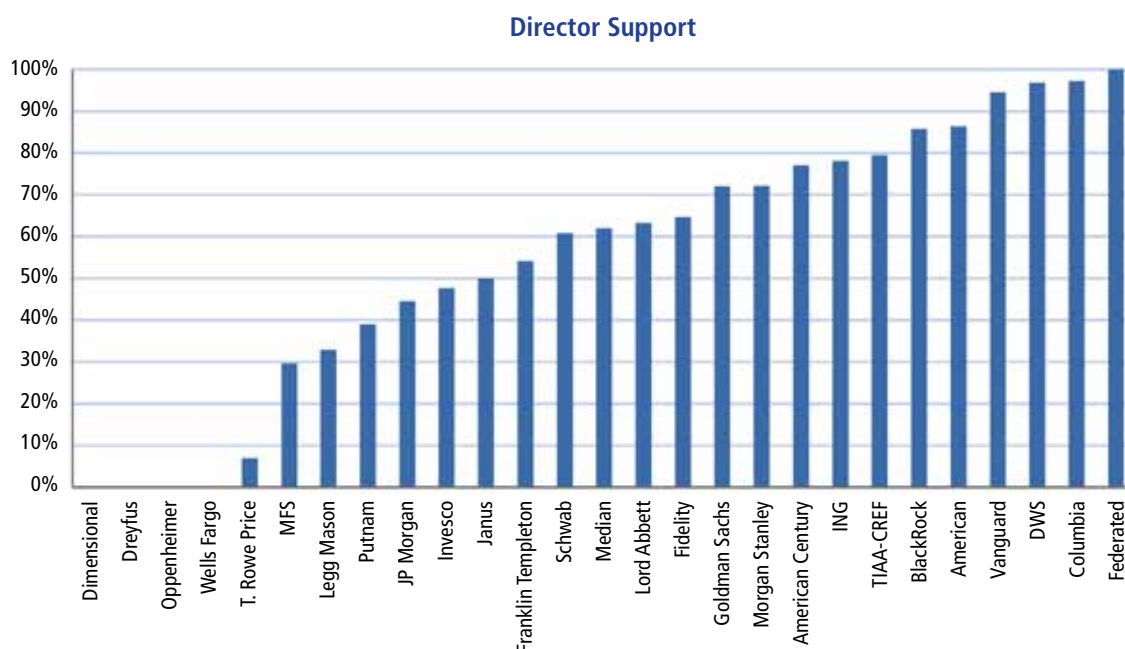
## Director Voting

The following chart and table compare how fund families voted on selected director nominees in 2010. This report considers a vote “for” these directors to be less likely to serve shareholder interests. (See Appendix D for a list of the 51 selected directors.)

Average support for directors selected for this study across all fund families increased from 50 percent in 2009 to 55 percent in 2010. Voting results were quite polarized: Four fund families – Federated, Columbia, DWS and Vanguard – supported more than nine out of ten of the directors on whose election they voted; Dimensional, Dreyfus, Oppenheimer and Wells Fargo voted for none of them.

The average rate of votes for directors in 2010 was 55 percent.

The median rate of votes for directors in 2010 was 62 percent.



Pay Constraining	Below the Median	At the Median	Above the Median	Pay Enabling
Dimensional – 0%	MFS – 30%	Franklin Templeton – 54%	Goldman Sachs – 72%	BlackRock – 86%
Dreyfus – 0%	Legg Mason – 33%	Schwab – 61%	Morgan Stanley – 72%	American – 86%
Oppenheimer – 0%	Putnam – 39%	Lord Abbett – 63%	American Century – 77%	Vanguard – 94%
Wells Fargo – 0%	JP Morgan – 45%	Fidelity – 65%	ING – 78%	DWS – 97%
T. Rowe Price – 7%	Invesco – 48%		TIAA-CREF – 79%	Columbia – 97%
	Janus – 50%			Federated – 100%

## Management “Say on Pay” Proposals

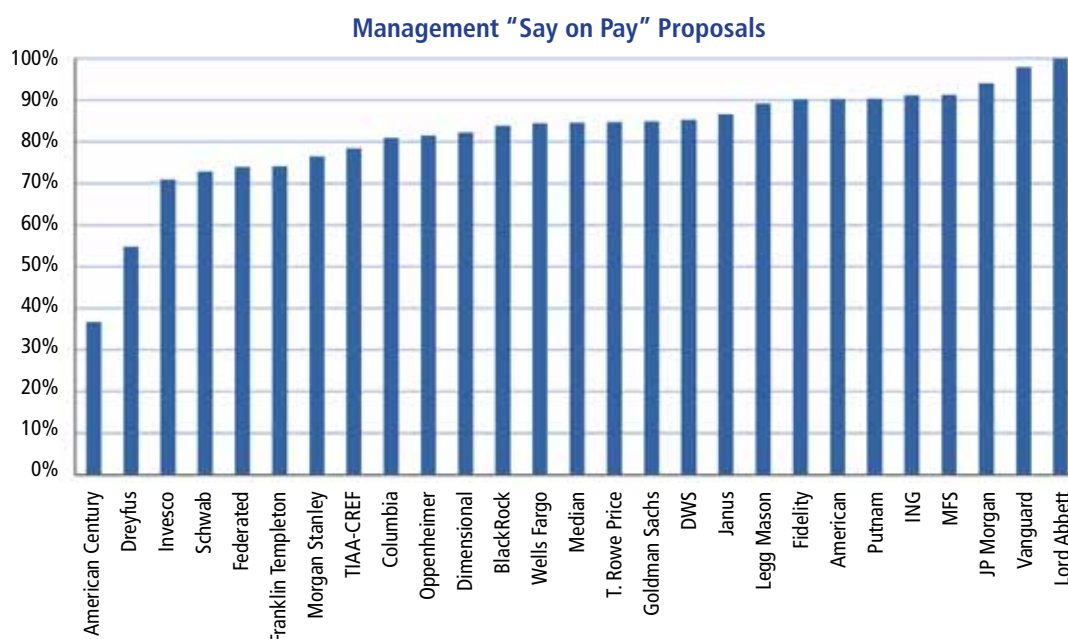
The following chart and table compare how fund families voted on 149 management-sponsored “Say on Pay” proposals or MSOPs in 2009. This report considers a vote for these proposals to be less likely to serve shareholder interests.

Average support for MSOPs across all fund families increased somewhat from 77 percent in 2009 to 82 percent in 2010. The fund families that were least supportive of MSOPs were American Century and Dreyfus, which tracks their low level of support for management proposals generally. Lord Abbett, Vanguard and JP Morgan, among the “Pay Enablers” for management proposals, voted in favor of all or nearly all MSOPs.

Some fund families showed significant disparities between voting on MSOPs and management proposals generally. American, Federated and Fidelity each supported MSOPs at a significantly higher rate than management proposals generally. Conversely, Dreyfus and Morgan Stanley supported MSOPs at a significantly lower rate than management proposals generally.

The average rate of votes for management “Say on Pay” proposals in 2010 was 82 percent.

The median rate of votes for management “Say on Pay” proposals in 2010 was 85 percent.



Pay Constraining	Below the Median	At the Median	Above the Median	Pay Enabling
American Century – 37%	Morgan Stanley – 76%	BlackRock – 84%	Janus – 87%	ING – 91%
Dreyfus – 55%	TIAA-CREF – 78%	Wells Fargo – 84%	Legg Mason – 89%	MFS – 91%
Invesco – 71%	Columbia – 81%	T. Rowe Price – 85%	Fidelity – 90%	JP Morgan – 94%
Schwab – 73%	Oppenheimer – 82%	Goldman Sachs – 85%	American – 90%	Vanguard – 98%
Federated – 74%	Dimensional – 82%	DWS – 85%	Putnam – 90%	Lord Abbett – 100%
Franklin Templeton – 74%				

## 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 2010, advisory vote shareholder proposals (aka “Say on Pay”) had the second highest average support level across fund families of the categories studied. Average support for these proposals dropped slightly from 60 percent in 2009 to 58 percent in 2010. Six fund families supported more than 90 percent of the proposals, including Dimensional which supported all of them; six fund families supported less than 2 percent, with Fidelity and Vanguard supporting none.

The average rate of votes for these shareholder proposals in 2010 was 58 percent.

The median rate of votes for these shareholder proposals in 2010 was 82 percent.



Pay Constraining	Above the Median	At or Near the Median	Below the Median	Pay Enabling
Dimensional – 100%	Columbia – 89%	Goldman Sachs – 83%	Federated – 35%	Lord Abbett – 1.9%
Dreyfus – 99%	MFS – 88%	Janus – 83%	BlackRock – 17%	American – 1%
Oppenheimer – 97%	Franklin Templeton – 87%	Wells Fargo – 82%	American Century – 15%	DWS – 1%
Morgan Stanley – 96%	Invesco – 87%	JP Morgan – 79%	Putnam – 15%	ING – 0.5%
TIAA-CREF – 94%	Legg Mason – 87%	T. Rowe Price – 75%		Fidelity – 0%
Schwab – 91%				Vanguard – 0%

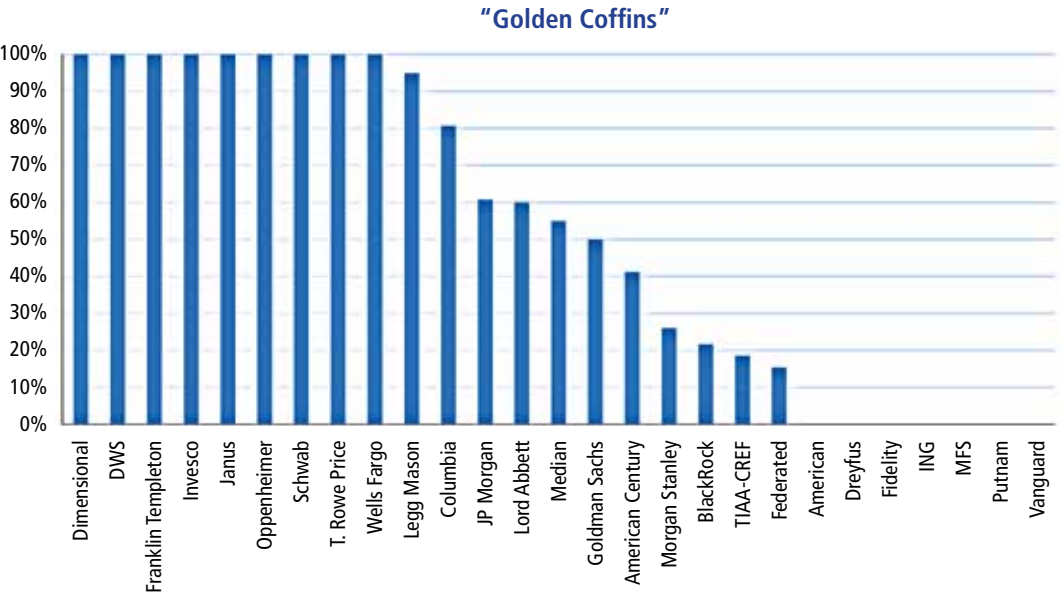
# “Golden Coffin” Shareholder Proposals

This proposal asks the board’s compensation committee to adopt a policy that the company will not make post-death payments (“golden coffins”) to estates or beneficiaries of senior executives. Nine fund families supported all of the proposals in this category, but seven supported none.

“Golden coffin” proposals were the third shareholder proposal category to average over 50 percent support across all fund families. Average support for “golden coffin” proposals increased slightly from 51 percent in 2009 to 53 percent in 2010.

The average rate of votes for these shareholder proposals in 2010 was 53 percent.

The median rate of votes for these shareholder proposals in 2010 was 55 percent.



Pay Constraining	Above the Median	At or Near the Median	Below the Median	Pay Enabling
Dimensional – 100%	Legg Mason – 95%	Lord Abbett – 60%	American Century – 41%	American – 0%
DWS – 100%	Columbia – 81%	Goldman Sachs – 50%	Morgan Stanley – 26%	Dreyfus – 0%
Franklin Templeton – 100%	JP Morgan – 61%		BlackRock – 22%	Fidelity – 0%
Invesco – 100%			TIAA-CREF – 19%	ING – 0%
Janus – 100%			Federated – 15%	MFS – 0%
Oppenheimer – 100%				Putnam – 0%
Schwab – 100%				Vanguard – 0%
T. Rowe Price – 100%				
Wells Fargo – 100%				

## Equity Holding Period Shareholder Proposals

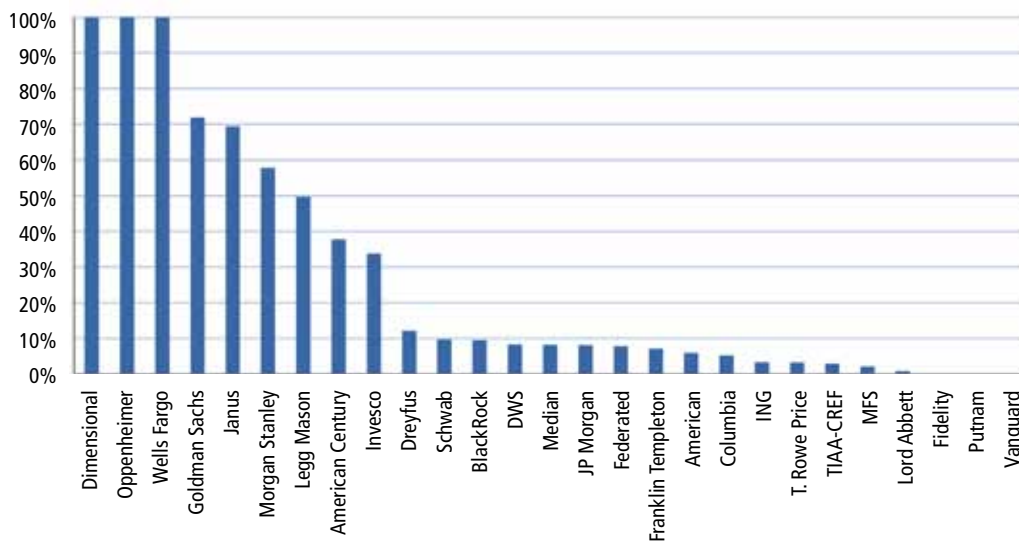
This proposal asks the board’s compensation committee to adopt a policy requiring that senior executives retain a significant portion of shares obtained through equity compensation awards for an extended period of time, either 1) two years past their termination of employment or 2) for a five-year “Lockup Period” which begins at the time the of vesting and lapses gradually, such that senior executives may redeem or sell only one-fifth of their shares after each of the five years.

In 2010, holding period proposals were the least successful shareholder proposal, averaging 27 percent support, down from 31 percent in 2009. Three fund families supported all equity holding period proposals on which they voted and three supported none.

The average rate of votes for these shareholder proposals in 2010 was 27 percent.

The median rate of votes for these shareholder proposals in 2010 was 8 percent.

**Equity Holding**



Pay Constraining	Above the Median	At or Near the Median	Below the Median	Pay Enabling
Dimensional – 100%	Legg Mason – 50%	Schwab – 10%	American – 6%	TIAA-CREF – 2.9%
Oppenheimer – 100%	American Century – 38%	BlackRock – 9%	Columbia – 5%	MFS – 2%
Wells Fargo – 100%	Invesco – 34%	DWS – 8%	ING – 3%	Lord Abbett – 1%
Goldman Sachs – 72%	Dreyfus – 12%	JP Morgan – 8%	T. Rowe Price – 3%	Fidelity – 0%
Janus – 69%		Federated – 7%		Putnam – 0%
Morgan Stanley – 58%		Franklin Templeton – 7%		Vanguard – 0%

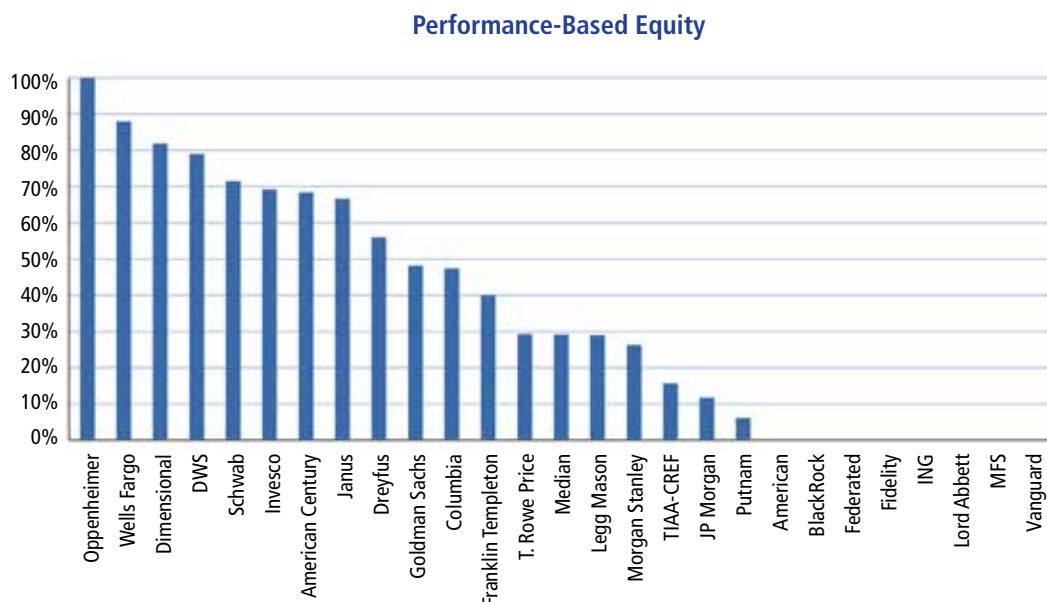
## Performance-Based Equity Shareholder Proposals

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 second least successful shareholder compensation proposal voted on in 2010, averaging 36 percent support, down from 41 percent in 2009. Oppenheimer supported all performance-based equity proposals, while seven fund families supported none.

The average rate of votes for these shareholder proposals in 2010 was 36 percent.

The median rate of votes for these shareholder proposals in 2010 was 29 percent.



Pay Constraining	Above the Median	At the Median	Below the Median	Pay Enabling
Oppenheimer – 100%	American Century – 68%	T. Rowe Price – 29%	Morgan Stanley – 26%	American – 0%
Wells Fargo – 88%	Janus – 67%	Legg Mason – 29%	TIAA-CREF – 16%	BlackRock – 0%
Dimensional – 82%	Dreyfus – 56%		JP Morgan – 12%	Federated – 0%
DWS – 79%	Goldman Sachs – 48%		Putnam – 6%	Fidelity – 0%
Schwab – 71%	Columbia – 47%			ING – 0%
Invesco – 69%	Franklin Templeton – 40%			Lord Abbett – 0%
				MFS – 0%
				Vanguard – 0%

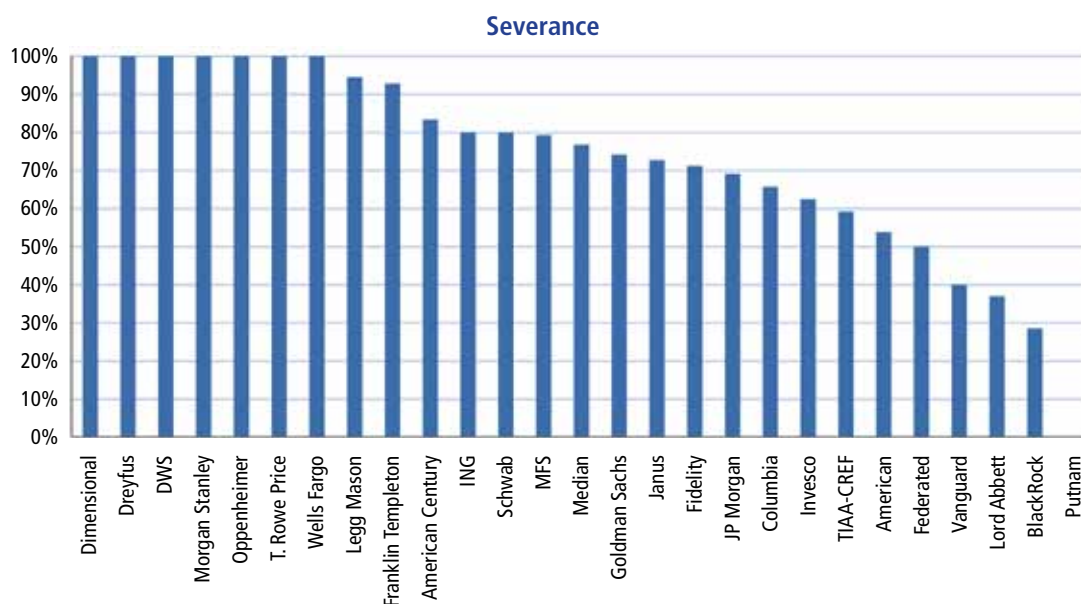
## Severance Shareholder Proposals

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

In 2010, proposals dealing with severance were the most successful category of shareholder proposal in this study, averaging 73 percent support. This represented an increase from 62 percent in 2009. Seven fund families voted for all proposals in this category, and only Putnam voted for none of the proposals.

The average rate of votes for these shareholder proposals in 2009 was 73 percent.

The median rate of votes for these shareholder proposals in 2009 was 77 percent.



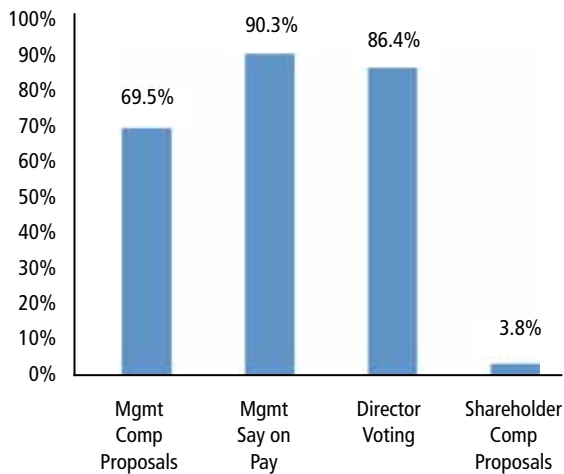
Pay Constraining	Above the Median	At or Near the Median	Below the Median	Pay Enabling
Dimensional – 100%	Legg Mason – 94%	MFS – 79%	JP Morgan – 69%	Vanguard – 40%
Dreyfus – 100%	Franklin Templeton – 93%	Goldman Sachs – 74%	Columbia – 66%	Lord Abbett – 37%
DWS – 100%	American Century – 83%	Janus – 73%	Invesco – 63%	BlackRock – 29%
Morgan Stanley – 100%	ING – 80%	Fidelity – 71%	TIAA-CREF – 59%	Putnam – 0%
Oppenheimer – 100%	Schwab – 80%		American – 54%	
T. Rowe Price – 100%			Federated – 50%	
Wells Fargo – 100%				

## Appendix B – Fund Family Proxy Voting Profiles

### American Funds

Composite Ranking: Rank 20 (T)

Assets: \$321 Billion; Study Voting Power: 15.1 Percent



Critical Vote	Vote
A&F - Limato	DNV
A&F - Stock Plan	DNV
BK - Holding	Against
MOT - MSOP	For
NBR - Lombardi	DNV
OXY - Abraham	Against
OXY - MSOP	Against
VZ - Coffin	For
WAG - Perf. Based	Against
DIS - Stock Plan	Against

Proposal	2009	2010	Change	% change
Management	74.6%	69.5%	-5.1%	-6.8%
MSOPs	100.0%	90.3%	-9.7%	-9.7%
Shareholder	2.5%	3.8%	1.3%	51.2%
Directors	92.3%	86.4%	-5.9%	-6.4%

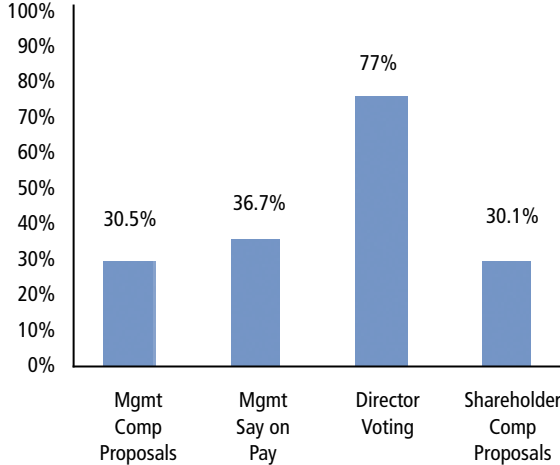
American Funds falls into the “No Voters” quadrant, among the least likely to support both management and shareholder proposals. Its ranking dropped one place from 2009, when it tied for 19th.

- Lower support for management proposals ranking fifth at 70 percent support. American’s support for management proposals decreased by 7 percent from 2009.
- Low support for shareholder proposals, ranking next to last at 4 percent support.
- High support for directors, ranking 21st with 86 percent support.
- Critical compensation votes – supported management the majority of the time.
- As one of the “Big Three” with 15.1 percent of AUM reviewed, American has a greater ability to influence compensation than 23 other fund families; however, it is a “Pay Enabler” in its voting for shareholder proposals and directors.

# American Century

Composite Ranking: 11 (T)

Assets: \$43.7 Billion; Study Voting Power: 2.1 Percent



Critical Vote	Vote
A&F - Limato	For
A&F - Stock Plan	Against
BK - Holding	For
MOT - MSOP	Against
NBR - Lombardi	For
OXY - Abraham	For
OXY - MSOP	Against
VZ - Coffin	For
WAG - Perf. Based	For
DIS - Stock Plan	Against

Proposal	2008	2010	Change	% change
Management	63%	30.5%	-32.6%	-51.7%
MSOPs	NA	36.7%		
Shareholder	8%	30.1%	22.1%	276.9%
Directors	33%	77.0%	44.0%	133.5%

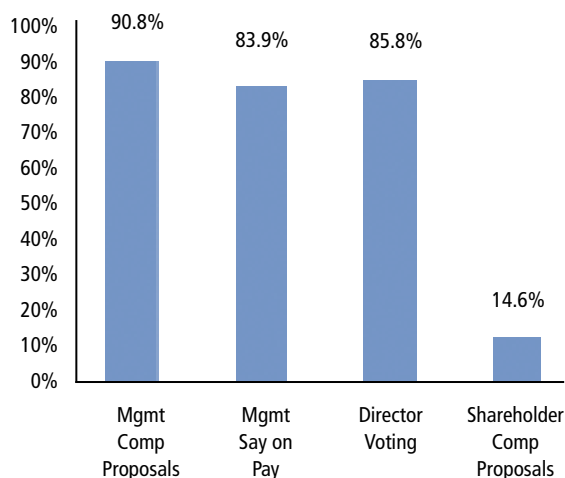
American Century falls into the “No Voters” quadrant. It was not included in the study last year, but had been reviewed and ranked eighth in 2008.

- Lowest support for management proposals ranking first at 31 percent support. American Century’s support for management proposals decreased by 52 percent from 2008.
- Below median support for shareholder proposals, ranking 17th at 30 percent support.
- High support for directors, ranking 22nd with 77 percent support. This was a 133 percent increase in support from 2008.
- Critical compensation votes – voted to constrain pay seven out of ten times, the exceptions being each of the director elections.

## BlackRock

Composite Ranking: 25

Assets: \$32.8 Billion; Study Voting Power: 4.4 Percent



Critical Vote	Vote
A&F - Limato	Against
A&F - Stock Plan	For
BK - Holding	Against
MOT - MSOP	Against
NBR - Lombardi	Withhold
OXY - Abraham	For
OXY - MSOP	For
VZ - Coffin	Against
WAG - Perf. Based	Against
DIS - Stock Plan	Against

Proposal	2009	2010	Change	% change
Management	92.1%	90.8%	-1.4%	-1.5%
MSOPs	87.5%	83.9%	-3.6%	-4.2%
Shareholder	88.7%	14.6%	-74.1%	-83.5%
Directors	85.7%	85.8%	0.1%	0.1%

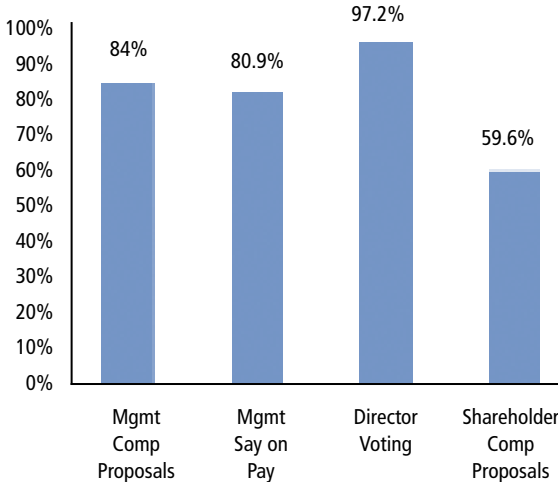
BlackRock falls squarely into the “Pay Enabler” quadrant, among the most likely to support management proposals and least likely to support shareholder proposals, and it has been named one of this year’s four “Pay Enablers.” It ranked 18th last year, but its ranking has dropped to 25th since the merger with Barclays, which ranked worst last year. The drop to “Pay Enabler” resulted from its support for shareholder proposals decreasing by more than 80 percent.

- High support for management proposals ranking 24th at 91 percent support. BlackRock’s rate of support for management proposals was only slightly lower than in 2009.
- Very low support for shareholder proposals, ranking 20th at 15 percent support. This is an 84 percent decline in overall support for shareholder proposals.
- High support for directors, ranking 21st with 86 percent support, which is virtually identical to 2009.
- Critical compensation votes – supported management a majority of the time; was one of only three fund families to support both proposals at Occidental.

# Columbia

Composite Ranking: 20 (T)

Assets: \$81.4 Billion; Study Voting Power: 3.8 Percent



Critical Vote	Vote
A&F - Limato	For
A&F - Stock Plan	Against
BK - Holding	Against
MOT - MSOP	Against
NBR - Lombardi	For
OXY - Abraham	For
OXY - MSOP	Against
VZ - Coffin	For
WAG - Perf. Based	For
DIS - Stock Plan	For

Proposal	2009	2010	Change	% change
Management	79.8%	84.0%	4.2%	5.2%
MSOPs	85.7%	80.9%	-4.8%	-5.6%
Shareholder	70.0%	59.6%	-10.4%	-14.8%
Directors	100.0%	97.2%	-2.8%	-2.8%

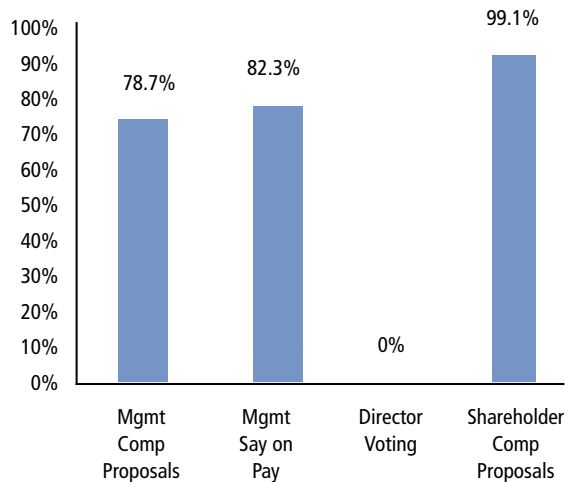
Columbia falls into the “Yes Voters” quadrant, among the most likely to support both management and shareholder proposals. It ranked 14th last year, but dropped to a tie for 20th this year as a result of increased support for management proposals and decreased support for shareholder proposals.

- Above average support for management proposals ranking 15th at 84 percent. This was a slight increase from 2009.
- Slightly above average support for shareholder proposals, ranking 12th with 60 percent support.
- High support for directors, ranking next to last with 97 percent support.
- Critical compensation votes – supported management half of the time, including all three director elections.

## Dimensional

Composite Ranking: 1

Assets: \$42 Billion; Study Voting Power: 2.0 Percent



Critical Vote	Vote
A&F - Limato	Against
A&F - Stock Plan	Against
BK - Holding	For
MOT - MSOP	Against
NBR - Lombardi	Withhold
OXY - Abraham	Against
OXY - MSOP	Against
VZ - Coffin	For
WAG - Perf. Based	For
DIS - Stock Plan	Against

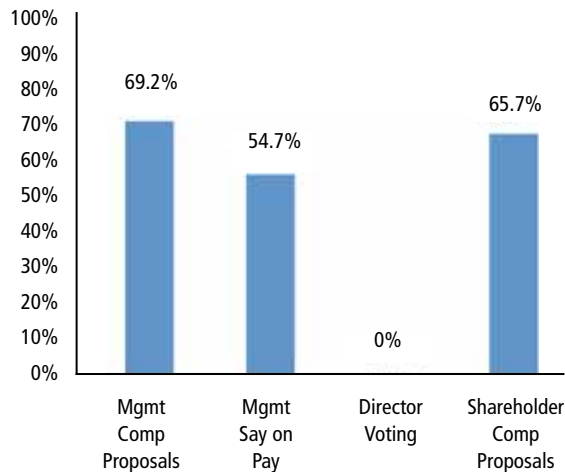
Dimensional falls in the “Pay Constrainer” quadrant, among the most likely to support shareholder proposals and oppose management proposals. It has been named one of this year’s four “Pay Constrainers.” One of three new fund families this year, Dimensional has taken the top ranking, based on the highest level of support for shareholder proposals and voting against directors.

- Below average support for management proposals, ranking eighth at 79 percent.
- Highest support for shareholder proposals, ranking first with 99 percent support.
- Zero support for directors, tying for first.
- Critical compensation votes – voted to constrain pay all ten times.

## Dreyfus

Composite Ranking: 2

Assets: \$16.5 Billion; Study Voting Power: 0.8 Percent



Critical Vote	Vote
A&F - Limato	Against
A&F - Stock Plan	For
BK - Holding	For
MOT - MSOP	Against
NBR - Lombardi	Withhold
OXY - Abraham	Against
OXY - MSOP	Against
VZ - Coffin	Against
WAG - Perf. Based	For
DIS - Stock Plan	Against

Proposal	2009	2010	Change	% change
Management	77.2%	69.2%	-8.1%	-10.4%
MSOPs	31.3%	54.7%	23.5%	75.1%
Shareholder	75.2%	65.7%	-9.5%	-12.7%
Directors	5.4%	0.0%	-5.4%	-100.0%

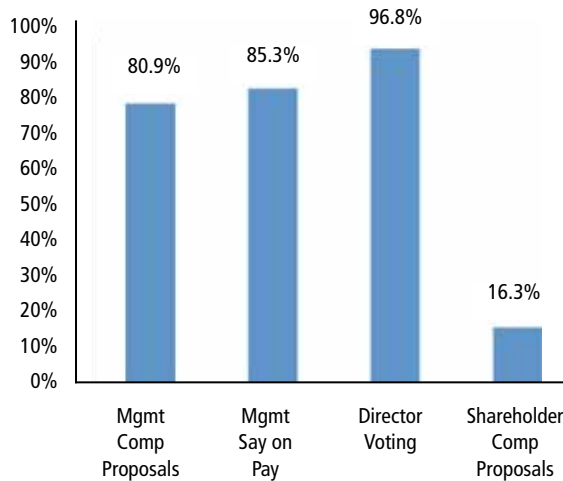
Dreyfus falls into the “Pay Constrainer” quadrant and has been named one of this year’s four “Pay Constrainers.” Ranking second this year, Dreyfus improved by one place from tying for third in 2009, based on below average support for management proposals, above average support for shareholder proposals and voting against all of the directors.

- Below average support for management proposals, ranking fourth at 69 percent. Dreyfus’ support for management proposals decreased 10 percent from 2008.
- Above average support for shareholder proposals, ranking ninth with 66 percent support.
- Zero support for directors, tying for first.
- Critical compensation votes – voted to constrain pay eight out of ten times.

## DWS

Composite Ranking: 22

Assets: \$14.6 Billion; Study Voting Power: 0.7 Percent



Critical Vote	Vote
A&F - Limato	For
A&F - Stock Plan	Against
BK - Holding	Against
MOT - MSOP	Against
NBR - Lombardi	Withhold
OXY - Abraham	For
OXY - MSOP	Against
VZ - Coffin	For
WAG - Perf. Based	For
DIS - Stock Plan	For

Proposal	2009	2010	Change	% change
Management	79.9%	80.9%	1.0%	1.3%
MSOPs	67.6%	85.3%	17.7%	26.1%
Shareholder	19.0%	16.3%	-2.8%	-14.4%
Directors	97.6%	96.8%	-0.8%	-0.8%

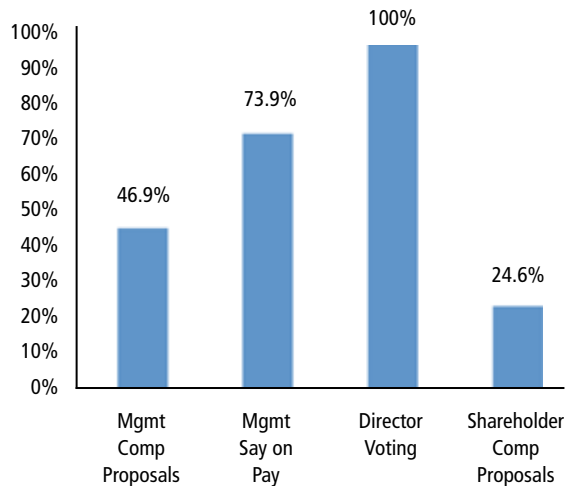
DWS falls into the “No Voters” quadrant, with less support for management proposals and less support for shareholder proposals. Ranked 22nd this year, DWS dropped one spot from its 21st ranking in 2009, as its voting is virtually unchanged.

- Below average support for management proposals, ranking 12th at 81 percent support.
- Below median support for shareholder proposals, ranking 19th at 16 percent support.
- High support for directors, ranking next to last with 97 percent support.
- Critical compensation votes – voted to constrain pay a majority of the time, including both MSOP votes at Motorola and Occidental.

## Federated

Composite Ranking: 17 (T)

Assets: \$13.5 Billion; Study Voting Power: 0.6 Percent



Critical Vote	Vote
A&F - Limato	For
A&F - Stock Plan	Against
BK - Holding	Against
MOT - MSOP	Against
NBR - Lombardi	For
OXY - Abraham	For
OXY - MSOP	For
VZ - Coffin	Against
WAG - Perf. Based	Against
DIS - Stock Plan	Against

Proposal	2009	2010	Change	% change
Management	53.2%	46.9%	-6.3%	-11.8%
MSOPs	44.8%	73.9%	29.1%	64.9%
Shareholder	54.2%	24.6%	-29.6%	-54.6%
Directors	100.0%	100.0%	0.0%	0.0%

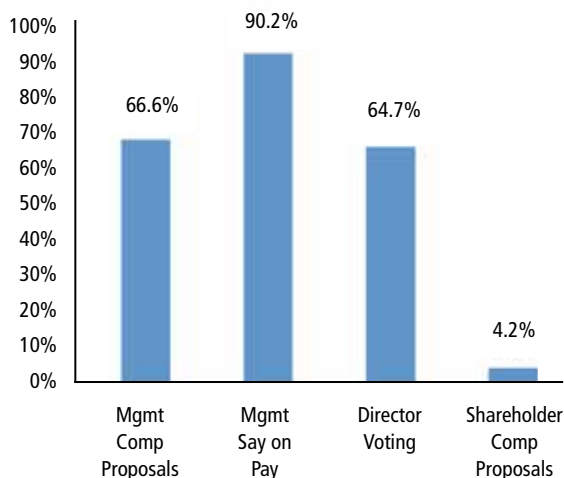
Federated falls into the “No Voters” quadrant, with low support for management proposals coupled with low support for shareholder proposals. Tied for 17th this year, Federated dropped from a tie for 12th in 2009 as a result of decreased support for shareholder proposals.

- Low support for management proposals, ranking second with 47 percent support.
- Below median support for shareholder proposals, ranking 18th at 25 percent support.
- “Rubber stamp” support for directors, ranking last with 100 percent support.
- Critical compensation votes – voted to constrain pay only three times and in each case management proposals – two stock plans and Motorola’s MSOP vote.

## Fidelity

Composite Ranking: 15

Assets: \$405.5 Billion; Study Voting Power: 19.1 Percent



Critical Vote	Vote
A&F - Limato	For
A&F - Stock Plan	Against
BK - Holding	Against
MOT - MSOP	Against
NBR - Lombardi	For
OXY - Abraham	Against
OXY - MSOP	Against
VZ - Coffin	Against
WAG - Perf. Based	Against
DIS - Stock Plan	Against

Proposal	2009	2010	Change	% change
Management	56.8%	66.6%	9.8%	17.2%
MSOPs	78.6%	90.2%	11.6%	14.8%
Shareholder	17.0%	4.2%	-12.8%	-75.1%
Directors	19.5%	64.7%	45.2%	231.5%

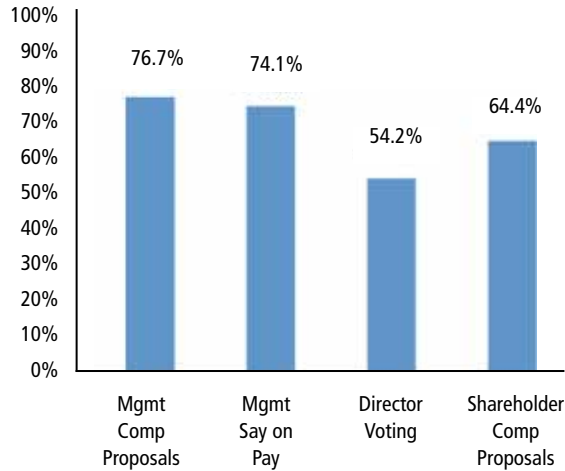
Fidelity falls into the “No Voters” quadrant of low support for management proposals and very little support for shareholder proposals. Ranked 15th this year, Fidelity dropped from a tie for ninth in 2009 as a result of increased support for directors.

- Low support for management proposals, ranking third with 67 percent support. This was a 17 percent increase in support from 2009.
- Lack of support for shareholder proposals, ranking 24th at 4 percent support. This is a 75 percent decrease in support from 2009.
- Increased support for directors, ranking 15th at 65 percent support, a marked increase from supporting only 20 percent in 2009.
- Critical compensation votes – voted to constrain pay half of the time, voting against the three shareholder proposals and supporting the reelection of two of the three directors.
- As one of the “Big Three,” with 19.1 percent of AUM reviewed, Fidelity has a greater ability to influence compensation than 24 other fund families; however, it is a “Pay Enabler” in its voting on shareholder proposals and directors.

## Franklin Templeton

Composite Ranking: 6

Assets: \$40.8 Billion; Study Voting Power: 1.9 Percent



Critical Vote	Vote
A&F - Limato	DNV
A&F - Stock Plan	DNV
BK - Holding	Against
MOT - MSOP	Against
NBR - Lombardi	Withhold
OXY - Abraham	For
OXY - MSOP	Against
VZ - Coffin	For
WAG - Perf. Based	For
DIS - Stock Plan	For

Proposal	2009	2010	Change	% change
Management	81.3%	76.7%	-4.6%	-5.7%
MSOPs	87.5%	74.1%	-13.4%	-15.3%
Shareholder	84.6%	64.4%	-20.2%	-23.8%
Directors	33.3%	54.2%	20.8%	62.5%

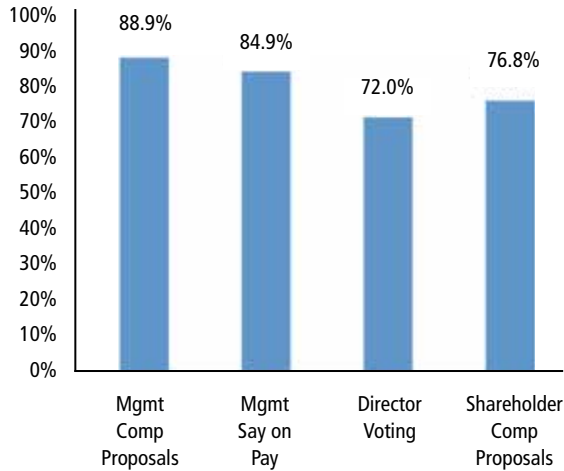
Franklin Templeton falls in the “Pay Constrainer” quadrant. Ranking sixth this year, Franklin Templeton improved by one place from 2009, based on below average support for management proposals, above average support for shareholder proposals and at the median voting for directors.

- Below average support for management proposals, ranking sixth at 77 percent.
- Above average support for shareholder proposals, ranking 10th with 64 percent support. Franklin Templeton’s support for shareholder proposals decreased by 24 percent from 2009.
- Median support for directors, a 63 percent increase from Franklin Templeton’s 2009 support.
- Critical compensation votes – voted to constrain pay five out of eight times.

## Goldman Sachs

Composite Ranking: 14

Assets: \$20.5 Billion; Study Voting Power: 1.0 Percent



Critical Vote	Vote
A&F - Limato	Against
A&F - Stock Plan	Against
BK - Holding	Mixed
MOT - MSOP	Mixed
NBR - Lombardi	Withhold
OXY - Abraham	For
OXY - MSOP	Mixed
VZ - Coffin	Mixed
WAG - Perf. Based	Mixed
DIS - Stock Plan	Mixed

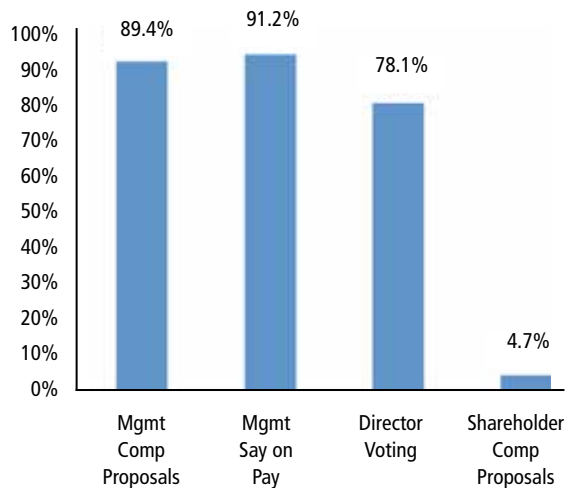
Goldman Sachs falls in the “Yes Voters” quadrant, with above average support for management proposals and shareholder proposals. One of three new fund families to be reviewed this year, Goldman Sachs ranked 14th, based on a high level of support for management proposals, strong support for shareholder proposals and above average support for directors.

- High support for management proposals, ranking 19th at 89 percent.
- Strong support for shareholder proposals, ranking fifth with 77 percent support.
- Above average support for directors, ranking 16th with 72 percent support.
- Critical compensation votes – mixed voting by fund families. Six times, Goldman Sachs funds cast different votes on ballot items. This could be a result of inconsistent proxy voting policies or separate voting decisions by proxy voting staff, but the end result is to dilute the impact of Goldman Sachs’ proxy voting decisions.

## ING

Composite Ranking: 24

Assets: \$32.4 Billion; Study Voting Power: 1.5 Percent



Critical Vote	Vote
A&F - Limato	Against
A&F - Stock Plan	Mixed
BK - Holding	Against
MOT - MSOP	Against
NBR - Lombardi	Withhold
OXY - Abraham	For
OXY - MSOP	Abstain
VZ - Coffin	Against
WAG - Perf. Based	Against
DIS - Stock Plan	For

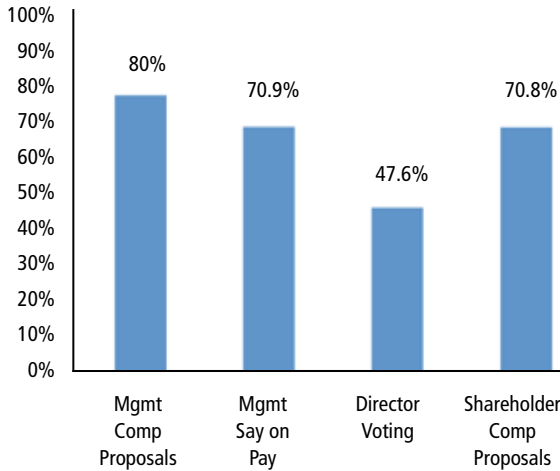
ING falls in the “Pay Enabler” quadrant with high support for management proposals and very low support for shareholder proposal. As a result, it has been named one of this year’s four “Pay Enablers.” One of three new fund families to be reviewed this year, ING ranked 24th, based on a high level of support for management proposals and directors coupled with low support for shareholder proposals.

- High support for management proposals, ranking 21st at 89 percent.
- Weak support for shareholder proposals, ranking 23rd with 5 percent support.
- Above average support for directors, ranking 19th with 78 percent support.
- Critical compensation votes – voted to constrain pay three times, twice against directors and once against Motorola’s pay. But ING voted against all three shareholder proposals reviewed, split its vote on Abercrombie’s stock plan, and in the case of Occidental’s management “Say on Pay,” chose to abstain rather than vote one way or another.

## Invesco

Composite Ranking: 7

Assets: \$54.3 Billion; Study Voting Power: 2.6 Percent



Critical Vote	Vote
A&F - Limato	Against
A&F - Stock Plan	Against
BK - Holding	Mixed
MOT - MSOP	For
NBR - Lombardi	Withhold
OXY - Abraham	Mixed
OXY - MSOP	Against
VZ - Coffin	For
WAG - Perf. Based	For
DIS - Stock Plan	For

Proposal	2009	2010	Change	% change
Management	88.2%	80.0%	-8.2%	-9.3%
MSOPs	100.0%	70.9%	-29.1%	-29.1%
Shareholder	83.8%	70.8%	-13.0%	-15.5%
Directors	100.0%	47.6%	-52.4%	-52.4%

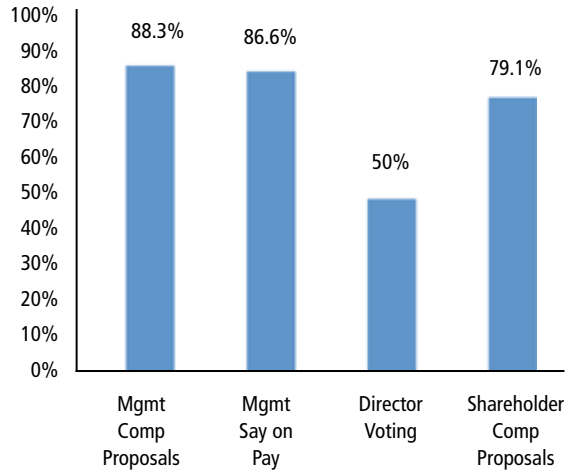
Invesco falls in the “Pay Constrainer” quadrant, with slightly below median voting for management proposals and above average support for shareholder proposals. Ranking seventh this year, Invesco improved nine places from ranking 16th in 2009, based on a marked decreased in support for directors, a decrease in support for management proposals and support for shareholder proposals that remains above average.

- Near median support for management proposals, ranking 11th at 80 percent.
- Strong support for shareholder proposals, ranking eighth with 71 percent support.
- Increased scrutiny of directors. Invesco supported fewer than half of the number of directors reviewed in 2010 to rank 10th, after having supported all directors in 2009.
- Critical compensation votes – voted to constrain pay six out of ten times. Invesco was one of five fund families to support Motorola’s MSOP vote, and split its vote twice. Mixed voting dilutes Invesco’s voice on the votes in question.

## Janus

Composite Ranking: 8

Assets: \$53.6 Billion; Study Voting Power: 2.5 Percent



Critical Vote	Vote
A&F - Limato	Against
A&F - Stock Plan	Against
BK - Holding	For
MOT - MSOP	Against
NBR - Lombardi	Withhold
OXY - Abraham	Mixed
OXY - MSOP	Against
VZ - Coffin	For
WAG - Perf. Based	For
DIS - Stock Plan	Against

Proposal	2009	2010	Change	% change
Management	89%	88.3%	-0.7%	-0.8%
MSOPs	NA	86.6%		
Shareholder	90%	79.1%	-10.9%	-12.1%
Directors	1%	50.0%	49.0%	4900.0%

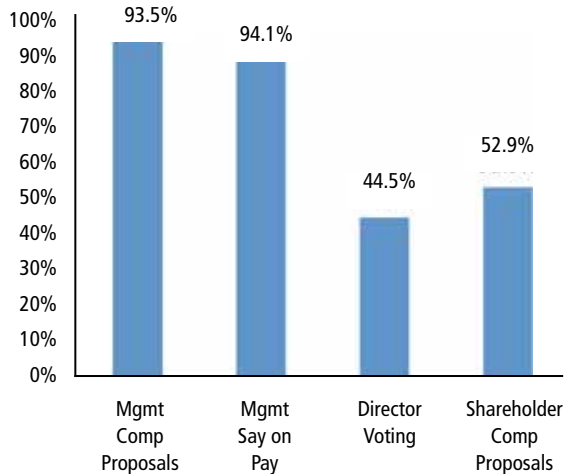
Janus falls into the “Yes Voters” quadrant, more likely to support both management and shareholder proposals. Reentering this year’s study, Janus previously ranked seventh in 2008. Its 2010 ranking of eighth is based on a mix of above average support for management proposals, strong support for shareholder proposals and median support for directors.

- Above average support for management proposals, ranking 18th at 88 percent. This is virtually unchanged from 2008.
- Above average support for shareholder proposals, ranking fourth with 79 percent support.
- Near median support for directors, ranking 11th at 50 percent. This represented a four-fold increase from 2008.
- Critical compensation votes – Janus voted to constrain pay nine out of ten times and the 10th vote was mixed for the reelection of Spencer Abraham at Occidental.

## JP Morgan

Composite Ranking: 19

Assets: \$30.7 Billion; Study Voting Power: 1.4 Percent



Critical Vote	Vote
A&F - Limato	Mixed
A&F - Stock Plan	Mixed
BK - Holding	Against
MOT - MSOP	Mixed
NBR - Lombardi	Mixed
OXY - Abraham	Mixed
OXY - MSOP	Mixed
VZ - Coffin	Mixed
WAG - Perf. Based	Mixed
DIS - Stock Plan	For

Proposal	2009	2010	Change	% change
Management	88%	93.5%	5.5%	6.3%
MSOPs	NA	94.1%		
Shareholder	64%	52.9%	-11.1%	-17.4%
Directors	0%	44.5%	44.5%	

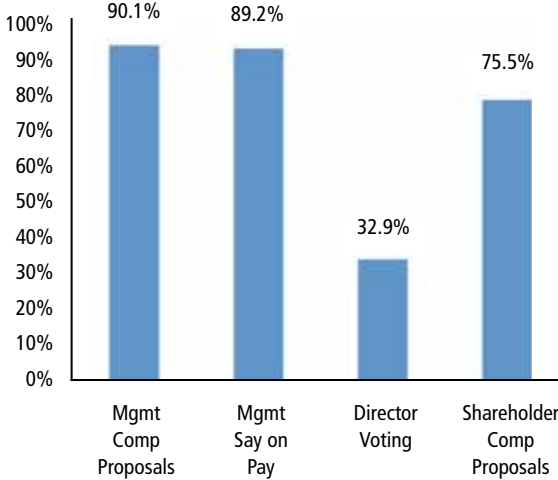
JP Morgan falls into the “Pay Enabler” quadrant, with strong support for management proposals and below average support shareholder proposals. Reentering this year’s study at a ranking of 19th, JP Morgan had previously ranked tied for fifth in 2008. This sharp drop is driven by increased support for management proposals and directors coupled with decreased support for shareholder proposals.

- Second highest support for management proposals, ranking 25th at 94 percent support.
- Near median support for shareholder proposals, ranking 16th with 53 percent support.
- Below average support for directors, ranking ninth with 45 percent support, which is an increase from 2008 when JP Morgan supported none of the directors.
- Critical compensation votes – mixed voting by funds. Eight times, JP Morgan funds cast different votes on ballot items. These cross-votes serve to dilute the influence of JP Morgan’s proxy voting decisions at these companies. JP Morgan funds’ voting at Occidental illustrates this mixed message. For the election of Spencer Abraham, 21 funds voted against his election while six voted in favor. But for MSOP, two funds voted against it, while 25 voted to approve it.

# Legg Mason

Composite Ranking: 11 (T)

Assets: \$26.7 Billion; Study Voting Power: 1.3 Percent



Critical Vote	Vote
A&F - Limato	Against
A&F - Stock Plan	Against
BK - Holding	Mixed
MOT - MSOP	Against
NBR - Lombardi	Withhold
OXY - Abraham	Against
OXY - MSOP	Against
VZ - Coffin	For
WAG - Perf. Based	Mixed
DIS - Stock Plan	Mixed

Proposal	2009	2010	Change	% change
Management	89.8%	90.1%	0.2%	0.2%
MSOPs	66.7%	89.2%	22.5%	33.8%
Shareholder	96.9%	75.5%	-21.4%	-22.1%
Directors	0.0%	32.9%	32.9%	

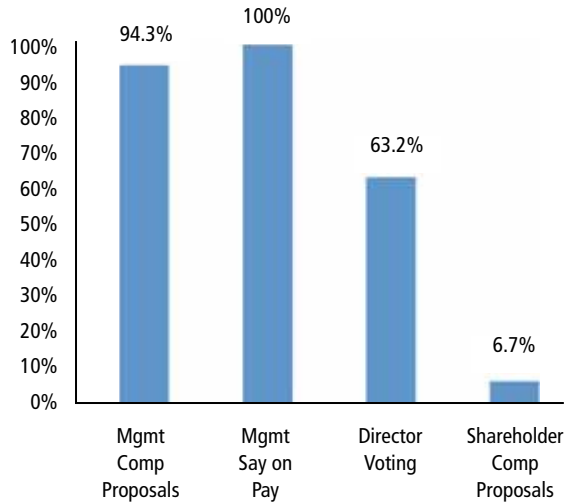
Legg Mason falls into the “Yes Voters” quadrant, more likely to support both management and shareholder proposals. It ranked as a “Pay Constrainer” last year when it tied for third, but dropped to a tie for 11th this year as a result of decreased support for shareholder proposals coupled with increased director support.

- High support for management proposals ranking 22nd at 90 percent, virtually unchanged from 2009.
- Above average support for shareholder proposals, ranking seventh with 76 percent support. However, this is a 22 percent decrease in support from 2009.
- Below average support for directors, ranking seventh with 33 percent support. This is an increase from 2009 when Legg Mason opposed all directors.
- Critical compensation votes – voted to constrain pay seven of the ten times. The other three times, Legg Mason cross-voted, diluting the influence of its votes at those companies.

## Lord Abbett

Composite Ranking: 23

Assets: \$22.3 Billion; Study Voting Power: 1.0 Percent



Critical Vote	Vote
A&F - Limato	Against
A&F - Stock Plan	Against
BK - Holding	Against
MOT - MSOP	DNV
NBR - Lombardi	DNV
OXY - Abraham	Against
OXY - MSOP	For
VZ - Coffin	Against
WAG - Perf. Based	Against
DIS - Stock Plan	For

Proposal	2009	2010	Change	% change
Management	92%	94.3%	2.3%	2.5%
MSOPs	NA	100.0%		
Shareholder	17%	6.7%	-10.3%	-60.6%
Directors	15%	63.2%	48.2%	321.3%

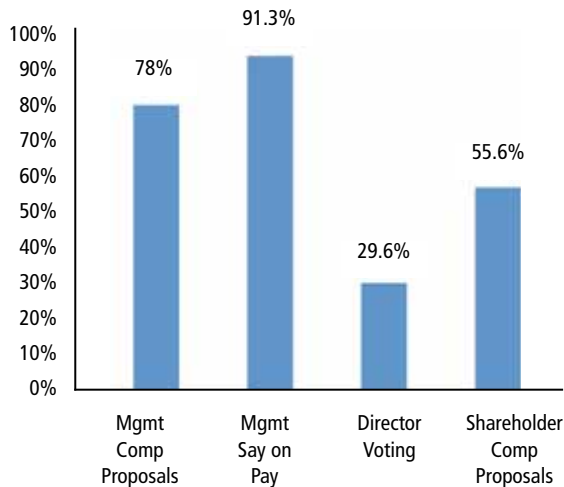
Lord Abbett falls into the “Pay Enabler” quadrant, among the most likely to support management proposals and least likely to support shareholder proposals, and has been named one of this year’s four “Pay Enablers.” Reentering this year’s study, Lord Abbett previously ranked 21st in 2008. Its ranking has dropped to 23rd, based on decreased support for shareholder proposals and increased director support.

- High support for management proposals, ranking 26th at 94 percent support. Lord Abbett’s rate of support for management proposals was a slight increase from 2008.
- Very low support for shareholder proposals, ranking 22nd at 7 percent support, which was a significant drop from 17 percent support in 2008.
- Above average support for directors, ranking 14th with 63 percent support, a more than three-fold increase in support from 2008.
- Critical compensation votes – supported management five out of eight times, including voting against each shareholder proposal and supporting Occidental’s MSOP.
- Only fund to support every MSOP proposal.

## MFS

Composite Ranking: 5

Assets: \$30.8 Billion; Study Voting Power: 1.4 Percent



Critical Vote	Vote
A&F - Limato	Against
A&F - Stock Plan	Against
BK - Holding	Against
MOT - MSOP	DNV
NBR - Lombardi	Withhold
OXY - Abraham	Against
OXY - MSOP	Against
VZ - Coffin	Against
WAG - Perf. Based	Against
DIS - Stock Plan	Against

Proposal	2009	2010	Change	% change
Management	83.2%	78.0%	-5.2%	-6.3%
MSOPs	100.0%	91.3%	-8.7%	-8.7%
Shareholder	5.5%	55.6%	50.1%	919.3%
Directors	0.0%	29.6%	29.6%	

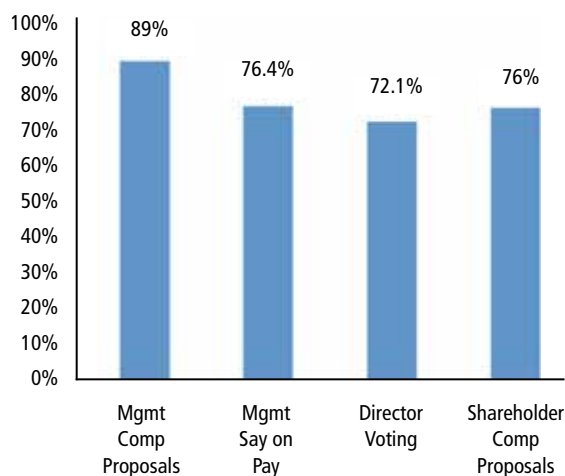
MFS falls into the “Pay Constrainer” quadrant based on below average voting for management proposals and voting at the median for shareholder proposals. Ranking fifth this year, MFS improved by four places from a tie for ninth in 2009, based on below average support for management proposals, median support for shareholder proposals and a low level of support for directors.

- Below average support for management proposals, ranking seventh at 78 percent.
- Median support for shareholder proposals, ranking 14th with 56 percent support. MFS’s support for shareholder proposals increased more than nine times from 2009.
- Below average support for directors, ranking sixth with 30 percent support. This is an increase from 2009, when it supported no directors.
- Critical compensation votes – voted to constrain pay six out of nine times. The three not supported were the shareholder proposals.

## Morgan Stanley

Composite Ranking: 16

Assets: \$11.0 Billion; Study Voting Power: 0.5 Percent



Critical Vote	Vote
A&F - Limato	DNV
A&F - Stock Plan	DNV
BK - Holding	For
MOT - MSOP	Against
NBR - Lombardi	DNV
OXY - Abraham	For
OXY - MSOP	Against
VZ - Coffin	Against
WAG - Perf. Based	For
DIS - Stock Plan	For

Proposal	2009	2010	Change	% change
Management	88.5%	89.0%	0.5%	0.5%
MSOPs	66.7%	76.4%	9.8%	14.6%
Shareholder	83.3%	76.0%	-7.4%	-8.9%
Directors	61.0%	72.1%	11.2%	18.3%

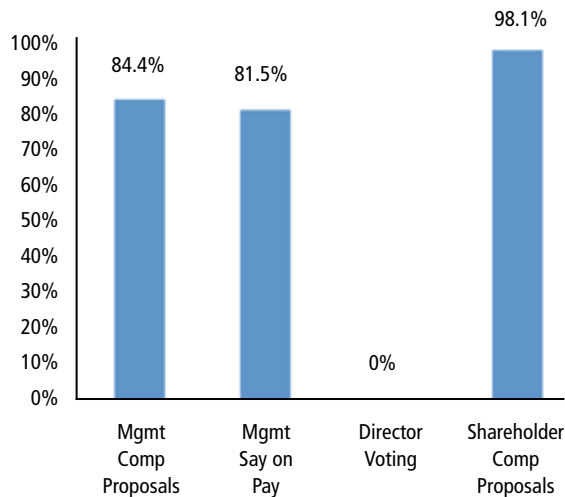
Morgan Stanley falls into the “Yes Voters” quadrant, more likely to support management proposals and more likely to support shareholder proposals. It ranked tied for 12th last year, but dropped to 16th this year as a result of increased support for management proposals and directors coupled with decreased support for shareholder proposals.

- Above average support for management proposals, ranking 20th at 90 percent. This was virtually identical to 2009.
- Above average support for shareholder proposals, ranking sixth with 76 percent support. This was a 9 percent decrease in support from 2009.
- Above average support for directors, ranking 17th with 72 percent support.
- Critical compensation votes – voted to constrain pay four out of seven times, including supporting the equity holding period shareholder proposal at Bank of New York.

## Oppenheimer

Composite Ranking: 3

Assets: \$26.0 Billion; Study Voting Power: 1.2 Percent



Critical Vote	Vote
A&F - Limato	Against
A&F - Stock Plan	Against
BK - Holding	For
MOT - MSOP	Against
NBR - Lombardi	DNV
OXY - Abraham	Against
OXY - MSOP	Against
VZ - Coffin	For
WAG - Perf. Based	For
DIS - Stock Plan	Against

Proposal	2009	2010	Change	% change
Management	85%	84.4%	-0.6%	-0.7%
MSOPs	NA	81.5%		
Shareholder	40%	98.1%	58.1%	145.3%
Directors	0%	0.0%	0.0%	

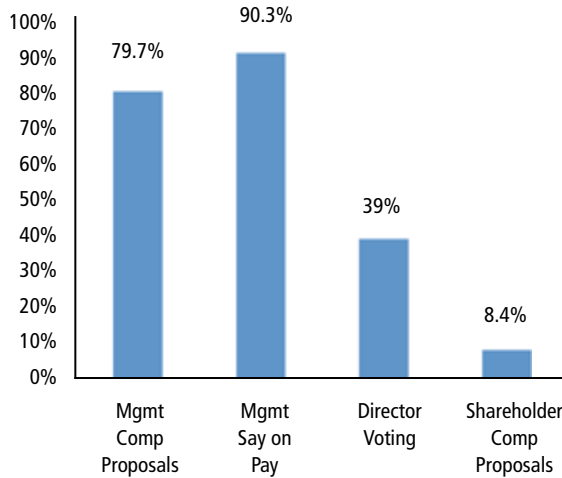
Oppenheimer falls into the “Yes Voters” quadrant – more likely to support management proposals and more likely to support shareholder proposals. Based on ranking first or second for shareholder proposals and director voting, Oppenheimer has been named one of this year’s four “Pay Constrainers.” It ranked tied for first in 2008, but dropped to third this year largely as a result of a lower ranking for management proposals.

- Above average support for management proposals, ranking 16th at 84 percent. This was virtually identical to its voting in 2008 when it ranked eighth. The drop in rank is explained by a higher average rate of votes for management proposals in 2008 – Oppenheimer was below the 2008 median of 88 percent in 2008, but above the median of 83 percent in 2010
- Strong support for shareholder proposals, ranking second with 98 percent support. This is a marked increase from 2008, when it ranked 12th with 40 percent support.
- Zero support for directors, ranking tied for first and unchanged from 2008.
- Critical compensation votes – voted to constrain pay on each of the nine items.

## Putnam

Composite Ranking: 13

Assets: \$17.4 Billion; Study Voting Power: 0.8 Percent



Critical Vote	Vote
A&F - Limato	For
A&F - Stock Plan	For
BK - Holding	Against
MOT - MSOP	For
NBR - Lombardi	Withhold
OXY - Abraham	Against
OXY - MSOP	Against
VZ - Coffin	Against
WAG - Perf. Based	Against
DIS - Stock Plan	For

Proposal	2009	2010	Change	% change
Management	77%	79.7%	2.7%	3.5%
MSOPs	NA	90.3%		
Shareholder	5%	8.4%	3.4%	67.1%
Directors	75%	39.0%	-36.0%	-48.0%

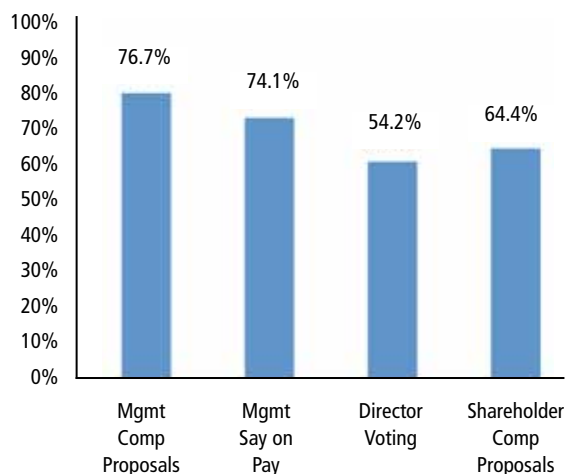
Putnam falls into the “No Voters” quadrant, with lower support for management proposals coupled with low support for shareholder proposals. Reentering this year’s study, Putnam previously ranked 16th in 2008. Ranked 13th this year, Putnam’s improved ranking is a result of decreased support for directors.

- Below average support for management proposals, ranking ninth with 80 percent support. This was a slight increase from 2008.
- Low support for shareholder proposals, ranking 21st at 8 percent support. This was virtually unchanged from 5 percent support in 2008.
- Below average support for directors, ranking eighth with 39 percent support, which was a 48 percent decrease in support from 2008.
- Critical compensation votes – voted to constrain pay only three times. Putnam is the only fund in the study that supported both proposals at Abercrombie & Fitch.

## Schwab

Composite Ranking: 9 (T)

Assets: \$22.1 Billion; Study Voting Power: 1.0 Percent



Critical Vote	Vote
A&F - Limato	Against
A&F - Stock Plan	Against
BK - Holding	Against
MOT - MSOP	Against
NBR - Lombardi	Withhold
OXY - Abraham	For
OXY - MSOP	Against
VZ - Coffin	For
WAG - Perf. Based	For
DIS - Stock Plan	DNV

Proposal	2009	2010	Change	% change
Management	83.4%	79.8%	-3.6%	-4.4%
MSOPs	60.3%	72.9%	12.5%	20.8%
Shareholder	99.1%	64.4%	-34.8%	-35.1%
Directors	0.0%	60.8%	60.8%	

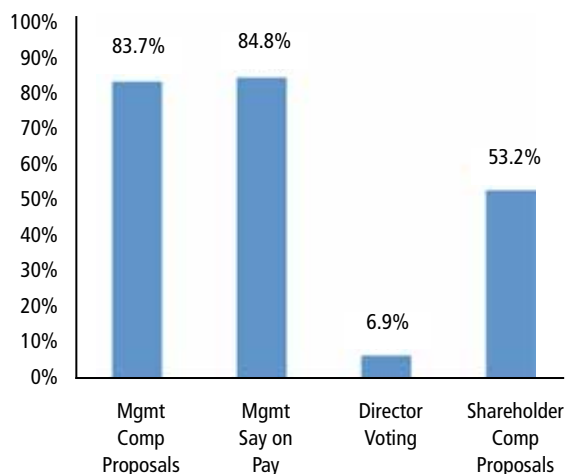
Schwab falls in the “Pay Constrainer” quadrant, less likely to support management proposals and more likely to support shareholder proposals. Tied for ninth this year, Schwab dropped nine places from ranking first in 2009. This drop is explained by decreased support for shareholder proposals and increased support for directors.

- Below average support for management proposals, ranking 10th at 80 percent.
- Above average support for shareholder proposals, ranking 11th with 64 percent support. Schwab’s support for shareholder proposals decreased by 35 percent from 2009, when its support for the measures was 99 percent.
- Above median support for directors, a 61 percent increase from 2009 when Schwab supported none of the directors.
- Critical compensation votes – voted to constrain pay seven out of nine times.

## T. Rowe Price

Composite Ranking: 9 (T)

Assets: \$131.5 Billion; Study Voting Power: 6.2 Percent



Critical Vote	Vote
A&F - Limato	Against
A&F - Stock Plan	Against
BK - Holding	Against
MOT - MSOP	For
NBR - Lombardi	Withhold
OXY - Abraham	Against
OXY - MSOP	Against
VZ - Coffin	For
WAG - Perf. Based	For
DIS - Stock Plan	For

Proposal	2009	2010	Change	% change
Management	89.0%	83.7%	-5.3%	-6.0%
MSOPs	70.6%	84.8%	14.2%	20.1%
Shareholder	60.2%	53.2%	-7.0%	-11.6%
Directors	0.0%	6.9%	6.9%	

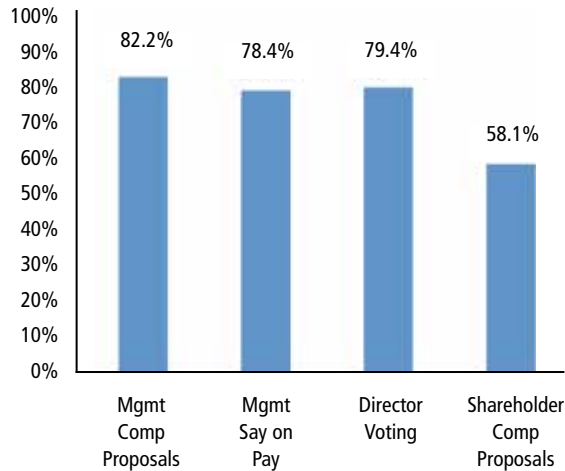
T. Rowe Price straddles the line between the “Yes Voters” and “No Voters” quadrants, ranking next to the median for both management and shareholder proposals. Ranked eighth last year, T. Rowe Price dropped one place to a tie for ninth year as a result of increased director support.

- At the median support for management proposals, ranking 14th at 84 percent. This was a 6 percent decrease from 2009, when it ranked 15th.
- Slightly below median support for shareholder proposals, ranking 15th with 53 percent support. This was an 11 percent decrease from 2009, when it also ranked 15th.
- Very low support for directors, ranking fifth with 7 percent support. However, this was a 7 percent increase in support from 2009, when T. Rowe Price supported no directors and tied for first.
- Critical compensation votes – voted to constrain pay seven out of ten times. T. Rowe Price did support the MSOP at Motorola.

## TIAA-CREF

Composite Ranking: 17 (T)

Assets: \$15.1 Billion; Study Voting Power: 0.7 Percent



Critical Vote	Vote
A&F - Limato	Against
A&F - Stock Plan	Against
BK - Holding	Against
MOT - MSOP	Against
NBR - Lombardi	Withhold
OXY - Abraham	For
OXY - MSOP	Against
VZ - Coffin	Abstain
WAG - Perf. Based	Abstain
DIS - Stock Plan	For

Proposal	2009	2010	Change	% change
Management	82.8%	82.2%	-0.6%	-0.7%
MSOPs	72.1%	78.4%	6.3%	8.8%
Shareholder	70.5%	58.1%	-12.4%	-17.6%
Directors	51.2%	79.4%	28.2%	55.1%

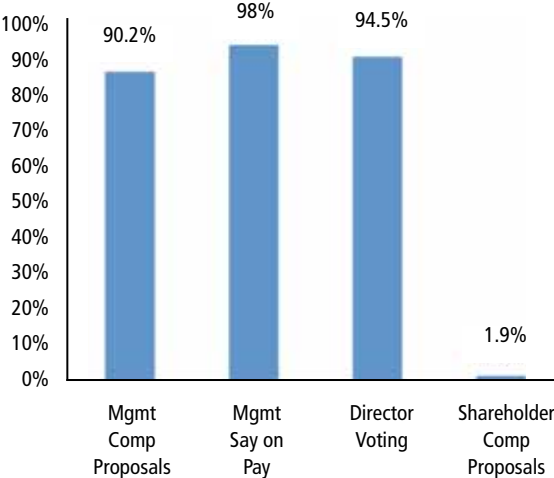
TIAA-CREF straddles the line between the “Yes Voters” and “No Voters” quadrants, ranking next to the median for both management and shareholder proposals. It ranked 11th in 2009, but dropped to a tie for 17th this year as a result of decreased support for shareholder proposals and increased support for directors.

- At the median support for management proposals, ranking 13th at 82 percent. This was virtually unchanged from 2009.
- Slightly above the median support for shareholder proposals, ranking thirteenth with 58 percent support. This represented an 18 percent decrease in support from 2009, when TIAA-CREF ranked 11th.
- High support for directors, ranking 20th with 79 percent support. This represented a 55 percent increase in support from 2009, when TIAA-CREF ranked 13th.
- Critical compensation votes – voted to constrain pay half of the time. TIAA-CREF voted against the equity holding period shareholder proposal, and abstained on the other two shareholder proposals.

# Vanguard

Composite Ranking: 26

Assets: \$533.8 Billion; Study Voting Power: 25.1 Percent



Critical Vote	Vote
A&F - Limato	Against
A&F - Stock Plan	Against
BK - Holding	Against
MOT - MSOP	For
NBR - Lombardi	For
OXY - Abraham	For
OXY - MSOP	For
VZ - Coffin	Against
WAG - Perf. Based	Against
DIS - Stock Plan	For

Proposal	2009	2010	Change	% change
Management	89.3%	90.2%	0.9%	1.0%
MSOPs	95.1%	98.0%	2.9%	3.0%
Shareholder	3.5%	1.9%	-1.6%	-44.9%
Directors	100.0%	94.5%	-5.5%	-5.5%

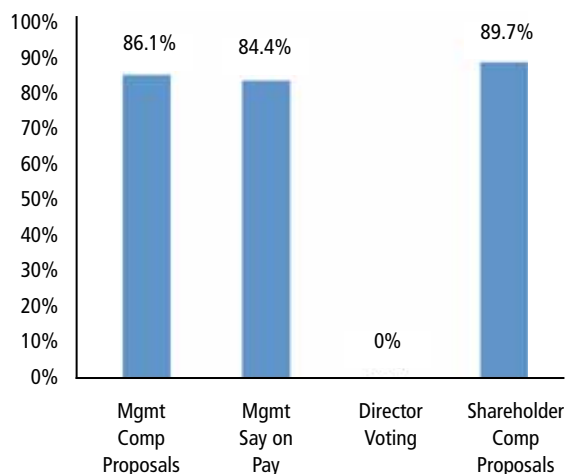
Vanguard falls squarely in the “Pay Enabler” quadrant, among the most likely to support management proposals and least likely to support shareholder proposals, and has been named one of this year’s four “Pay Enablers.” It ranked 22nd last year, but its ranking has dropped to 26th, last place among all the fund families studied. There is no real change in its voting pattern – high support for management proposals and directors and virtually no support for shareholder proposals.

- High support for management proposals, ranking 23rd at 90 percent support. Vanguard’s rate of support for management proposals increased slightly from 2009.
- Next to no support for shareholder proposals, ranking 26th at 2 percent support.
- High support for directors, ranking 23rd with 95 percent support, which is an improvement from 2009 when it supported all directors.
- Critical compensation votes – supported management eight out of ten times. Vanguard is the only fund family to support the MSOPs at Occidental and Motorola. For these reviewed votes, no other fund supported management as many times as Vanguard.
- As the largest of the “Big Three,” with 25.1 percent of AUM reviewed, Vanguard has the greatest ability to influence compensation; however, it is a “Pay Enabler” across the board in every category.

## Wells Fargo

Composite Ranking: 4

Assets: \$24.4 Billion; Study Voting Power: 1.1 Percent



Critical Vote	Vote
A&F - Limato	Against
A&F - Stock Plan	Against
BK - Holding	For
MOT - MSOP	Against
NBR - Lombardi	Withhold
OXY - Abraham	Against
OXY - MSOP	Against
VZ - Coffin	For
WAG - Perf. Based	For
DIS - Stock Plan	Against

Proposal	2009	2010	Change	% change
Management	90.0%	86.1%	-4.0%	-4.4%
MSOPs	66.7%	84.4%	17.8%	26.7%
Shareholder	32.6%	89.7%	57.1%	175.5%
Directors	11.4%	0.0%	-11.4%	-100.0%

Wells Fargo falls into the “Yes Voters” quadrant, more likely to support both management and shareholder proposals. Based on ranking first and third for director voting and shareholder proposals, Wells Fargo has been named one of this year’s four “Pay Constrainers.” Ranking fourth this year, Wells Fargo improved by fifteen places from tying for 19th in 2009, based on a large increase in support for shareholder proposals, a small decrease in support for management proposals and voting against all of the directors.

- Above average support for management proposals, ranking 17th at 86 percent. This was a 4 percent decrease in support from 2009, when it ranked 18th.
- Marked increase in support for shareholder proposals, ranking third with 90 percent support. This was a 175 percent increase from 2009, when Wells Fargo showed 33 percent support and ranked 18th.
- Zero support for directors, tying for first. This was an improvement over 2009’s 11 percent support, which ranked ninth.
- Critical compensation votes – voted to constrain pay all ten times.

## Appendix C - Critical Compensation Votes Analysis

### Votes 1 & 2: Abercrombie & Fitch – Director Election and Long-Term Incentive Plan.

In 2010, Abercrombie & Fitch shareholders narrowly reelected a member of the Compensation Committee. The low level of support resulted from reported concerns over CEO Michael Jeffries' compensation which included a \$4 million payment in exchange for limiting his personal use of the corporate jet to \$200,000 a year. Shareholders actually defeated the management incentive plan.<sup>58</sup>

#### Vote 1: Director Election.

Institutional Shareholder Services (ISS) recommended that shareholders vote against Edward Limato because “the Compensation Committee approved problematic pay practices; there is a pay-for-performance disconnect at the company; the company employs multiple antitakeover provisions coupled with sustained poor stock performance.”<sup>59</sup>

Only six fund families supported Limato: American Century, Columbia, DWS, Federated, Fidelity and Putnam. One fund cross-voted: JP Morgan.

**Result: Limato was reelected with 51.4 percent support.**

#### Vote 2: Long-Term Incentive Plan.

ISS also recommended shareholders vote against approval of the 2010 Long-Term Incentive Plan, noting “[a] vote AGAINST this item is warranted because, while the cost of the company’s plan is equal to the allowable cap, the company’s three-year average burn rate is excessive and the going-forward commitment made by the company is not sufficient. The burn rate commitment made by Abercrombie specifically excludes semi-annual awards made to Mr. Jeffries pursuant to the terms of his employment agreement. As such, the concerns with excessive usage of shares are not sufficiently mitigated.”<sup>60</sup>

Twenty fund families voted against the plan, making it the most agreed upon Compensation Vote reviewed. Only two fund families supported the stock

plan, BlackRock and Dreyfus. Two fund families cross-voted: ING and JP Morgan.

**Result: The incentive plan failed to pass, receiving only 35.9 percent support.**

### Vote 3: Bank of New York – Equity Holding Period Shareholder Proposal.

This shareholder proposal asked to link pay with long-term performance through an appropriate holding period for equity incentive awards; Bank of New York CEO Robert Kelly had received \$2.625 million of restricted stock as his bonus for 2009.

ISS recommended shareholders vote for the proposal, noting “[s]upport for this proposal is warranted given that the proposed policy may better address shareholders’ concerns about maintaining strong links between the interests of top executives and long-term shareholder value.”<sup>61</sup>

Sixteen fund families did not vote for this proposal. The fund families that did support the holding period proposal were American Century, Dimensional, Dreyfus, Janus, Morgan Stanley, Oppenheimer and Wells Fargo. Three fund families cross-voted: Goldman Sachs, Invesco and Legg Mason.

**Result: The proposal failed to pass, receiving 38.1 percent support.**

### Vote 4: Motorola – Management “Say on Pay” Proposal.

In 2010, Motorola became the first major U.S. company to fail to receive approval for its advisory vote to ratify its executive compensation, following concerns over the pay arrangement for co-CEO Sanjay Jha. Jha was guaranteed to receive either a 1.8 percent to 3 percent stake in a new company if Motorola split, or \$38 million if the split did not happen by June 30, 2011.<sup>62</sup>

ISS recommended shareholders vote against the proposal, noting “[a] vote AGAINST this proposal is warranted. Key considerations include: Dr. Jha’s pay-

ment if the business separation does not occur has increased from \$30 million to \$38 million and continues an inappropriate “pay-for-failure” arrangement; Dr. Jha’s amended agreement continues to include a modified excise tax gross-up provision; and the company has adjusted results for the MIP program in an inconsistent manner.”<sup>63</sup>

Fund families supporting Motorola’s compensation practices were American, Invesco, Putnam, T. Rowe Price and Vanguard. Two fund families cross-voted: Goldman Sachs and JP Morgan.

**Result: The proposal, with 45.6 percent support, did not pass.**

#### **Vote 5: Nabors – Director Election.**

One of the most significant withholds against an S&P 500 company director in 2010 occurred at Nabors due to concerns over CEO Eugene Isenberg’s guaranteed \$2.4 million in annual deferred compensation and the \$100 million “golden coffin” his beneficiaries would receive in the event of his death.<sup>64</sup>

ISS recommended shareholders withhold votes from compensation committee member John Lombardi “for problematic pay practices,” noting “the company’s compensation practices do not adequately meet the Compensation Committee’s stated goals of addressing evolving executive compensation standards. Of particular concern is the flawed bonus design, the lack of a reasonable cap on the bonus payments, the high deferred compensation amounts, and excessive severance payments. Finally, the significant pay disparity presents remaining risks over succession planning.”<sup>65</sup>

Fund families supporting Lombardi’s reelection were: American Century, Columbia, Federated, Fidelity and Vanguard. JP Morgan cross-voted.

**Result: Lombardi was reelected, with 52 percent support.**

#### **Votes 6 & 7: Occidental – Director Election and Management “Say on Pay” Proposal.**

Occidental became the second major U.S. company in 2010 to lose an advisory vote to ratify its executive

compensation. The vote illustrated a reported general disgust among investors over CEO Ray Irani’s pay that had “vastly exceeded CEO pay at even the largest companies in the oil and gas industry.” These concerns also led holders of 39 percent of shares to vote against all members of the Compensation Committee.<sup>66</sup>

#### **Vote 6: Director Election.**

ISS recommended shareholders vote against Occidental directors, including Compensation Committee Chair Spencer Abraham, “for failure to address the underlying compensation issues at the company which have been highlighted since 2006.” ISS noted that “what is concerning is the lack of Compensation Committee and board response to issues continually raised since 2006, which could indicate that the board no longer performs its functions in the best interests of the company or its shareholders. ISS believes that this continued lack of regard for shareholders concerns is problematic. Hence, ISS recommends that shareholders vote AGAINST the Compensation Committee and the entire board for failure to take appropriate action to address shareholder concerns on executive compensation.”<sup>67</sup>

Twelve fund families supported Abraham’s reelection: American Century, BlackRock, Columbia, DWS, Federated, Franklin Templeton, Goldman Sachs, ING, Morgan Stanley, Schwab, TIAA-CREF and Vanguard. Three fund families cross-voted: Invesco, Janus and JP Morgan.

**Result: Abraham was reelected, receiving 60.9 percent support.**

#### **Vote 7: Management “Say on Pay” Proposal.**

ISS recommended shareholders vote against Occidental’s MSOP, noting that “[a] vote AGAINST this proposal is warranted given that the company has repeatedly failed to address the following issues: pay magnitude; pay disparity; peer group disparity; and performance target issues.”<sup>68</sup>

Only four fund families – BlackRock, Federated, Lord Abbett and Vanguard – supported Occidental’s

pay practices. Two fund families cross-voted: Goldman Sachs and JP Morgan.

**Result: The proposal did not pass, receiving only 46.8 percent support.**

**Vote 8: Verizon – “Golden Coffin” Shareholder Proposal.**

Providing death benefits, known as “golden coffins,” to heirs of executives has been justified as necessary to retain top talent, but as a compensation consultant wryly noted, “if the executive is dead, you’re certainly not retaining them.”<sup>69</sup> Verizon is among those companies that provides post-death benefits to the estates of its deceased executives. According to its 2010 proxy statement, in the event of the death of CEO Ivan Seidenberg, his estate would receive \$39.36 million, of which \$10.05 million would be paid pursuant to the Executive Life Insurance Program.

ISS recommended that support for the proposal to end “golden coffins” at Verizon was “warranted given that the company pays significant premiums to provide special death benefits to selected senior executives.”<sup>70</sup>

The following fund families did not support ending the provisions of death benefits to executives: American, BlackRock, Dreyfus, Federated, Fidelity, ING, Lord Abbett, MFS, Morgan Stanley, Putnam and Vanguard. Two fund families cross-voted: Goldman Sachs and JP Morgan.

**Result: The proposal failed to pass, receiving 42.7 percent support.**

**Vote 9: Walgreens – Performance-based Equity Awards Shareholder Proposal.**

At Walgreens, stock options and restricted make up 65 percent of the company’s Long-Term Incentive pro-

gram. This proposal asked that performance measures be added as a requirement for the vesting of equity compensation awards. Such measures, it was argued, would better link pay for performance, rather than fixed-price stock options or time-vesting restricted stock, which can either reward executives for a rising stock market that increases the share price of all companies or simply for the passage of time.

ISS recommended support for the proposal, noting that “[g]iven that the company’s current long-term equity compensation programs are not substantially performance-based and the proposal is not overly restrictive, this item warrants shareholder support.”<sup>71</sup>

Nine fund families did not support adding performance measures as a requirement for vesting of equity: American, BlackRock, Federated, Fidelity, ING, Lord Abbett, MFS, Putnam and Vanguard. Three fund families cross-voted: Goldman Sachs, JP Morgan and Legg Mason.

**Result: The proposal failed to pass, receiving 43.4 percent support.**

**Vote 10: Walt Disney Company – Amended and Restated 2005 Stock Incentive Plan.**

Institutional Shareholder Services recommended shareholders vote against approval of the Amended and Restated 2005 Stock Incentive Plan, stating that “Disney’s burn rate of 2.36 percent is above the industry allowable cap of 2.28 percent. As such, shareholders should vote AGAINST this proposal.”<sup>72</sup>

Twelve fund families supported Disney’s stock plan: Columbia, DWS, Franklin Templeton, ING, Invesco, JP Morgan, Lord Abbett, Morgan Stanley, Putnam, T. Rowe Price, TIAA-CREF and Vanguard.

**Result: The proposal passed with 61.9 percent support.**

## Appendix D –

### Directors Receiving Significant Votes Against Over Concerns Relating to Executive Pay

Company	Director	Vote Against/ Withheld
Abercrombie & Fitch (ANF)	Edward F. Limato	48.6%
Abercrombie & Fitch (ANF)	Craig R. Stapleton	43.2%
Aetna (AET)	Frank M. Clark	37.6%
Aetna (AET)	Betsy Z. Cohen	39.9%
Aetna (AET)	Roger N. Farah	38.1%
Aetna (AET)	Barbara H. Franklin	35.4%
Aetna (AET)	Jeffrey E. Garten	34.9%
Boston Scientific (BSX)	Ray J. Groves	30.8%
Boston Scientific (BSX)	Ernest Mario	30.9%
Eastman Kodak (EK)	Richard S. Braddock	43.0%
Eastman Kodak (EK)	Michael J. Hawley	42.8%
Eastman Kodak (EK)	Douglas R. Lebda	42.9%
Eastman Kodak (EK)	Delano E. Lewis	43.0%
Eastman Kodak (EK)	William G. Parrett	28.9%
Eastman Kodak (EK)	Joel Seligman	25.1%
Fortune Brands (FO)	Anne M. Tatlock	40.3%
Fortune Brands (FO)	Peter M. Wilson	37.7%
Hess (HES)	Nicholas F. Brady	33.3%
Hess (HES)	Thomas H. Kean	33.7%
Hess (HES)	Frank A. Olson	28.6%
Nabors (NBR)	John Lombardi	48.0%
Nabors (NBR)	James Payne	47.7%
Nasdaq OMX Group (NDAQ)	Michael Casey	28.3%
Nasdaq OMX Group (NDAQ)	Lon Gorman	28.0%
Nasdaq OMX Group (NDAQ)	Glenn H. Hutchins	30.8%
Nasdaq OMX Group (NDAQ)	Birgitta Kantola	28.0%
Nasdaq OMX Group (NDAQ)	Michael R. Splinter	28.0%
Nasdaq OMX Group (NDAQ)	Deborah L. Wince-Smith	28.0%
Noble Energy (NBL)	Jeffrey L. Berenson	32.7%

Company	Director	Vote Against/ Withheld
Noble Energy (NBL)	Edward F. Cox	32.7%
Noble Energy (NBL)	Kirby L. Hedrick	32.6%
Occidental Petroleum (OXY)	Spencer Abraham	39.1%
Occidental Petroleum (OXY)	John S. Chalsty	39.3%
Occidental Petroleum (OXY)	Edward P. Djerejian	22.7%
Occidental Petroleum (OXY)	John E. Feick	23.2%
Occidental Petroleum (OXY)	Carlos M. Gutierrez	22.5%
Occidental Petroleum (OXY)	Ray R. Irani	23.7%
Occidental Petroleum (OXY)	Irvin W. Maloney	22.8%
Occidental Petroleum (OXY)	Avedick B. Poladian	38.9%
Occidental Petroleum (OXY)	Rodolfo Segovia	39.4%
Occidental Petroleum (OXY)	Aziz D. Syriani	22.7%
Occidental Petroleum (OXY)	Rosemary Tomich	39.3%
Occidental Petroleum (OXY)	Walter L. Weisman	22.9%
PerkinElmer (PKI)	James C. Mullen	29.0%
PerkinElmer (PKI)	Gabriel Schmergel	31.6%
PerkinElmer (PKI)	Kenton J. Sicchitano	29.2%
PerkinElmer (PKI)	G. Robert Tod	29.1%
Urban Outfitters (URBN)	Scott A. Belair	37.4%
Urban Outfitters (URBN)	Robert H. Strouse	38.9%
Vulcan Materials (VMC)	Philip J. Carroll, Jr.	32.0%
Vulcan Materials (VMC)	James V. Napier	21.6%

## Appendix E – Assets Under Management and Percentage of Study

The weighting for assets under management invested in securities (AUM in Securities) is based on data provided by Morningstar® in November 2010. This weighting was derived by dividing each fund family's AUM in Securities by the total amount of AUM in Securities across the twenty-six fund families

Fund Family	Assets (in millions)	Percent in stocks	Stock holdings (in millions)	Percent AUM in study
Vanguard	1,211,996	44.0%	533,763	25.1%
Fidelity	846,651	47.9%	405,546	19.1%
American Funds	864,398	37.2%	321,470	15.1%
T. Rowe Price	276,060	47.6%	131,487	6.2%
BlackRock <sup>73</sup>	334,532	28.2%	94,405	4.4%
Columbia	145,057	56.1%	81,406	3.8%
Invesco	104,487	52.0%	54,302	2.6%
Janus	85,970	62.3%	53,568	2.5%
American Century	81,094	53.9%	43,685	2.1%
Dimensional	114,448	36.8%	42,071	2.0%
Franklin Templeton	310,692	13.1%	40,825	1.9%
ING	73,041	44.4%	32,445	1.5%
MFS	80,475	38.3%	30,790	1.4%
JP Morgan	117,116	26.2%	30,673	1.4%
Legg Mason	61,761	43.2%	26,687	1.3%
Oppenheimer	133,363	19.5%	26,019	1.2%
Wells Fargo	80,113	30.5%	24,410	1.1%
Lord Abbett	59,921	37.2%	22,291	1.0%
Schwab	30,388	72.6%	22,059	1.0%
Goldman Sachs	61,309	33.5%	20,532	1.0%
Putnam	45,182	38.5%	17,395	0.8%
Dreyfus	43,648	37.7%	16,464	0.8%
TIAA-CREF	31,494	48.0%	15,120	0.7%
DWS	46,386	31.4%	14,565	0.7%
Federated	46,838	28.8%	13,466	0.6%
Morgan Stanley	24,586	44.9%	11,042	0.5%

## Endnotes

1. We did not examine the voting records of any socially responsible investment fund families; fund families were selected based upon assets under management invested in securities.
2. The 26 largest fund families were selected using assets under management invested in securities based on data provided by Morningstar® on each fund family in November 2010. The following fund families from the 2009 study were dropped from this year's study: AllianceBernstein, Barclays Global (merged with BlackRock), BNY Mellon, Evergreen, Fifth Third, Northern, RiverSource and State Street. The following fund families which had been included in 2008 but were not included last year have been added back: American Century, Janus, JP Morgan, Lord Abbett, Oppenheimer and Putnam. The following fund families are being included for the first time this year: Dimensional, Goldman Sachs and ING.
3. Gretchen Morgenson, "He Doesn't Let Fund Managers off the Hook," *The New York Times*, Apr. 11, 2009.
4. See footnote number 2 for details of these changes.
5. In 2007 and 2008, Franklin fund families and Templeton fund families were rated individually. The Franklin Templeton ranking for those years is the rank of the average of their scores.
6. Eastman Kodak Company (publicly available Feb. 13, 1992) (no-action determination by the Staff of the Division of Corporation Finance).
7. "Is Greed Good? Special Report: Executive Pay," *Business Week* (Apr. 19, 1999) (available at [http://www.businessweek.com/1999/99\\_16/b3625002.htm](http://www.businessweek.com/1999/99_16/b3625002.htm)).
8. Joann S. Lublin, "Pay for No Performance," *The Wall Street Journal* (Apr. 9, 1998) (available at <http://www.uic.edu/classes/actg/actg594/Readings/Incentives/Compensation%20WSJ.htm>).
9. See, e.g., Lucian A. Bebchuk & Holger Spamann, "Regulating Bankers' Pay," *Georgetown Law Journal* Vol. 98, at 247 (2010); Yoram Landskroner & Alon Raviv, "The 2007-2009 Financial Crisis and Executive Compensation: an Analysis and a Proposal for a Novel Structure" (working paper 2009) (available at [www.ssrn.com](http://www.ssrn.com)); Paul Hodgson et al., "Wall Street Pay: Size, Structure and Significance for Shareowners," *Council of Institutional Investors White Paper* (Nov. 2010).
10. Lucian A. Bebchuk et al., "The Wages of Failure: Executive Compensation at Bear Stearns and Lehman 2000-2008," at 4 (working paper 2009) (available at [www.ssrn.com](http://www.ssrn.com)).
11. The Financial Crisis Inquiry Report, p. xix (2011) (available at [http://c0182732.cdn1.cloudfiles.rackspacecloud.com/fcic\\_final\\_report\\_full.pdf](http://c0182732.cdn1.cloudfiles.rackspacecloud.com/fcic_final_report_full.pdf)).
12. Realized direct compensation is the sum of salary, bonus, gains from options exercised, value of restricted stock at grant and other long-term incentive award payments.
13. Lawrence Mishel, et al., *The State of Working America 2008/2009*, Table 3.41.
14. Scott Thurm, "Oracle's Ellison: Pay King," *The Wall Street Journal*, July 27, 2010.
15. Lucian Bebchuk & Yaniv Grinstein, "The Growth in Executive Pay," 21 *Oxford Review of Economic Policy*, p. 283 (2005).
16. IRRC Institute and PROXY Governance Inc., "Compensation Peer Groups at Companies with High Pay," at 5 (June 2010) (available at [www.irrcinstitute.org/pdf/Final-Compensation-Peer-Groups-at-Companies-with-High-Pay\\_June2010.pdf](http://www.irrcinstitute.org/pdf/Final-Compensation-Peer-Groups-at-Companies-with-High-Pay_June2010.pdf)).
17. Scott DeCarlo, "Show Me the Money," *Forbes*, Apr. 13, 2011.
18. Comment Letter of the Drucker Institute dated Feb. 17, 2011 in support of Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act requiring public disclosure of CEO/average worker pay ratios by U.S. public companies (available at [thedx.org/wp-content/uploads/2011/02/SECcomment.pdf](http://thedx.org/wp-content/uploads/2011/02/SECcomment.pdf)).
19. Sarah Anderson, et al, "Executive Excess 2008," *Institute for Policy Studies and United for a Fair Economy*, Aug. 25, 2008, p. 1.
20. Sarah Anderson, et al, "CEO Pay and the Great Recession," *Institute for Policy Studies*, Sept. 1, 2010, p. 7.
21. Leo Hindery Jr., "Why We Need to Limit Executive Compensation," *Bloomberg Businessweek*, Nov. 4, 2008. (available at [http://www.businessweek.com/managing/content/nov2008/ca2008114\\_493532.htm](http://www.businessweek.com/managing/content/nov2008/ca2008114_493532.htm))
22. James F. Reda, et al., *Compensation Committee Handbook*, ap.xvi (2008).
23. Lucian Bebchuk & Jesse Fried, *Pay Without Performance*, pp. 53-58 (2004) (hereinafter, *Pay Without Performance*).
24. "Report on Directors' and Investors' Views on Executive Pay and Corporate Governance – 2008 Managing Executive Compensation in the Shareholders' Interests," *Watson Wyatt*, 2008. 72 institutional investors with approximately \$5 trillion in assets and 162 directors were surveyed.
25. "U.S. Executive Compensation Survey Report," *CFA Institute*, May 29, 2009.
26. "What Directors Think – 2007 Annual Board of Directors Survey," *Corporate Board Member & PricewaterhouseCoopers*.
27. See *Pay Without Performance*, supra note 23, on page 8.
28. See "Testimony of Nell Minow, U.S. House of Representatives, Committee on Oversight and Government Reform," Mar. 7, 2008;

- Testimony of Lucian Bebchuk, U.S. House of Representatives, Committee on Financial Services, June 11, 2009.
29. "Special Comment – CEO Compensation and Credit Risk," Moody's Investor Service, July 2005.
  30. Ing-Haw Cheng, Harrison Hong and Joes Scheinkman, "Yesterday's Heroes: Compensation and Creative Risk-Taking," (May 25, 2010).
  31. Donald Hambrick and Gerard Sanders, "Swinging for the Fences: the Effects of CEO Stock Options on Company Risk Taking and Performance," *Academy of Management Journal* (2007).
  32. Yonca Ertimur et al., "Shareholder Activism and CEO Pay" (working paper 2009).
  33. Kenneth J. Martin & Randall S. Thomas, "When is Enough, Enough? Market Reaction to Highly Dilutive Stock Option Plans and the Subsequent Impact on CEO Compensation," (working paper 2003) (available on [www.ssrn.com](http://www.ssrn.com)).
  34. Jie Cai et al., "Electing Directors," pp. 20-21 (working paper 2008) (available at [www.ssrn.com](http://www.ssrn.com)).
  35. Fabrizio Ferri & David Maber, "Solving the Executive Compensation Problem through Shareholder Votes? Evidence from the U.K.," (working paper 2007).
  36. Jie Cai & Ralph A. Walkling, "Shareholders' Say on Pay: Does it Create Value?" Drexel College of Business Research Paper No. 2008-06 (2008). (available on [www.ssrn.com](http://www.ssrn.com)).
  37. In a derivative claim, a shareholder brings a claim that legally belongs to the corporation, such as a claim that directors breached their fiduciary duty of care or loyalty.
  38. See *In re The Walt Disney Company Derivative Litigation* (Delaware Chancery, Aug. 9, 2005).
  39. Investment Company Institute, 2010 Investment Company Fact Book, p. 8.
  40. *Ibid* p. 22.
  41. *Ibid* p. 12.
  42. *Ibid* p. 23.
  43. *Ibid* p. 9.
  44. Investment Company Act of 1940.
  45. Gretchen Morgenson, "A Door Opens. The View is Ugly." *The New York Times*, Sept. 12, 2004.
  46. SEC Release No. 33-8188, "Disclosure of Proxy Voting Policies and Proxy Voting Records by Registered Management Investment Companies" (Sept. 23, 2003).
  47. Gerald F. Davis & E. Han Kim, "Would Mutual Funds Bite the Hand that Feeds Them? Business Ties and Proxy Voting," at 25 (working paper 2005) (available at [www.ssrn.com](http://www.ssrn.com)).
  48. *Ibid*, p. 26.
  49. Rasha Ashraf et al., "Conflicts of Interest and Mutual Fund Proxy Voting: Evidence From Shareholder Proposals on Executive Compensation," at 3 (working paper 2009) (available at [www.ssrn.com](http://www.ssrn.com)).
  50. *Ibid*, p.18.
  51. *Ibid*, p. 4.
  52. *Ibid*, p. 4.
  53. Nicholas Rummel, "Making Peace between Boards and Investors" *Financial Week*, 6/16/08. Conference Board, "The Conference Board Task Force on Executive Compensation," Sept. 21, 2009, p. 22.
  54. 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.
  55. Pay Without Performance, *supra* note 23, pp. 137-46, 172-73.
  56. Olivier Jean Blanchard et al., "What Do Firms Do with Cash Windfalls?" *Journal of Financial Economics*, p. 36 (1994).
  57. Marianne Bertrand and Sendhil Mullainathan, "Are CEOs Rewarded for Luck? The Ones Without Principals Are," *The Quarterly Journal of Economics*, p. 116 (2001).
  58. Joann Lublin and Elizabeth Holmes, "Shareholder Vote Down Abercrombie & Fitch Incentive Plan," *Wall Street Journal*, June 9, 2010.
  59. ISS 2010 Abercrombie & Fitch Proxy Analysis, May 26, 2010, p. 8.
  60. *Ibid*, p. 12.
  61. ISS 2010 Bank of New York Mellon Proxy Analysis, March 27, 2010, p. 19.
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