

Shareholder Resolutions on Executive Compensation

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*=SRI FUND,
#=SURVEYED FOR THIS REPORT

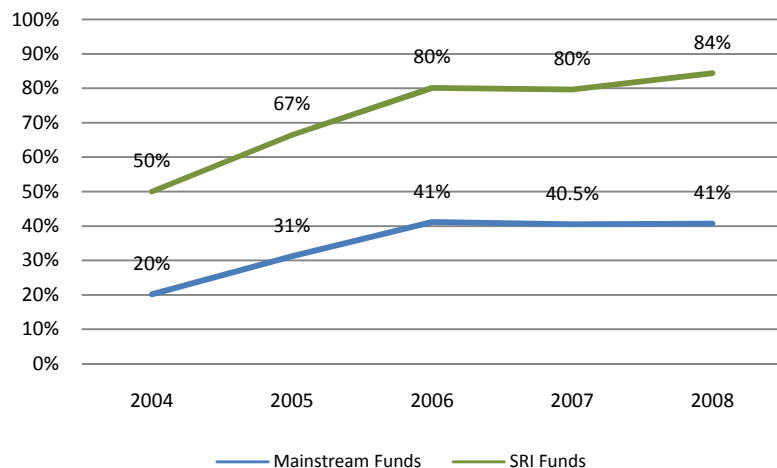
OVERVIEW

- 12.5 million US mutual fund proxy votes analyzed over five years
- 53 mutual fund families' compensation votes profiled – 47 mainstream and 6 socially responsible investment (SRI) groups.
- Support for shareholder-sponsored compensation resolutions is increasing, led by SRI mutual funds.
- Funds cast the majority of their votes in support of five of the 17 categories of shareholder-sponsored compensation resolutions.
- 'Say-on-Pay' resolutions received a majority of mainstream mutual fund votes in support in 2007 and 2008.
- American Federation of State, County and Municipal Employees (AFSCME) promoted new types of resolutions in 2008.
- Resolutions addressing severance pay continue to attract the highest support from mainstream fund groups: 70% in 2008.

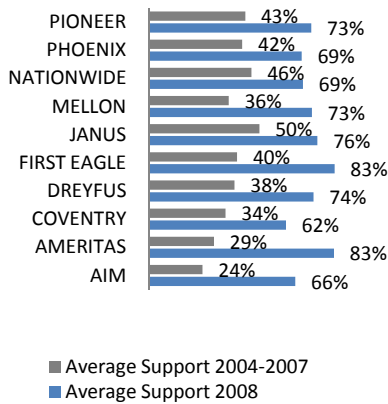
TRENDS ANALYSIS

Longitudinal comparison of mutual fund voting patterns on shareholder-sponsored compensation resolutions across 47 mainstream fund groups and 6 SRI groups over five years of voting records shows mutual fund groups more likely to support shareholders in their quest to rein in executive compensation in 2008 compared with 2004. Socially responsible investment (SRI) funds lead the charge against runaway senior executive compensation at large US corporations.

Average Support for Shareholder Resolutions on Compensation



Comparison of Previous Support for Compensation Resolutions with 2008 Support Levels



The graph above shows the 10 mainstream fund families whose support for shareholder-sponsored compensation resolutions increased by the largest measure in 2008 compared to their average support over the previous four years. Each of these fund families shows an average level of support of over 50 percent for shareholder sponsored resolutions addressing compensation issues.

Categories of shareholder resolutions vary from year to year as regulatory loopholes are identified and exploited (e.g. options backdating), as best practice is imposed through regulatory developments (e.g. expensing stock option grants) or encouraged through media and shareholder activist attention (e.g. the majority affirmative vote standard in director elections), and as certain issues become recognized as having a real impact on financial performance of corporations (e.g. incentive structures of compensation packages).

Tax Gross-Up Payments and Employment Principles: new categories

In 2008 two new and related categories of shareholder resolutions were filed by AFSCME. One asks the board not to make to tax gross-up payments – “reimbursing a senior executive for tax liability or making payment to a taxing authority on a senior executive's behalf” - arguing that such payments obscure the link between pay and performance since they are influenced by a number of factors unrelated to company performance.

The other category calls for tighter employment principles to be applied to senior executive appointments. Three principles are proposed, dealing with senior executive employment contract periods, accelerated vesting of equity-based awards and tax gross-up payments.

Table 1: Average Support for Compensation Resolution Categories by Mainstream Mutual Fund Groups.

shareholder resolution category	2004	2005	2006	2007	2008
advisory vote on executive compensation			42.7%	53.6%	51.2%
commonsense executive compensation	1.6%	23.8%			
compensation consultants				50.7%	13.9%
compensation disclosure	5.6%	2.9%	22.5%	2.2%	3.3%
executive comp. - uncategorized	14.3%	15.7%	49.0%	7.4%	
executive employment principles					45.5%
limit executive compensation	2.8%	1.0%	2.2%	8.2%	19.6%
limit/discontinue stock option awards	4.4%	1.1%	3.3%	0.3%	0.4%
options backdating				56.4%	
pay for superior performance			42.3%	36.7%	41.8%
recoup unearned bonuses		33.1%	11.0%	28.9%	2.2%
senior executive deferred compensation	25.5%				
senior executive perf.-based equity compensation	36.2%	42.3%	47.8%	49.3%	52.3%
senior executive retirement benefits	44.8%	36.6%	52.7%	42.6%	50.8%
senior executive severance pay	45.2%	63.9%	72.7%	68.0%	70.0%
senior executive stock retention	20.6%	33.5%	37.9%	18.0%	53.4%
tax gross-up payments					58.0%

* Averages calculated across mutual fund families as votes cast 'for' as a multiple of votes 'for', 'against' and 'abstained'.

These two categories earned 58 percent and 45.5 percent of mainstream mutual funds' votes, respectively, averaged across fund families.

Advisory Vote on Executive Compensation: 'Say-on-Pay'

In 2006 AFSCME filed four resolutions asking that shareholders be given the "opportunity at each annual meeting of shareholders to vote on an advisory resolution... to approve the report of the [compensation committee] set forth in the proxy statement".

'Say-on-Pay' resolutions are aimed at affording shareholders the opportunity to ratify executive compensation practices of the company. The overall average level of support from shareholders on these four resolutions was 38.5 percent.

In 2006 mainstream mutual fund families supported this resolution with an average 43 percent of votes cast by the constituent funds within each family. In 2007 the number of 'Say-on-Pay' resolutions filed and voted on increased to 45 and then 79 in 2008. Mutual funds increased their support, in terms of number of votes cast, to an average of over 50 percent.

In 2006 15 of the 47 mainstream fund families surveyed failed to support a single 'say-on-pay' resolution, including TIAA-CREF, which abstained on all votes. In 2008 only six groups gave no support, with Fidelity abstaining on all votes. TIAA-CREF supported all 'Say-on-Pay' resolutions in 2008.

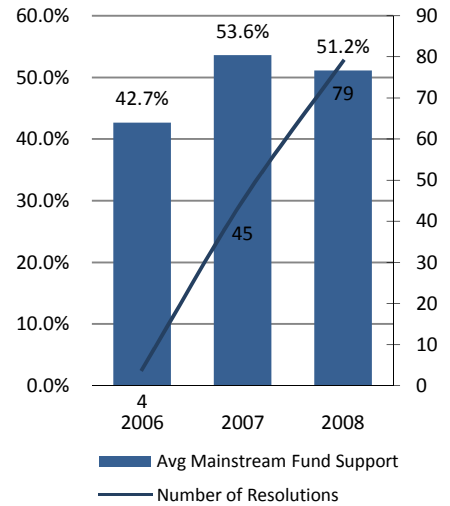
Severance Payments: continued strong support

Within the broad category of shareholder-sponsored compensation resolutions, those calling for shareholder approval for certain kinds of future severance payments to senior executives have earned the highest support from mainstream mutual fund families in each of the five years of mutual fund voting disclosure. In all but 2004 average mutual fund support for these resolutions exceeded 50 percent of votes cast.

Performance-Based Pay: Peer group indexing

Also appearing on proxies for the first time in 2006 was a category of resolution calling for senior executive performance-based pay to be indexed against peer group performance in order that executives are only rewarded for exceeding performance of peers. This category of resolution was introduced by the Carpenters Pension Fund and is commonly called 'Pay for superior performance'. It earned an average of between 37 and 42 percent of mainstream mutual fund votes in support over the 3 years on which it has been voted.

Mainstream Mutual Fund Votes on Advisory Vote on Exec. Comp. Resolutions



In the three years since the first 'Say-On-Pay' shareholder resolutions the number of resolutions voted on in this category has increased to 79 in 2008 and mutual fund families supported this category of resolution 49 percent of the time on average.

Fund families that supported every 'say-on-pay' resolution in 2008 include:

- AMERITAS
- BRIDGEWAY
- CALVERT
- CITIZENS
- COVENTRY
- CREDIT SUISSE
- DOMINI
- FIFTH THIRD
- MMA PRAXIS
- PARNASSUS
- PIONEER
- TIAA-CREF
- WALDEN

Fund families that failed to support a single 'say-on-pay' resolution in 2008:

- ALLIANCEBERNSTEIN
- DAVIS
- DODGE & COX
- FIDELITY
- VANGUARD

A related category of proposal put forward by union and public pension fund groups calls for equity compensation to be performance-based. One of the performance criteria put forward by these resolutions is peer-group indexing. This category has received greater and greater support from mutual fund groups over the five years: from an average of 35 percent of votes in support in 2004 to 51 percent of mainstream mutual funds' votes in 2008.

Recoupment of Unearned Bonuses: *significant drop in support*

The biggest drop in support from mutual fund groups was in the category of resolution requesting that future compensation to senior executives be recouped where the payments were made on the basis of erroneously calculated financial results (language used refers to 'substantial restatement of financial reports', 'error(s)' made in calculating performance and 'performance targets [that] were later reasonably determined to have not been achieved'. In one case in 2008 the resolution refers to: 'compensation... based on fraudulent or illegal conduct or other similar misconduct'. From a high of 33 percent average support in 2005, mutual fund groups supported this category of resolution only 2.2 percent of the time in 2008. This is one of the two key conditions placed on banks named in the US government's 'bailout plan'.

In the 2008 proxy a number of the mainstream fund groups surveyed for this report failed to support a single 'Say-on-Pay' vote at **Bank of America Corp.**, **Bank of New York Mellon**, **Citigroup**, **Goldman Sachs Group**, **JPMorgan Chase**, **Morgan Stanley**, **Merrill Lynch & Co.**, and **Wells Fargo & Co.**, all named on Oct 14, 2008 in the US government's historic banking system bailout plan. These fund groups are:

ALLIANCEBERNSTEIN
AMERICAN CENTURY
DAVIS
DODGE & COX
DWS (DWS SCUDDER)
FIDELITY
INTEGRITY
PUTNAM
RIVERSOURCE
STATE STREET
STEWART
VANGUARD
WELLS FARGO

A number of others voted overwhelmingly against these resolutions across the funds comprising these groups that were surveyed for this report.

ALLIANZ (19 Against, 2 For)
AMERICAN (33 Against, 1 For)
ING (220 Against, 1 For)
MORGAN STANLEY (88 Against, 32 For)
OPPENHEIMER (13 Against, 7 For)
TRANSAMERICA (29 Against, 17 For)

Table 2: Votes by Large Mainstream Fund Groups on 'Say-on-Pay' Resolutions Targeting 'Bailout Banks'.

	BANK OF AMERICA CORP	BANK OF NEW YORK MELLON CORP	CITIGROUP INC	GOLDMAN SACHS GROUP INC	J P MORGAN CHASE & CO	MERRILL LYNCH & CO INC	MORGAN STANLEY	WELLS FARGO & CO
AIM	For	For	For	For	For	For	For	Against/For
AMERICAN	Against	Against/For	Against		Against			Against
FEDERATED	Against	Against	For	For	Against	For	For	Against
FIDELITY	Abstain	Abstain	Abstain	Abstain	Abstain	Abstain	Abstain	Abstain
FRANKLIN TEMPLETON	For	For	For	For	For	For	For	For
GOLDMAN SACHS	Against/For	Against/For	Against/For	Against	Against/For	Against/For	Against/For	For
JP MORGAN	Against/For	For	For	For	For	Against/For	Against/For	Against
MORGAN STANLEY	Against	For	Against	Against	Against	For		Against
PUTNAM	Against	Against	Against	Against	Against	Against	Against	Against
T ROWE	Against/For	For	Against/For	For	Against/For	Against/For	For	Against/For
TEMPLETON	For				For	For		
TIAA-CREF	For	For		For	For	For	For	For
VANGUARD	Against	Against	Against	Against	Against	Against	Against	Against

Who voted down 'Say on Pay' at big banks?

Plans announced on Tuesday, 14 October, to inject \$250 billion into the US banking industry involved buying significant stakes in nine banks, including Bank of America Corp, Bank of New York Mellon, Citigroup, Goldman Sachs Group, JPMorgan Chase, Morgan Stanley, Merrill Lynch & Co, Wells Fargo & Co and State Street Corp.

Eight of these banks were targeted with a 'Say-on-Pay' resolution in 2008.

Executive pay practices at large banks have been placed front and center in the financial crisis:

- Pay practices are blamed, at least in part, for excessive risks taken by banks.
- Government conditions on the bailout plan include executive pay restrictions.

These conditions target severance pay and recouping incentive payouts based on 'inaccurate' performance measures (earnings, gains, etc.).

A number of large mainstream fund groups failed to support even a single 'say-on-pay' resolution at the eight bail-out banks targeted with this resolution in 2008. Twelve opposed all such resolutions and two (Fidelity and Riversource) abstained on all. Still more voted overwhelmingly against the resolutions, with only a few 'for' votes.

Shareholder activists argue that tighter pay practices would follow if shareholders could annually cast a vote on an advisory resolution to ratify the boards' compensation reports. The 'say-on-pay' proposals would effectively allow us to gauge the degree of shareholder satisfaction with the board's compensation structure and incentive pay allocations from year to year. Clearly boards could use some constructive feedback from those whose interests are most aligned with the performance of the company. This vote would also provide a vote of confidence in the board itself (where, up to now, director elections have failed to provide such a barometer).

Twenty One of the 53 fund groups surveyed supported every 'say-on-pay' resolution targeting the eight banks in 2008:

AMERITAS
ARTISAN
BRIDGEWAY
CALVERT
COVENTRY
CREDIT SUISSE
DOMINI
DREYFUS
FIFTH THIRD
FRANKLIN TEMPLETON
JANUS
MELLON
MMA PRAXIS
NEUBERGER BERMAN
PARNASSUS
PIONEER
RUSSELL (FRANK RUSSELL)
SCHRODER
SCHWAB
TIAA-CREF
WALDEN

About Fund Votes

Fund Votes is an independent project started in 2004 by Jackie Cook. Its primary objective is to track mutual fund proxy voting in the US and Canada.

Over [12.5 million voting decisions](#) spanning five years of mutual fund disclosures in the US and two in Canada have been indexed against shareholder resolutions and other key data.

Data drawn from Fund Votes' proprietary mutual fund voting and shareholder resolutions databases have been used in a number of industry reports and news articles.

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GENERAL SHAREHOLDER VOTES ON COMPENSATION RESOLUTIONS

	2004		2005		2006		2007		2008	
	# resns	avg. support	# resns	avg. support	# resns	avg. support	# resns	avg. support	# resns	avg. support
advisory vote on exec. comp.	0	0%	0	0%	4	38.54%	45	37.92%	79	39.43%
commonsense exec. comp.	27	9.17%	3	13.40%	0	0%	0	0%	0	0%
compensation consultants	0	0%	0	0%	0	0%	3	39.46%	1	0%
compensation disclosure	4	23.91%	3	9.35%	6	21.29%	4	9.73%	4	8.35%
executive comp. - uncategorized	13	22.90%	12	13.46%	5	36.58%	2	21.14%	0	0%
executive employment principles	0	0%	0	0%	0	0%	0	0%	3	29.18%
limit executive compensation	14	10.34%	17	8.27%	5	18.78%	14	12.12%	9	13.85%
limit/discontinue stock option awards	15	10.40%	6	6.36%	6	4.91%	6	4.24%	6	4.96%
options backdating	0	0%	0	0%	0	0%	3	43.91%	0	0%
pay for superior performance	0	0%	0	0%	16	29.58%	38	30.97%	23	29.13%
recoup unearned bonuses	0	0%	5	28.67%	10	22.97%	9	28%	5	10.32%
senior exec. deferred compensation	3	13.45%	0	0%	0	0%	0	0%	0	0%
senior exec. perf.-based equity comp.	29	21.49%	39	29.44%	17	33.88%	31	34.27%	7	35.67%
senior exec. retirement benefits	7	34.12%	4	29.43%	8	40.87%	14	32.43%	4	37.77%
senior exec. severance pay	32	47.81%	21	53.86%	19	48.36%	14	53.62%	7	54.86%
senior exec. stock retention	7	21.16%	5	28.67%	3	29.94%	6	22%	1	28.63%
tax gross-up payments	0	0%	0	0%	0	0%	0	0%	5	41.60%