FAILED FIDUCIARIES

Mutual Fund Proxy Voting on CEO Compensation

Produced by the American Federation of
State, County and Municipal Employees
the Corporate Library
and the Shareowner Education Group

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This report marks the second year the American Federation of State, County and Municipal Employees and The Corporate Library have examined mutual fund proxy voting on executive compensation issues. This year, the Shareowner Education Group joins us as a co-sponsor of this report. In 2006 we began reviewing mutual funds' voting records on executive compensation proposals with the goal of determining whether mutual funds use their substantial power as shareholders to constrain excessive pay and require portfolio companies to tie executive compensation more closely to company performance. Mutual fund voting on compensation issues is of particular interest now, as regulators, companies and shareholders debate whether shareholders should be given an annual advisory vote on senior executive compensation.

Using N-PX filings with the Securities and Exchange Commission (SEC) in which mutual funds are required to disclose their proxy votes, this report analyzes the voting records of 29 of the largest mainstream[1] mutual fund families on executive compensation-related proposals at corporate annual meetings from July 1, 2005, to June 30, 2006. We ranked the fund families according to how often they voted with management's recommendations on each of the pay-related management executive pay proposals and certain categories of shareholder proposals dealing with executive compensation.

We have created a proxy voting profile on compensation issues for each fund family that we examined. Our analysis ranks the voting practices of these funds from least deferential to most deferential to management; in other words, we assessed how often funds voted with management's recommendations on both management and shareholder proposals relating to executive compensation. Once again we found that management proposals on executive compensation were overwhelmingly favorable to management while shareholder proposals were far more likely to curb such excesses. As we did last year, we dubbed the fund families that voted most consistently with management the "Pay Enablers" for once again perpetuating an unconditional spoils system for wealthy CEOs. Those that voted least often with management were labeled the "Pay Constrainers."

About the Authors

AFSCME

The American Federation of State, County and Municipal Employees (AFSCME) is the largest union in the AFL-CIO, representing 1.4 million state and local government, health care and child care workers. AFSCME members have their retirement assets invested by public pension systems with combined assets totaling over $1 trillion. These public systems lost more than $300 billion in assets due to the lack of market confidence following the scandals of Enron and WorldCom. Confidence in the markets, transparency and appropriate regulations are the foundation of successful long-term investors. Gerald W. McEntee, AFSCME president, chairs the AFSCME Employees Pension Plan, which as an institutional investor and active owner engages public companies on shareholder issues such as executive compensation and board accountability.

The Corporate Library

The Corporate Library is an independent research firm that compiles research, study and critical thinking about the nature of the modern global corporation. Its Board Analyst product rates boards of directors, allowing investors and analysts to evaluate governance as an element of investment risk. The Corporate Library also publishes special reports and studies, including reports on CEO employment contracts, governance practices, mutual fund proxy voting, and director compensation. The Corporate Library has an extensive database of over 3,000 public companies and over 90,000 directors, and provides data and analysis to search firms, D&O liability insurers, law firms, accounting firms, the press, institutional and individual investors, academic institutions and corporations.

Shareowner Education Group

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

The Role of Shareholders

In 2006, the median CEO compensation among Standard & Poor's 500 companies rose by 23.8% over 2005 levels, and median compensation at 1,048 companies tracked by The Corporate Library increased by 9.3%. These increases follow on the heels of a 16% rise from 2004 to 2005 throughout corporate America. In 2006, the median S&P 500 CEO earned $10.8 million in total summary compensation.[2] One would expect such generous compensation to pay for itself through company performance, but research by The Corporate Library has shown that, among S&P 500 companies, the largest increases in total compensation correlated poorly with improvements in long-term corporate performance.[3]

In theory, corporate boards and compensation committees are vested with the responsibility to ensure that executive compensation is tied to creating value for companies and their shareholders. In practice, however, this oversight function often is carried out with insufficient vigor, allowing pay to be decoupled from performance and pushing absolute pay levels into the stratosphere. A number of factors—including CEO influence over director nominations, inadequate consideration of often-complex compensation issues and social influences such as group bias toward collegiality—undermine boards' ability and willingness to bargain at arm's length over executive compensation. The executive labor market and the market for corporate control constrain executive pay only in extreme cases.[4]

As a result, it falls upon shareholders to use the mechanisms available to them to stem excessive compensation and link pay more closely to corporate performance. Shareholders believe that such reform is necessary: In an April 2005 report by Pearl Meyer & Partners, 75% of major institutional investors surveyed said that CEO pay at large companies was excessive.[5] A December 2005 survey by Watson Wyatt put this figure higher, finding that 90% of institutional investors believe the current executive compensation system has overpaid executives.[6] Some 61% of corporate directors surveyed by consultant Watson Wyatt said most U.S. corporate executives are overpaid.[7]

Shareholders have a strong financial motivation for constraining executive compensation. Compensation of the five highest-paid executives of public companies increased from 5% of their aggregate earnings from 1993 to 1995 to 9.8% of aggregate earnings from 2001 to 2003, according to a 2005 study. This research concluded that these pay increases could not be accounted for by company performance or the growth in overall market capitalization during the period in question.[8] Additionally, shareholders have an interest in encouraging compensation arrangements that provide strong incentives for executives who refrain from self-dealing and make decisions that maximize the company's value. Poorly designed compensation schemes fail at these tasks and thus impose indirect costs on shareholders.[9]

Finally, research suggests that shareholder monitoring can be effective in promoting performance-based pay arrangements. A 2005 study found that the existence of an external blockholder—defined as a holder of 5% or more of a company's shares—was negatively correlated with total compensation levels and positively correlated with the portion of pay that was tied to performance.[10]

Currently, shareholders have two primary ways to influence executive compensation. The first is litigation using state-law theories on waste or breach of fiduciary duty. This avenue has proved to be ineffectual because the legal bar to prove such claims is set extremely high. Courts apply the "business judgment rule," which mandates deference to board decisions unless the plaintiff can show that the board was grossly negligent. Procedural obstacles—such as the "demand" requirement for a shareholder derivative claim, as well as charter provisions exculpating directors from liability unless they benefited from the decision or acted in bad faith—also lower the likelihood of success. 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.[11]

The second mechanism shareholders can use is their voting power. Shareholders have the opportunity to vote on certain kinds of compensation plans, which are put forward for shareholder approval by a company's board, and on shareholder-sponsored proxy proposals seeking to reform compensation policies or practices in some way. Academic studies support the notion that shareholder voting can be effective in curbing executive compensation. One study of shareholder proposals in the mid-1990s found that executive pay at firms where shareholder proposals on executive compensation had been approved declined by an average of $2.7 million during the two-year period after the proposals were passed, despite the fact that such proposals were not binding on the company.[12] Another study found that higher levels of "against" votes on management compensation proposals were followed by lower rates of increase in CEO pay.[13]

Anecdotal evidence also bolsters the case that shareholder voting can play a key role in reforming compensation practices. In the 1990s, the benefit of outside director pensions, once commonplace, all but disappeared once shareholders drew widespread attention to the practice and made a case that such employment-like benefits inappropriately discouraged outside directors from challenging management. More recently, shareholder proposals asking companies to recognize the cost of employee stock options on their income statements led to hundreds of companies agreeing to do so in advance of any requirement by financial accounting standards-setters. These proposals also signaled to regulators that investors favored a blanket expensing requirement.

Now, a group of investors, including the AFSCME Employees Pension Plan, is urging companies to give shareholders another voting avenue to express their opinion on top executive pay in a more concrete way: by submitting annually for a non-binding shareholder vote the pay to the "named executive officers"—those for whom proxy statement disclosure is provided. Modeled on a similar requirement in the United Kingdom and several other countries, the shareholder advisory vote would, its supporters urge, promote more performance-based compensation schemes and facilitate higher-quality dialogue between companies and their investors.

More than 50 shareholder proposals asking companies to adopt this shareholder advisory measure are expected to be placed to vote in 2007, and one company, Aflac, has already agreed to implement the measure.[14] On April 20, 2007, legislation requiring an annual shareholders advisory vote on executive compensation at U.S. public companies passed the U.S. House of Representatives by a vote of 269 to 134.[15]

Mutual Funds and Proxy Voting

Mutual funds have a key role to play in restraining CEO overcompensation because of their status as large shareholders with proxy voting fiduciary responsibility. Of the more than $8.9 trillion invested in mutual funds at year-end 2005, $4.94 trillion was invested in equity funds and another $567 billion was applied to hybrid funds.[16] All told, mutual funds hold about 25% of the market capitalization of all U.S. companies.[17] Mutual fund assets are highly concentrated, with the 10 largest fund families managing 48% of all fund assets.[18] Mutual funds are an important vehicle for collectivizing the investments of millions of individuals who use mutual funds to save for retirement or their children's college educations. Nearly half of all U.S. households invest in mutual funds, and 47% of the median household's financial assets are invested in mutual funds.[19]

The legal regime governing mutual funds requires that mutual funds be managed in the interests of their shareholders.[20] Until recently, however, there was no requirement that mutual funds disclose how they cast votes at portfolio companies, making it impossible for mutual fund shareholders to judge whether those votes were in their best interests.

In 2002, in response to urging from investor advocates, including the AFL-CIO, the Council of Institutional Investors and The Corporate Library's Robert Monks and Nell Minow, the SEC proposed a requirement 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."[21] Despite strong opposition from the mutual fund industry, the SEC adopted the disclosure requirements in 2003.

Given the size of mutual funds' holdings, reform of executive compensation is unlikely to occur without their support. If there are no market-correcting mechanisms, such as the increased scrutiny of executive compensation by large investors, then further regulatory intervention might be inevitable. Indeed, Delaware Chancery Court Judge William Chandler, whose court regulates corporate behavior, told shareholders: "If neither the courts nor the markets are able to restrain executive compensation and if you the decision-makers fail . . . the result will be imposition of regulatory controls. The entire matter of executive compensation, which seems in some cases to have come spectacularly unhinged from the market for corporate talent, will either be regulated by you the fiduciaries, or by the politicians."[22]

Findings

The data showed that mutual funds remain supportive, as a group, of management-sponsored proposals on executive pay. As a voting block, the 29 mutual fund families had the following voting patterns:

- The average level of support for management proposals on compensation issues was 75.8%, up slightly from 75.6% last year.

- Of the fund families included in both this year's and last year's reports, five—Fidelity, Putnam, Legg Mason, Morgan Stanley and T. Rowe Price—decreased their management proposal support levels by more than 5% from 2005 to 2006. For instance, Putnam supported 59.3% of management proposals in 2005 and 47.1% in 2006, a decrease of 12.2%. One—Merrill Lynch—increased its support of management proposals by more than 5% between 2005's study and this one.

- The average level of support for the nine categories of compensation-related shareholder proposals we selected was 46.5%. Although this represents a sharp increase from last year's average of 27.6%, a change in methodology between this year and last limits direct comparison of these differing figures. The 2005 study showed fund families' support for all pay-related shareholder proposals, while this year's study counts only votes on the proposals falling within the nine categories described in Appendix A.[23]

- Shareholder proposals to require shareholder approval for certain severance arrangements, to give shareholders the right to vote on extraordinary retirement benefits and to exclude pension income from calculations used for incentive compensation enjoyed support levels of over 50% among the fund families studied. These averaged 68.9%, 54.1% and 55.8%, respectively. Severance proposals also enjoyed majority support from mutual funds in 2005.

The data dispel the argument, advanced with some frequency during the debate over whether mutual funds should be required to reveal their votes, that vote disclosure would lead to funds voting in lockstep with recommendations from Institutional Shareholder Services, which at the time was unquestionably the dominant provider of proxy advisory services. (Since then, Glass, Lewis & Co. and Proxy Governance Inc. have entered the market, in addition to specialized firms serving labor funds.) The variety of voting patterns among mainstream fund families shows that they—with the exception of the pay constrainers—have adopted different approaches to limiting executive compensation: Some emphasize strict limits applicable to management-proposed pay plans and others favor more specific measures suggested in shareholder proposals.

Overall Fund Rankings

To develop a comprehensive picture of how each fund family dealt with pay issues as compared to other families, we created a "composite ranking" by averaging each fund family's rankings based on their votes in the categories of management proposals and shareholder proposals. From the average of those two rankings, we rated the fund families from 1 to 29, with "1" being the most pay constraining on compensation issues and "29" being the greatest pay enabler. TIAA-CREF, T. Rowe Price and Columbia, the three fund families that scored significantly better than their peers on pay issues and constituted the top group, are identified as the "pay constrainers." AllianceBernstein, Barclays Global and AIM, the three fund families in the lowest group for most consistently failing to use their proxy voting power in ways that would limit excesses in executive pay schemes, are identified as the "pay enablers."

Rank	Fund	Score	Rank	Fund	Score
1	TIAA-CREF Asset Management	6.5	16	Smith Barney Asset Management	15.5
2	T. Rowe Price Group	7.5	17T	Fidelity Investments	16
3	Columbia Management	8	17T	Oppenheimer Funds	16
4	Federated Investors	9	17T	Vanguard Group	16
5	JP Morgan Funds	9.5	20	Dreyfus Corporation	16.5
6T	Janus Capital Group	10	21	Morgan Stanley Funds	17
6T	DWS Scudder	10	22	Van Kampen Investments	17.5
8	Legg Mason Funds	10.5	23	American Funds	18
9	Schwab Funds	12	24T	Merrill Lynch Investment Managers	21
10T	Franklin Funds	13.5	24T	Ameriprise Financial	21
10T	Templeton Funds	13.5	26	Lord Abbett	22.5
10T	MFS Investment Management	13.5	27	AIM Investments	23
13T	Salomon Brothers	14	28	Barclays Global Investors	24
13T	American Century Investment Management	14	29	AllianceBernstein Investments	25
15	Putnam Investments	14.5			

The Pay Enablers

We classify the three fund families at the bottom of our rankings as the pay enablers: AllianceBernstein, Barclays Global and AIM.

AllianceBernstein most consistently adhered to management's recommendations, casting votes for the selected categories of shareholder proposals only 31.1% of the time and supporting 94.8% of management's proposals. Barclays Global followed close behind, supporting 33.8% of the shareholder proposals included in this study and 94.7% of management compensation proposals.

We also awarded an "honorable mention" in the pay enabler category to Fidelity, which did not support a single shareholder proposal in this study. Although Fidelity escaped pay enabler designation by virtue of its significant opposition to management pay proposals, the fact that it did not vote in favor of any shareholder proposal from the nine types we examined should not go unnoticed.

The Pay Constrainers

We identified TIAA-CREF, T. Rowe Price and Columbia as the pay constrainers.

TIAA-CREF ranked first overall as a result of its consistently strong showings in both the management proposal (ranked ninth) and shareholder proposal (ranked fourth) voting categories. T. Rowe Price and Columbia, which ranked below TIAA-CREF in voting on management proposals (12th and 10th, respectively), also had strong showings of third and sixth in the shareholder proposal voting.

Federated, which ranked fourth overall and thus narrowly missed designation as a pay constrainer, earned an "honorable mention" in this category. Like last year, Federated mutual funds voted most frequently against management's recommendations on management pay proposals, registering an "against" vote on 59.6% of them.

Methodology

Our study examined a wide range of votes from large mutual fund families[24] on compensation-related proposals that appeared on proxy ballots. Using N-PX filings with the SEC in which mutual funds disclose their votes, this report analyzes the proxy voting records of 29 large mutual fund families for which we were able to parse voting data sets.[25] We examined all executive compensation-related management proposals, along with certain categories of shareholder proposals, voted upon at corporate annual meetings from July 1, 2005, to June 30, 2006.

We examined votes for 1,590 management compensation proposals and 75 shareholder compensation proposals. In total, 51,297 votes were cast on these proposals by the funds of the mutual fund families in this study. See Appendix A for the breakdown of voting on management and shareholder proposals. See Appendix B for the breakdown of voting for each mutual fund family.

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 may cast no vote if shares are out on loan. We kept track of "no votes" for informational purposes, but "no votes" were not included in the denominator in calculating support percentages.

It was common for numerous funds in a fund family to hold the same security and thus to vote on the same agenda item. For example, 15 funds in the Smith Barney fund family reported voting shares of Home Depot at the 2006 annual meeting. To control for multiple occurrences of a single security across various funds in a single fund family (which would lead to overweighting of that vote relative to a vote on a security occurring fewer times), each fund family's votes with respect to a given security were only counted once. This provides a more realistic indication of fund families' positions on particular types of resolutions.

On occasion, funds within a fund family cast different votes on the same agenda item. In these cases, we determined whether there was a vote that predominated; in other words, if a particular vote was cast most often, that vote was used to represent the fund family's position on the agenda item. So in the Smith Barney example noted above, where two funds voted for a proposal at Home Depot to require shareholder approval of extraordinary retirement benefits and 13 funds voted against that proposal, the predominant vote was recorded as "against." Where votes cancelled each other out, as when one fund in a family voted "for" an agenda item and another fund voted "against" it (and these two were the only funds in the family voting on the item), the votes were eliminated from the data set.

This study's purpose is to determine the extent to which mutual funds have voted to limit excessive 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 voted in accordance with management's recommendations ("for" on management proposals and "against" on shareholder proposals) as our metric. In our view, aggregate statistics on voting behavior illuminate a fund family's approaches to voting, especially when examined relative to other fund families'.

We recognize that in some cases, voting consistent with management's recommendation 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[26] and restricted stock that vest with the passage of time continue to be the norm.[27] These arrangements are not in shareholders' best interests.

Problems also plague the administration of plans geared toward providing cash incentive compensation, which shareholders may be asked to approve for tax-related reasons. Studies show that companies are likely to pay cash bonuses to executives based on windfalls (like the receipt of a litigation recovery unrelated to current business activities[28]) or luck (like changes in commodity prices or exchange rates[29]), 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 of reported earnings not related to ordinary operations. Compensation committees may set modest performance targets or may change the targets midstream, when it becomes apparent that actual results will fall short.

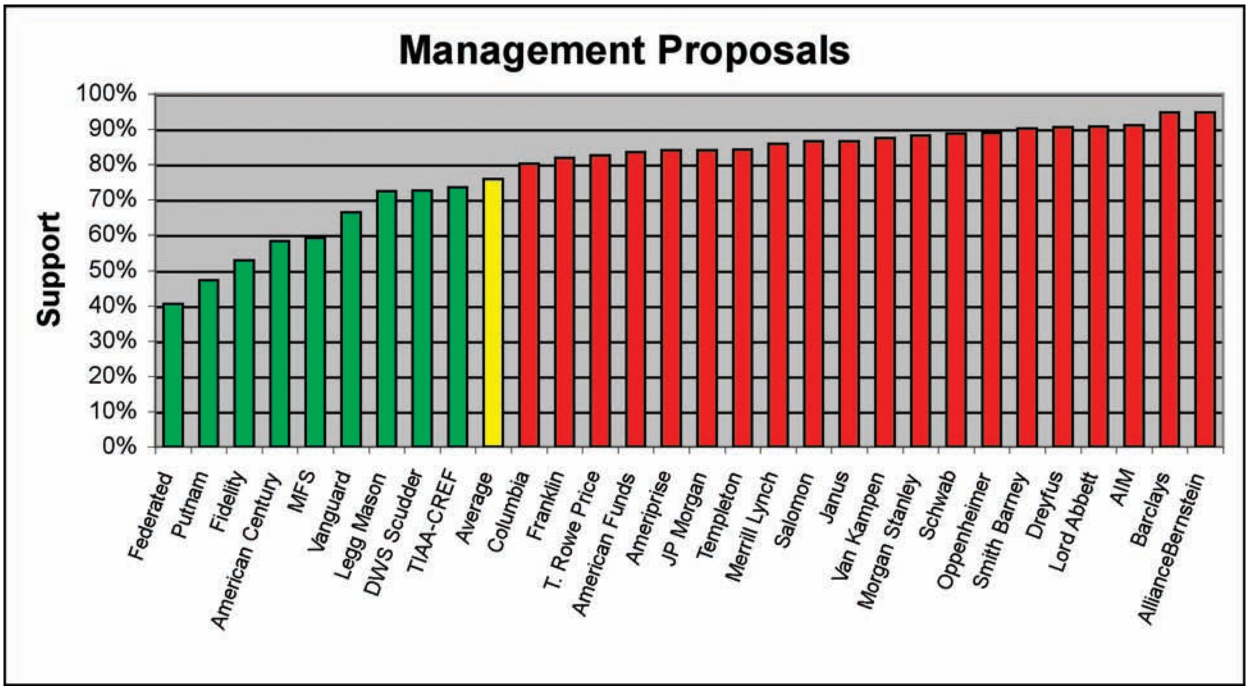
A shareholder proposal may not be in shareholders' interests because it is poorly drafted or too restrictive. Accordingly, this study has collected data on voting on categories of shareholder proposals that, in our view, are most well-conceived and likely to enhance shareholder value and has excluded proposals that we view as too rigid or that we think would be ineffective in tying pay more closely to company performance. The proposal types included in this report are clawback, disclosure of supplemental executive retirement plans and deferred compensation, exclusion of pension income from compensation, holding period, pay for superior performance, performance-based equity compensation, severance, shareholder advisory vote and shareholder approval of retirement benefits. Brief descriptions of these shareholder proposals are set forth in Appendix A.

Appendix A – Comparative Voting Categories

Management Proposals

The following chart and table compares how fund families voted on management-sponsored compensation proposals. Fund families are ranked according to how often they voted against management-sponsored executive compensation proposals. This report considers a vote "against" management proposals to be more likely to serve shareholder interests.

The average rate of votes for management proposals was 75.8%.
The median rate of votes for management proposals was 84%.

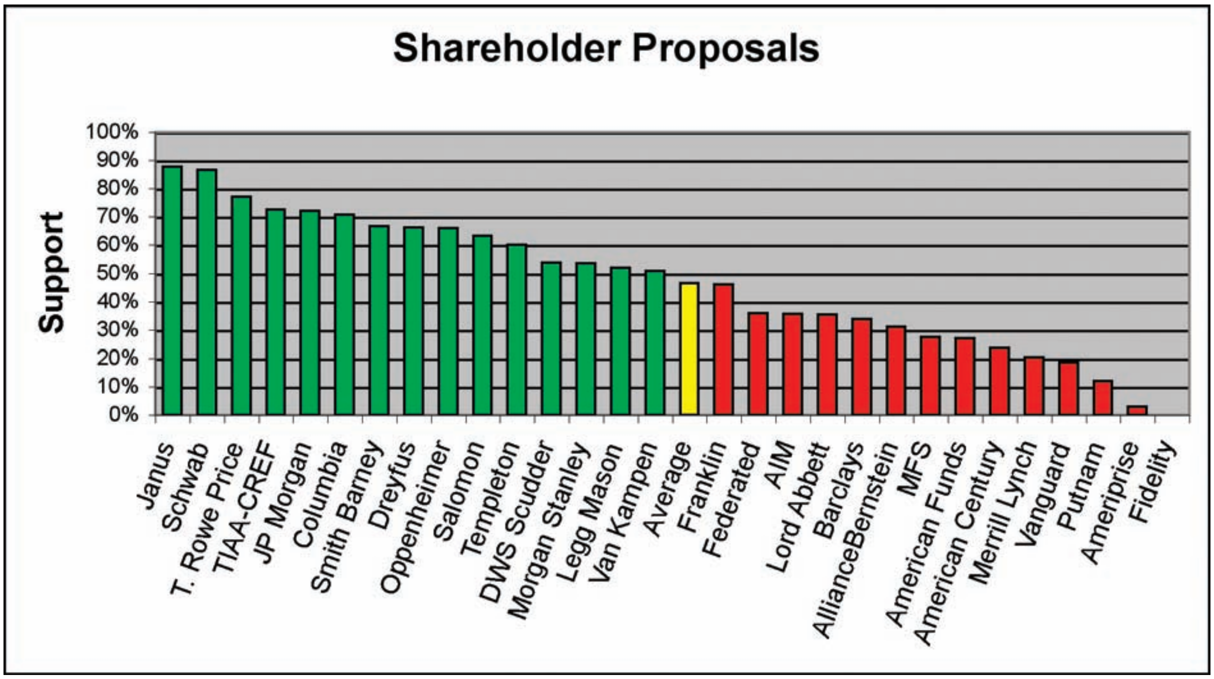


Pay Constrainers	Below the Median	At the Median	Above the Median	Pay Enablers
Federated – 40.4%	Vanguard – 66.4%	Ameriprise – 84.0%	Merrill Lynch – 85.8%	Dreyfus – 90.6%
Putnam – 47.1%	Legg Mason – 72.4%	JP Morgan – 84.0%	Salomon – 86.5%	Lord Abbett – 90.7%
Fidelity – 52.9%	DWS Scudder – 72.6%	Templeton – 84.2%	Janus – 86.6%	AIM – 91.1%
American Century 58.3%	TIAA-CREF – 73.5%		Van Kampen 87.5%	Barclays – 94.7%
MFS – 59.1%	Columbia – 80.3%		Morgan Stanley 88.2%	AllianceBernstein 94.8%
	Franklin – 81.9%		Schwab – 88.7%	
	T. Rowe Price – 82.6%		Oppenheimer – 88.9%	
	American Funds – 83.5%		Smith Barney – 90.1%	

Shareholder Proposals

The following chart and table compare how fund families voted on the selected categories of shareholder-sponsored compensation proposals: clawback, disclose SERPs and deferred compensation, exclude pension income, holding period, pay for superior performance, performance-based equity compensation, severance, shareholder advisory vote and shareholder approval of extraordinary retirement benefits. This report considers a vote "for" shareholder proposals to be more likely to serve shareholder interests.

The average rate of votes for these shareholder proposals was 46.5%.
The median rate of votes for these shareholder proposals was 50.8%.

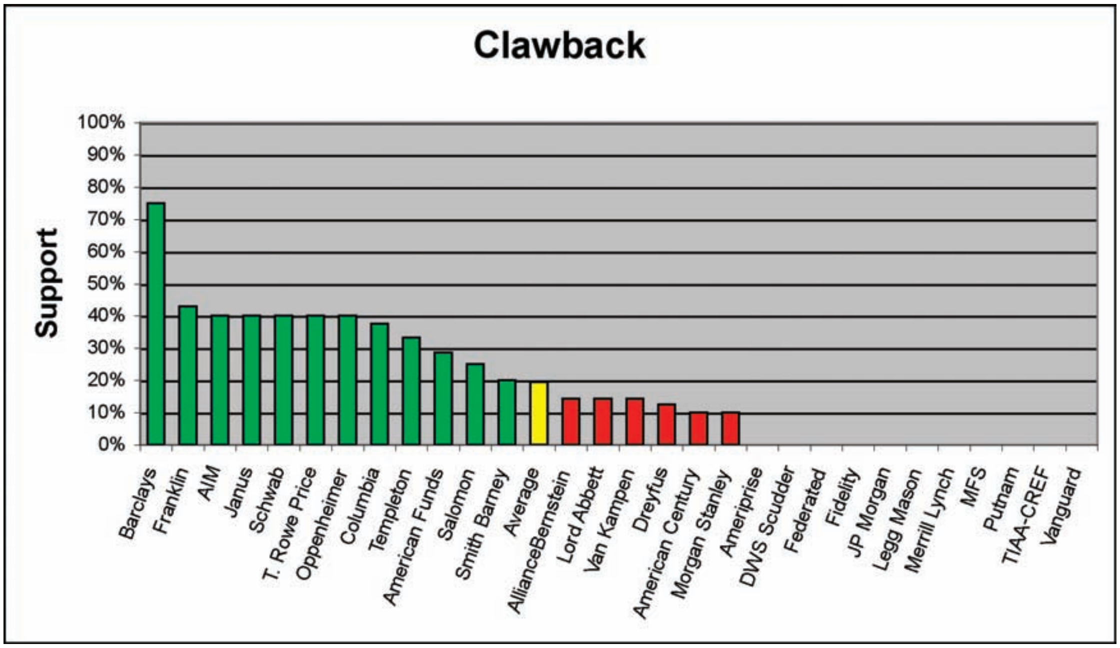


Pay Constraining	Above the Median	At the Median	Below the Median	Pay Enablers
Janus – 87.7%	Columbia – 70.8%	Van Kampen 50.8%	Franklin – 46.0%	Merrill Lynch – 20.5%
Schwab – 86.7%	Smith Barney – 66.7%		Federated – 35.9%	Vanguard – 18.7%
T. Rowe Price 77.1%	Dreyfus – 66.2%		AIM – 35.7%	Putnam – 12.0%
TIAA-CREF – 72.6%	Oppenheimer – 66%		Lord Abbett – 35.3%	Ameriprise – 2.9%
JP Morgan – 72.0%	Salomon – 62.2%		Barclays – 33.8%	Fidelity – 0%
	Templeton – 60.0%		AllianceBernstein 31.1%	
	DWS Scudder – 55.0%		MFS – 27.5%	
	Morgan Stanley – 53.4%		American Funds – 27.0%	
	Legg Mason – 52.0%		American Century 23.6%	

Clawback

This type of proposal asks the board to adopt a policy that in the event of a significant negative financial restatement or extraordinary write-off, the board will recoup performance-based bonuses or other awards to the extent such bonuses or awards were based on results that were not actually achieved. Clawback proposals were the least supported of the shareholder proposals surveyed, averaging only 19.3%. Only one fund supported a majority of the clawback proposals voted on.

The average rate of votes for these shareholder proposals was 19.3%.
The median rate of votes for these shareholder proposals was 14.3%.

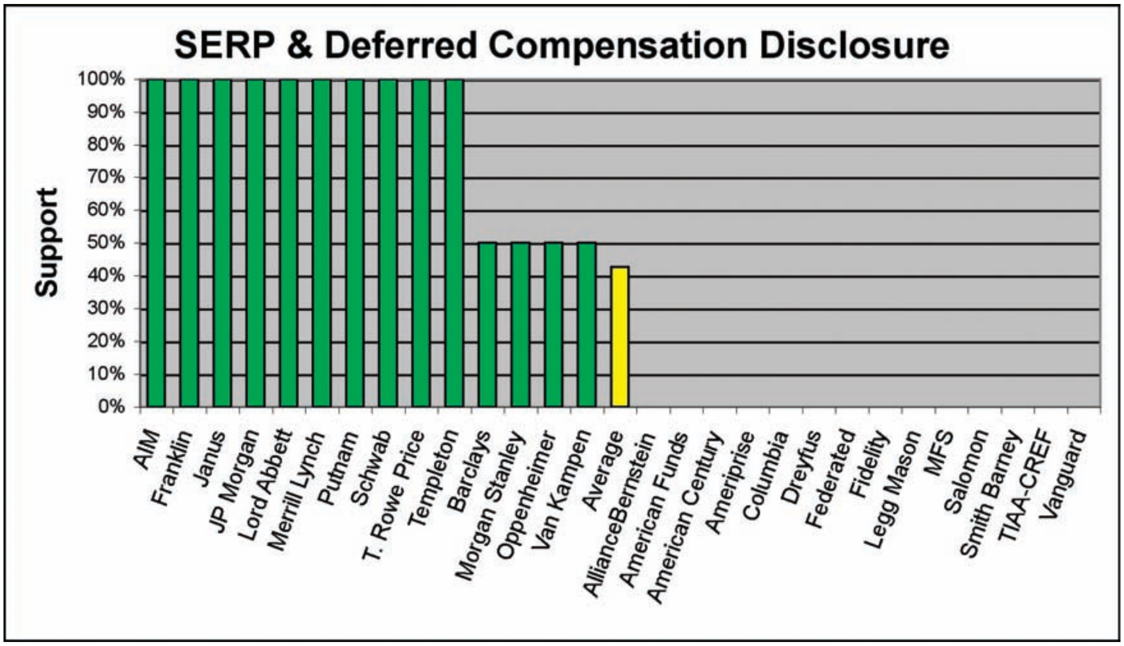


Pay Constraining	Above the Median	At the Median	Below the Median	Pay Enablers
Barclays – 75.0%	Templeton – 33.3%	AllianceBernstein 14.3%	Dreyfus – 12.5%	Ameriprise – 0%
Franklin – 42.9%	American Funds 28.6%	Lord Abbett – 14.3%	American Century 10.0%	Federated – 0%
AIM – 40.0%	Salomon – 25.0%	Van Kampen – 14.3%	Morgan Stanley 10.0%	Fidelity – 0%
Janus – 40.0%	Smith Barney – 20.0%			JP Morgan – 0%
Schwab – 40.0%				Legg Mason – 0%
T. Rowe Price – 40.0%				Merrill Lynch – 0%
Oppenheimer – 40.0%				MFS – 0%
Columbia – 37.5%				Putnam – 0%
				TIAA-CREF – 0%
				Vanguard – 0%
				DWS Scudder – 0%

Disclose SERPs and Deferred Compensation

This proposal amends the company's bylaws to require the disclosure of "the estimated monetary value of the benefits to which each such named executive officer had any vested rights as of the last day of the reported period under any pension, retirement or deferred compensation plan, including any supplemental executive retirement plan, established by the Corporation." Ten funds supported all disclose SERP proposals they voted on, while 14 supported none.

The average rate of votes for these shareholder proposals was 42.6%.
The median rate of votes for these shareholder proposals was 25.0%.

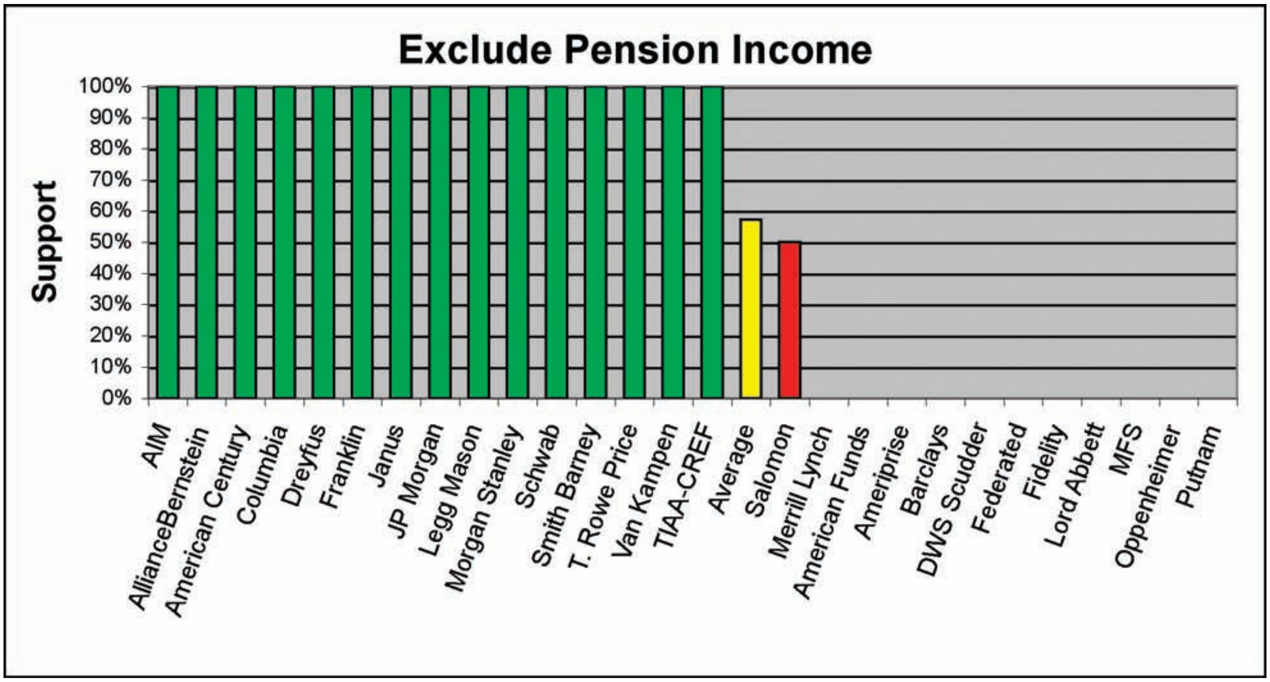


Pay Constraining	Above the Median	At the Median	Below the Median	Pay Enablers
AIM – 100%	Barclays – 50.0%			Dreyfus – 0%
Franklin – 100%	Morgan Stanley – 50.0%			AllianceBernstein – 0%
Janus – 100%	Oppenheimer – 50.0%			Federated – 0%
JP Morgan – 100%	Van Kampen – 50.0%			American Funds – 0%
Lord Abbett – 100%				Fidelity – 0%
Merrill Lynch – 100%				Ameriprise – 0%
Putnam – 100%				Legg Mason – 0%
Schwab – 100%				Columbia – 0%
T. Rowe Price – 100%				MFS – 0%
Templeton – 100%				Salomon – 0%
				Smith Barney – 0%
				TIAA-CREF – 0%
				Vanguard – 0%
				American Century – 0%

Exclude Pension Income

The proposal requests that the company determine senior executive compensation without regard to any "pension income" from a defined-benefit pension plan, which the company may be required to include in reported income under generally accepted accounting principles. Excluding pension income was one of three categories to enjoy majority fund support. Fifteen funds supported all pension income proposals, while 12 supported none.

The average rate of votes for these shareholder proposals was 55.8%.
The median rate of votes for these shareholder proposals was 100%.

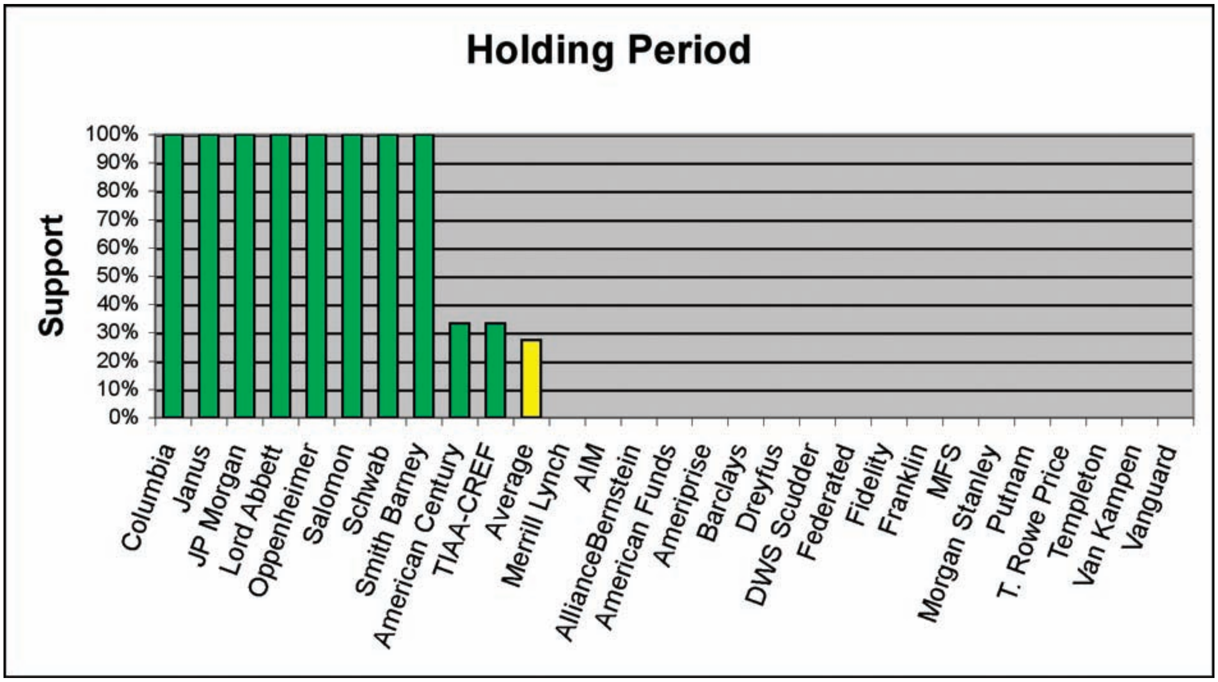


Pay Constraining	Pay Constraining	At the Median	Below the Median	Pay Enablers
AllianceBernstein – 100%	Morgan Stanley – 100%		Salomon – 50.0%	Barclays – 0%
American Century – 100%	Schwab – 100%			Merrill Lynch – 0%
Columbia – 100%	Smith Barney – 100%			Federated – 0%
Dreyfus – 100%	T. Rowe Price – 100%			American Funds – 0%
Franklin – 100%	Van Kampen – 100%			Fidelity – 0%
Janus – 100%	TIAA-CREF – 100%			Ameriprise – 0%
JP Morgan – 100%	AIM – 100%			Lord Abbett – 0%
Legg Mason – 100%				Vanguard – 0%
				MFS – 0%
				Oppenheimer – 0%
				Putnam – 0%
				DWS Scudder – 0%

Holding Period

This proposal asks the compensation committee to adopt a policy requiring that senior executives retain a significant portion of shares obtained through equity compensation awards for the duration of employment; the proposal suggests that the retention ratio should not be lower than 75% of net after-tax shares. Holding period proposals were the second-least-supported shareholder proposal, averaging 27.4%. Eight funds supported every holding period proposal for which they voted, while 18 supported none.

The average rate of votes for these shareholder proposals was 27.4%.
The median rate of votes for these shareholder proposals was 0%.

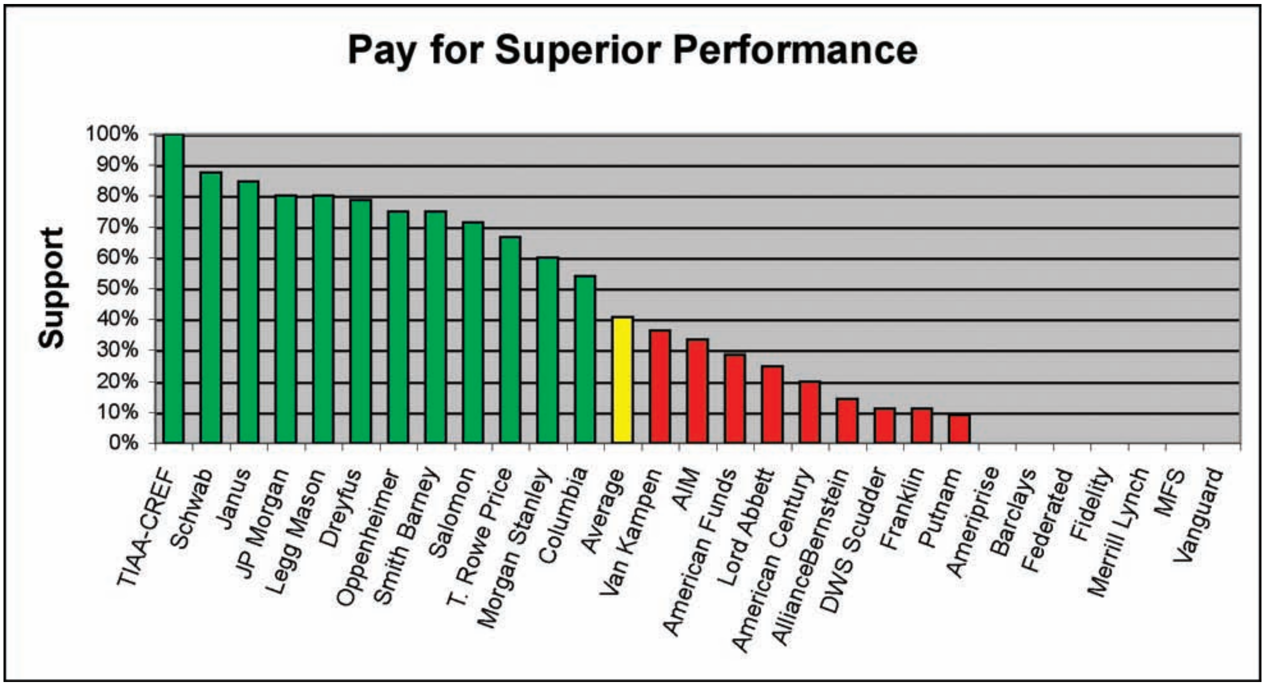


Pay Constraining	Above the Median	Pay Enablers	Pay Enablers
Columbia – 100%	American Century – 33.3%	Fidelity – 0%	Franklin – 0%
Janus – 100%	TIAA CREF – 33.3%	AIM – 0%	MFS – 0%
JP Morgan – 100%		AllianceBernstein – 0%	Morgan Stanley – 0%
Lord Abbett – 100%		American Funds – 0%	Putnam – 0%
Oppenheimer – 100%		Ameriprise – 0%	DWS Scudder – 0%
Salomon – 100%		Barclays – 0%	T. Rowe Price – 0%
Schwab – 100%		Dreyfus – 0%	Templeton – 0%
Smith Barney – 100%		Federated – 0%	Van Kampen – 0%
		Merrill Lynch – 0%	Vanguard – 0%

Pay for Superior Performance

This proposal requests that the compensation committee establish a "pay for superior performance" standard, which incorporates peer-group benchmarking, requires outperformance of the peer median or mean for bonus or equity compensation payout and discloses compensation in a manner that allows shareholders to monitor the pay-performance link. Pay for superior performance proposals averaged 40.6%. Twelve funds supported these proposals over 50% of the time (one fund supported all), while seven funds supported zero.

The average rate of votes for these shareholder proposals was 40.6%.
The median rate of votes for these shareholder proposals was 31%.

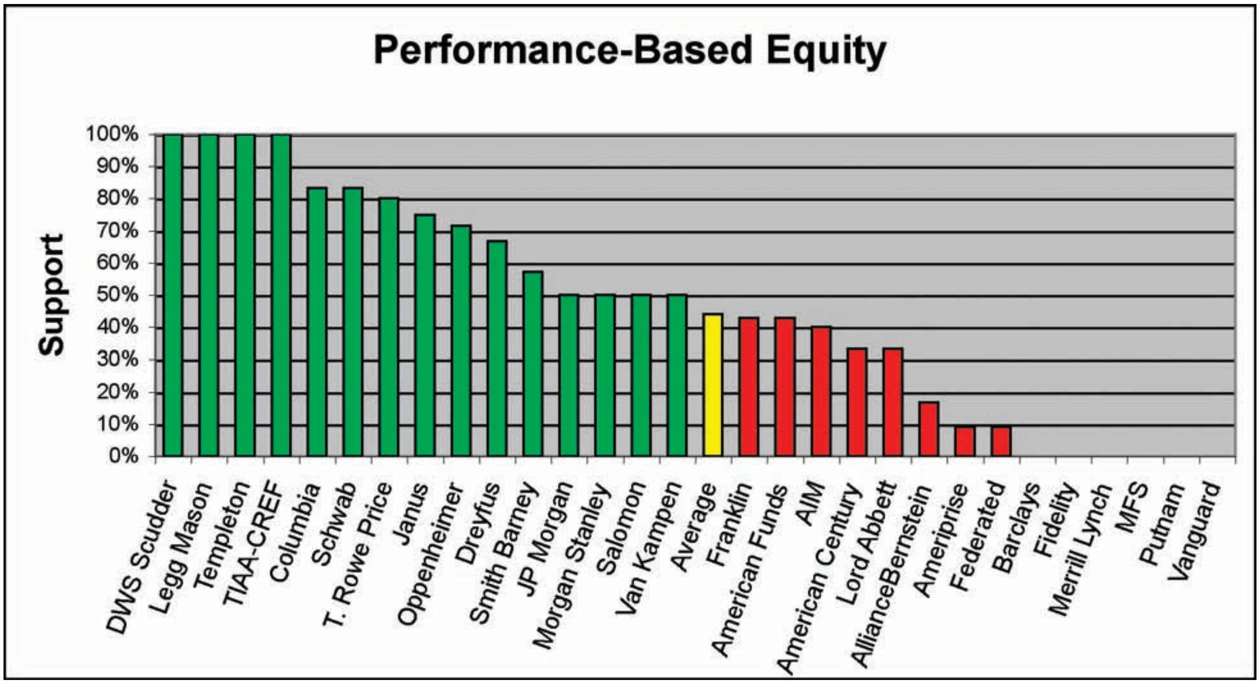


Pay Constraining	Above the Median	At the Median	Below the Median	Pay Enablers
TIAA-CREF – 100%	Oppenheimer – 75.0%	Van Kampen – 36.4%	American Funds 28.6%	Ameriprise – 0%
Schwab – 87.5%	Smith Barney – 75.0%	AIM – 33.3%	Lord Abbett – 25.0%	Barclays – 0%
Janus – 84.6%	Salomon – 71.4%		American Century 20.0%	Federated – 0%
JP Morgan – 80.0%	T. Rowe Price – 66.7%		AllianceBernstein 14.3%	Fidelity – 0%
Legg Mason – 80%	Morgan Stanley – 60.0%		Franklin – 11.1%	Merrill Lynch – 0%
Dreyfus – 78.6%	Columbia – 53.8%		DWS Scudder – 11.1%	MFS – 0%
			Putnam – 9.1%	Vanguard – 0%

Performance-Based Equity

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 fourth-most popular shareholder compensation proposal voted on, averaging 44.0% support. Four funds supported all performance-based proposals, while six funds supported none.

The average rate of votes for these shareholder proposals was 44.0%.
The median rate of votes for these shareholder proposals was 50%.

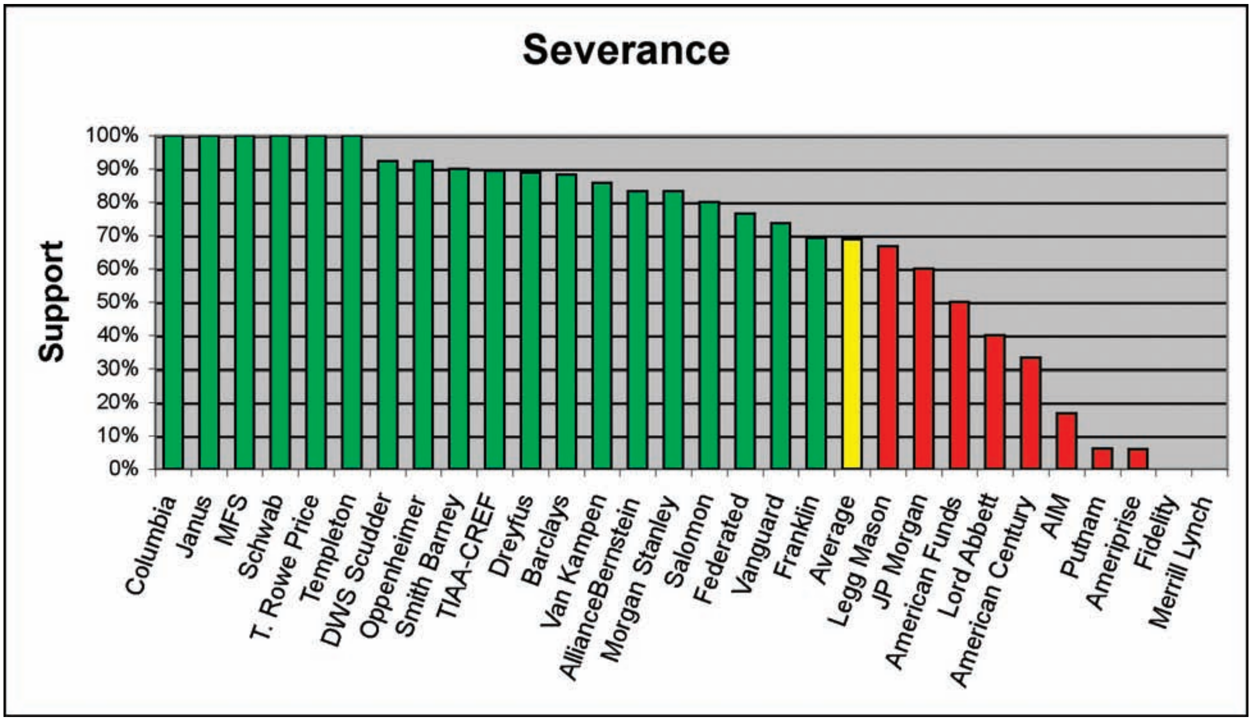


Pay Constraining	Above the Median	At the Median	Below the Median	Pay Enablers
Legg Mason 100%	T. Rowe Price – 80.0%	JP Morgan – 50.0%	American Funds 42.9%	Ameriprise – 9.1%
DWS Scudder 100%	Janus – 75.0%	Morgan Stanley 50.0%	Franklin – 42.9%	Federated – 9.1%
Templeton – 100%	Oppenheimer – 71.4%	Salomon – 50.0%	AIM – 40.0%	Barclays – 0%
TIAA-CREF – 100%	Dreyfus – 66.7%	Van Kampen 50.0%	American Century 33.3%	Fidelity – 0%
Columbia – 83.3%	Smith Barney – 57.1%		Lord Abbett – 33.3%	Merrill Lynch – 0%
Schwab – 83.3%			AllianceBernstein 16.7%	MFS – 0%
				Putnam – 0%
				Vanguard – 0%

Severance

This proposal urges the board to require shareholder approval for any severance arrangement that provides a senior executive with severance benefits in excess of 2.99 times the executive's salary plus target bonus. Severance was one of three categories to enjoy majority fund support. Six funds supported all severance proposals, while only Merrill Lynch and Fidelity failed to support any.

The average rate of votes for these shareholder proposals was 68.9%.
The median rate of votes for these shareholder proposals was 83.3%.

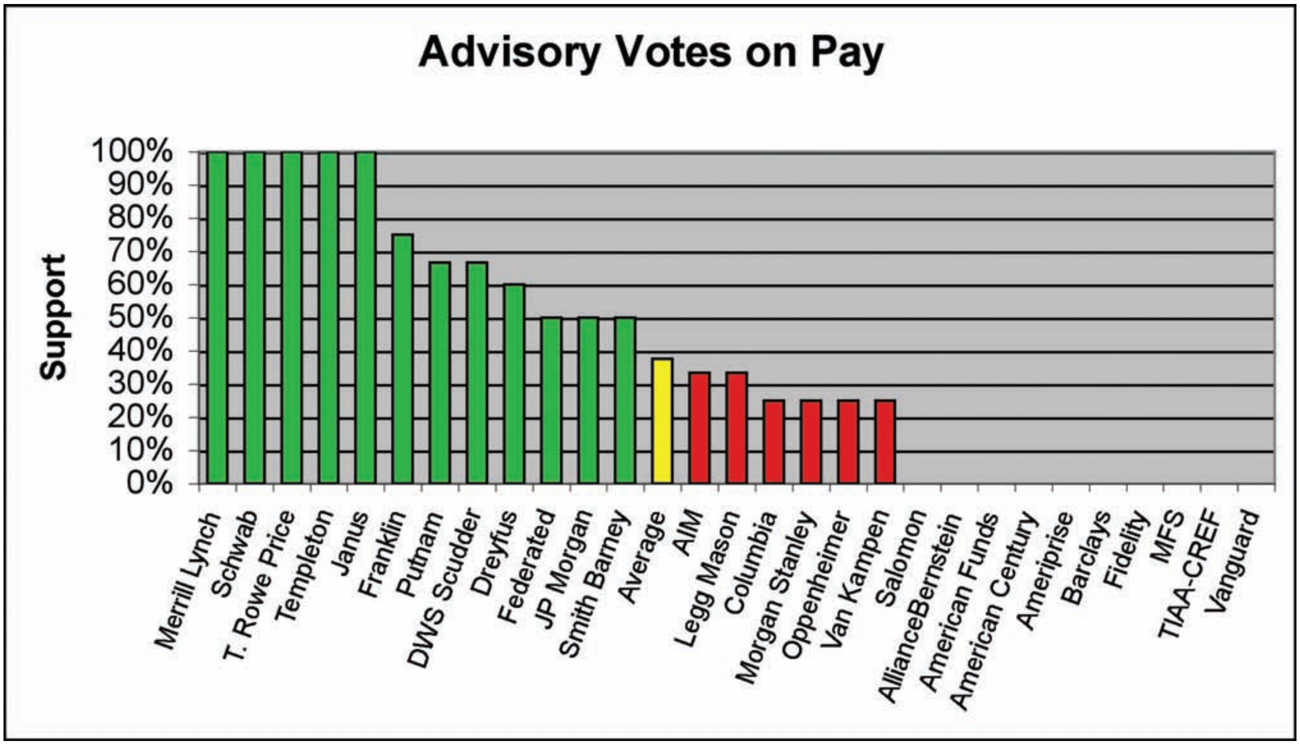


Pay Constraining	Above the Median	At the Median	Below the Median	Pay Enablers
Columbia – 100%	Oppenheimer – 92.3%	AllianceBernstein 83.3%	Salomon – 80.0%	American Century 33.3%
Janus – 100%	DWS Scudder – 92.3%	Morgan Stanley 83.3%	Federated – 76.5%	AIM – 16.7%
MFS – 100%	Smith Barney – 90.0%		Vanguard – 73.7%	Putnam – 6.3%
Schwab – 100%	TIAA-CREF – 89.5%		Franklin – 69.2%	Ameriprise – 5.9%
T. Rowe Price 100%	Dreyfus – 88.9%		Legg Mason – 66.7%	Fidelity – 0%
Templeton – 100%	Barclays – 88.2%		JP Morgan – 60.0%	Merrill Lynch – 0%
	Van Kampen – 85.7%		American – 50.0%	
			Lord Abbett – 40.0%	

Shareholder Advisory Vote

This proposal requests that shareholders be given the opportunity each year to cast an advisory vote on the disclosure of the "named executive officers'" compensation and accompanying material in the compensation committee report. Shareholder advisory vote proposals (aka "Say on Pay") were the third-least-supported proposal, averaging 37.6%. Twelve funds supported 50% or more of these proposals, while ten funds supported none.

The average rate of votes for these shareholder proposals was 37.6%.
The median rate of votes for these shareholder proposals was 33.3%.

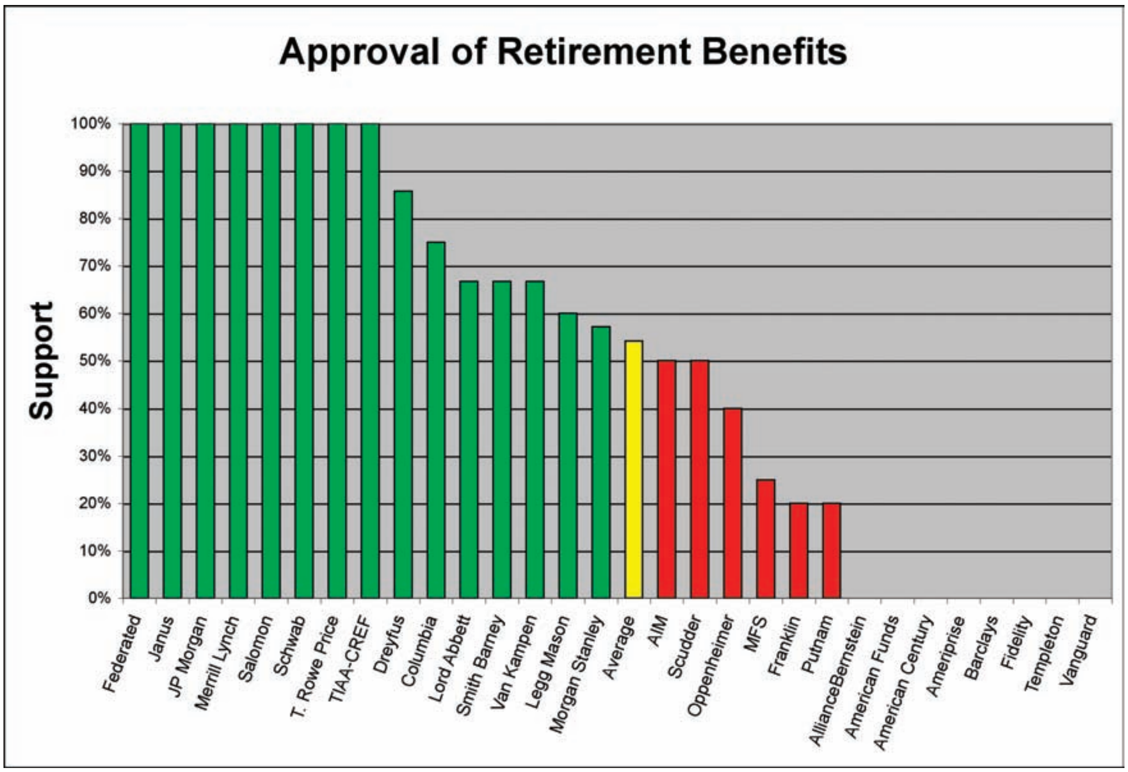


Pay Constraining	Above the Median	At the Median	Below the Median	Pay Enablers
Merrill Lynch – 100%	Franklin – 75.0%	AIM – 33.3%	Columbia – 25.0%	American Funds – 0%
Schwab – 100%	Putnam – 66.7%	Legg Mason 33.3%	Morgan Stanley 25.0%	American Century 0%
T. Rowe Price 100%	DWS Scudder – 66.7%		Oppenheimer 25.0%	Ameriprise – 0%
Templeton – 100%	Dreyfus – 60.0%		Van Kampen – 25.0%	Barclays – 0%
Janus – 100%	Federated – 50.0%			Fidelity – 0%
	JP Morgan – 50.0%			AllianceBernstein – 0%
	Smith Barney – 50.0%			MFS – 0%
				TIAA-CREF – 0%
				Vanguard – 0%
				Salomon – 0%

Approval of Extraordinary Retirement Benefits

This proposal asks for a policy that shareholder approval be required for granting extraordinary retirement benefits, which are defined as receipt of additional years of service credit not actually worked, preferential benefit formulas not provided under the company's tax-qualified retirement plans, accelerated vesting of retirement benefits, and retirement perquisites and fringe benefits that are not generally offered to other company employees. Approval of extraordinary retirement benefits was one of three categories to enjoy majority fund support. Eight funds supported all pension income proposals, while another eight failed to support any.

The average rate of votes for these shareholder proposals was 54.1%.
The median rate of votes for these shareholder proposals was 57.1%.

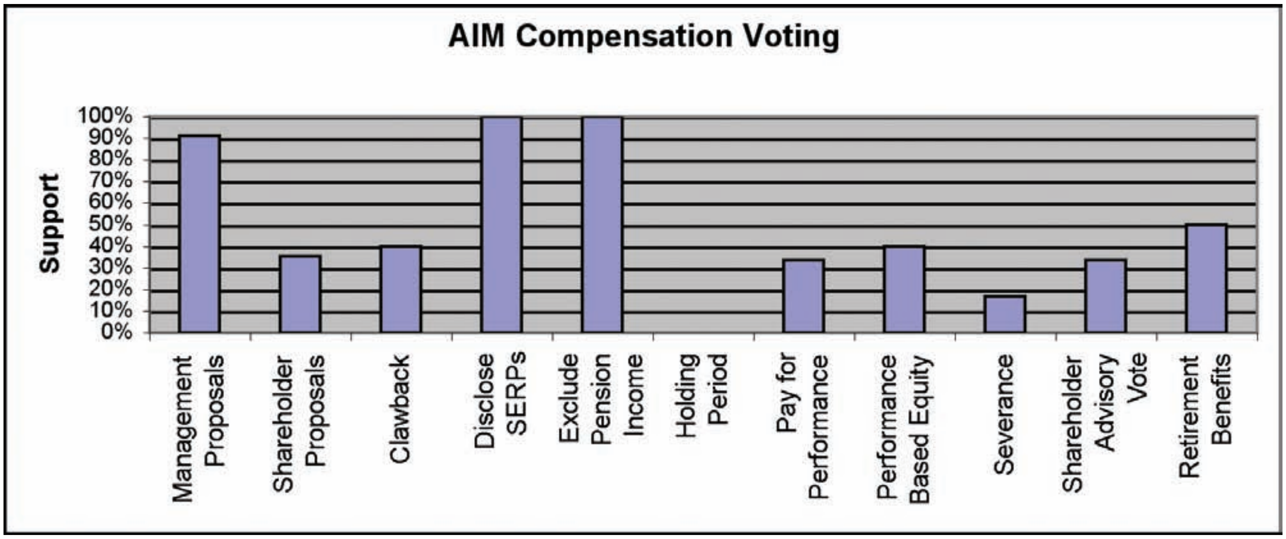


Pay Constrainers	Above the Median	At the Median	Below the Median	Pay Enablers
Federated – 100%	Dreyfus – 85.7%	Morgan Stanley 57.1%	AIM – 50.0%	AllianceBernstein 0%
Janus – 100%	Legg Mason – 75%		DWS Scudder 50.0%	American Funds – 0%
JP Morgan – 100%	Lord Abbett – 66.7%		Oppenheimer 40.0%	American Century 0%
Merrill Lynch – 100%	Smith Barney – 66.7%		MFS – 25.0%	Ameriprise – 0%
Salomon – 100%	Van Kampen – 66.7%		Franklin – 20.0%	Barclays – 0%
Schwab – 100%	Columbia – 60%		Putnam – 20.0%	Fidelity – 0%
T. Rowe Price – 100%				Templeton – 0%
TIAA-CREF – 100%				Vanguard – 0%

Appendix B: Mutual Fund Family Voting Breakdown

AIM Investments — Composite Rank: 27

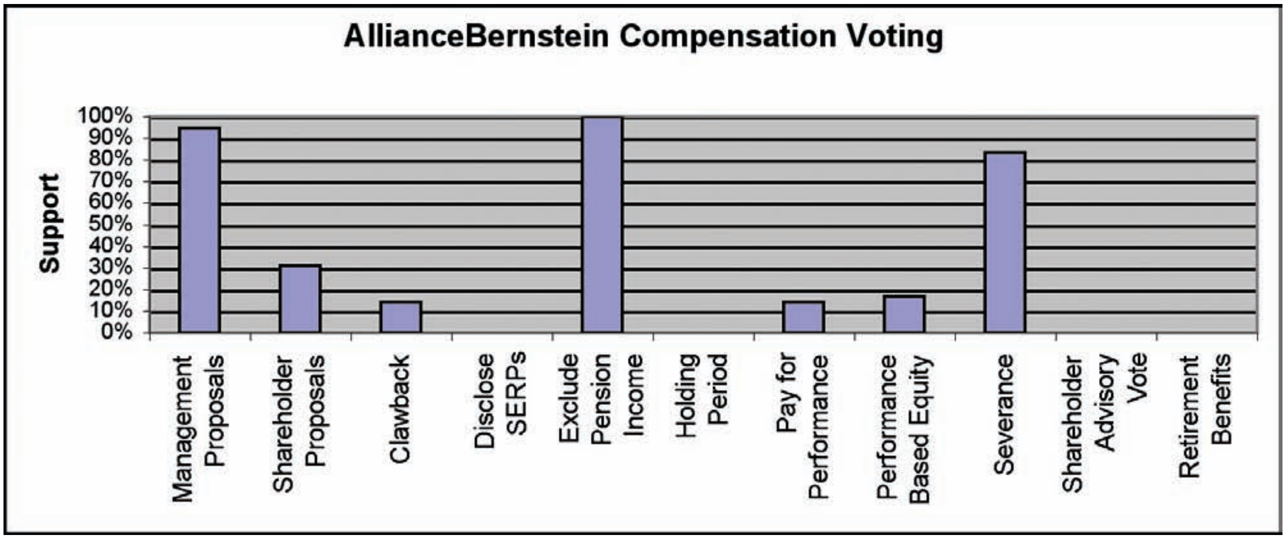
AIM was the third-most pay enabling of the fund families studied. AIM was third least likely to vote against management proposals and 11th least likely to vote for shareholder proposals. AIM also split its votes more often than any other fund family when voting on shareholder proposals: AIM funds voted differently from one another on the same agenda item more frequently than funds in other fund families.



Voting Category	% For	For	Against	Abstain	No Vote	Category Rank
Management Proposals	91.1%	480	47	0	19	27
Shareholder Proposals	35.7%	20	36	0	1	19
Clawback	40.0%	4	6	0	0	3T
Disclose SERPs and Deferred Compensation	100%	2	0	0	0	1T
Exclude Pension Income	100%	1	0	0	1	1T
Holding Period	0%	0	2	0	0	11T (tied for last)
Pay for Superior Performance	33.3%	4	8	0	0	14
Performance-Based Equity	40.0%	4	6	0	0	18
Severance	16.7%	2	10	0	0	25
Shareholder Advisory Vote	33.3%	1	2	0	0	13T
Approval of Extraordinary Retirement Benefits	50.0%	2	2	0	0	16T

AllianceBernstein Investments — Composite Rank: 29

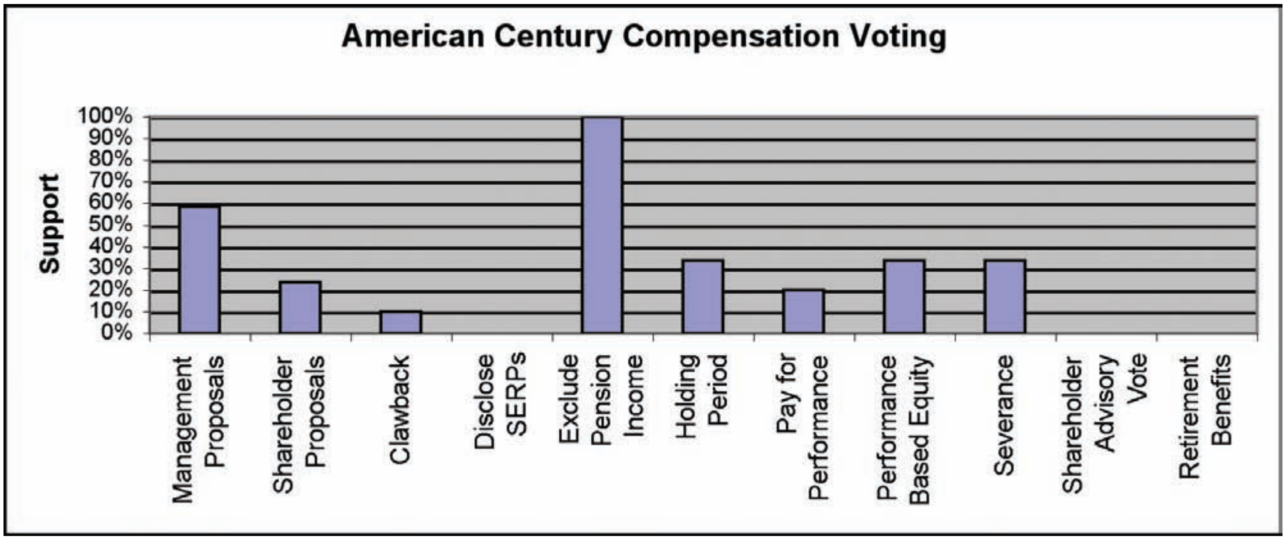
The AllianceBernstein fund family ranked number 29, making it the most pay enabling fund family we studied. AllianceBernstein funds were the least likely to vote against management proposals, and fell below the median on shareholder proposal voting. In four of the nine shareholder proposal categories, AllianceBernstein did not support any proposals.



Voting Category	% For	For	Against	Abstain	No Vote	Category Rank
Management Proposals	94.8%	181	10	0	6	29
Shareholder Proposals	31.1%	14	31	0	0	21
Clawback	14.3%	1	6	0	0	13T
Disclose SERPs and Deferred Compensation	0%	0	2	0	0	15T (tied for last)
Exclude Pension Income	100%	1	0	0	0	1T
Holding Period	0%	0	3	0	0	11T (tied for last)
Pay for Superior Performance	14.3%	1	6	0	0	18
Performance-Based Equity	16.7%	1	5	0	0	21
Severance	83.3%	10	2	0	0	14T
Shareholder Advisory Vote	0%	0	4	0	0	19T (tied for last)
Approval of Extraordinary Retirement Benefits	0%	0	3	0	0	22T (tied for last)

American Century Investment Management Composite Rank: 13T

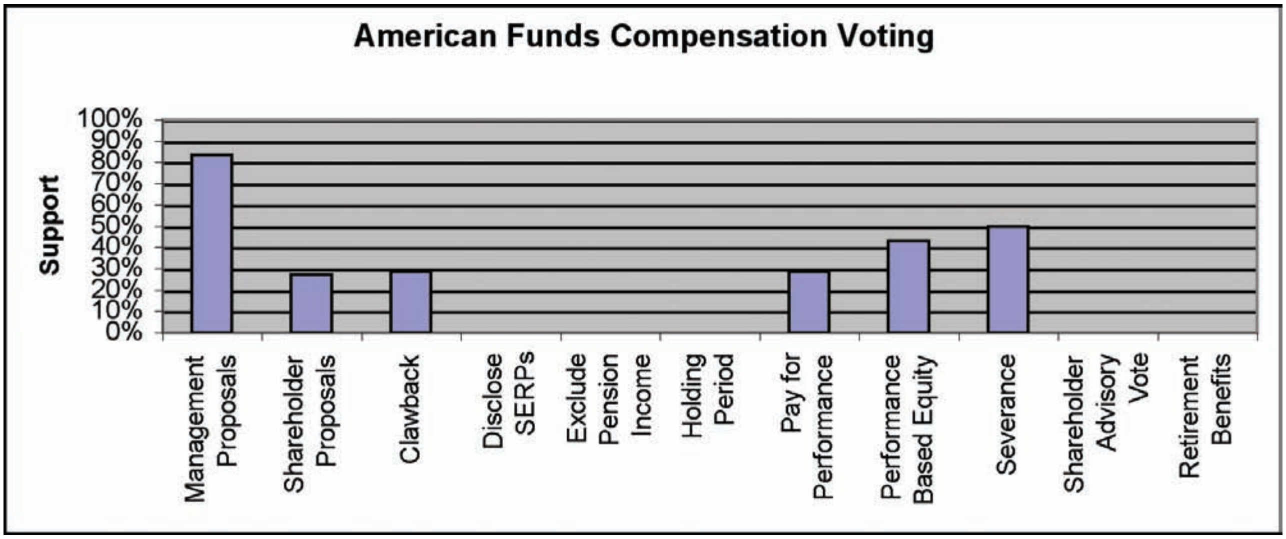
American Century tied Salomon Brothers for 13th overall. American Century funds were fourth most likely to vote against management proposals, but only 24th most likely to vote in favor of shareholder proposals. In the six shareholder proposal categories that saw American Century funds vote "for," their support was tepid—33.3% or lower—in all but one.



Voting Category	% For	For	Against	Abstain	No Vote	Category Rank
Management Proposals	58.3%	327	234	0	41	4
Shareholder Proposals	23.6%	17	55	0	0	24
Clawback	10.0%	1	9	0	0	17T
Disclose SERPs and Deferred Compensation	0%	0	2	0	0	15T (tied for last)
Exclude Pension Income	100%	2	0	0	0	1T
Holding Period	33.3%	1	2	0	0	9T
Pay for Superior Performance	20.0%	3	12	0	0	17
Performance-Based Equity	33.3%	4	8	0	0	19T
Severance	33.3%	6	12	0	0	24
Shareholder Advisory Vote	0%	0	4	0	0	19T (tied for last)
Approval of Extraordinary Retirement Benefits	0%	0	6	0	0	22T (tied for last)

American Funds Composite Rank: 23

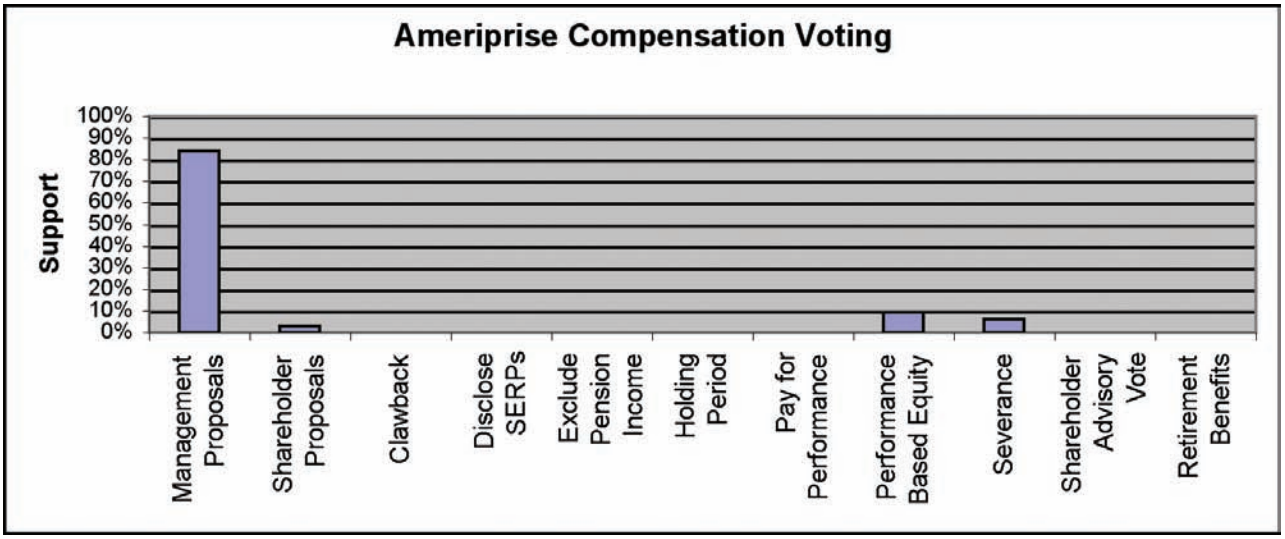
Funds in the American Funds family were below the median in terms of supporting management proposals (i.e., less likely to support them), but ranked only 23rd in support of shareholder proposals in our selected categories. American Funds' funds did not support any proposals in five of the nine shareholder proposal categories.



Voting Category	% For	For	Against	Abstain	No Vote	Category Rank
Management Proposals	83.5%	167	32	1	1	13
Shareholder Proposals	27.0%	10	27	0	0	23
Clawback	28.6%	2	5	0	0	10
Disclose SERPs and Deferred Compensation	0%	0	1	0	0	15T (tied for last)
Exclude Pension Income	0%	0	1	0	0	17T (tied for last)
Holding Period	0%	0	2	0	0	11T (tied for last)
Pay for Superior Performance	28.6%	2	5	0	0	15
Performance-Based Equity	42.9%	3	4	0	0	16T
Severance	50.0%	3	3	0	0	22
Shareholder Advisory Vote	0%	0	2	0	0	19T (tied for last)
Approval of Extraordinary Retirement Benefits	0%	0	4	0	0	22T (tied for last)

Ameriprise Financial Composite Rank: 24T

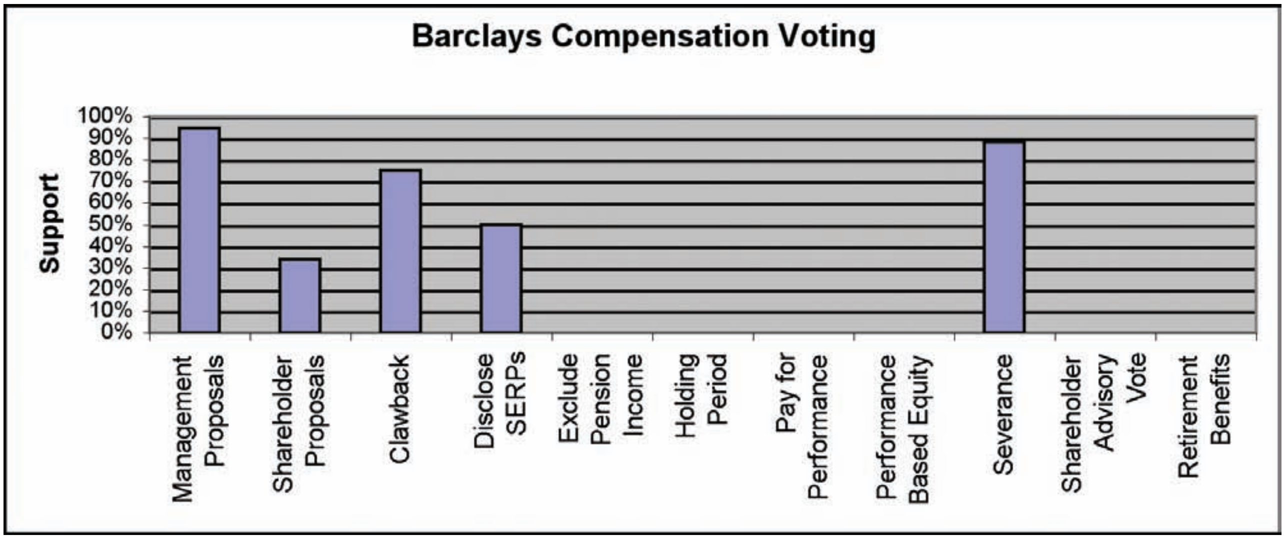
Ameriprise was tied with Merrill Lynch for the fifth most pay enabling fund family. It was in the middle of the pack, ranking 14th, in management proposal voting. Ameriprise's low level of support for the shareholder proposals we studied—it was the second least supportive fund family—pulled down its composite ranking. Ameriprise tied for the lowest ranking in seven of the nine categories of shareholder proposal voting.



Voting Category	% For	For	Against	Abstain	No Vote	Category Rank
Management Proposals	84.0%	666	124	3	33	14T
Shareholder Proposals	2.9%	2	66	0	1	28
Clawback	0%	0	10	0	0	19T (tied for last)
Disclose SERPs and Deferred Compensation	0%	0	2	0	0	15T (tied for last)
Exclude Pension Income	0%	0	2	0	0	17T (tied for last)
Holding Period	0%	0	3	0	0	11T (tied for last)
Pay for Superior Performance	0%	0	12	0	1	22T (tied for last)
Performance-Based Equity	9.1%	1	10	0	0	22T
Severance	5.9%	1	16	0	0	27
Shareholder Advisory Vote	0%	0	4	0	0	19T (tied for last)
Approval of Extraordinary Retirement Benefits	0%	0	7	0	0	22T (tied for last)

Barclays Global Investors — Composite Rank: 28

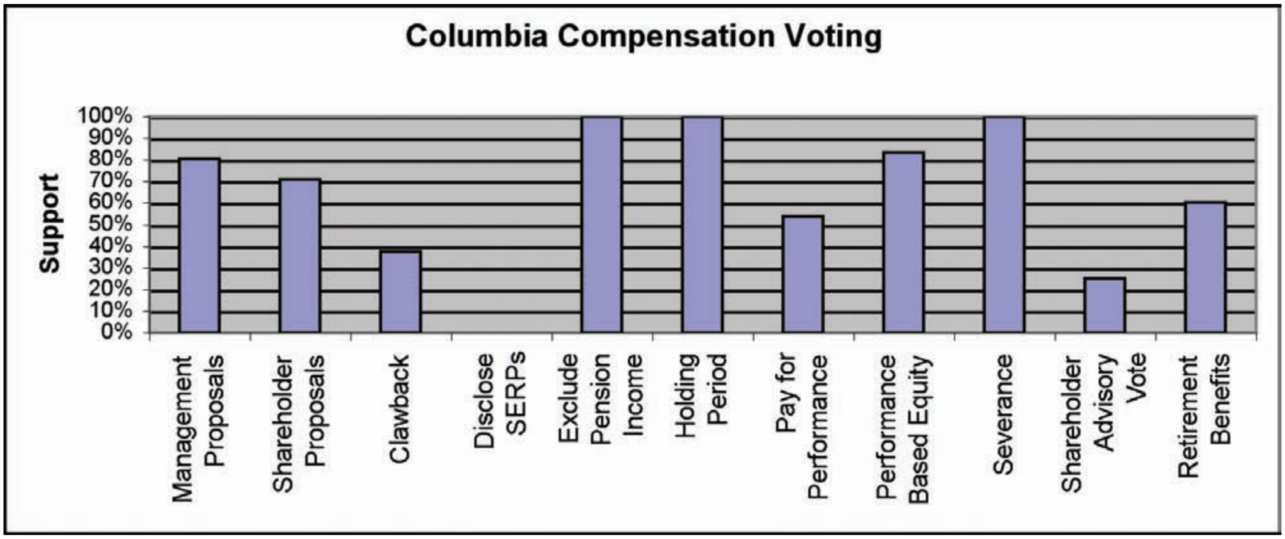
Barclays Global was the second most pay enabling fund family we studied, with an overall ranking of 28th and a record on shareholder proposals that put it below the median. It did not support any proposals in six of our nine shareholder proposal categories.



Voting Category	% For	For	Against	Abstain	No Vote	Category Rank
Management Proposals	94.7%	126	7	0	0	28
Shareholder Proposals	33.8%	22	43	0	0	20
Clawback	75.0%	6	2	0	0	1
Disclose SERPs and Deferred Compensation	50.0%	1	1	0	0	11T
Exclude Pension Income	0%	0	2	0	0	17T (tied for last)
Holding Period	0%	0	3	0	0	11T (tied for last)
Pay for Superior Performance	0%	0	12	0	0	22T (tied for last)
Performance-Based Equity	0%	0	11	0	0	24T (tied for last)
Severance	88.2%	15	2	0	0	12
Shareholder Advisory Vote	0%	0	4	0	0	19T (tied for last)
Approval of Extraordinary Retirement Benefits	0%	0	6	0	0	22T (tied for last)

Columbia Management — Composite Rank: 3

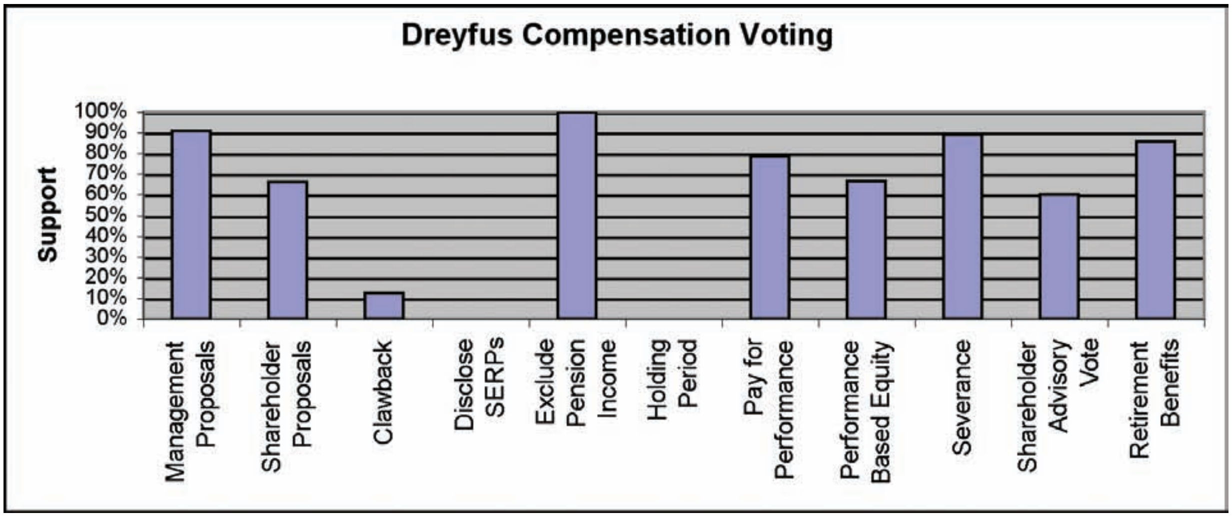
Columbia was a pay constrainer, ranking third overall, with a ranking of 10th in management proposal voting and sixth in shareholder proposal voting. Columbia was above the median in support for all but two categories of shareholder proposals, and supported every proposal in three of the categories.



Voting Category	% For	For	Against	Abstain	No Vote	Category Rank
Management Proposals	80.3%	477	117	0	25	10
Shareholder Proposals	70.8%	46	19	0	0	6
Clawback	37.5%	3	5	0	0	8
Disclose SERPs and Deferred Compensation	0%	0	1	0	0	15T (tied for last)
Exclude Pension Income	100%	2	0	0	0	1T
Holding Period	100%	3	0	0	0	1T
Pay for Superior Performance	53.9%	7	6	0	0	12
Performance-Based Equity	83.3%	10	2	0	0	5T
Severance	100%	17	0	0	0	1T
Shareholder Advisory Vote	25.0%	1	3	0	0	15T
Approval of Extraordinary Retirement Benefits	60.0%	3	2	0	0	14

Dreyfus Corporation Composite Rank: 20

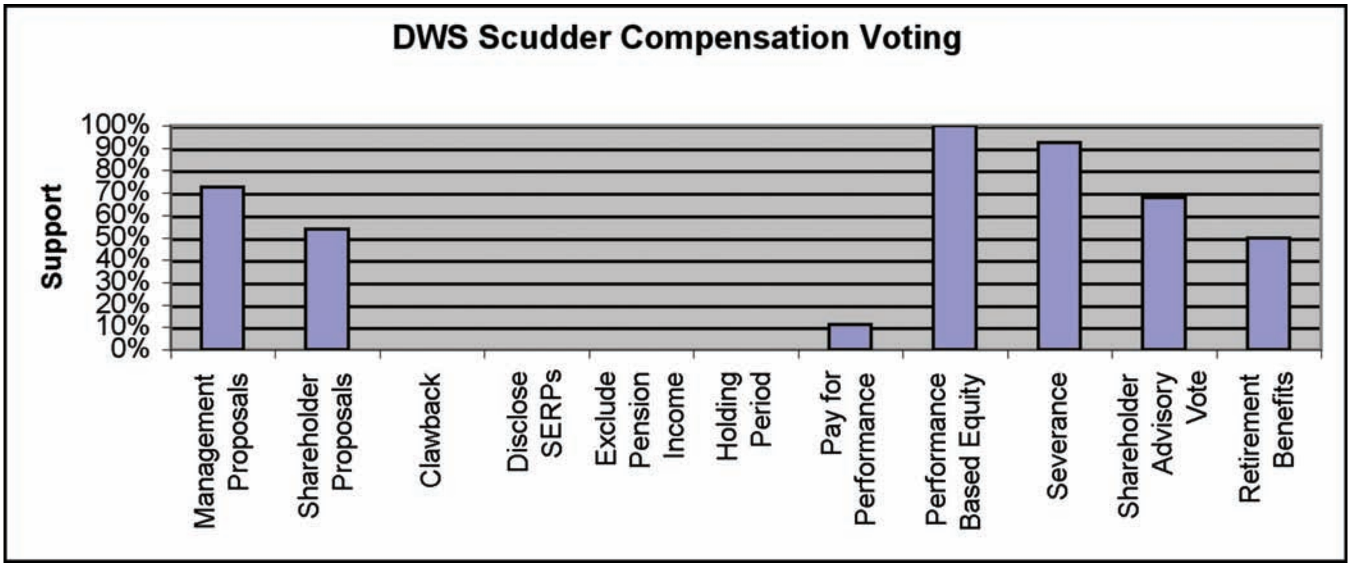
While ranked 20th overall, Dreyfus came in 25th in management proposal voting. It ranked above the median, however, in shareholder proposal voting, ranking eighth. Dreyfus supported proposals in seven of our nine shareholder proposal categories.



Voting Category	% For	For	Against	Abstain	No Vote	Category Rank
Management Proposals	90.6%	327	34	0	2	25
Shareholder Proposals	66.2%	47	24	0	0	8
Clawback	12.5%	1	7	0	0	16
Disclose SERPs and Deferred Compensation	0%	0	2	0	0	15T (tied for last)
Exclude Pension Income	100%	2	0	0	0	1T
Holding Period	0%	0	3	0	0	11T (tied for last)
Pay for Superior Performance	78.6%	11	3	0	0	6
Performance-Based Equity	66.7%	8	4	0	0	10
Severance	88.9%	16	2	0	0	11
Shareholder Advisory Vote	60.0%	3	2	0	0	9
Approval of Extraordinary Retirement Benefits	85.7%	6	1	0	0	9

DWS Scudder — Composite Rank: 6T

DWS Scudder tied with Janus for a composite ranking of sixth. DWS Scudder's 55% support for shareholder proposals was above the median, and it voted for all performance-based equity proposals. Its 72.6% support for management proposals put DWS Scudder below the median, ranking eighth.

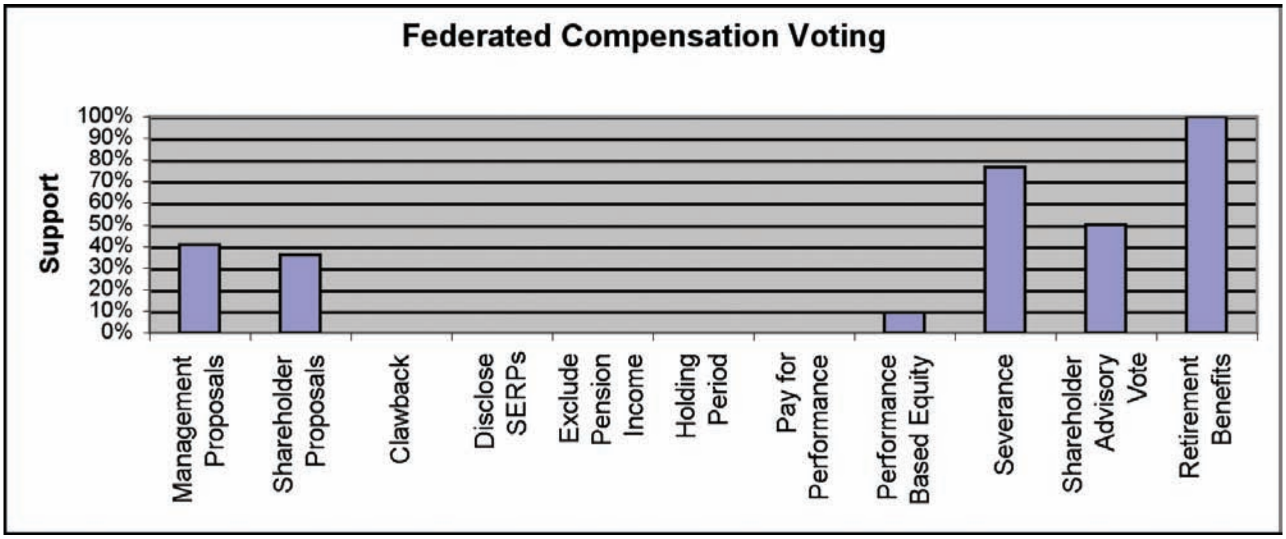


Voting Category	% For	For	Against	Abstain	No Vote	Category Rank
Management Proposals	72.6%	193	64	9	23	8
Shareholder Proposals	55.0%	22	18	0	6	12
Clawback	0%	0	5	0	2	19T (tied for last)
Disclose SERPs and Deferred Compensation	Did Not Vote	—	—	—	—	—
Exclude Pension Income	0%	0	1	0	1	17T (tied for last)
Holding Period	0%	0	1	0	0	11T (tied for last)
Pay for Superior Performance	11.1%	1	8	0	2	19T
Performance-Based Equity	100%	6	0	0	1	1T
Severance	92.3%	12	1	0	0	7T
Shareholder Advisory Vote	66.7.%	2	1	0	0	7T
Approval of Extraordinary Retirement Benefits	50.0%	1	1	0	0	16T

Federated Investors

Composite Rank: 4

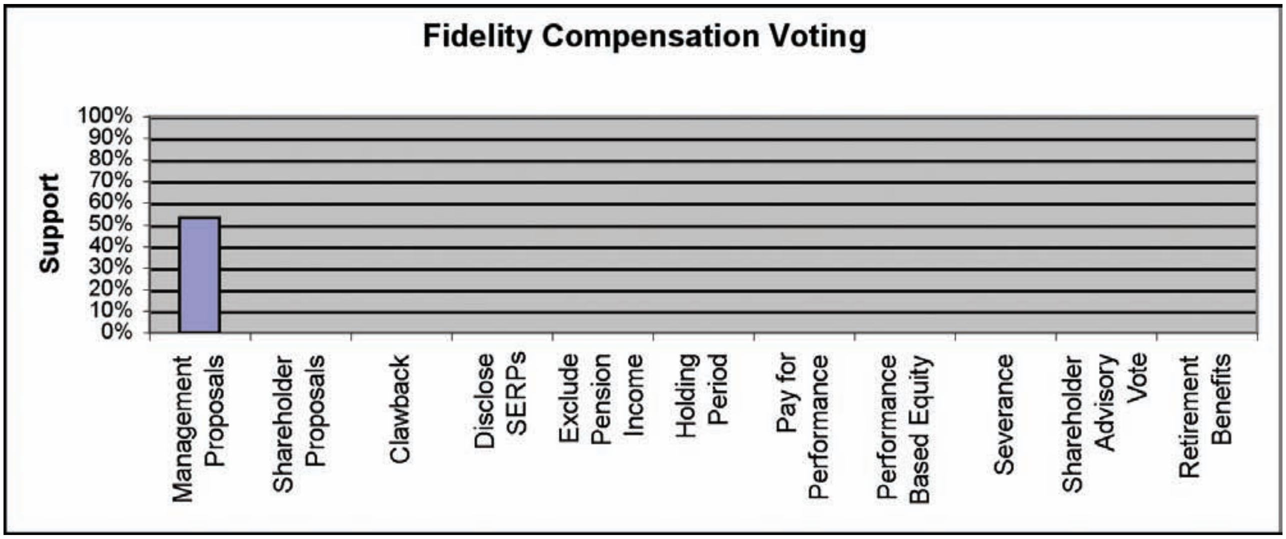
Federated ranked fourth overall, due primarily to its record of voting against management pay proposals more than any other fund family. Federated's track record on shareholder proposal voting was more mixed, though: It ranked 17th. Although it supported a substantial number of shareholder proposals in three of our categories, it did not support any proposals in five categories.



Voting Category	% For	For	Against	Abstain	No Vote	Category Rank
Management Proposals	40.4%	368	543	0	45	1
Shareholder Proposals	35.9%	23	41	0	1	17
Clawback	0%	0	8	0	0	19T (tied for last)
Disclose SERPs and Deferred Compensation	0%	0	2	0	0	15T (tied for last)
Exclude Pension Income	0%	0	2	0	0	17T (tied for last)
Holding Period	0%	0	2	0	0	11T (tied for last)
Pay for Superior Performance	0%	0	11	0	0	22T (tied for last)
Performance-Based Equity	9.1%	1	10	0	0	22T
Severance	76.5%	13	4	0	1	17
Shareholder Advisory Vote	50.0%	2	2	0	0	10T
Approval of Extraordinary Retirement Benefits	100%	7	0	0	0	1T

Fidelity Investments — Composite Rank: 17T

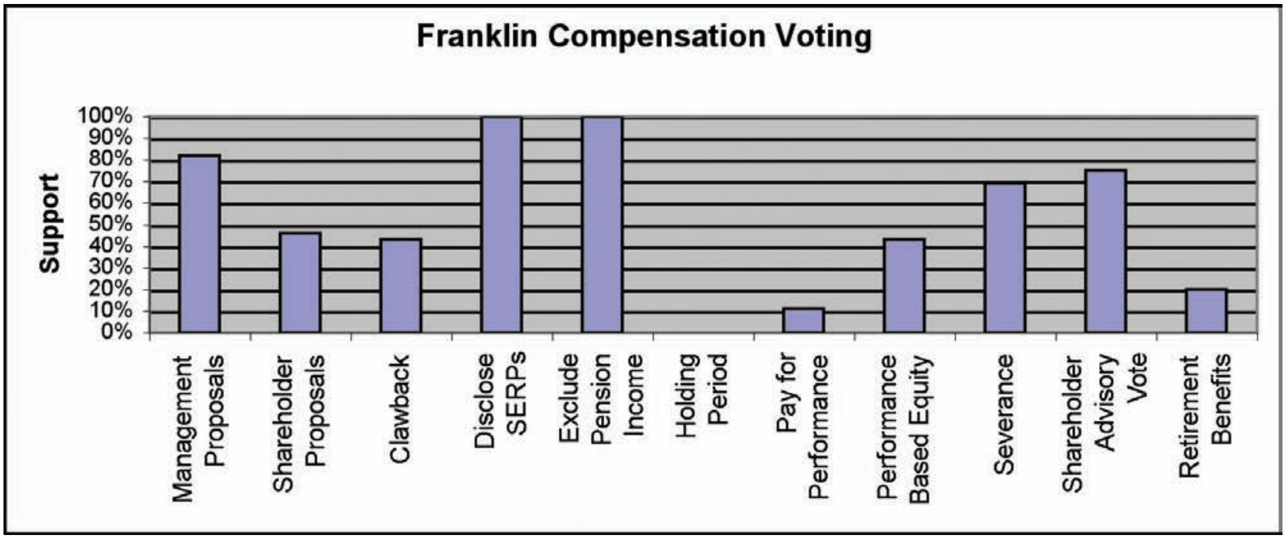
Fidelity's composite voting record ranked 17th, tying it with Vanguard and Oppenheimer. For the second year, Fidelity has distinguished itself as the fund family whose funds did not support shareholder proposals in any of our nine categories. Fidelity was third least likely to support management proposals, however, voting for them only about 53% of the time.



Voting Category	% For	For	Against	Abstain	No Vote	Category Rank
Management Proposals	52.9%	194	173	0	5	3
Shareholder Proposals	0%	0	52	0	0	29
Clawback	0%	0	8	0	0	19T (tied for last)
Disclose SERPs and Deferred Compensation	0%	0	2	0	0	15T (tied for last)
Exclude Pension Income	0%	0	2	0	0	17T (tied for last)
Holding Period	0%	0	2	0	0	11T (tied for last)
Pay for Superior Performance	0%	0	9	0	0	22T (tied for last)
Performance-Based Equity	0%	0	8	0	0	24T (tied for last)
Severance	0%	0	14	0	0	28T (tied for last)
Shareholder Advisory Vote	0%	0	2	0	0	19T (tied for last)
Approval of Extraordinary Retirement Benefits	0%	0	5	0	0	22T (tied for last)

Franklin Funds Composite Rank: 10T

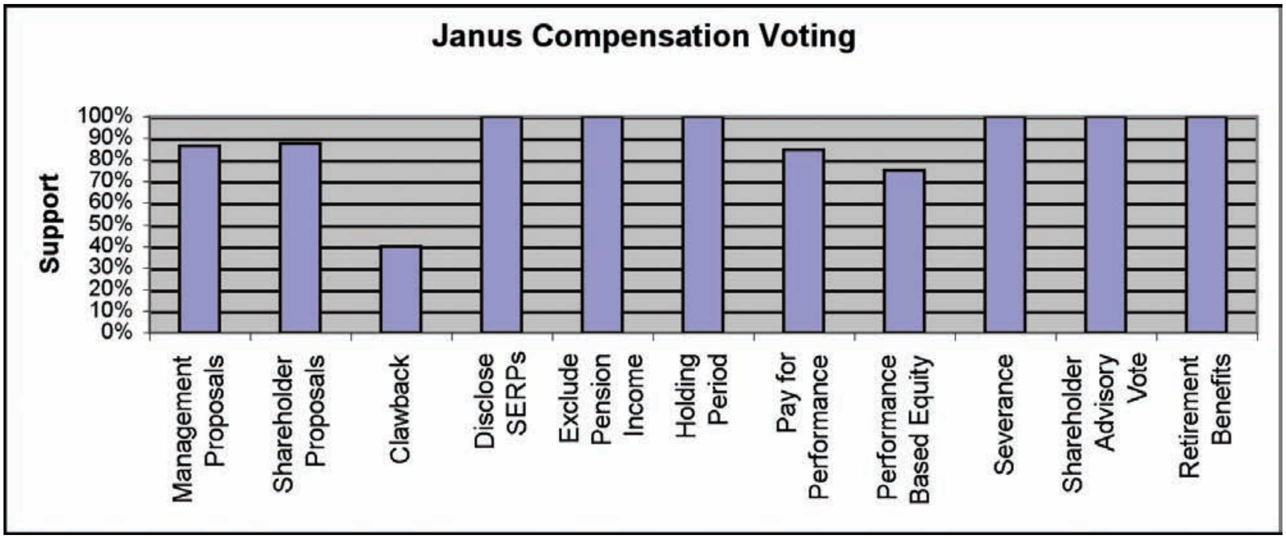
Franklin ranked 10th, tying it with MFS and Templeton. Franklin's voting record on shareholder proposals placed it in the middle at 16th, though it ranked higher, 11th, on management proposal voting. Franklin supported at least one proposal in eight of the nine shareholder proposal categories.



Voting Category	% For	For	Against	Abstain	No Vote	Category Rank
Management Proposals	81.9%	349	76	1	3	11
Shareholder Proposals	46.0%	23	27	0	0	16
Clawback	42.9%	3	4	0	0	2
Disclose SERPs and Deferred Compensation	100%	2	0	0	0	1T
Exclude Pension Income	100%	1	0	0	0	1T
Holding Period	0%	0	2	0	0	11T (tied for last)
Pay for Superior Performance	11.1%	1	8	0	0	19T
Performance-Based Equity	42.9%	3	4	0	0	16T
Severance	69.2%	9	4	0	0	19
Shareholder Advisory Vote	75.0%	3	1	0	0	6
Approval of Extraordinary Retirement Benefits	20.0%	1	4	0	0	20T

Janus Capital Group   Composite Rank: 6T

Janus tied with DWS Scudder for a composite ranking of sixth. Janus' support for shareholder proposals was the strongest of all the fund families in this study, voting for all of the proposals in six of our nine categories. It supported management proposals 86.6% of the time, which placed Janus above the median, ranking them 19th.

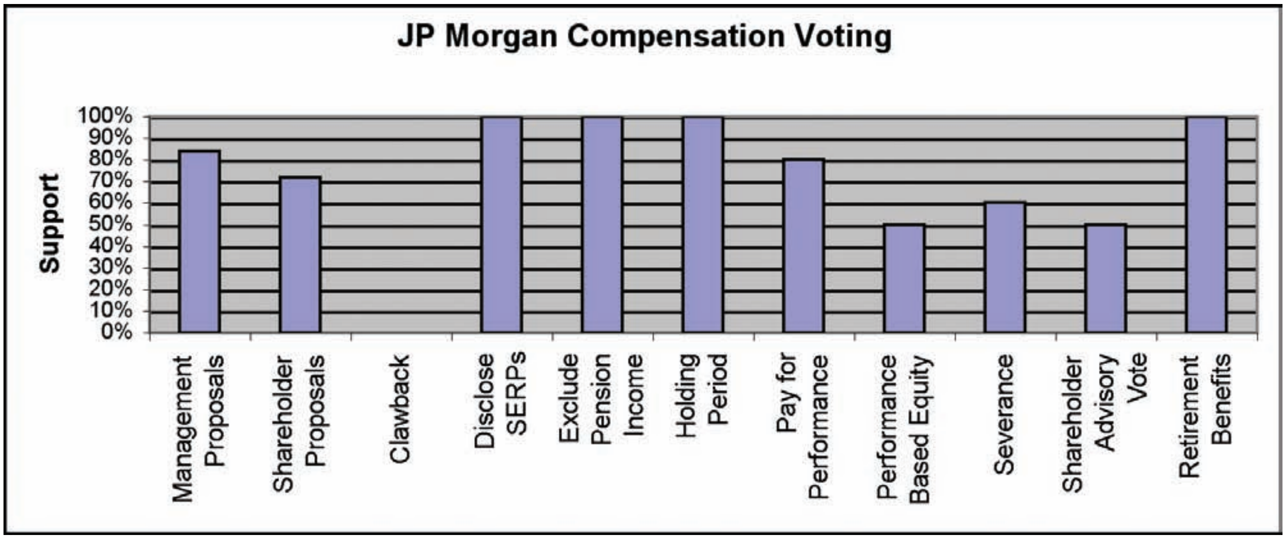


Voting Category	% For	For	Against	Abstain	No Vote	Category Rank
Management Proposals	86.6%	367	57	0	57	19
Shareholder Proposals	87.7%	50	7	0	3	1
Clawback	40.0%	2	3	0	2	3T
Disclose SERPs and Deferred Compensation	100%	1	0	0	0	1T
Exclude Pension Income	100%	1	0	0	0	1T
Holding Period	100%	3	0	0	0	1T
Pay for Superior Performance	84.6%	11	2	0	0	3
Performance-Based Equity	75.0%	6	2	0	1	8
Severance	100%	17	0	0	0	1T
Shareholder Advisory Vote	100%	4	0	0	0	1T
Approval of Extraordinary Retirement Benefits	100%	5	0	0	0	1T

JP Morgan Funds

Composite Rank: 5

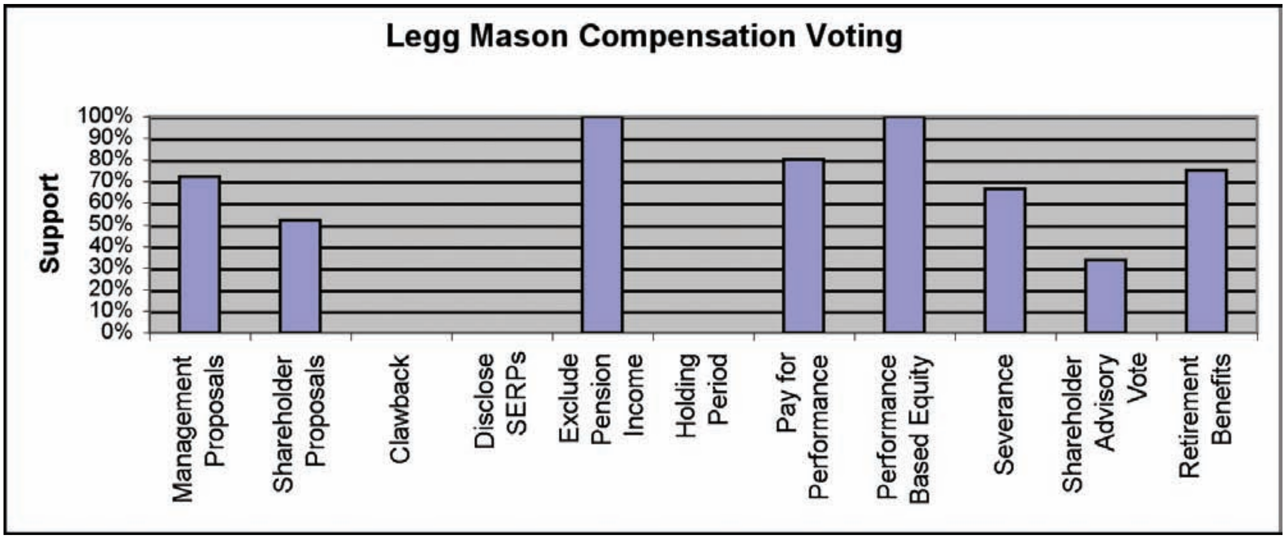
JP Morgan ranked fifth overall. JP Morgan was fifth most likely to support shareholder proposals, and voted for proposals in eight of the nine categories chosen for this report. Its management proposal voting record was average at 14th.



Voting Category	% For	For	Against	Abstain	No Vote	Category Rank
Management Proposals	84.0%	315	60	0	6	14T
Shareholder Proposals	72.0%	18	7	0	0	5
Clawback	0%	0	2	0	0	19T (tied for last)
Disclose SERPs and Deferred Compensation	100%	2	0	0	0	1T
Exclude Pension Income	100%	1	0	0	0	1T
Holding Period	100%	1	0	0	0	1T
Pay for Superior Performance	80.0%	4	1	0	0	4T
Performance-Based Equity	50.0%	1	1	0	0	12T
Severance	60.0%	3	2	0	0	21
Shareholder Advisory Vote	50.0%	1	1	0	0	10T
Approval of Extraordinary Retirement Benefits	100%	5	0	0	0	1T

Legg Mason Funds — Composite Rank: 8

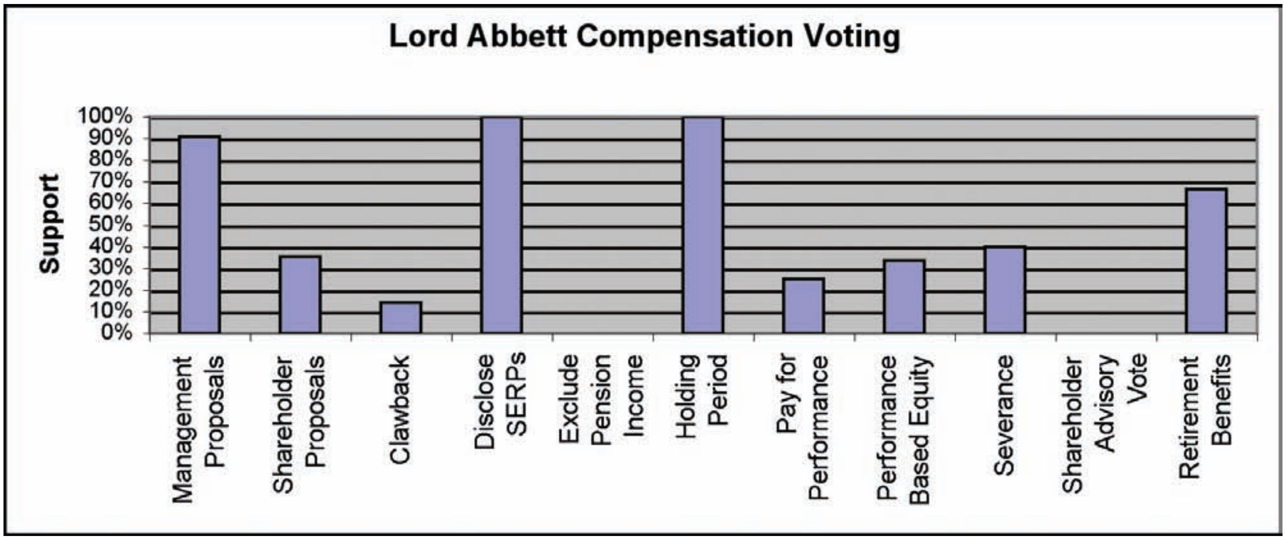
Legg Mason ranked 8th overall, with a ranking of 7th on management proposal voting. On shareholder proposals, Legg Mason was near the median, ranking 14th, supporting at least one or more proposals in six of eight shareholder proposal categories for which it voted.



Voting Category	% For	For	Against	Abstain	No Vote	Category Rank
Management Proposals	72.4%	197	75	0	0	7
Shareholder Proposals	52.0%	13	12	0	0	14
Clawback	0%	0	6	0	0	19T (tied for last)
Disclose SERPs and Deferred Compensation	0%	0	1	0	0	15T (tied for last)
Exclude Pension Income	100%	1	0	0	0	1T
Holding Period	Did Not Vote	—	—	—	—	—
Pay for Superior Performance	80.0%	4	1	0	0	4T
Performance-Based Equity	100%	2	0	0	0	1T
Severance	66.7%	2	1	0	0	20
Shareholder Advisory Vote	33.3%	1	2	0	0	13T
Approval of Extraordinary Retirement Benefits	75.0%	3	1	0	0	10

Lord Abbett Composite Rank: 26

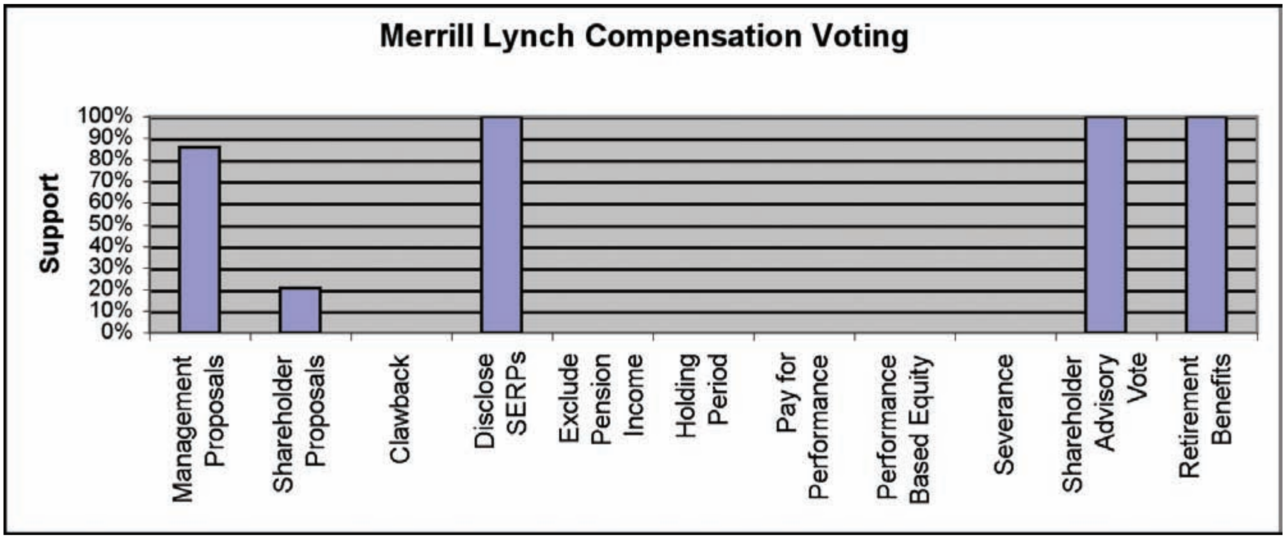
Lord Abbett's composite ranking was 26th, making it the fourth most pay enabling fund family. Lord Abbett's voting on management proposals landed it in the 26th slot, fourth from the bottom. Its record on shareholder proposals was slightly better, at 19th, and it supported one or more proposals in eight of the nine categories selected for this study.



Voting Category	% For	For	Against	Abstain	No Vote	Category Rank
Management Proposals	90.7%	264	27	0	7	26
Shareholder Proposals	35.3%	12	22	0	0	19
Clawback	14.3%	1	6	0	0	13T
Disclose SERPs and Deferred Compensation	100%	1	0	0	0	1T
Exclude Pension Income	0%	0	1	0	0	17T (tied for last)
Holding Period	100%	1	0	0	0	1T
Pay for Superior Performance	25.0%	1	3	0	0	16
Performance-Based Equity	33.3%	2	4	0	0	19T
Severance	40.0%	4	6	0	0	23
Shareholder Advisory Vote	Did Not Vote	—	—	—	—	—
Approval of Extraordinary Retirement Benefits	66.7%	4	2	0	0	11T

Merrill Lynch Investment Managers — Composite Rank: 24T

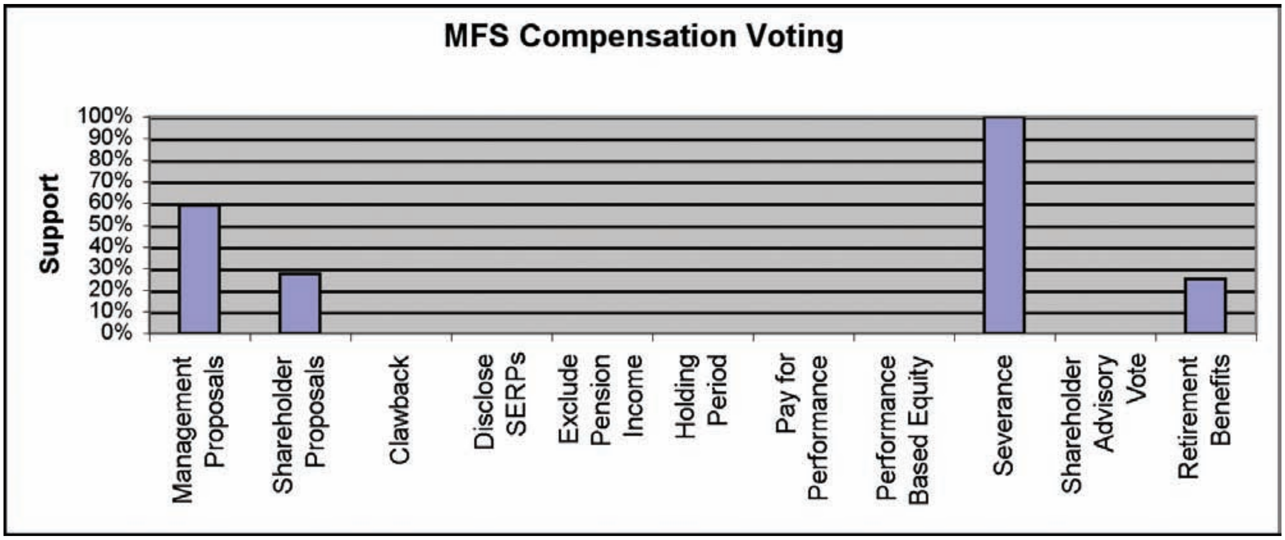
Merrill Lynch tied for 24th overall with Ameriprise, driven by a ranking of 25th in shareholder proposal voting. Merrill Lynch did not support any proposals in six of the nine shareholder proposal categories, but voted for all of the proposals in the remaining three categories.



Voting Category	% For	For	Against	Abstain	No Vote	Category Rank
Management Proposals	85.8%	109	18	0	12	17
Shareholder Proposals	20.5%	9	35	0	0	25
Clawback	0%	0	5	0	0	19T (tied for last)
Disclose SERPs and Deferred Compensation	100%	2	0	0	0	1T
Exclude Pension Income	0%	0	2	0	0	17T (tied for last)
Holding Period	0%	0	2	0	0	11T (tied for last)
Pay for Superior Performance	0%	0	8	0	0	22T (tied for last)
Performance-Based Equity	0%	0	8	0	0	24T (tied for last)
Severance	0%	0	10	0	0	28T (tied for last)
Shareholder Advisory Vote	100%	2	0	0	0	1T
Approval of Extraordinary Retirement Benefits	100%	5	0	0	0	1T

MFS Investment Management — Composite Rank: 10T

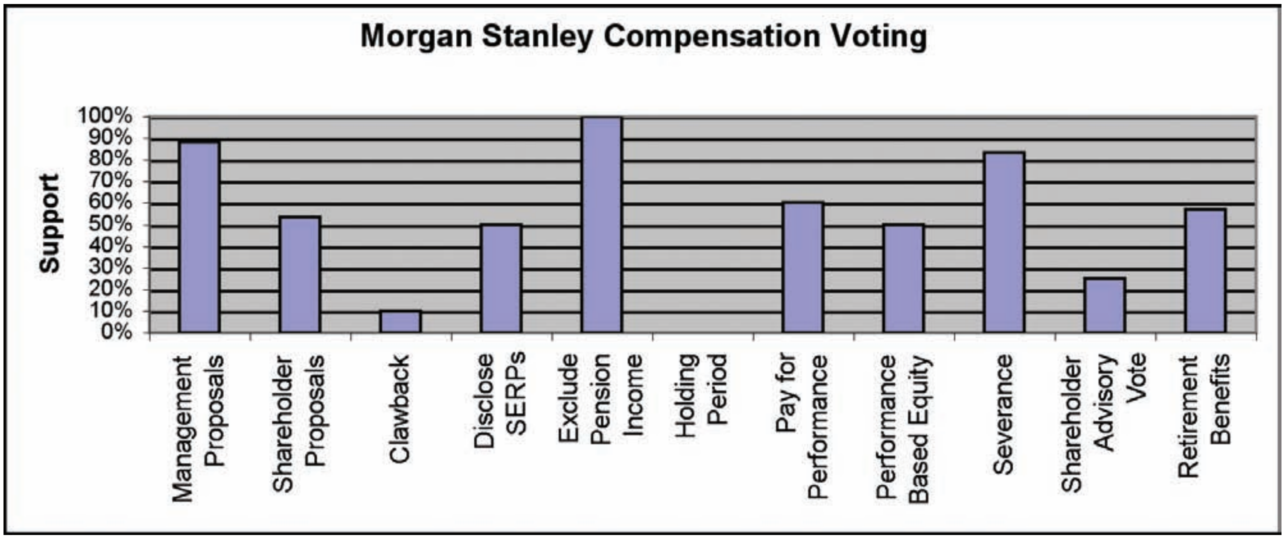
Tied with Franklin and Templeton, MFS came in at 10th overall. MFS's voting on management proposals was on the pay constraining side—it ranked 5th—but its voting on shareholder proposals was well below the median at 22nd. MFS did not support any proposals in seven of our nine shareholder proposal categories.



Voting Category	% For	For	Against	Abstain	No Vote	Category Rank
Management Proposals	59.1%	123	85	0	30	5
Shareholder Proposals	27.5%	11	29	0	0	22
Clawback	0%	0	2	0	0	19T (tied for last)
Disclose SERPs and Deferred Compensation	0%	0	2	0	0	15T (tied for last)
Exclude Pension Income	0%	0	1	0	0	17T (tied for last)
Holding Period	0%	0	1	0	0	11T (tied for last)
Pay for Superior Performance	0%	0	10	0	0	22T (tied for last)
Performance-Based Equity	0%	0	7	0	0	24T (tied for last)
Severance	100%	10	0	0	0	1T
Shareholder Advisory Vote	0%	0	3	0	0	19T (tied for last)
Approval of Extraordinary Retirement Benefits	25.0%	1	3	0	0	19

Morgan Stanley Funds Composite Rank: 21

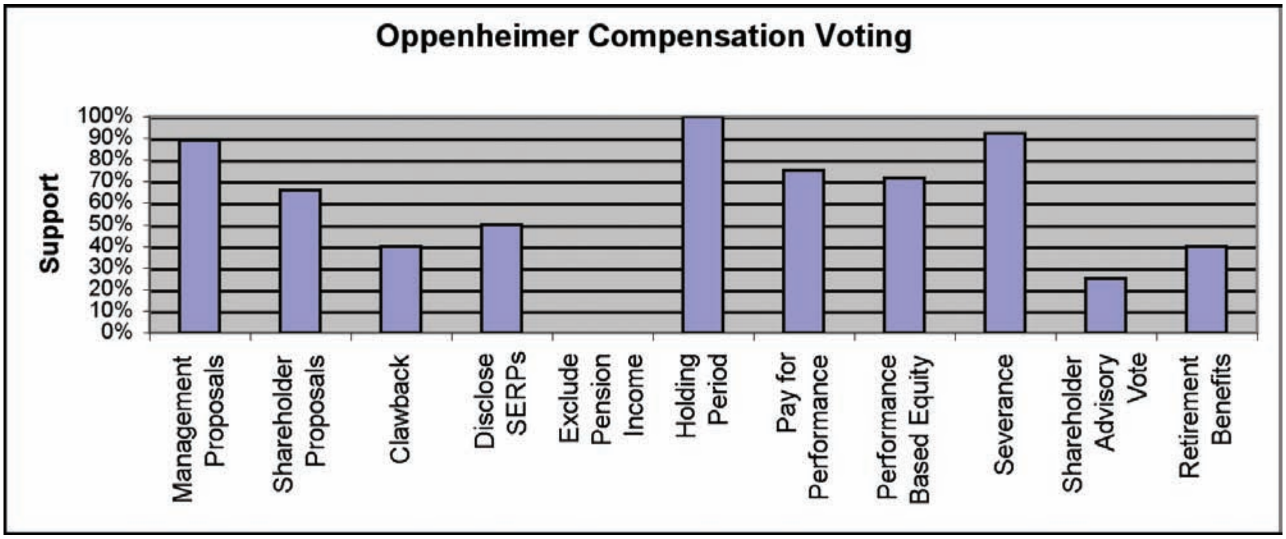
Morgan Stanley received a composite ranking of 21st, which was the same ranking it garnered on management proposal voting. Morgan Stanley's shareholder proposal voting record, which was ranked 13th, was above the median. Morgan Stanley supported proposals in all categories of shareholder proposals except one: holding period proposals.



Voting Category	% For	For	Against	Abstain	No Vote	Category Rank
Management Proposals	88.2%	687	92	0	4	21
Shareholder Proposals	53.4%	39	34	0	1	13
Clawback	10.0%	1	9	0	0	17T
Disclose SERPs and Deferred Compensation	50.0%	1	1	0	0	11T
Exclude Pension Income	100%	2	0	0	0	1T
Holding Period	0%	0	3	0	0	11T (tied for last)
Pay for Superior Performance	60.0%	9	6	0	0	11
Performance-Based Equity	50.0%	6	6	0	0	12T
Severance	83.3%	15	3	0	1	14T
Shareholder Advisory Vote	25.0%	1	3	0	0	15T
Approval of Extraordinary Retirement Benefits	57.1%	4	3	0	0	15

Oppenheimer Funds — Composite Rank: 17T

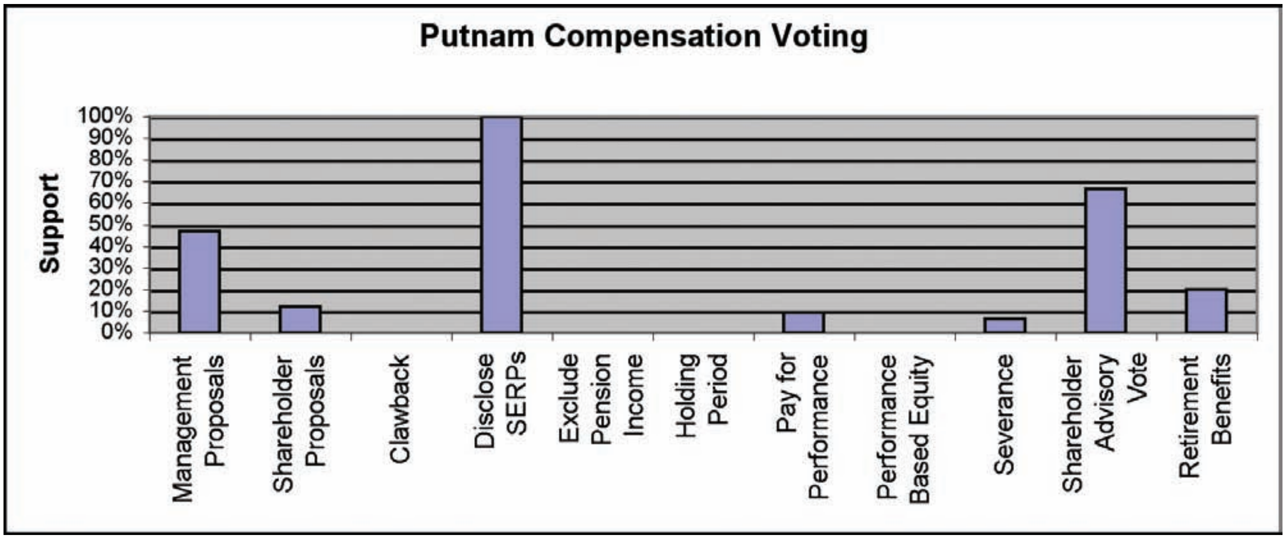
Oppenheimer, together with Fidelity and Vanguard, ranked 17th overall. Oppenheimer's shareholder proposal voting record ranked above the median at ninth, with high levels of support for proposals urging a holding period for equity compensation awards, shareholder approval of certain severance packages and pay for superior performance. Oppenheimer's voting on management proposals was below the median, ranking 23rd.



Voting Category	% For	For	Against	Abstain	No Vote	Category Rank
Management Proposals	88.9%	263	33	0	15	23
Shareholder Proposals	66.0%	31	15	1	3	9
Clawback	40.0%	2	2	1	1	3T
Disclose SERPs and Deferred Compensation	50.0%	1	1	0	0	11T
Exclude Pension Income	0%	0	1	0	0	17T (tied for last)
Holding Period	100%	2	0	0	0	1T
Pay for Superior Performance	75.0%	6	2	0	1	7T
Performance-Based Equity	71.4%	5	2	0	0	9
Severance	92.3%	12	1	0	1	7T
Shareholder Advisory Vote	25.0%	1	3	0	0	15T
Approval of Extraordinary Retirement Benefits	40.0%	2	3	0	0	18

Putnam Investments Composite Rank: 15

Putnam earned a composite ranking of 15th, which places them in the middle of the fund families included in this study. It scored as a pay constrainer in voting on management proposals, voting against them more often than any fund family except Federated. But on shareholder proposals, Putnam ranked 27th, or third from the bottom. Putnam did not support proposals in four of the nine shareholder proposal categories.

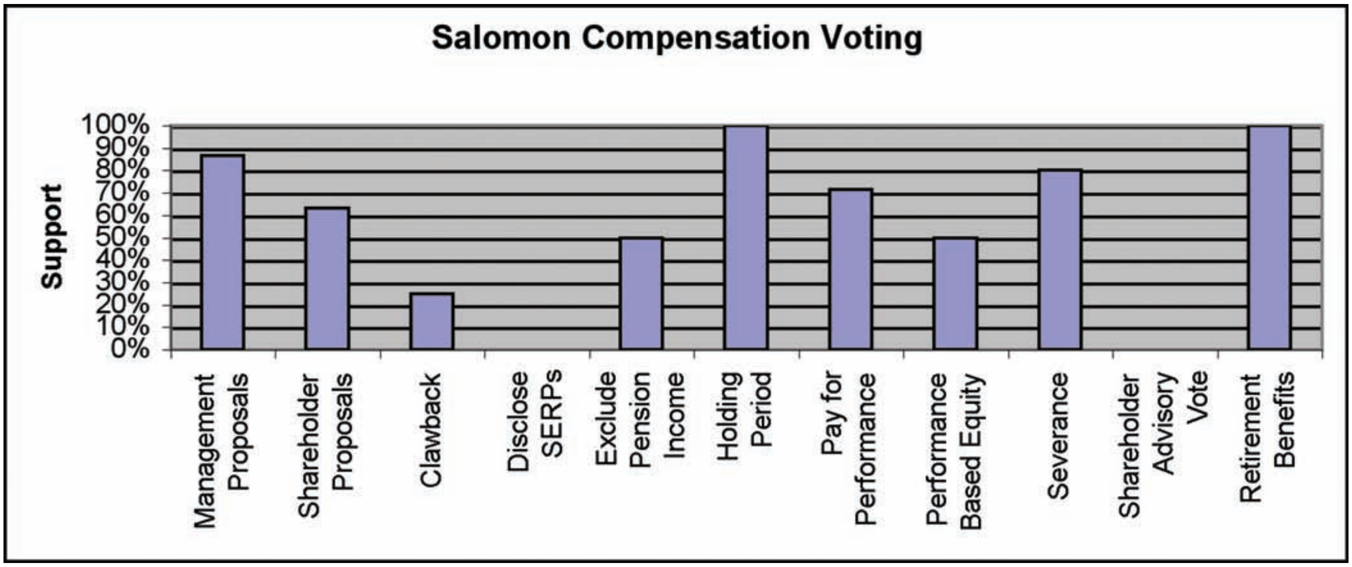


Voting Category	% For	For	Against	Abstain	No Vote	Category Rank
Management Proposals	47.1%	198	218	4	49	2
Shareholder Proposals	12.0%	6	44	0	2	27
Clawback	0%	0	5	0	0	19T (tied for last)
Disclose SERPs and Deferred Compensation	100%	1	0	0	0	1T
Exclude Pension Income	0%	0	1	0	1	17T (tied for last)
Holding Period	0%	0	2	0	0	11T (tied for last)
Pay for Superior Performance	9.1%	1	10	0	0	21
Performance-Based Equity	0%	0	6	0	1	24T (tied for last)
Severance	6.3%	1	15	0	0	26
Shareholder Advisory Vote	66.7%	2	1	0	0	7T
Approval of Extraordinary Retirement Benefits	20.0%	1	4	0	0	20T

Salomon Brothers

Composite Rank: 13T

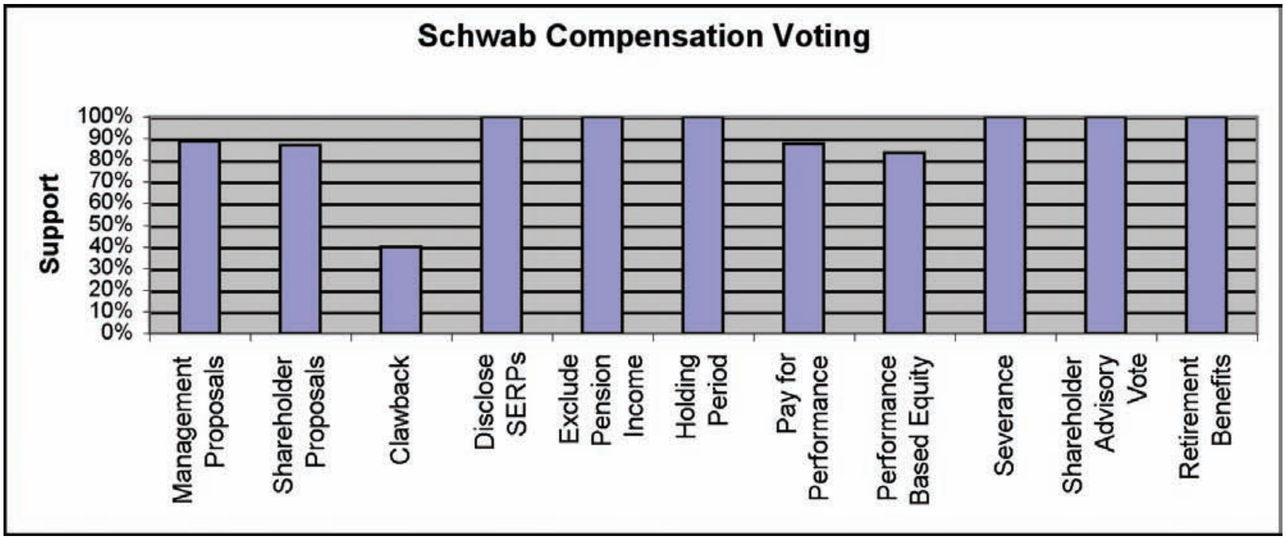
Salomon funds tied American Century for 13th overall, with an above-the-median record on shareholder proposal voting. Salomon supported at least one proposal in seven of the nine shareholder proposal categories, and supported all proposals asking for a holding period for equity awards and for shareholder approval of extraordinary retirement benefits. On management proposals, Salomon ranked 18th.



Voting Category	% For	For	Against	Abstain	No Vote	Category Rank
Management Proposals	86.5%	64	10	0	1	18
Shareholder Proposals	62.2%	23	14	0	1	10
Clawback	25.0%	1	3	0	0	11
Disclose SERPs and Deferred Compensation	0%	0	1	0	0	15T (tied for last)
Exclude Pension Income	50.0%	1	1	0	0	16
Holding Period	100%	1	0	0	0	1T
Pay for Superior Performance	71.4%	5	2	0	0	9
Performance-Based Equity	50.0%	3	3	0	0	12T
Severance	80.0%	8	2	0	0	16
Shareholder Advisory Vote	0%	0	2	0	1	19T (tied for last)
Approval of Extraordinary Retirement Benefits	100%	4	0	0	0	1T

Schwab Funds — Composite Rank: 9

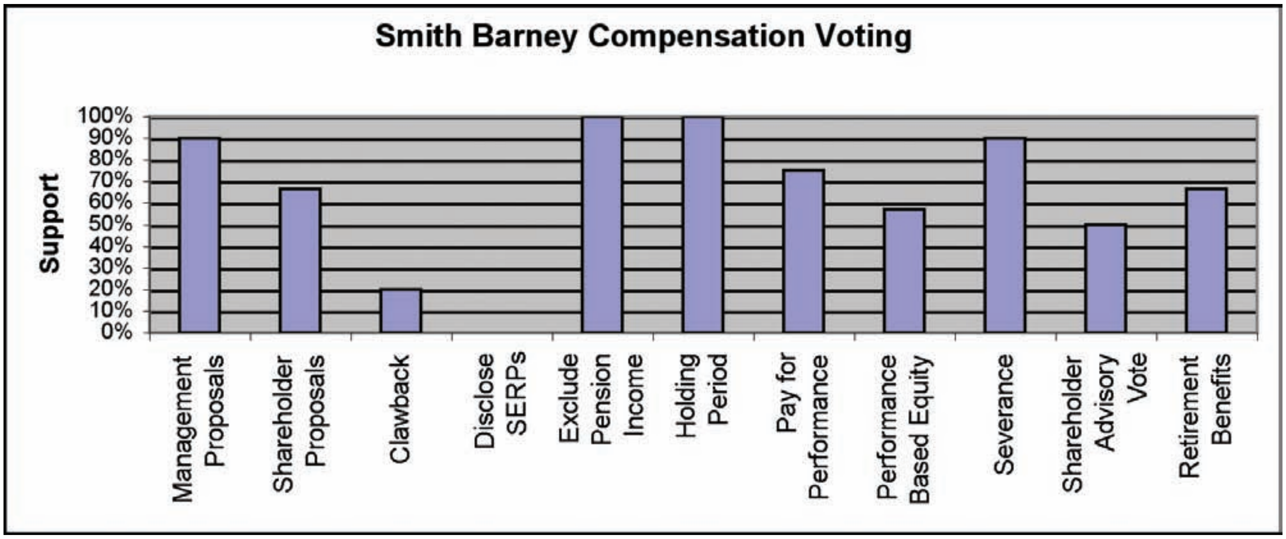
Schwab ranked ninth overall among fund families we studied, though its records on management proposal and shareholder proposal voting varied considerably. On management proposals, Schwab came in below the median at 22nd. On shareholder proposals, however, Schwab ranked second, with 100% support for six of the nine categories.



Voting Category	% For	For	Against	Abstain	No Vote	Category Rank
Management Proposals	88.7%	338	43	0	0	22
Shareholder Proposals	86.7%	65	10	0	0	2
Clawback	40.0%	4	6	0	0	3T
Disclose SERPs and Deferred Compensation	100%	2	0	0	0	1T
Exclude Pension Income	100%	2	0	0	0	1T
Holding Period	100%	3	0	0	0	1T
Pay for Superior Performance	87.5%	14	2	0	0	2
Performance-Based Equity	83.3%	10	2	0	0	5T
Severance	100%	19	0	0	0	1T
Shareholder Advisory Vote	100%	4	0	0	0	1T
Approval of Extraordinary Retirement Benefits	100%	7	0	0	0	1T

Smith Barney Asset Management — Composite Rank: 16

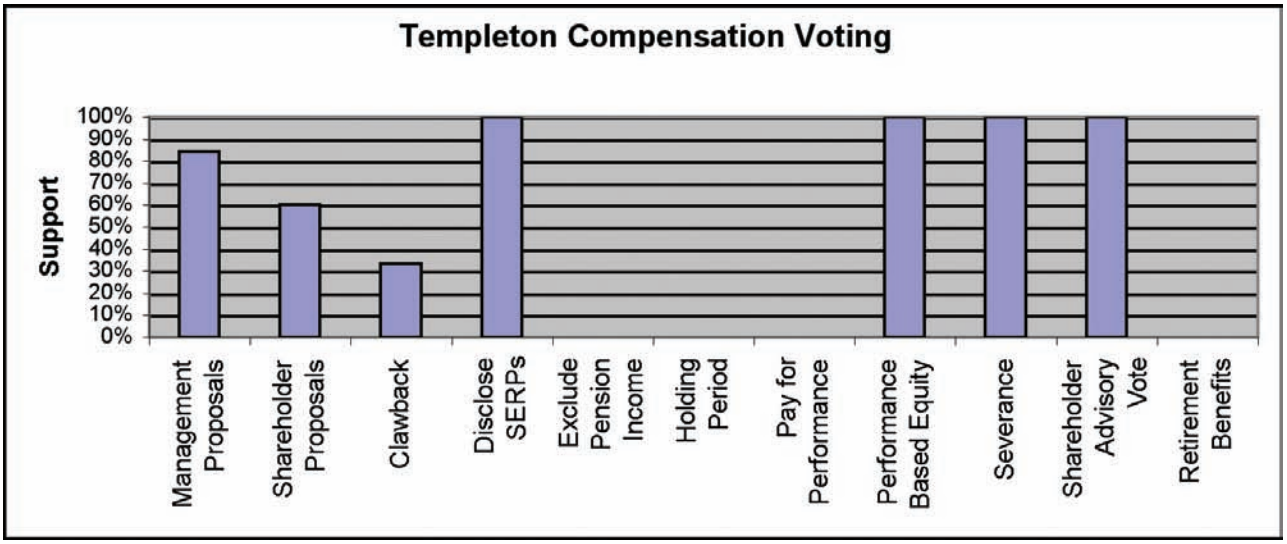
Smith Barney's overall ranking of 16th landed it in the exact middle of the fund families we studied. Its shareholder proposal ranking was significantly higher, at seventh, and it failed to support any proposals in only one of the nine categories. Smith Barney was more supportive of management proposals, voting in favor of them over 90% of the time, generating a ranking of 24th.



Voting Category	% For	For	Against	Abstain	No Vote	Category Rank
Management Proposals	90.1%	302	33	0	4	24
Shareholder Proposals	66.7%	26	13	0	1	7
Clawback	20.0%	1	4	0	0	12
Disclose SERPs and Deferred Compensation	0%	0	1	0	0	15T (tied for last)
Exclude Pension Income	100%	2	0	0	0	1T
Holding Period	100%	1	0	0	0	1T
Pay for Superior Performance	75.0%	6	2	0	0	7T
Performance-Based Equity	57.1%	4	3	0	0	11
Severance	90.0%	9	1	0	0	9
Shareholder Advisory Vote	50.0%	1	1	0	1	10T
Approval of Extraordinary Retirement Benefits	66.7%	2	1	0	0	11T

Templeton Funds — Composite Rank: 10T

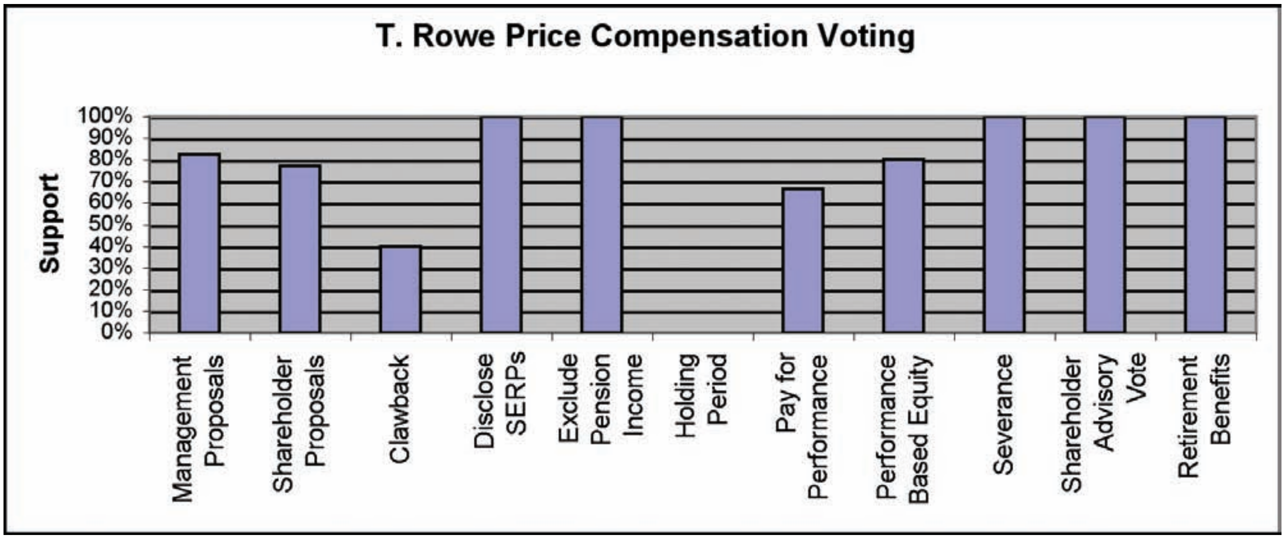
Templeton was ranked 10th, tied with MFS and Franklin. Templeton's voting record on management proposals placed it in the middle at 16th, though it ranked higher, 11th, on shareholder proposal voting. Templeton supported all proposals in four of the seven shareholder proposal categories for which it cast votes.



Voting Category	% For	For	Against	Abstain	No Vote	Category Rank
Management Proposals	84.2%	64	11	1	5	16
Shareholder Proposals	60.0%	6	4	0	0	11
Clawback	33.3%	1	2	0	0	9
Disclose SERPs and Deferred Compensation	100%	1	0	0	0	1T
Exclude Pension Income	Did Not Vote	—	—	—	—	—
Holding Period	0%	0	1	0	0	11T (tied for last)
Pay for Superior Performance	Did Not Vote	—	—	—	—	—
Performance-Based Equity	100%	2	0	0	0	1T
Severance	100%	1	0	0	0	1T
Shareholder Advisory Vote	100%	1	0	0	0	1T
Approval of Extraordinary Retirement Benefits	0%	0	1	0	0	22T (tied for last)

T. Rowe Price Group — Composite Rank: 2

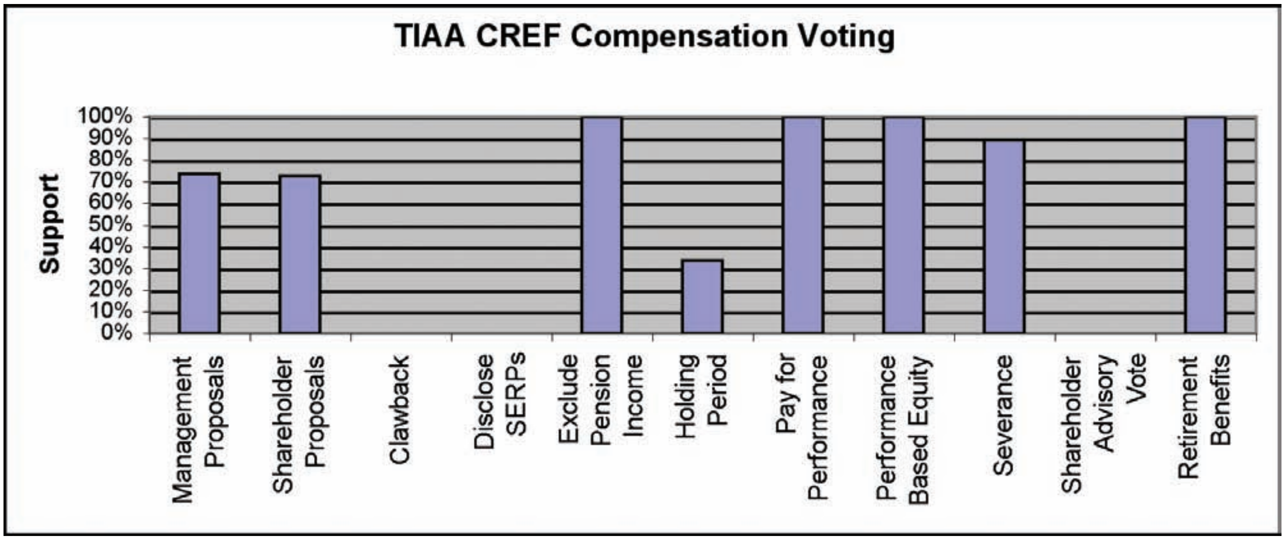
T. Rowe Price placed second for the composite ranking, driven by a third place ranking on shareholder proposal voting. As a result, we named it one of our pay constrainers. T. Rowe Price supported at least one proposal in eight of the nine shareholder proposal voting categories, and supported every proposal in five categories. T. Rowe Price's management proposal voting was 12th, reflecting the fact that it was somewhat less likely than the median fund family to support management pay proposals.



Voting Category	% For	For	Against	Abstain	No Vote	Category Rank
Management Proposals	82.6%	767	162	0	1	12
Shareholder Proposals	77.1%	54	16	0	0	3
Clawback	40.0%	4	6	0	0	3T
Disclose SERPs and Deferred Compensation	100%	2	0	0	0	1T
Exclude Pension Income	100%	2	0	0	0	1T
Holding Period	0%	0	3	0	0	11T (tied for last)
Pay for Superior Performance	66.7%	10	5	0	0	10
Performance-Based Equity	80.0%	8	2	0	0	7
Severance	100%	18	0	0	0	1T
Shareholder Advisory Vote	100%	4	0	0	0	1T
Approval of Extraordinary Retirement Benefits	100%	6	0	0	0	1T

TIA A-CREF Asset Management Composite Rank: 1

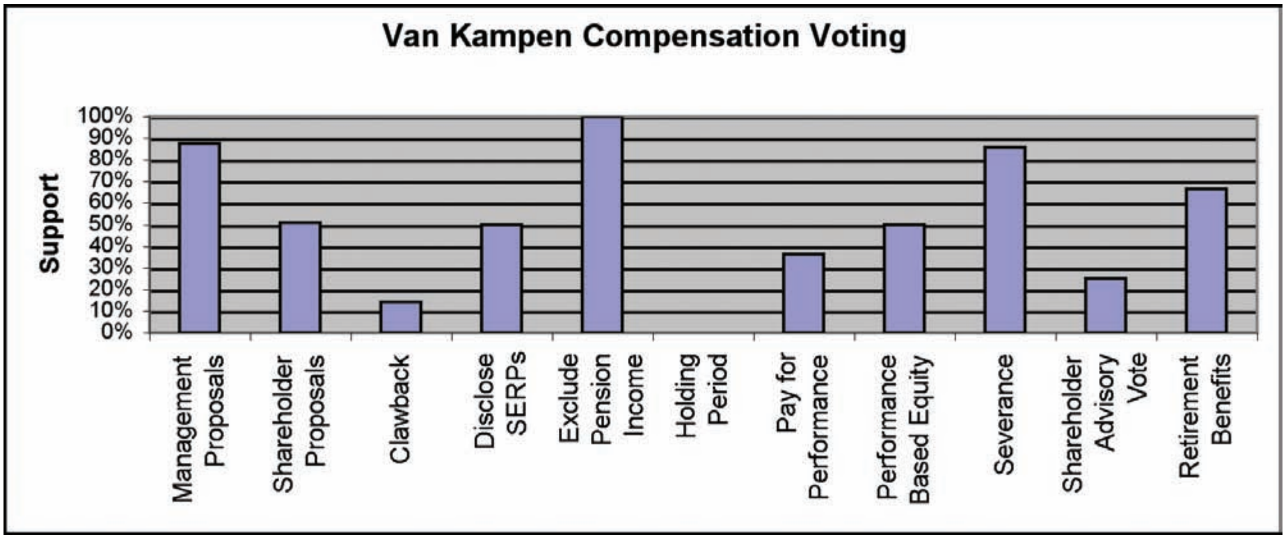
TIAA-CREF ranked as the top pay constrainer among the fund families we studied. Its ranking of fourth on shareholder proposal voting reflected its support of all proposals in three of the nine shareholder proposal categories. TIAA-CREF abstained from voting on shareholder proposals more often than any other fund family, which may indicate the absence of a voting guideline on the proposal's subject matter or disagreement with the exact mechanism suggested in a proposal with whose general principle TIAA-CREF agrees. TIAA-CREF's management proposal record ranked 12th.



Voting Category	% For	For	Against	Abstain	No Vote	Category Rank
Management Proposals	73.5%	811	289	3	15	9
Shareholder Proposals	72.6%	53	6	14	2	4
Clawback	0%	0	4	6	0	19T (tied for last)
Disclose SERPs and Deferred Compensation	0%	0	0	2	0	15T (tied for last)
Exclude Pension Income	100%	1	0	0	1	1T
Holding Period	33.3%	1	0	2	0	9T
Pay for Superior Performance	100%	16	0	0	0	1
Performance-Based Equity	100%	11	0	0	1	1T
Severance	89.5%	17	2	0	0	10
Shareholder Advisory Vote	0%	0	0	4	0	19T (tied for last)
Approval of Extraordinary Retirement Benefits	100%	7	0	0	0	1T

Van Kampen Investments — Composite Rank: 22

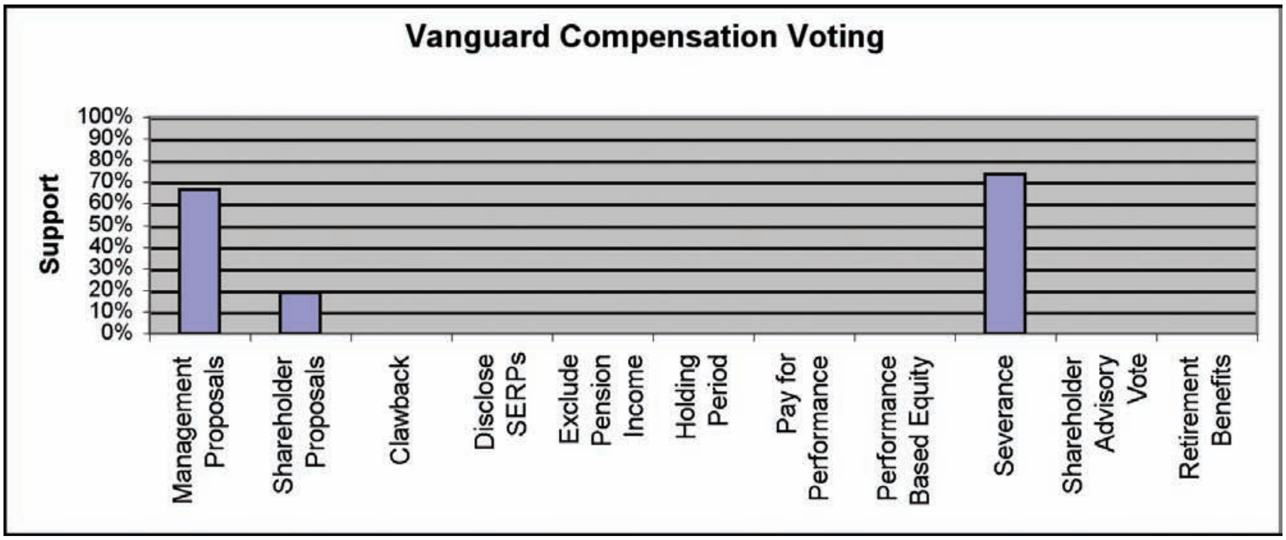
Van Kampen had an overall ranking of 22nd, which made it the eighth most pay enabling fund family in this study. Its management proposal voting record was ranked 20th, while its shareholder proposal ranking was somewhat better at 15th. Van Kampen supported at least one proposal in eight of the nine shareholder proposal categories, though support was lukewarm – below 50% – in three of those.



Voting Category	% For	For	Against	Abstain	No Vote	Category Rank
Management Proposals	87.5%	433	62	0	10	20
Shareholder Proposals	50.8%	31	30	0	1	15
Clawback	14.3%	1	6	0	0	13T
Disclose SERPs and Deferred Compensation	50.0%	1	1	0	0	11T
Exclude Pension Income	100%	2	0	0	0	1T
Holding Period	0%	0	3	0	0	11T (tied for last)
Pay for Superior Performance	36.4%	4	7	0	0	13
Performance-Based Equity	50.0%	6	6	0	0	12T
Severance	85.7%	12	2	0	1	13
Shareholder Advisory Vote	25.0%	1	3	0	0	15T
Approval of Extraordinary Retirement Benefits	66.7%	4	2	0	0	11T

Vanguard Group   Composite Rank: 17T

Vanguard tied with Fidelity and Oppenheimer for the 17th ranking. Vanguard's management proposal voting record placed it among the more pay constraining fund families; it supported management proposals 66.4% of the time. Its track record on shareholder proposals, however, depressed its overall ranking. Vanguard, which ranked 26th, supported shareholder proposals in only one of our nine categories, the shareholder approval of certain severance arrangements.



Voting Category	% For	For	Against	Abstain	No Vote	Category Rank
Management Proposals	66.4%	890	450	0	2	6
Shareholder Proposals	18.7%	14	61	0	0	26
Clawback	0%	0	10	0	0	19T (tied for last)
Disclose SERPs and Deferred Compensation	0%	0	2	0	0	15T (tied for last)
Exclude Pension Income	0%	0	2	0	0	17T (tied for last)
Holding Period	0%	0	3	0	0	11T (tied for last)
Pay for Superior Performance	0%	0	16	0	0	22T (tied for last)
Performance-Based Equity	0%	0	12	0	0	24T (tied for last)
Severance	73.7%	14	5	0	0	18
Shareholder Advisory Vote	0%	0	4	0	0	19T (tied for last)
Approval of Extraordinary Retirement Benefits	0%	0	0	0	0	22T (tied for last)

End Notes

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

2. Paul Hodgson, The Corporate Library, "Preliminary CEO Pay Survey: CEO Pay 2006," pages 2, 9.

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

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

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

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

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

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

9. *See: Pay Without Performance, supra* note 4, at page 19.

10. Robert Daines et al., "The Good, the Bad, and the Lucky: CEO Pay and Skill," page 17 (August 2005) (available on www.ssrn.com).

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

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

13. 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," (February 2003) (available on www.ssrn.com).

14. *See:* http://money.cnn.com/2007/02/14/news/companies/aflac/index.htm.

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

16. Investment Company Institute, *2006 Investment Company Fact Book,* pages 71, 74.

17. *Ibid* page 9.

18. *Ibid* page 13.

19. *Ibid* pages 46, 48.

20. Investment Company Act of 1940.

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

22. William B. Chandler, "When Boards Make (or Allow) Bad Decisions—Anatomy of a Board Liability Case," 2005 NACD Annual Corporate Governance Conference, Oct. 25, 2005.

23. By comparison, the 2005 report surveyed 362 compensation-related shareholder proposals in total, including breaking out results for voting on 39 option expensing, 84 performance-based compensation and 39 severance proposals. The 2006 report has narrowed the universe of shareholder proposals surveyed to 75 proposals in total, broken out across nine proposal categories, presenting a more detailed picture of fund voting trends on specific proposals and excluding from the overall shareholder proposal voting tally proposals falling outside the nine categories.

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

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

26. 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.

27. *Pay Without Performance, supra* note 4, pages 137-46, 172-73.

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

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