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# Enablers of Excess: Mutual Funds & the Overpaid American CEO

AFL-CIO

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The Corporate Library

[Excerpt] In this report, the American Federation of State, County and Municipal Employees (AFSCME), AFL-CIO, and The Corporate Library (TCL) examine mutual fund proxy voting on executive compensation issues. Our purpose is to determine the extent to which mutual funds have exercised their responsibility to vote in their shareholders' best interests on measures that would reasonably restrain executive compensation and link CEO pay more closely to company performance. Recent media coverage has increased public understanding about the outrageously high pay packages afforded to company executives, independent of their performance. To date, however, little attention has been paid to the worst enablers of this trend—the largest institutional investors, who possess a unique opportunity to exert influence over a board's executive pay decisions through their formidable voting power.

### Keywords
mutual funds, executive compensation, CEO, performance

# ENABLERS OF EXCESS

## Mutual Funds & the Overpaid American CEO

**How Morgan Stanley, AIM, Dreyfus, Alliance, Oppenheimer and large mutual fund families are shirking their responsibility and selling out shareholders.**

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Produced by the American Federation of State, County and Municipal Employees, AFL-CIO and The Corporate Library

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**In this report,** the American Federation of State, County and Municipal Employees (AFSCME), AFL-CIO, and The Corporate Library (TCL) examine mutual fund proxy voting on executive compensation issues. Our purpose is to determine the extent to which mutual funds have exercised their responsibility to vote in their shareholders' best interests on measures that would reasonably restrain executive compensation and link CEO pay more closely to company performance. Recent media coverage has increased public understanding about the outrageously high pay packages afforded to company executives, independent of their performance. To date, however, little attention has been paid to the worst enablers of this trend—the largest institutional investors, who possess a unique opportunity to exert influence over a board's executive pay decisions through their formidable voting power.

In 2004, the Securities and Exchange Commission (SEC) began requiring mutual funds to disclose their proxy votes for the first time. The new rule enables the public to clearly discern for the first time exactly who is—and who is not—supporting pay practices that unjustly enrich company executives at the expense of shareholders. This report relies upon N-PX filings that companies use to report proxy votes to the SEC. On the following pages we analyze the voting records of 18 of the largest mutual fund families on executive compensation-related proposals at corporate annual meetings from July 1, 2004, to June 30, 2005. Our findings indicate that, with a few exceptions, the largest mutual fund families are complicit in runaway executive compensation for failing to vote in the best interests of the shareholders.

We have created a proxy voting profile on compensation issues for each of the fund families evaluated. Our analysis ranks the voting practices of these funds from best to worst. We have used the data collected to identify the four fund families that have been most critical of lavish executive pay practices, as well as the five fund families that most consistently failed to use their voting power to challenge current practices. We dubbed the fund families in this latter category the "pay enablers" for perpetuating an unconditional spoils system for wealthy CEOs.

## About the Authors

### AFSCME

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 more than $1 trillion dollars. Confidence in the markets, transparency and appropriate regulations are the foundation of AFSCME's investment success. Gerald W. McEntee, president of AFSCME, 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 (TCL) is an independent research firm with well-known products such as the Board Analyst Database and the Director Interocks Tool. It compiles data, researches and engages in critical thinking about the nature of the modern global corporation, with a special emphasis on best practices and standards. Its Board Analyst product rates boards of directors on an A-F scale, allowing investors and analysts to evaluate governance as an element of investment risk. TCL also publishes special reports and studies, including reports on CEO employment contracts, related transactions, mutual fund proxy votes, board interlocks, and CEO and director compensation. TCL has an extensive database of over 2,000 public companies, covering over 20,000 directors in considerable detail, including their non-corporate and private enterprise affiliations. It also provides general information on the full U.S. director and officer universe of over 130,000 individuals via its IPO Compliance Tool. TCL provides data and analysis to search firms, D&O liability insurers, law firms, accounting firms, press, institutional and individual investors, academic institutions and corporations.

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## The Role of Shareholders

The annual compensation for CEOs is growing at an unprecedented rate, despite corporate governance reforms passed in the wake of scandals at Enron, WorldCom, Tyco and Adelphia. Today, the average CEO earns $11.8 million annually in salary, bonuses and long-term equity-based incentives.[1] In 2004, the last year for which detailed disclosures are available, pay for CEOs at more than 1,500 large U.S. public companies accelerated at double the rate of the previous year, meaning they received 14.5 percent raises in 2004 after having received raises averaging 7.2 percent the year before.[2] In 2002, CEOs received raises of 10 percent. Meanwhile, worker pay has remained virtually stagnant. In 2004, total compensation for the average non-supervisory company worker rose by a meager 2.2 percent to $27,485 annually, according to an April 2005 study.[3]

In theory, corporate boards and compensation committees are vested with the responsibility to ensure that executive pay 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 a 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 overwhelmingly believe that such reform is appropriate and necessary. In an April 2005 survey, 75 percent of major institutional investors stated their belief that CEO salaries at major U.S. companies are excessive.[5] A December 2005 study found the figure to be even higher, with 90 percent of institutional investors saying the current system overpays executives.[6]

Shareholders have a strong financial motivation for constraining executive compensation. Compensation to the five highest-paid CEOs of public companies accounted for 9.8 percent of their aggregate earnings in the period from 2001 to 2003, up from just 5 percent of aggregate earnings from 1993 to 1995, according to a 2005 study.[7] The study concluded that these pay increases could not be accounted for by company performance or the growth in overall market capitalization. Additionally, shareholders have an interest in encouraging compensation arrangements that offer incentives to 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.[8]

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**1.** Sarah Anderson, John Cavanaugh, Scott Klinger, and Liz Stanton, "Executive Excess 2005: 12th Annual CEO Compensation Survey," Institute for Policy Studies/United for a Fair Economy, August 30, 2005, p. 3.

**2.** "The Corporate Library's CEO Pay Survey 2004," October 2005.

**3.** Corporate Watch (available on www.aflcio.org).

**4.** Lucian Bebchuk and Jesse Fried, "Pay Without Performance," 2004, p. 53-58 (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.** "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.** Lucian Bebchuk and Yaniv Grinstein, "The Growth in Executive Pay," 21 Oxford Rev. Econ. Policy 283, 2005.

**8.** See: "Pay Without Performance," *supra* note 4, at 19.

Shareholders have two main avenues of influence over executive compensation. The first is litigation under state-law theories on waste or breach of fiduciary duty. This avenue has proved to be nearly useless because the legal bar to prove such claims is set extremely high. Courts apply the "business judgment rule" and defer to board decisions in all but the most egregious cases. Procedural obstacles such as the "demand" requirement for a shareholder derivative claim also lower the likelihood of success.

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. Shareholder-sponsored proxy proposals can seek 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 conducted in the mid-1990s found that executive pay at firms where shareholder proposals on executive compensation had been approved declined by an average of $2.7 million during the two-year period after the proposal was passed, despite the fact that such proposals are not binding on the company.[9] Another study found that higher levels of "against" votes on management compensation proposals were followed by lower rates of increase in CEO pay.[10]

Anecdotal evidence also bolsters the case that shareholder voting can play a key role in reforming executive compensation practices. In the 1990s, the benefit of outside director pensions, once commonplace, nearly disappeared once shareholders drew widespread attention to the practice and made a case that such employment-like benefits inappropriately incentivized outside directors to avoid challenging management. More recently, shareholder proposals asking companies to recognize the cost of employee stock options on their income statements led hundreds of companies 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.

## 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. According to the most recent statistics, more than $8.1 trillion is invested in mutual funds, including $4.38 trillion in equity funds and $519 billion in hybrid funds.[11] All told, mutual funds hold about 24 percent of all U.S. companies.[12] As a result, mutual funds wield enormous control over the conduct of the boards of American businesses. Moreover, a precious few investment firms possess disproportionately large power within the industry, because mutual fund assets are highly concentrated, with the 10 largest fund families managing 51 percent of all fund assets.[13] Mutual funds are an important vehicle for collectivizing the investments of millions of individuals who use mutual funds to save for their retirement or their children's college educations. Nearly half of all U.S.

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

**10.** Kenneth J. Martin and 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).

**11.** Investment Company's Insitute's *2005 Investment Company Fact Book*, 45th Edition, 2005 at 122.

**12.** *Ibid* at 6.

**13.** *Ibid* at 8.

households invest in mutual funds, which account, on average, for 20 percent of their financial assets.[14]

The legal regime governing mutual funds requires that mutual funds be managed in the interests of their shareholders.[15] Until the recent SEC rule change, however, there was no disclosure requirement on mutual funds' proxy votes, making it impossible for mutual fund shareholders to judge whether 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 Bob 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 doing so, the SEC emphasized the importance of mutual funds to effective shareholder oversight: "As major shareholders, mutual funds may play a vital role in monitoring the stewardship of the companies in which they invest."[16] Despite strong opposition from the mutual fund industry, the SEC approved the rule in 2003 and set August 31, 2004, as the deadline for disclosure of votes cast in the year ended June 30, 2004.

Given the size of mutual funds' holdings, reform of executive compensation is unlikely to be successful without the industry's support. In the absence of market-correcting mechanisms, such as increased scrutiny of executive compensation by large investors, "the result will be imposition of regulatory controls," stated Delaware Chancery Court Judge William Chandler, whose court regulates corporate behavior. "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."[17]

## Findings

This study examines a wide range of votes from large mutual fund families, including both management proposals on executive pay issues and shareholder-sponsored compensation proposals, which appeared on proxy ballots for the 2005 annual general meetings. Using N-PX filings with the SEC on which mutual funds disclose their votes, this report analyzes the proxy voting records of 18 of the largest 25 mutual fund families for which we were able to parse their election data sets. We examined all executive compensation-related proposals at corporate annual meetings from July 1, 2004, to June 30, 2005. This report's purpose is to determine the extent to which mutual funds have voted to limit executive compensation or to tie it more closely to company performance.

The report shows that mutual funds in general are enabling executive compensation excesses. With a few exceptions, the largest mutual fund families are complicit in runaway executive compensation because they have not used their voting power in ways that would constrain pay by tying it more closely to individual company performance. In the aggregate, the mutual funds voted to support management recommendations on compensation issues—both recommendations to vote in favor of management compensation proposals and recommendations to vote against shareholder proposals seeking executive pay reform—73.9 percent of the time and rejected the management position only 23.7 percent of the time.

**14.** *Ibid* at 4.

**15.** Investment Company Act of 1940.

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

**17.** 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.

As a voting block, these 18 mutual fund families had the following voting patterns:

- The average vote in favor of management proposals on compensation issues was 75.6 percent.
- The average vote in favor of compensation-related shareholder proposals was 27.6 percent.
- Shareholder proposals to expense stock options and proposals to cap severance agreements were the only proposals supported by a majority of mutual fund voters; these proposals averaged 74.8 and 62.2 percent support, respectively.
- Shareholder proposals on performance-based equity compensation were supported by mutual funds an average of 37.6 percent of the time.
- For most fund families, company-specific compensation practice—as rated by The Corporate Library—had no impact on the whether mutual funds voted to approve or reject management's compensation proposals. Shareholders, however, were most likely to file their pay resolutions at companies that received an F rating for compensation.[18]

## Overall Fund Rankings

In order to develop a comprehensive picture of how each fund family dealt with pay issues compared to their peers, we created a composite ranking by averaging each fund family's rankings on their voting in three categories: management recommendations, management proposals and shareholder proposals. Based upon the average from these three metrics, we ranked the fund families from 1 to 18, with "1" being the most sensitive to shareholder compensation concerns and "18" being the greatest "pay enablers." Five fund families are identified as pay enablers because they consistently failed to use their proxy voting power in ways that would limit excesses in executive pay schemes. Four mutual funds that scored significantly better than their peers on executive compensation issues are identified as "pay constrainers."

| Rank | Fund | Score | Rank | Fund | Score |
|---|---|---|---|---|---|
| 1 | American Century Investment Management | 2.3 | 10 | Fidelity Investments | 9.7 |
| 2 | TIAA-CREF Asset Management | 4.0 | 11 | American Funds | 10.0 |
| 3 | Federated Investors | 5.3 | 12T | T. Rowe Price Group | 11.3 |
| 4 | Vanguard Group | 6.0 | 12T | Smith Barney Asset Management (Citigroup) | 11.3 |
| 5 | Janus Capital Group | 6.7 | 14 | OppenheimerFunds | 12.7 |
| 6 | Legg Mason | 7.3 | 15 | AllianceBernstein | 13.0 |
| 7 | Merrill Lynch Investment Managers | 7.7 | 16 | Dreyfus Corporation | 15.0 |
| 8T | Franklin Templeton | 8.0 | 17 | AIM Investments | 15.7 |
| 8T | Putnam Investments | 8.0 | 18 | Morgan Stanley Funds | 17.0 |

**18.** For companies that receive an "A"rating from The Corporate Library for compensation, shareholder proposals made up 2.2 percent of all compensation-related proposals (number of proposals at A-rated companies: 178; management-sponsored proposals: 174; shareholder-sponsored proposals: 4; percentage of shareholder proposals at A-rated companies: 4/178 = 2.2%). For companies that received an "F" rating for compensation, shareholder proposals made up 45.8% of all compensation-related proposals (number of proposals at F-rated companies: 212; management-sponsored proposals: 115; shareholder-sponsored proposals: 97; percentage shareholder proposals: 97/212 = 45.8%).

## The Pay Enablers

Across all the proposal types for which we measured fund voting patterns, five funds stood out for their uncritical view of manager proposals on pay and their lack of support for shareholder efforts to constrain pay. In order to qualify as a pay enabler, the fund had to fall into the bottom third of the average combined ranking in all three of the following categories:

- Opposition to management recommendations on all compensation-related proposals
- Votes for shareholder compensation proposals
- Votes against management proposals

In addition, each of the pay enablers voted below the average support level in each of these separate categories.

Using this approach, we identified Morgan Stanley, AIM, Dreyfus, AllianceBernstein and OppenheimerFunds as the worst pay enablers. Morgan Stanley ranked significantly below all of its peers in our analysis and has the worst pay-enabling proxy voting record. It casts votes against management's recommendations only 8.1 percent of the time and supports management pay proposals 94.7 percent of the time. While the Fidelity funds ranked in the middle of funds in terms of their composite voting record, they were the least supportive of shareholder efforts to control pay, voting for shareholder proposals only 2.2 percent of the time. Putnam ranked a close second, supporting shareholder proposals only 2.6 percent of the time. Both of these fund families, however, while not supporting shareholders, were among the most aggressive in voting against management-sponsored compensation proposals.

## The Pay Constrainers

We identified American Century, TIAA-CREF, Federated and Vanguard as pay constrainers. American Century and TIAA-CREF were the fund families whose voting patterns most consistently challenged executive pay practices. TIAA-CREF was the most likely to support shareholder efforts to control pay, supporting shareholder proposals 53.4 percent of the time. Janus and American Century also supported shareholder proposals significantly more often than their peers, supporting more than 40 percent of shareholder compensation proposals.

Federated mutual funds voted most frequently against management's recommendations, doing so 53.4 percent of the time. The Federated funds opposed management compensation proposals more than any other mutual fund family in the study, voting to reject management proposals 61.2 percent of the time. American Century followed Federated in opposing management's recommendations 38.6 percent of the time and was third in rejecting management proposals 36.7 percent of the time. Vanguard qualified as a pay constrainer for opposing management's recommendations and management proposals more than one third of the time.

## Methodology

Data for this study was extracted from N-PX filings from 18 of the 25 largest fund families for which we could disaggregate data. The study examined all votes cast on compensation-related issues by each fund family for the period of July 1, 2004, to June 30, 2005, using parsing techniques designed by research staff at The Corporate Library.[19] We examined votes for 2,393 management compensation proposals and 362 shareholder compensation proposals at 1,603 companies held in portfolios (accounting for 1,642 shareholder meetings). In total, 37,966 votes were cast by the funds of the mutual fund families in this study. (See Appendix B for the voting breakdown for each mutual fund family. Note: We do not break down the fund portfolios or individual funds under each family.)

Funds' votes were measured and comparison-ranked for the following proposal categories: management's recommendations, management proposals, shareholder proposals, option expensing, performance-based options and severance. (See Appendix A for the breakdown by proposal category.) In addition, for each fund we compared how they cast votes on management proposals at companies whose compensation practices were rated from "A" to "F" by The Corporate Library.

For management-sponsored proposals to approve compensation plans, management would recommend that shareholders vote "for" these proposals. This report considers an "against" vote to be more likely to serve shareholder interests. We recognize that compensation plans can be designed with features that tie pay more closely to performance and are thus considered "shareholder-friendly." These design features, which require the use of indexed, premium-priced and contingent-vesting stock options,[20] as well as performance-vesting restricted stock,[21] are still rare, though, despite the fact that they reduce the cost to the company of awarding a given number of options or shares.[22]

The vast majority of compensation plans give nearly unlimited discretion to the compensation committee to decide what kinds of vehicles to use and whether to impose hurdles related to company performance. As a result, standard at-the-money stock options and restricted stock that vests with the passage of time continue to be the norm when compensation committees implement equity-based compensation plans. These arrangements are clearly not in the interests of a company's shareholders.

Similar problems 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) or luck (like changes in commodity prices or exchange rates), rewarding executives for events outside their control.[23] The inclusion in income of projected (not actual) earnings on a company's defined-benefit pension plan raises similar issues. Compensation committees may set modest performance targets

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

**20.** 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 tailor the payout more closely to the performance of the company itself.

**21.** Performance-vesting restricted stock does not vest—meaning, the restrictions on resale do not lapse—until some performance benchmark has been achieved. In some cases, the shares are forfeited if the goal is not achieved; other times, the stock vests later if the target is not met.

**22.** Bebchuk and Fried, *supra* note 4, at 137-46, 172-73.

**23.** Olivier Jean Blanchard et al., "What Do Firms Do with Cash Windfalls?" *J. Fin Econ.* 36 (1994); Marianne Bertrand and Sendhil Mullainathan, "Are CEOs Rewarded for Luck? The Ones Without Principals Are," *Q. Jl. Econ.* 116, 2001.

or may change the targets midstream when it becomes apparent that actual results will fall short.[24]

Shareholder-sponsored proposals suggest some change to the company's senior executive compensation policies, and management almost always recommends that shareholders vote "against" them. Shareholders submit compensation-related proposals on a wide variety of subjects, including improved disclosure, the use of particular equity instruments to compensate executives, severance arrangements, the accounting treatment of stock options[25] and pay disparity within companies. Although poorly drafted or otherwise flawed shareholder proposals do make it onto company proxy statements on occasion, we believe that the bulk of shareholder proposals on executive compensation would tie pay more closely to company performance or encourage additional disclosure on executive compensation. Accordingly, we view a "for" vote on these proposals as being in the best interests of shareholders and more likely to constrain excessive pay.

Fund families that reported votes for each separate fund in their N-PX filings have multiple votes on specific proposals included in our data sets, which account for the large number of votes recorded by some mutual fund families. For the most part, fund families voted consistently across all funds.

The analysis reviewed management proposals on the compensation issues of equity plans, incentive plans and deferred compensation (basically, equity plans). It also reviewed mutual fund votes on compensation-related shareholder proposals, which included CEO compensation, compensation disclosure, option expensing, performance-based options, severance agreements and pay disparity reporting.

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**24.** Compensation committees can make changes to incentive plans that seem designed to ensure payouts. During Fiscal Year 2003, long-term incentive pay granted to Home Depot CEO Robert Nardelli and other named executives was payable based on reaching certain Total Stockholder Return (TSR) thresholds in comparison with its peers. But for Fiscal Year 2004, as announced in the proxy for the 2005 annual meeting, Home Depot changed the performance metric for executives' long-term incentive pay from TSR versus a peer group, to an Earnings Per Share measure. Home Depot has performed very well in regards to EPS growth, but has performed badly for the TSR metric.

**25.** Although the Financial Accounting Standards Board had formulated a standard for "expensing" stock options, or recognizing their cost on the income statement, by the time the votes analyzed in this report were cast, shareholders nonetheless pressed this is.

# APPENDIX A – Comparative Voting Categories and Fund Voting Results

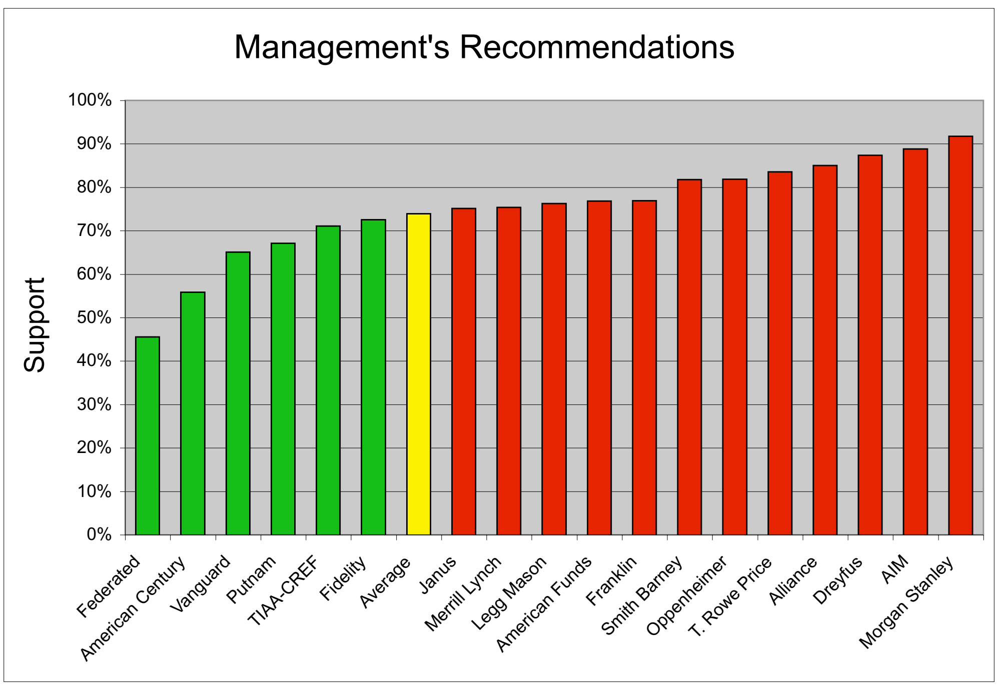
## Management's Recommendations

The following chart and table compare how often fund families voted according to management's recommendations. On the proxy, management provides its recommendation on how shareholders should vote on the agenda items. Invariably, management recommends "for" management-sponsored proposals and "against" shareholder-sponsored proposals.

The greater percentage of votes against management recommendations and proposals are evidence of a more rigorous review of compensation matters.

Accordingly, we view an "against" management's recommendations on compensation items as being in the best interests of shareholders. Measured by support, we consider a lower level of support for management's recommendations in the shareholders' best interests.

**Fund average vote for management's recommendations: 73.9%**

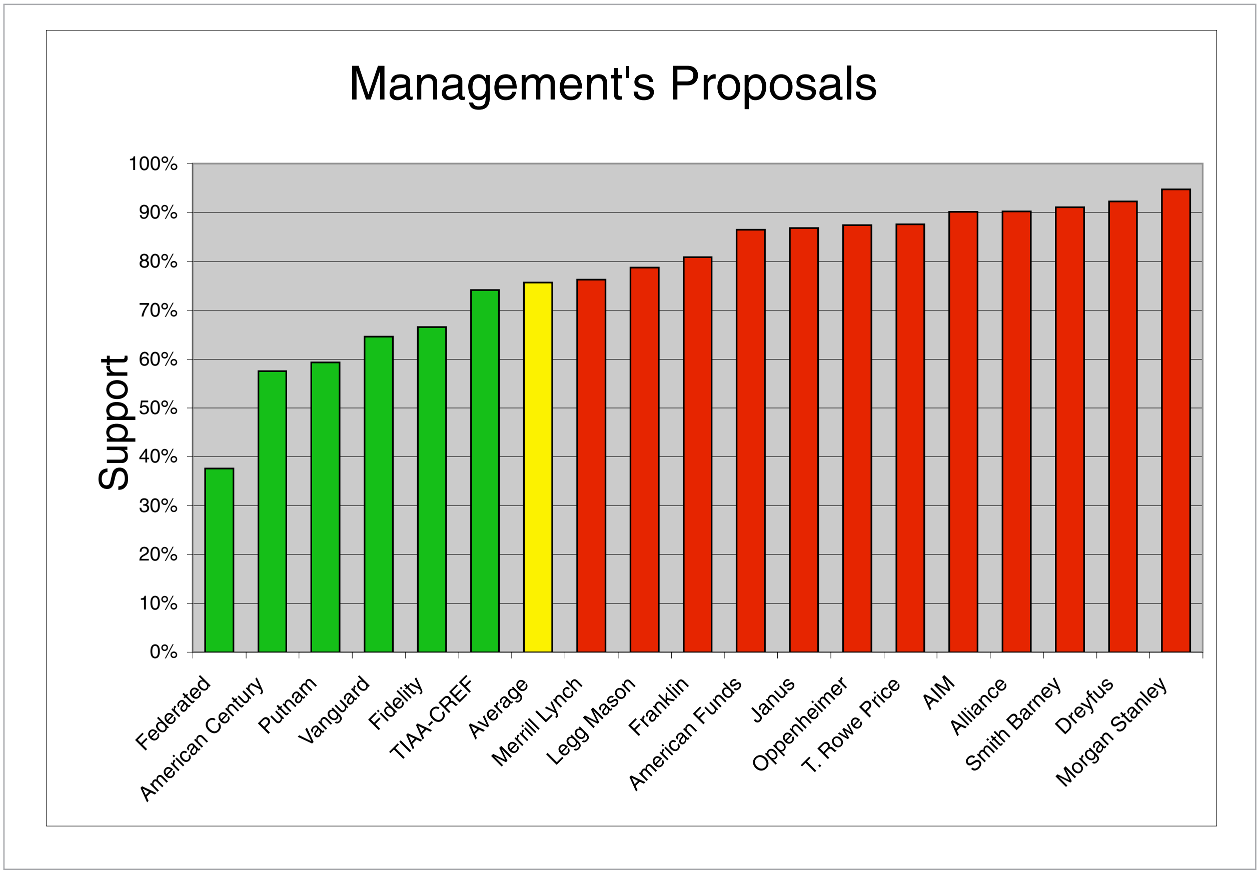



| Pay Constraining | Average | More Pro Pay | Pay Enablers |
|---|---|---|---|
| Federated – 45.6% | Fidelity – 72.5% | American Funds – 76.8% | T. Rowe Price – 83.6% |
| American Century – 55.9% | Janus – 75.1% | Franklin – 76.9% | Alliance – 85.0% |
| Vanguard – 65.1% | Merrill Lynch – 75.3% | Smith Barney – 81.81% | Dreyfus – 87.3% |
| Putnam – 67.1% | Legg Mason – 76.3% | Oppenheimer – 81.83% | AIM – 88.8% |
| TIAA-CREF – 71.0% | | | Morgan Stanley – 91.7% |

## Management's Proposals

The following chart and table compares how fund families voted on management-sponsored compensation proposals. This report considers a vote "against" management proposals to be more likely to serve shareholder interests. Measured by proposal support, we consider a lower level of support for management proposals in the shareholders' best interests.

**The average vote for management's proposals: 75.6%**

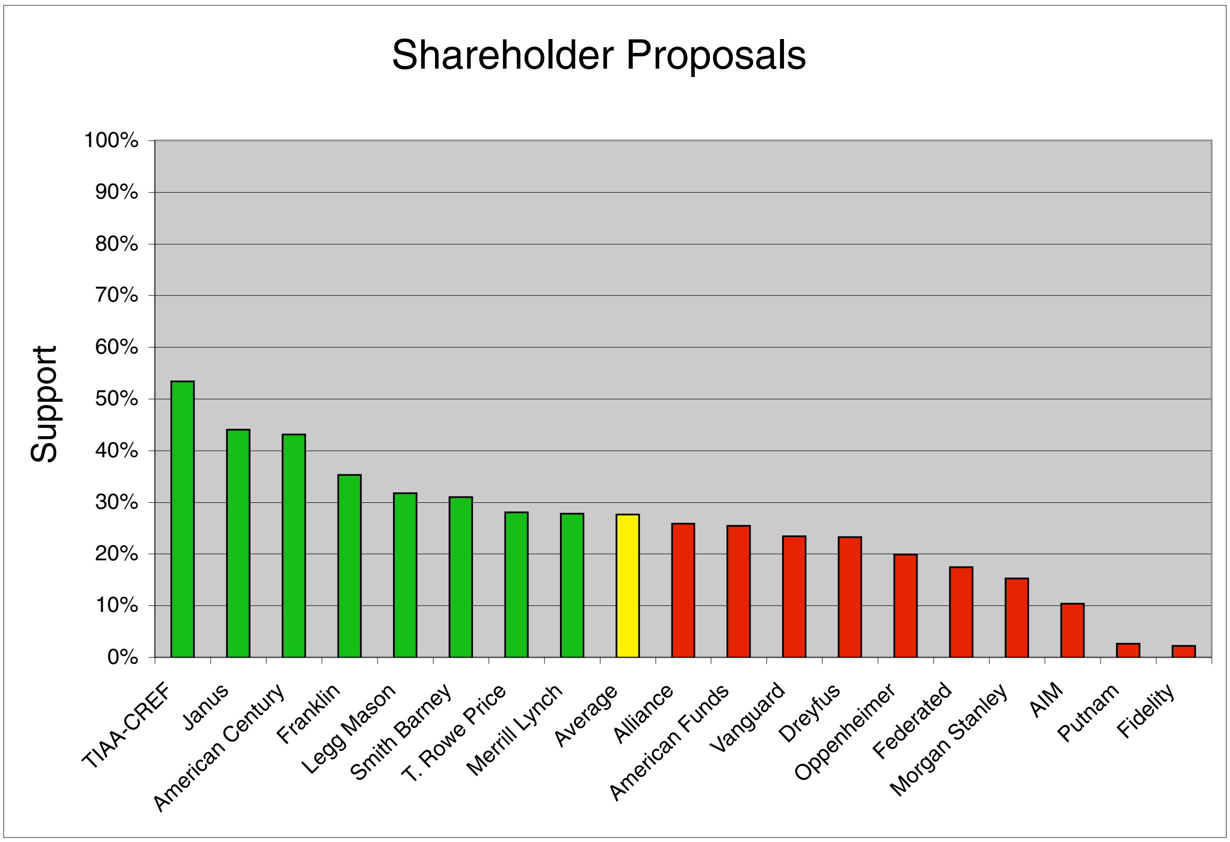



| Pay Constraining | Average | More Pro Pay | Pay Enablers |
|---|---|---|---|
| Federated – 37.6% | TIAA-CREF – 74.1% | Franklin – 80.8% | AIM – 90.1% |
| American Century – 57.5% | Merrill Lynch – 76.3% | American Funds – 86.5% | Alliance – 90.2% |
| Putnam – 59.3% | Legg Mason – 78.7% | Janus – 86.8% | Smith Barney – 91.1% |
| Vanguard – 64.6% | | Oppenheimer – 87.4% | Dreyfus – 92.3% |
| Fidelity – 66.5% | | T. Rowe Price – 87.6% | Morgan Stanley – 94.7% |

## Shareholder Proposals

The following chart and table compare how fund families voted on shareholder-sponsored compensation proposals, which included CEO compensation, commonsense pay, compensation disclosure, option expensing, limit compensation, link pay to social and environmental criteria, pay disparity, performance-based equity compensation, severance agreements and shareholder vote on executive compensation. This report considers a vote "for" shareholder proposals to be more likely to serve shareholder interests.

**The average votes for shareholder proposals: 27.6%**

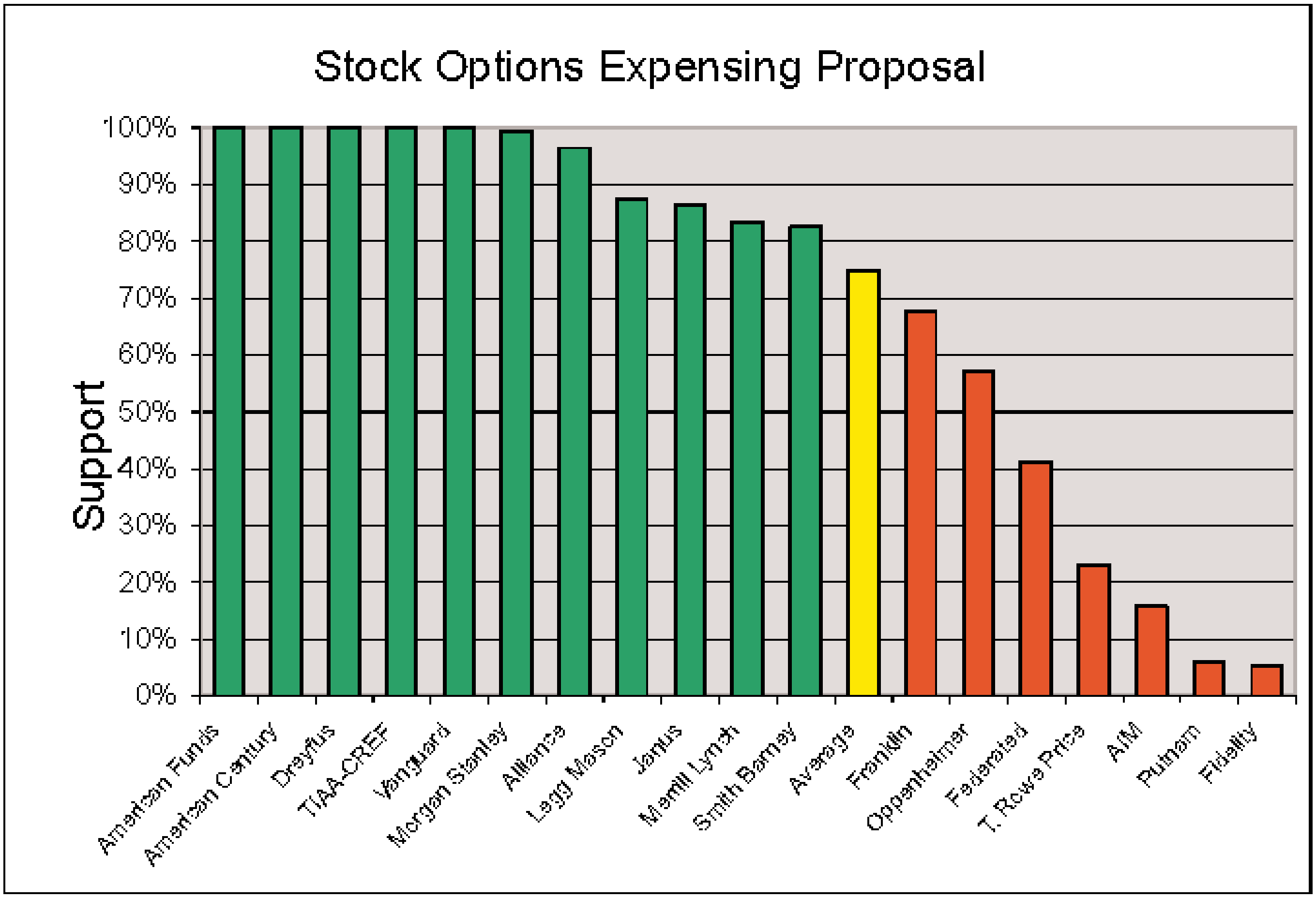



| Pay Constraining | More Likely to Support | More Pro Pay | Pay Enablers |
|---|---|---|---|
| TIAA-CREF – 53.4% | Legg Mason – 31.7% | Alliance – 25.8% | Federated – 17.4% |
| Janus – 44.0% | Smith Barney – 31.0% | American Funds – 25.4% | Morgan Stanley – 15.2% |
| American Century – 43.1% | T. Rowe Price – 28.1% | Vanguard – 23.4% | AIM – 10.3% |
| Franklin – 35.3% | Merrill Lynch – 27.8% | Dreyfus – 23.3% | Putnam – 2.6% |
| | | Oppenheimer – 19.8% | Fidelity – 2.2% |

## Stock Options Expensing Proposals

The following chart and table compare how fund families voted on stock option expensing proposals. This report considers a vote "for" expensing proposals as serving shareholder interests.

**Fund average support for stock option expensing proposals: 74.8%**

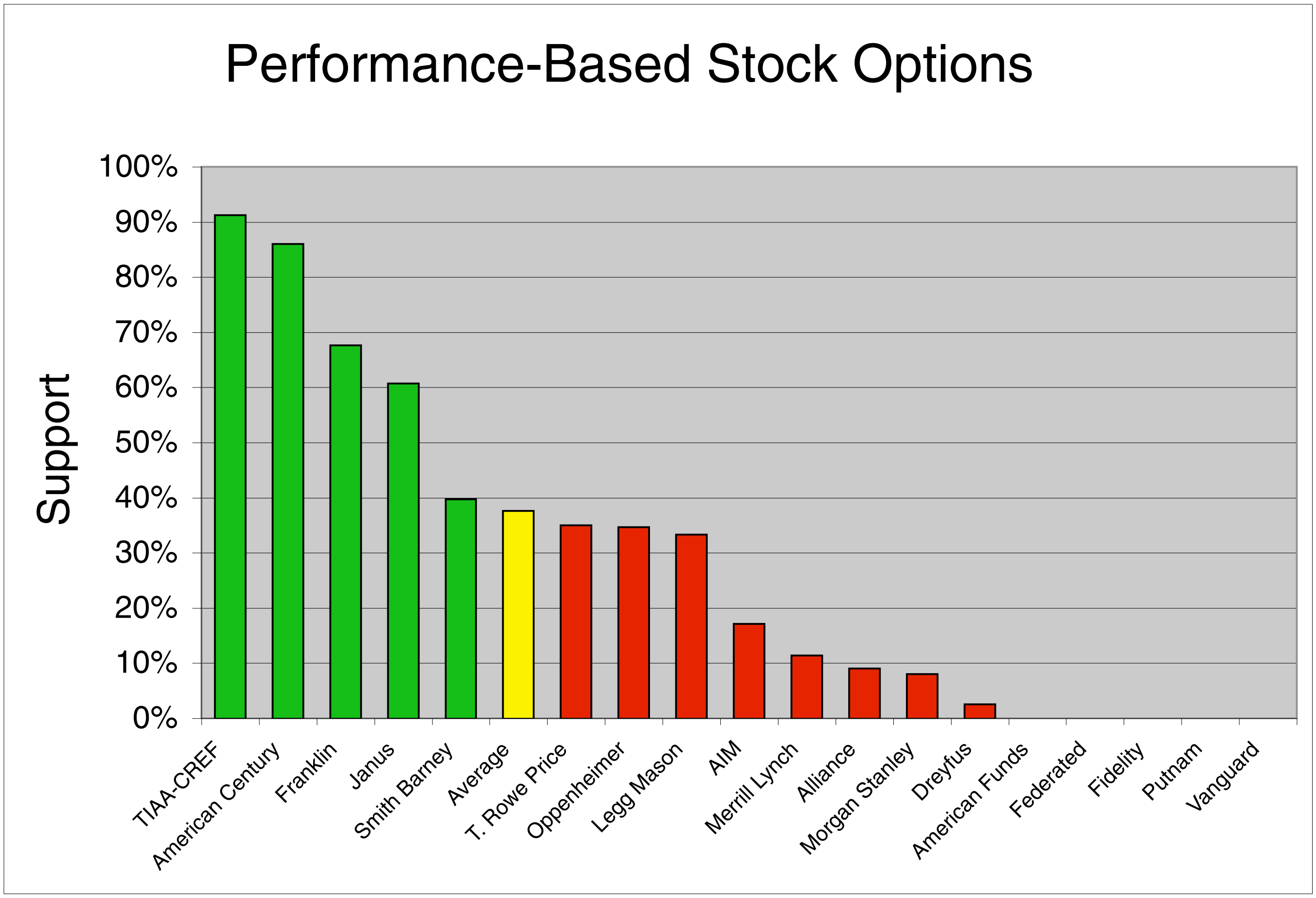



| Pay Constraining | More Likely to Support | More Pro Pay | Pay Enablers |
|---|---|---|---|
| American Funds – 100% | Morgan Stanley – 99.3% | Smith Barney – 82.6% | Federated – 41.0% |
| American Century – 100% | Alliance – 96.4% | Franklin – 67.4% | T. Rowe Price – 23.1% |
| Dreyfus – 100% | Legg Mason – 87.5% | Oppenheimer – 57.1% | AIM – 15.7% |
| TIAA-CREF – 100% | Janus – 86.5% | | Putnam – 6.1% |
| Vanguard – 100% | Merrill Lynch – 83.3% | | Fidelity – 5.3% |

## Performance-Based Stock Options

The following chart and table compare how fund families voted on proposals urging companies to use performance-based stock options. These proposals seek to tie pay more closely to an individual company, rather than stock market or industry performance. This report considers a vote "for" performance-based option proposals to serve shareholder interests.

**Fund average support for performance-based stock options: 37.6%**

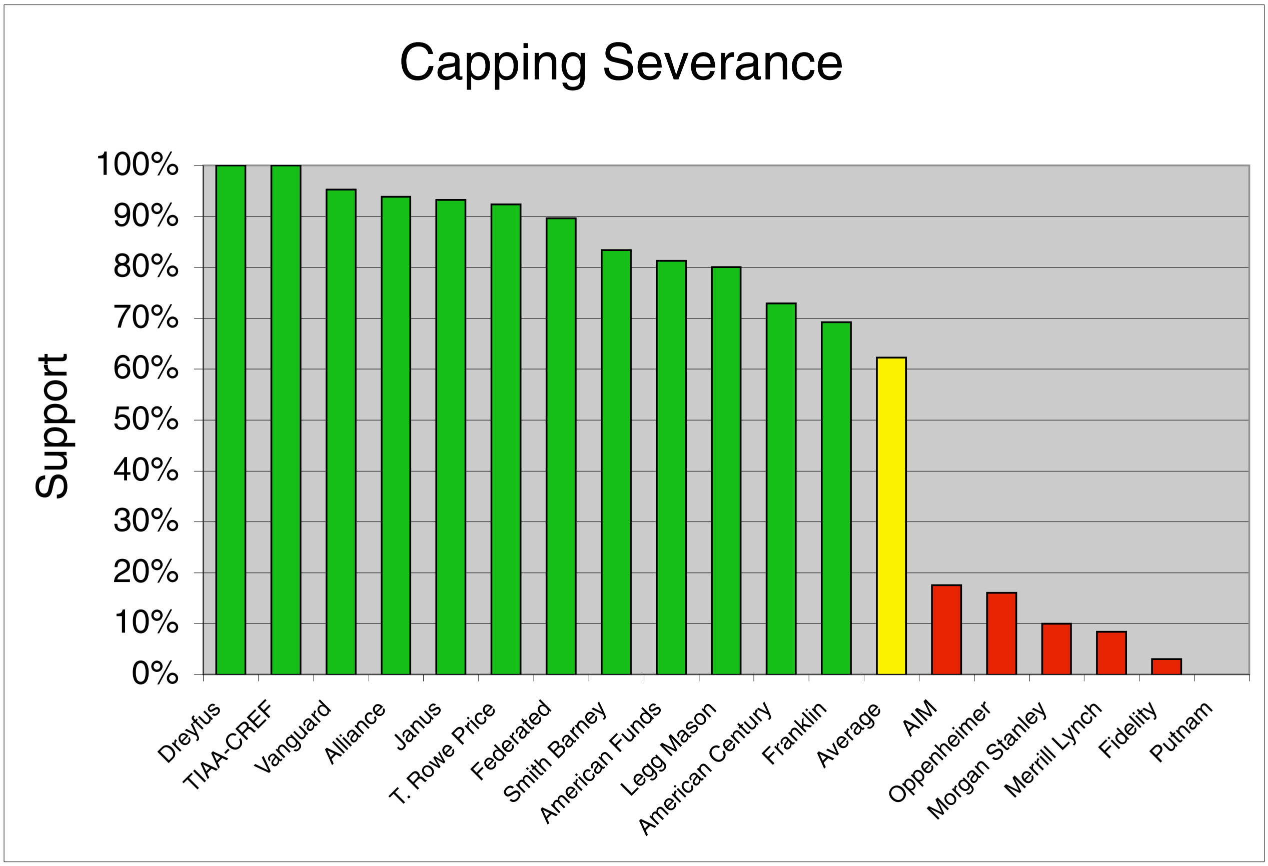



| Pay Constraining | Average | More Pro Pay | Pay Enablers |
|---|---|---|---|
| TIAA-CREF – 91.3% | Smith Barney – 39.7% | AIM – 17.1% | American Funds – 0% |
| Am. Century – 86.0% | T. Rowe Price – 35.0% | Merrill Lynch – 11.4% | Federated – 0% |
| Franklin – 67.6% | Oppenheimer – 34.6% | Alliance – 9.0% | Fidelity – 0% |
| Janus – 60.7% | Legg Mason – 33.3% | Morgan Stanley – 8.0% | Putnam – 0% |
| | | Dreyfus – 2.6% | Vanguard – 0% |

## Capping Severance

The following chart and table compare how fund families voted on proposals to cap severance or change in-control payouts to executives (golden parachutes). This report considers a vote "for" severance proposals to serve shareholder interests.

**Fund average support capping severance: 62.2%**




| Pay Constraining | More Likely to Support | Average | Pay Enablers |
|---|---|---|---|
| Dreyfus – 100% | Federated – 89.7% | American Century – 72.9% | AIM – 17.5% |
| TIAA-CREF – 100% | Smith Barney – 83.3% | Franklin – 69.2% | Oppenheimer – 16.0% |
| Vanguard – 95.2% | American Funds – 81.3% | | Morgan Stanley – 9.9% |
| Alliance – 93.9% | Legg Mason – 80.0% | | Merrill Lynch – 8.3% |
| Janus – 93.2% | | | Fidelity – 3.0% |
| T. Rowe Price – 92.3% | | | Putnam 0% |

# APPENDIX B: Mutual Fund Family Analysis

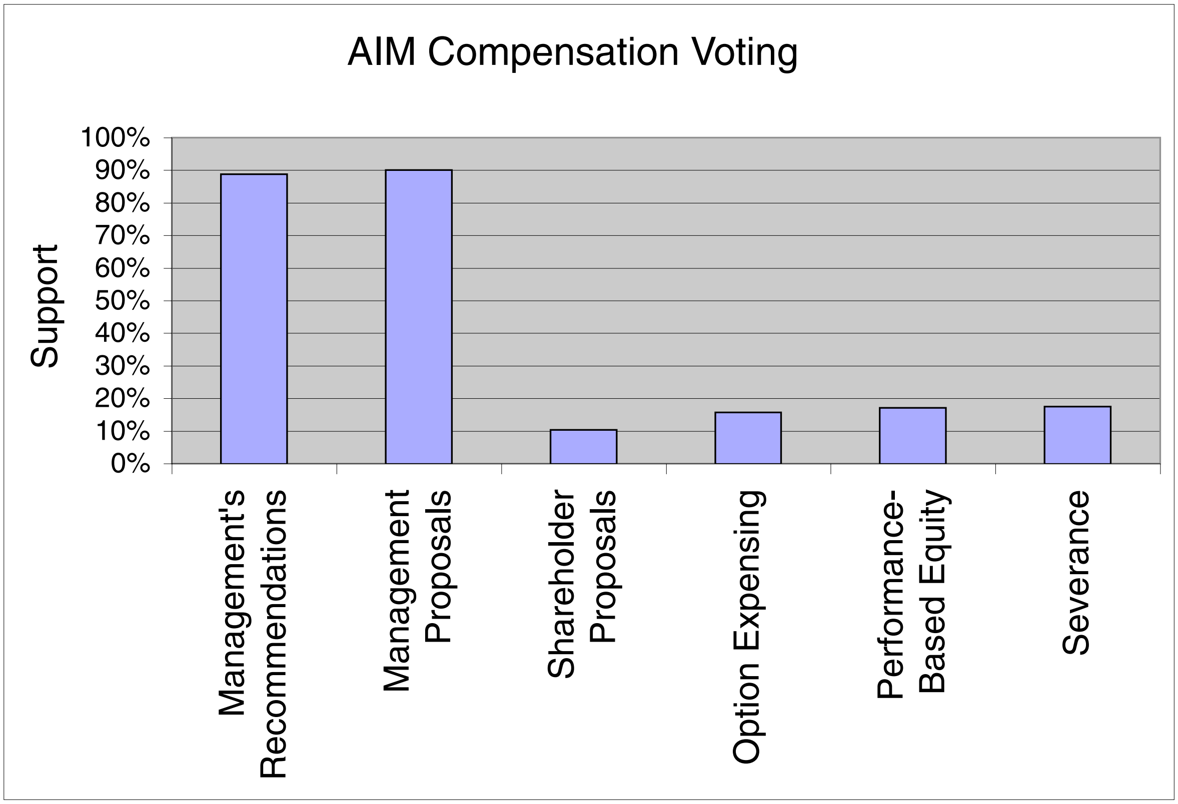
In this appendix, each mutual fund family is evaluated for its votes in the following six categories: management proposals, shareholder proposals, management's recommendations, option expensing, performance-based options and severance. Each category lists the number of total votes by the fund family, followed by votes for, votes against, abstentions and "no" votes. In addition, we compared votes on management proposals at companies whose compensation practices are "A" rated and "F" rated by The Corporate Library to see the degree to which funds take into account company-specific practices when making voting decisions.

The discussion of each fund preceding the categories provides a general explanation of the fund's voting patterns and overall tendencies on compensation-related items in comparison with the other funds.

**Category Rankings:** For each voting category analyzed, the fund families have been assigned a ranking in comparison to the other funds surveyed. The rankings range from one to 18, with "one" being the top-ranked fund family in that particular category. Five funds tied for first on expensing options; performance-based options rankings end at 14, as five funds tied for last.

# AIM Investments Composite Rank: 17

AIM Funds are the second greatest Pay Enabler of the funds studied. They ranked among the bottom dwellers for each of the voting metrics reviewed. AIM Funds were fifth least likely to vote against management proposals, third least likely to vote for shareholder proposals and second least likely to vote counter to management's recommendations.

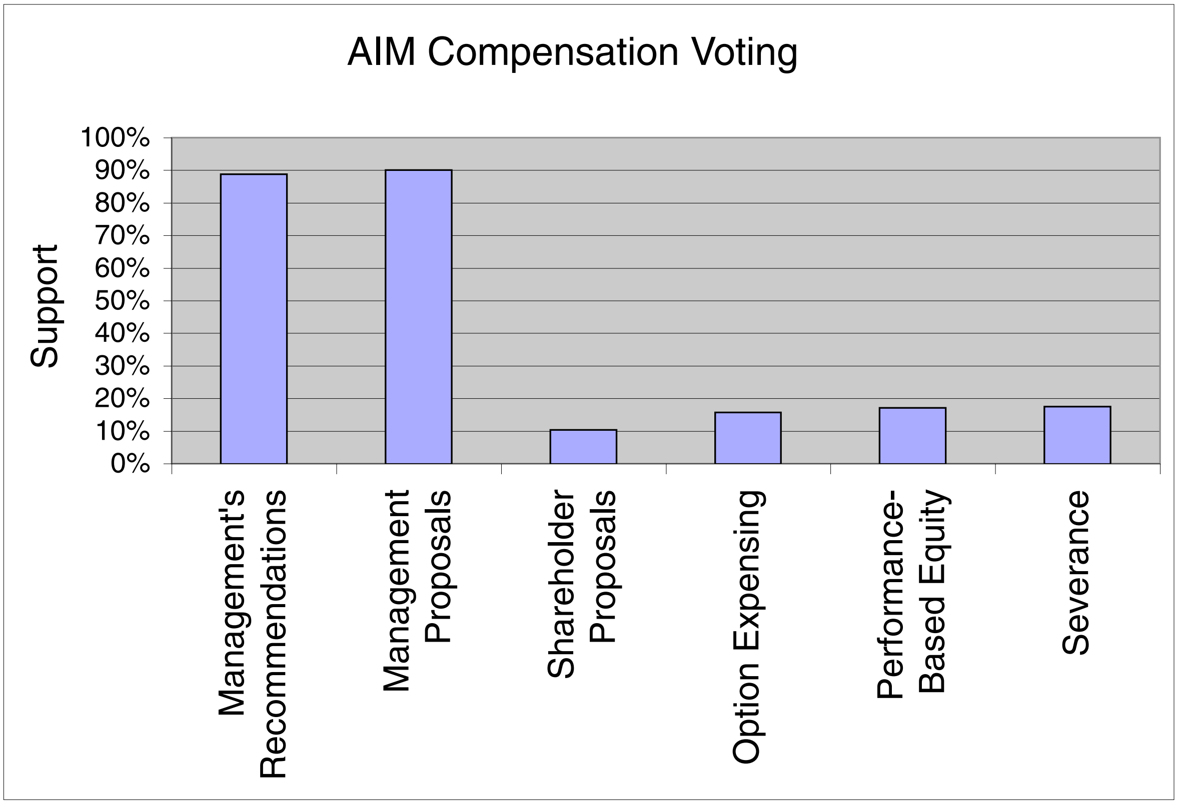



| Voting Category | For | Against | Abstain | Category Rank |
|---|---|---|---|---|
| Management's Recommendations | 88.8% | 8.6% | 2.6% | 17 |
| Management Proposals | 90.1% | 7.9% | 2.0% | 14 |
| Shareholder Proposals | 10.3% | 85.7% | 4.0% | 16 |
| Option Expensing | 15.7% | 84.3% | | 16 |
| Performance-Based Options | 17.1% | 82.1% | 0.8% | 9 |
| Severance | 17.5% | 82.5% | | 13 |
| Management Proposals at A-rated | 86.9% | 13.1% | | |
| Management Proposals at F-rated | 96.1% | 3.9% | | |

Management proposals at A- and F-rated companies: AIM voted for proposals at F-rated companies at a *higher* rate than at A-rated.

# AllianceBernstein Composite Rank: 15

The Alliance Fund Family ranked number 15, making it the fourth top Pay Enabler in the group studied. Alliance Funds were fourth least likely to vote against management proposals, fell in the middle of funds voting for shareholder proposals, and were fourth least likely to vote counter to management's vote recommendations.

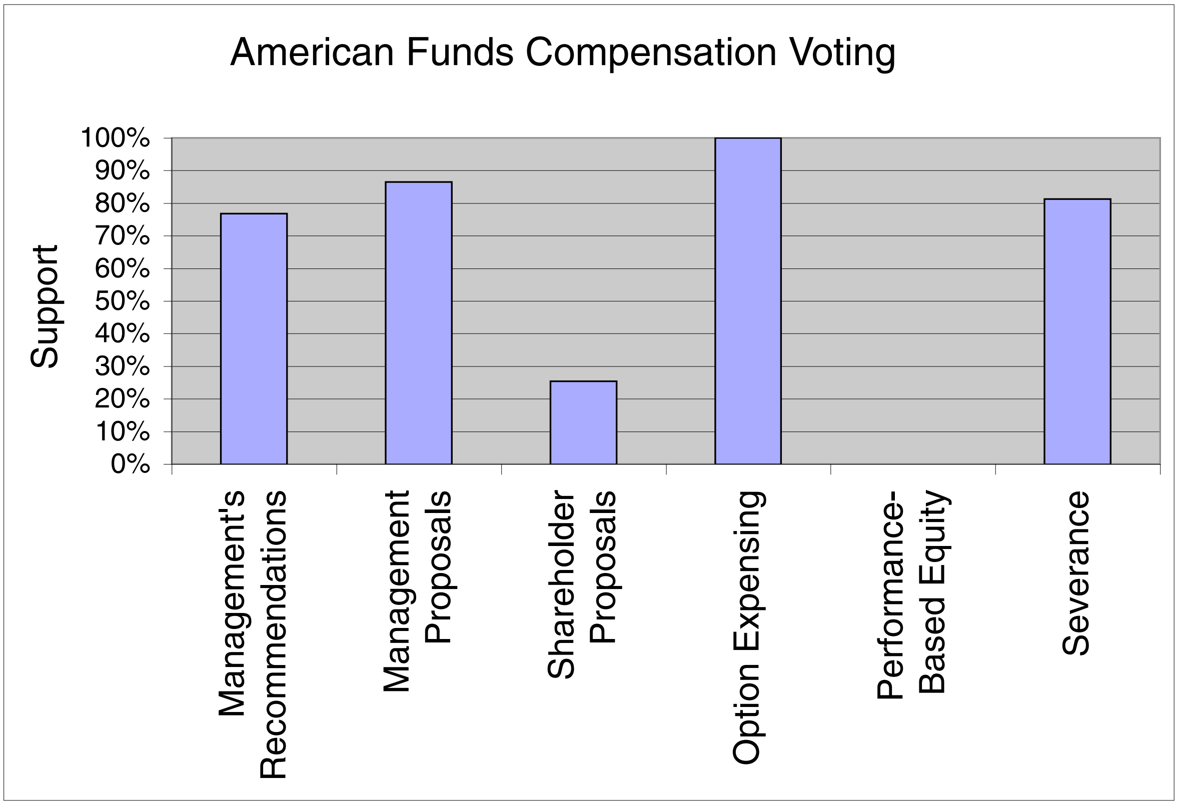



| Voting Category | For | Against | Abstain | Rank |
|---|---|---|---|---|
| Management's Recommendations | 85.0% | 14.2% | 0.8% | 15 |
| Management Proposals | 90.2% | 8.9% | 0.9% | 15 |
| Shareholder Proposals | 25.8% | 73.7% | 0.4% | 9 |
| Option Expensing | 96.4% | 3.6% | | 7 |
| Performance-Based Options | 9.0% | 91.0% | | 11 |
| Severance | 93.9% | 6.1% | | 4 |
| Management Proposals at A-rated | 80.4% | 19.6% | | |
| Management Proposals at F-rated | 95.5% | 4.5% | | |

Management proposals at A- and F-rated companies: The Alliance fund family voted for management proposals more at F-rated companies than at A-rated companies.

# American Funds Composite Rank: 11

American Funds are ranked as the 11th most likely to vote on pay constraints and are in the Pay Enabling tier. American Funds were more likely to support management proposals, more likely to oppose shareholder proposals and were more likely to vote according to management's vote recommendations. For shareholder proposals, American policy supported all option expensing and opposed all performance-based measure proposals.



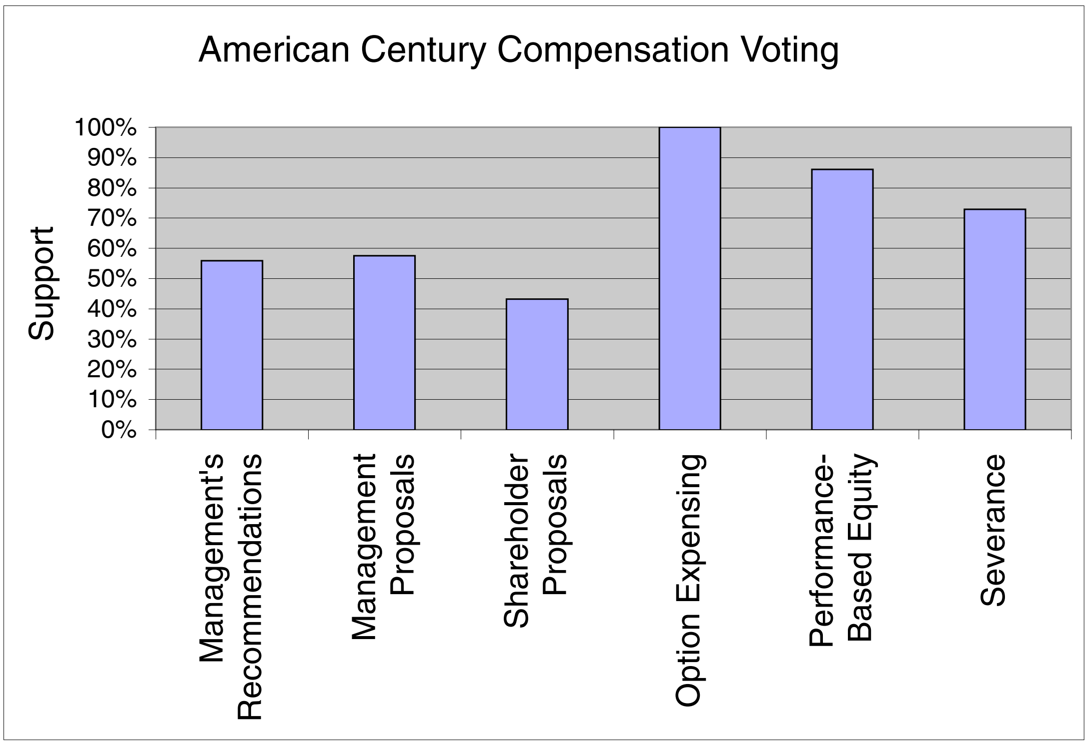

| Voting Category | For | Against | Abstain | CategoryRank |
|---|---|---|---|---|
| Management's Recommendations | 76.8% | 15.1% | 8.1% | 10 |
| Management Proposals | 86.5% | 10.7% | 2.8% | 10 |
| Shareholder Proposals | 25.4% | 74.6% | | 10 |
| Option Expensing | 100% | | | 1 (tied) |
| Performance-Based Options | | 100% | | 14 (tied) |
| Severance | 81.2% | 18.8% | | 9 |
| Management Proposals at A-rated | 77.8% | 22.2% | | |
| Management Proposals at F-rated | 98.0% | 2.0% | | |

Management proposals at A- and F-rated companies: The American Funds voted for management proposals more at F-rated companies than at A-rated companies.

# American Century Investment Management

## Composite Rank: 1

American Century ranked as the top Pay Constrainer in our analysis, making them the fund family most likely to vote to constrain excessive pay voting. American Century Funds were second most likely to vote against management proposals, third most likely to vote for shareholder proposals and were second most likely to vote counter to management's recommendations.

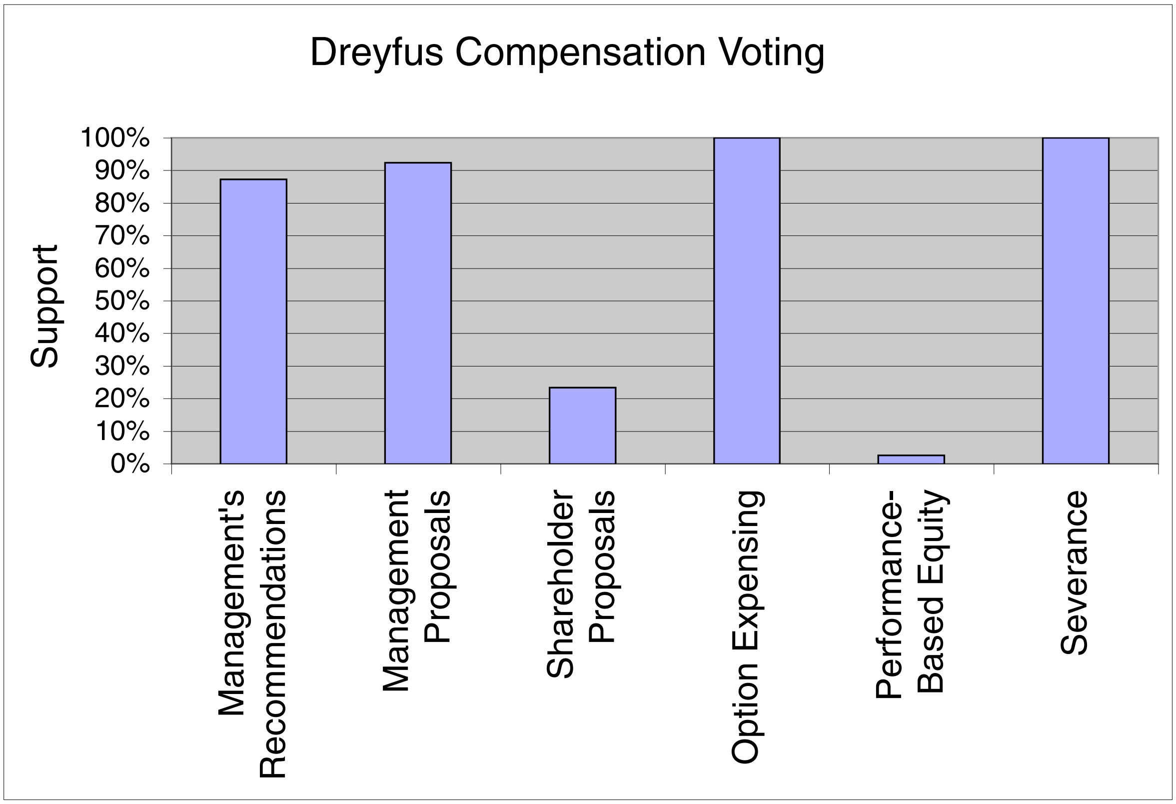



| Voting Category | For | Against | Abstain | Category Rank |
|---|---|---|---|---|
| Management's Recommendations | 55.9% | 38.6% | 5.6% | 2 |
| Management Proposals | 57.5% | 36.7% | 5.8% | 2 |
| Shareholder Proposals | 43.1% | 51.9% | 5.0% | 3 |
| Option Expensing | 100% | | | 1 (tied) |
| Performance-Based Options | 86.0% | 7.8% | 6.2% | 2 |
| Severance | 72.9% | 18.6% | 8.6% | 2 |
| Management Proposals at A-rated | 66.7% | 30.5% | 2.8% | |
| Management Proposals at F-rated | 57.9% | 41.2% | 0.9% | |

Management proposals at A- and F-rated companies: American Century voted for management proposals *more* at A-rated companies than at F-rated companies.

# Dreyfus Corporation Composite Rank: 16

Dreyfus ranked number 16, making it the third greatest Pay Enabler. Dreyfus Funds were second most likely to support management proposals, 12th-most likely to vote for shareholder proposals and third most likely to vote according to management's vote recommendations. Also, Dreyfus' voting policy supports shareholder severance proposals, in addition to proposals to expense stock options.

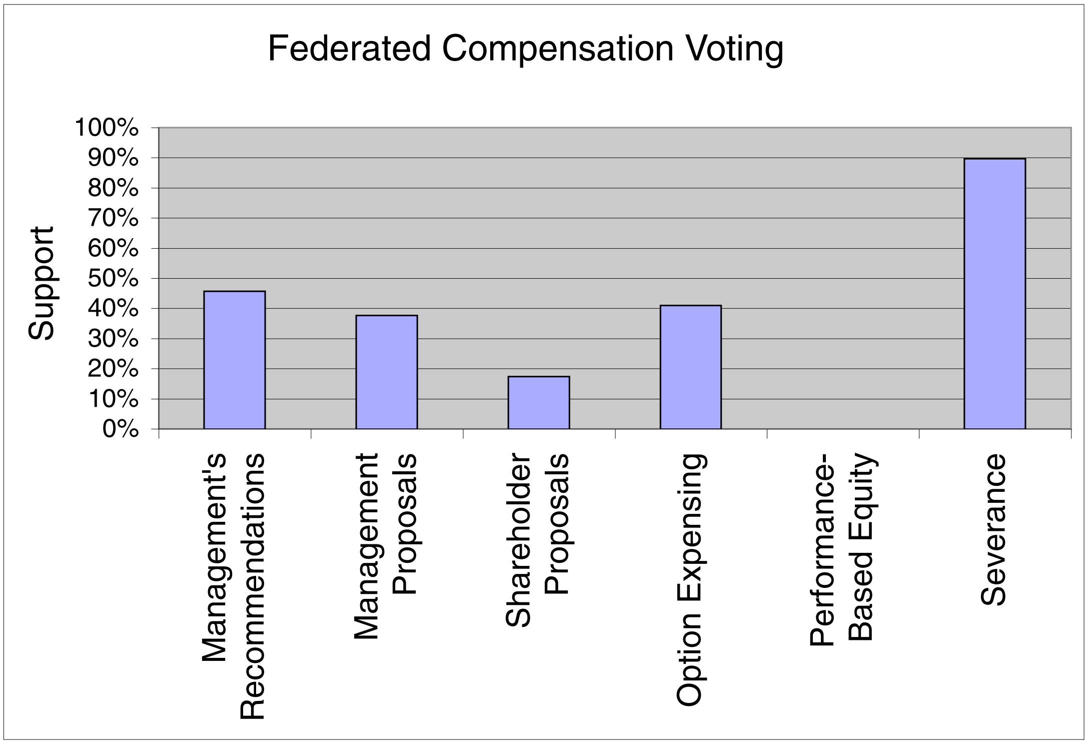



| Voting Category | For | Against | Abstain | Category Rank |
|---|---|---|---|---|
| Management's Recommendations | 87.3% | 12.4% | 0.2% | 16 |
| Management Proposals | 92.3% | 7.6% | 0.1% | 17 |
| Shareholder Proposals | 23.3% | 76.4% | 0.3% | 12 |
| Option Expensing | 100% | | | 1 (tied) |
| Performance-Based Options | 2.6% | 97.4% | | 13 |
| Severance | 100% | | | 1 (tied) |
| Management Proposals at A-rated | 88.1% | 11.9% | | |
| Management Proposals at F-rated | 96.6% | 3.4% | | |

Management proposals at A- and F-rated companies: Dreyfus Funds voted for management proposals *more* at F-rated companies than at A-rated companies.

# Federated Investors Composite Rank: 3

Federated ranked as the number three Pay Constrainer because of the scrutiny it gives to management proposals, voting against management proposals 61.2% of the time. Federated Funds ranked number one in opposing management proposals, and in voting against management recommendations. However, Federated fell into the Pay Enabling tier on support for shareholder proposals voting, ranking number 14.

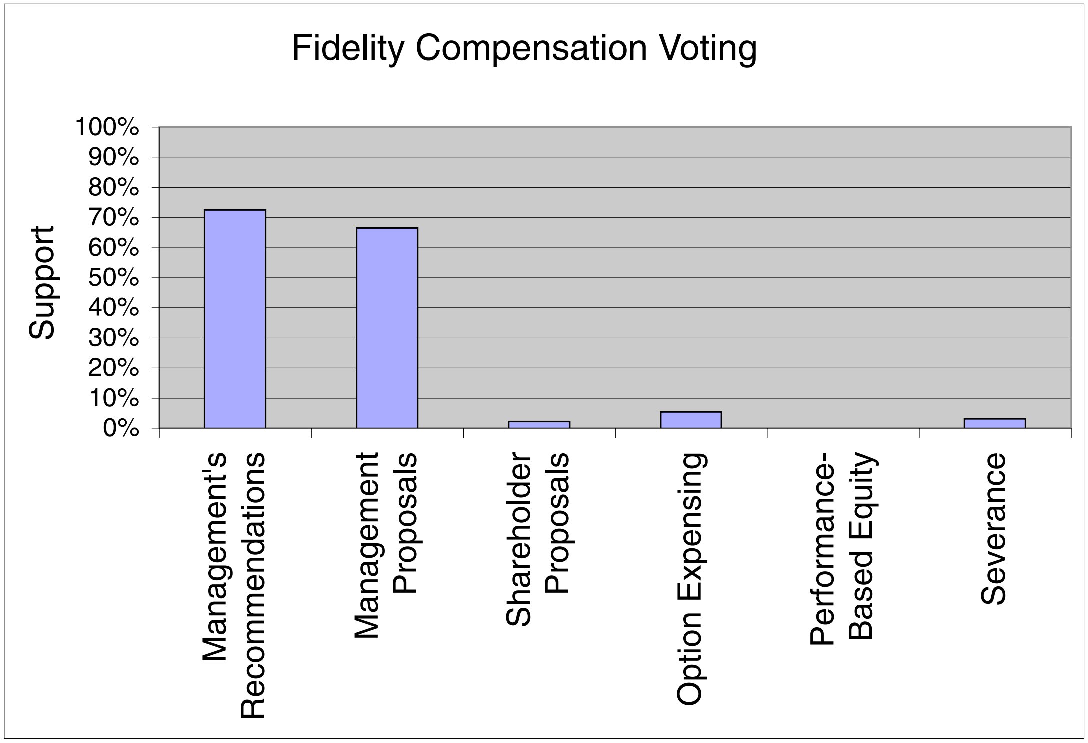



| Voting Category | For | Against | Abstain | Rank |
|---|---|---|---|---|
| Management's Recommendations | 45.6% | 53.4% | 1.0% | 1 |
| Management Proposals | 37.6% | 61.2% | 1.3% | 1 |
| Shareholder Proposals | 17.4% | 82.6% | | 14 |
| Option Expensing | 41.0% | 59.0% | | 14 |
| Performance-Based Options | | 100% | | 14 (tied) |
| Severance | 89.7% | 10.3% | | 7 |
| Management Proposals at A-rated | 26.9% | 71.9% | 1.2% | |
| Management Proposals at F-rated | 43.1% | 56.9% | | |

Management proposals at A- and F-rated companies: Federated voted for management proposals *more* at F-rated companies than at A-rated companies.

# Fidelity Investments Composite Rank: 10

Fidelity ranked 10 overall in their composite voting record on pay issues. However, Fidelity stands out as the mutual fund family most hostile to shareholder proposals, voting against their pay proposals nearly 98% of the time, far more often than other mutual funds. Fidelity Funds ranked fifth among the funds for voting against management compensation proposals and sixth most likely to vote counter to management's vote recommendations.

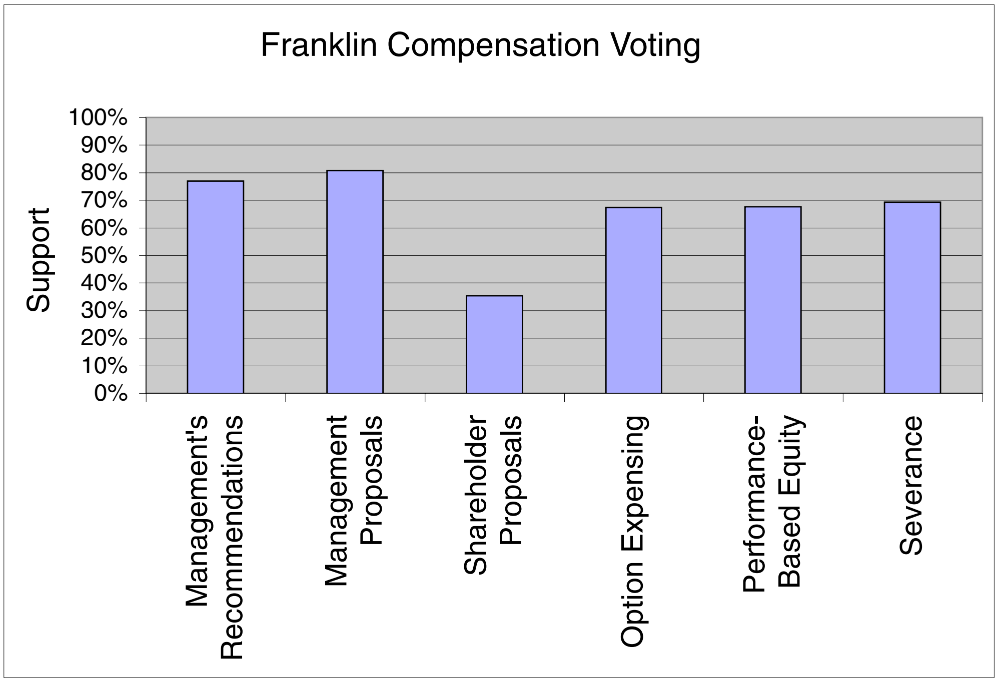



| Voting Category | For | Against | Abstain | CategoryRank |
|---|---|---|---|---|
| Management's Recommendations | 72.5% | 25% | 2.5% | 6 |
| Management Proposals | 66.5% | 32.1% | 1.4% | 5 |
| Shareholder Proposals | 2.2% | 97.8% | | 18 |
| Option Expensing | 5.3% | 94.7% | | 18 |
| Performance-Based Options | | 100% | | 14 (tied) |
| Severance | 3.0% | 97.0% | | 17 |
| Management Proposals at A-rated | 81.2% | 18.8% | | |
| Management Proposals at F-rated | 61.5% | 38.5% | | |

Management proposals at A- and F-rated companies: Fidelity voted for management proposals less at F-rated companies than at A-rated companies.

# Franklin Templeton Composite Rank: 8

Franklin Templeton is ranked number eight (tied with Putnam). Franklin Funds were average in their support of management proposals, and more Pay Constraining for shareholder proposals. Franklin Funds ranked ninth in voting against management proposals and ranked 11th in voting counter to management's vote recommendations. Franklin Funds were fourth most likely to support shareholder proposals overall and the third most likely to support performance-based shareholder proposals.

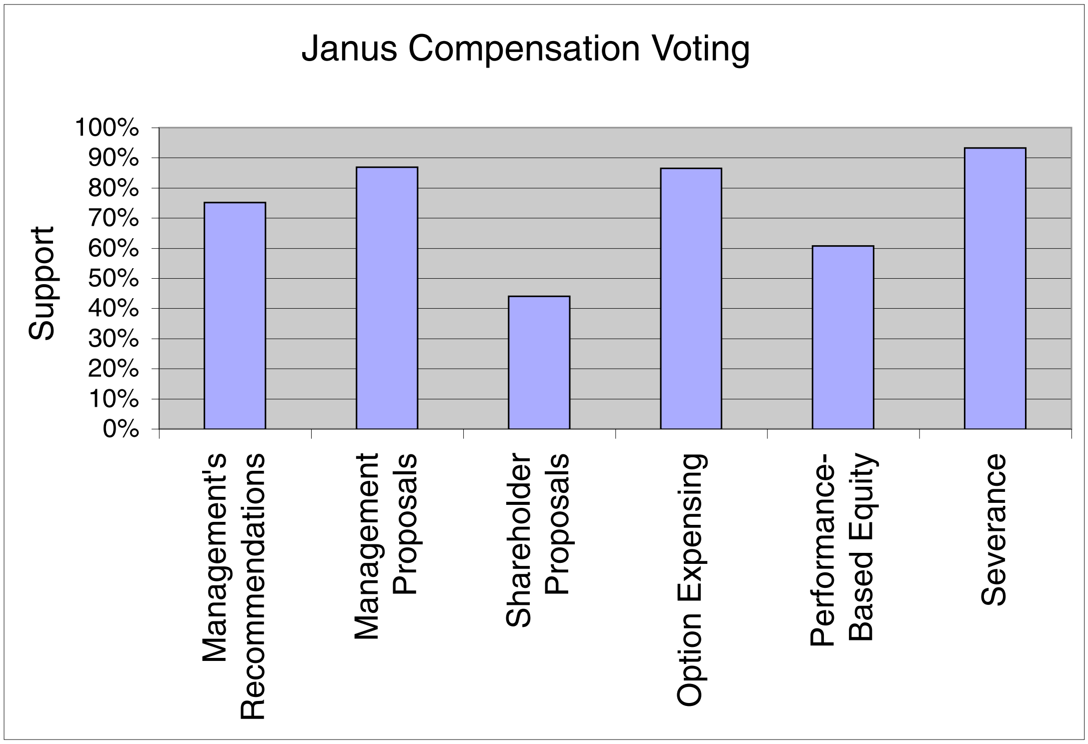



| Voting Category | For | Against | Abstain | Category Rank |
|---|---|---|---|---|
| Management's Recommendations | 76.9% | 20.2% | 2.9% | 11 |
| Management Proposals | 80.8% | 15.9% | 3.3% | 9 |
| Shareholder Proposals | 35.3% | 63.5% | 1.2% | 4 |
| Option Expensing | 67.4% | 32.6% | | 12 |
| Performance-Based Options | 67.6% | 32.4% | | 3 |
| Severance | 69.2% | 20.5% | 10.3% | 12 |
| Management Proposals at A-rated | 68.5% | 31.5% | | |
| Management Proposals at F-rated | 96.1% | 3.9% | | |

Management proposals at A- and F-rated companies: Franklin Templeton voted for management proposals *more* at F-rated companies than at A-rated companies.

# Janus Capital Group Composite Rank: 5

Janus ranked number five overall with below average support for management proposals and strong support for shareholder proposals. Janus Funds were 11th most likely to vote for management proposals and second most likely to support shareholder proposals.

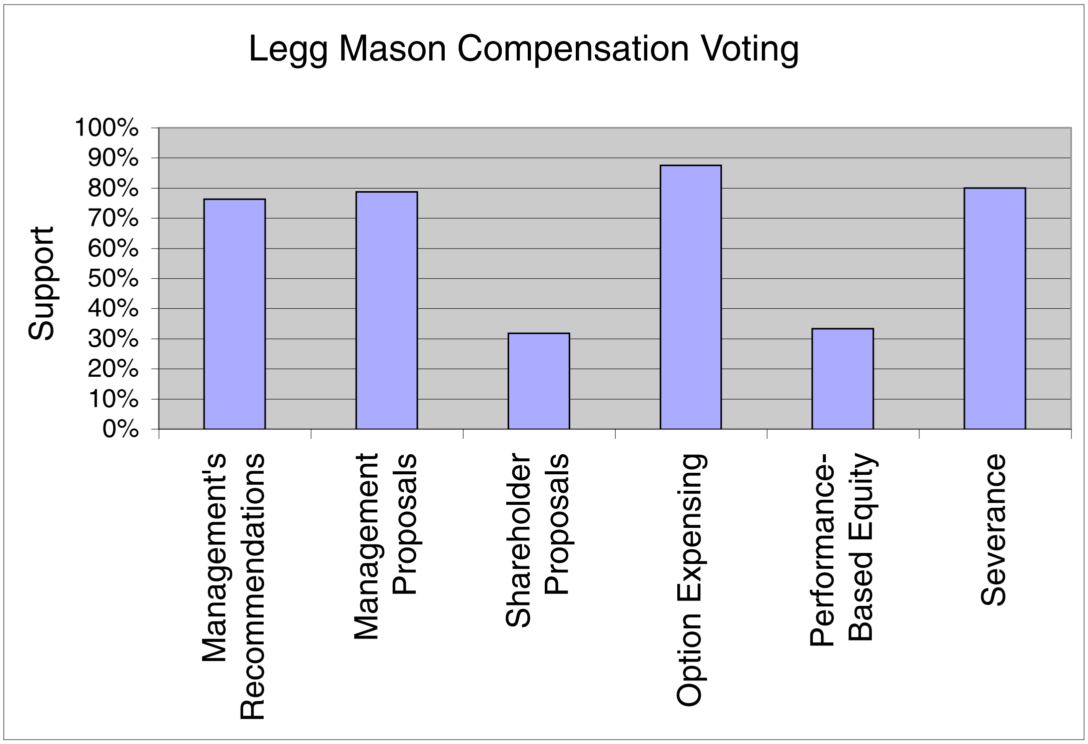



| Voting Category | For | Against | Abstain | Category Rank |
|---|---|---|---|---|
| Management's Recommendations | 75.1% | 18.8% | 6.1% | 7 |
| Management Proposals | 86.8% | 9.0% | 4.2% | 11 |
| Shareholder Proposals | 44.0% | 45.2% | 10.8% | 2 |
| Option Expensing | 86.5% | 13.5% | | 9 |
| Performance-Based Options | 60.7% | 32.4% | 6.9% | 4 |
| Severance | 93.2% | | 6.8% | 5 |
| Management Proposals at A-rated | 84.7% | 12.4% | 2.9% | |
| Management Proposals at F-rated | 90.4% | 9.6% | | |

Management proposals at A- and F-rated companies: Janus voted for management proposals *more* at F-rated companies than at A-rated companies.

# Legg Mason Composite Rank: 6

Legg Mason ranks sixth overall. Legg Mason Funds ranked eighth in voting against management compensation proposals, fifth for supporting shareholder proposals and ninth for voting counter to management's vote recommendations.



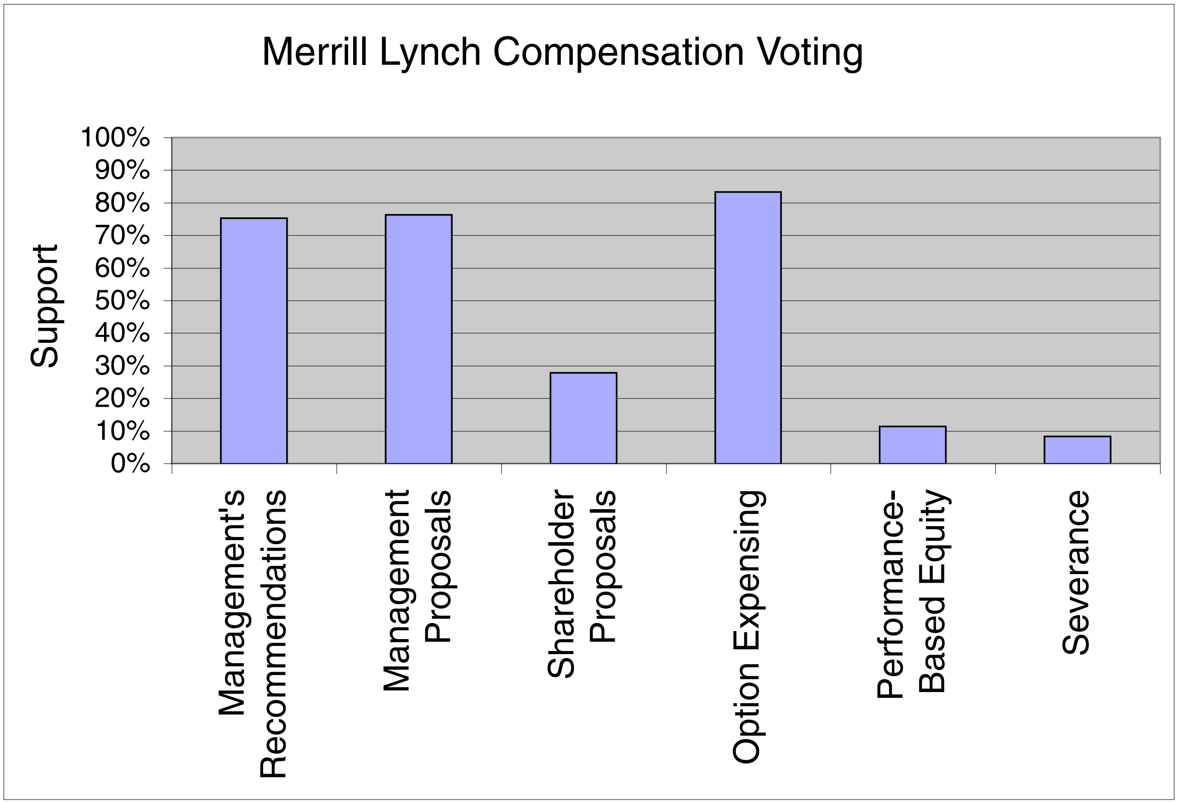

| Voting Category | For | Against | Abstain | Category Rank |
|---|---|---|---|---|
| Management's Recommendations | 76.3% | 23.7% | | 9 |
| Management Proposals | 78.7% | 21.3% | | 8 |
| Shareholder Proposals | 31.7% | 68.3% | | 5 |
| Option Expensing | 87.5% | 12.5% | | 8 |
| Performance-Based Options | 33.3% | 66.7% | | 8 |
| Severance | 80.0% | 20.0% | | 10 |
| Management Proposals at A-rated | 84.6% | 15.4% | | |
| Management Proposals at F-rated | 80.8% | 19.2% | | |

Management proposals at A- and F-rated companies: Legg Mason voted for management proposals *more* at A-rated companies than at F-rated companies.

# Merrill Lynch Investment Managers

# Composite Rank: 7

Merrill Lynch ranks seventh in its overall voting. Merrill Lynch funds ranked seventh for voting against management proposals, eighth for supporting shareholder proposals and eighth for voting counter to management's vote recommendations.

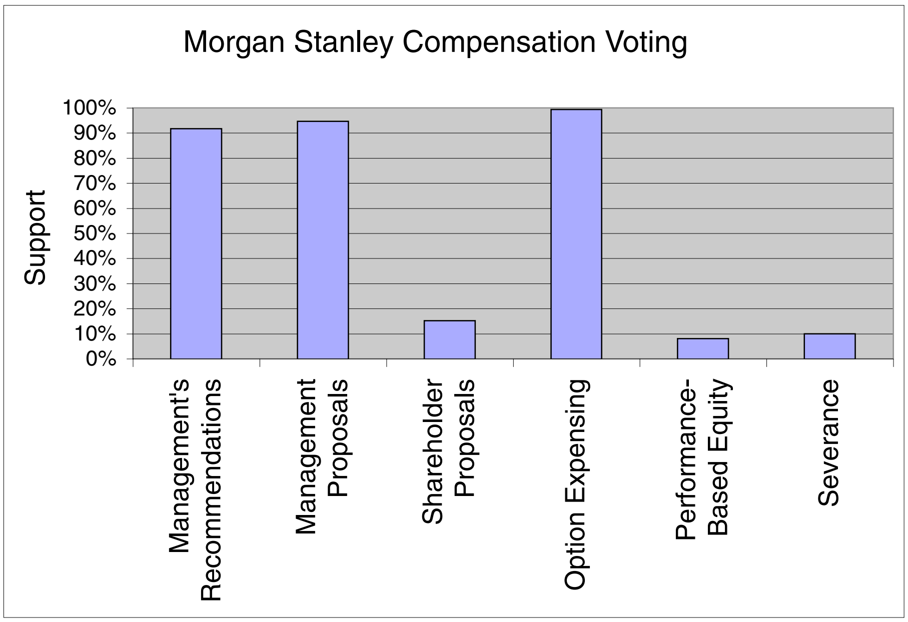



| Voting Category | For | Against | Abstain | Category Rank |
|---|---|---|---|---|
| Management's Recommendations | 75.3% | 18.0% | 6.6% | 8 |
| Management Proposals | 76.3% | 15.2% | 8.6% | 7 |
| Shareholder Proposals | 27.8% | 72.7% | | 8 |
| Option Expensing | 83.3% | 16.7% | | 10 |
| Performance-Based Options | 11.4% | 88.6% | | 10 |
| Severance | 8.3% | 91.7% | | 16 |
| Management Proposals at A-rated | 93.6% | 6.4% | | |
| Management Proposals at F-rated | 75.0% | 15.9% | 9.1% | |

Management proposals at A- and F-rated companies: Merrill Lynch voted for management proposals *more* at A-rated companies than at F-rated companies.

# Morgan Stanley Funds Composite Rank: 18

Morgan Stanley is last in the rankings making it the fund family that is the greatest Pay Enabler. Morgan Stanley was most likely to support management proposals, voting in support nearly 95% of the time. In addition, Morgan was most likely to vote according to management's vote recommendations. They were fourth least likely to support shareholder proposals. Morgan Stanley Funds supported the expensing options more than average, but were below average in support for performance-based options and were in the bottom tier for support of shareholder severance proposals.

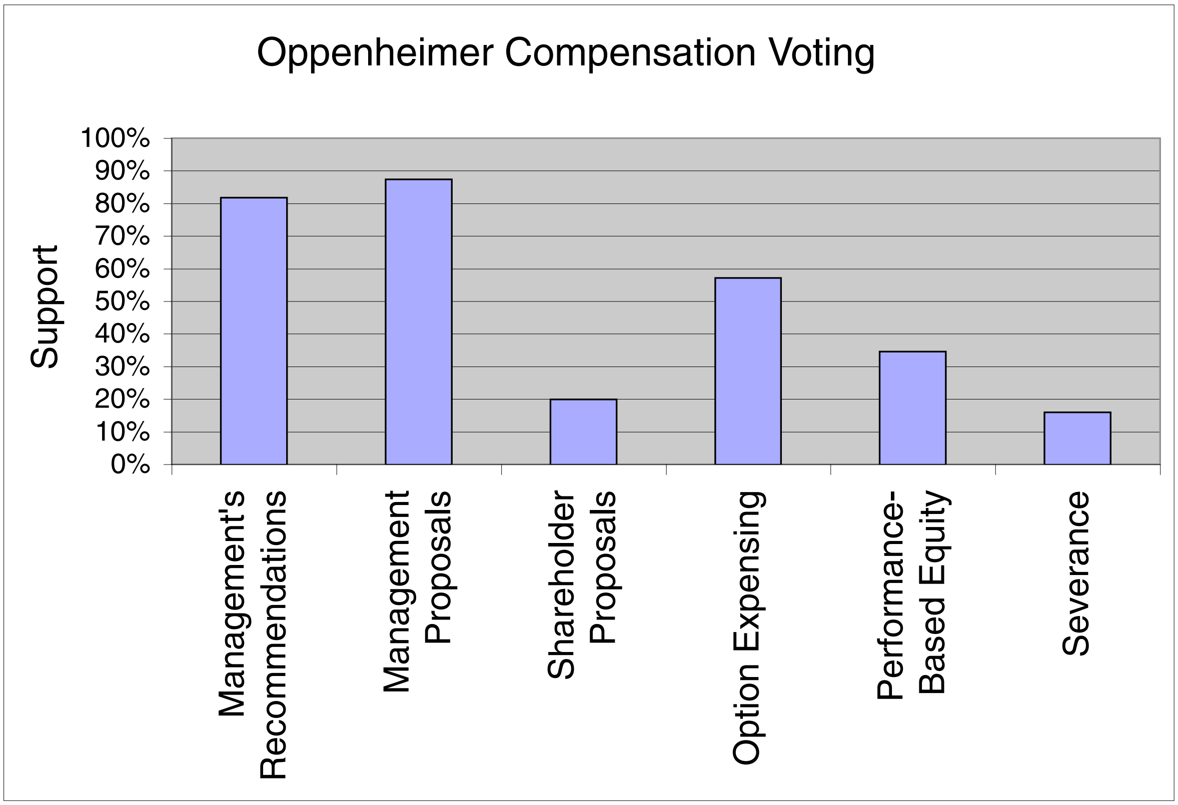



| Voting Category | For | Against | Abstain | Category Rank |
|---|---|---|---|---|
| Management's Recommendations | 91.7% | 8.1% | 0.2% | 18 |
| Management Proposals | 94.7% | 5.2% | 0.1% | 18 |
| Shareholder Proposals | 15.2% | 84.3% | 0.5% | 15 |
| Option Expensing | 99.3% | 0.7% | | 6 |
| Performance-Based Options | 8.0% | 92.0% | | 12 |
| Severance | 9.9% | 90.1% | | 15 |
| Management Proposals at A-rated | 84.3% | 15.7% | | 11 |
| Management Proposals at F-rated | 94.7% | 5.3% | | 13 |

Management proposals at A- and F-rated companies: Morgan Stanley voted for management proposals *more* at F-rated companies than at A-rated companies.

# OppenheimerFunds Composite Rank: 14

OppenheimerFunds ranked 14th, making them a Pay Enabler. They ranked 12th in opposing management proposals, 13th for supporting shareholder proposals, and 13th for voting counter to management's recommendations.

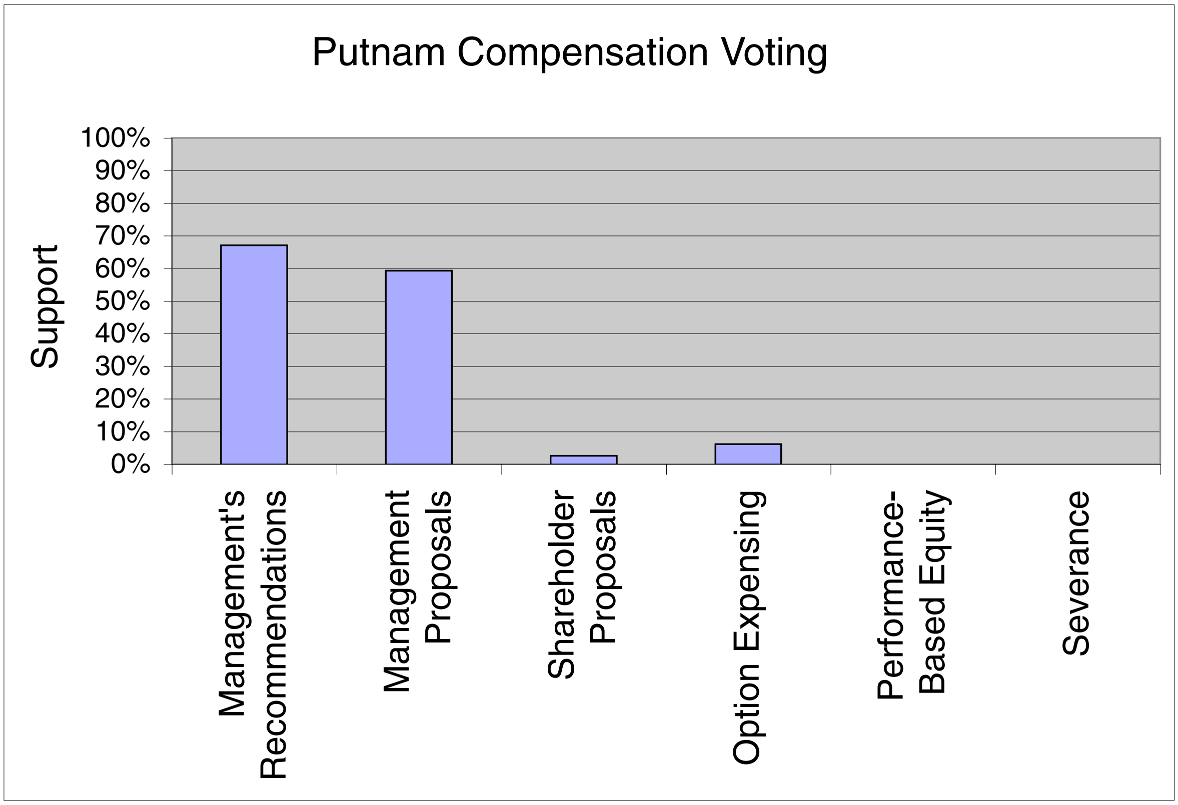



| Voting Category | For | Against | Abstain | Category Rank |
|---|---|---|---|---|
| Management's Recommendations | 81.8% | 13.9% | 4.3% | 13 |
| Management Proposals | 87.4% | 11.8% | 0.9% | 12 |
| Shareholder Proposals | 19.8% | 66.5% | 13.7% | 13 |
| Option Expensing | 57.1% | 23.8% | 19.0% | 13 |
| Performance-Based Options | 34.6% | 34.6% | 30.8% | 7 |
| Severance | 16.0% | 84.0% | | 14 |
| Management Proposals at A-rated | 90.4% | 9.6% | | |
| Management Proposals at F-rated | 89.1% | 10.9% | | |

Management proposals at A- and F-rated companies: OppenheimerFunds voted for management proposals at F-and A-rated companies with equal frequency.

# Putnam Investments Composite Rank: 8

Putnam ranked eighth (tied with Franklin Templeton). Putnam ranked third for being most likely to vote against management proposals and ranked fourth for being most likely to vote counter to management's vote recommendations, but ranked second-to-last for supporting shareholder proposals. Putnam ranked second-to-last for voting against stock option expensing, last for severance and tied for last for performance-based options.



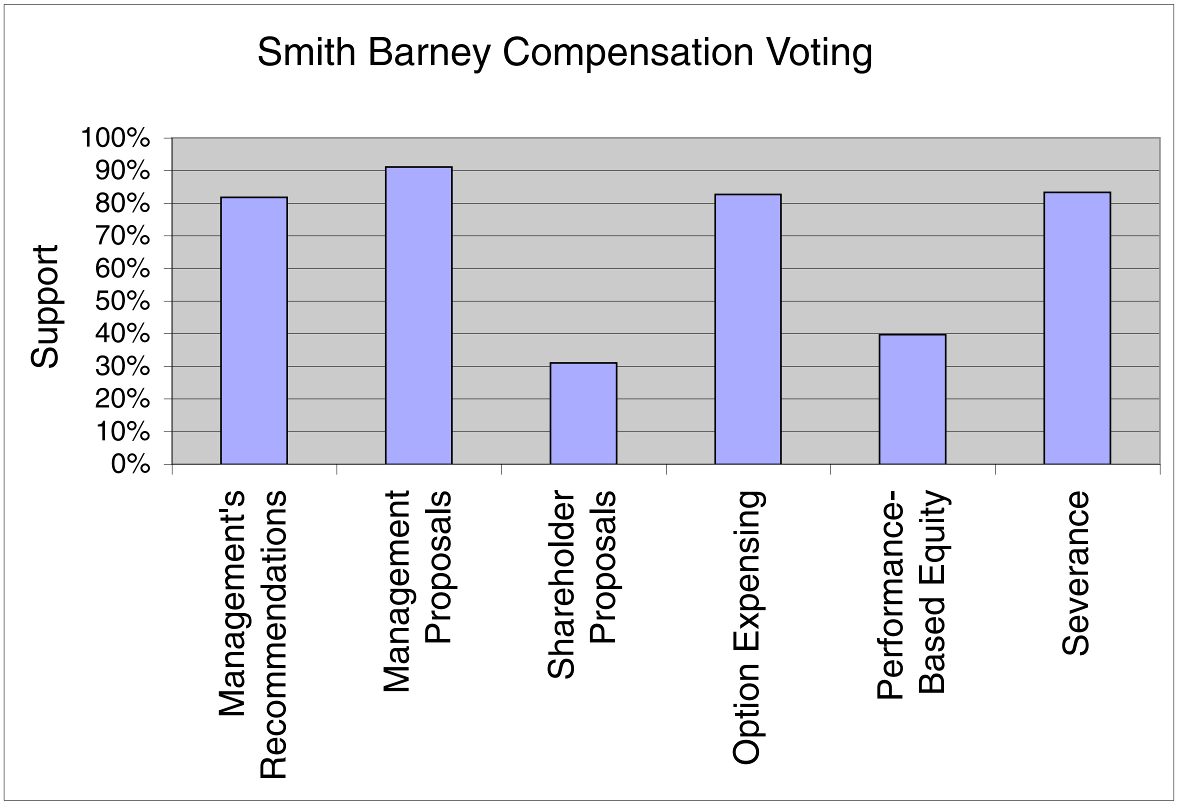

| Voting Category | For | Against | Abstain | Category Rank |
|---|---|---|---|---|
| Management's Recommendations | 67.1% | 30.5% | 2.4% | 4 |
| Management Proposals | 59.3% | 37.2% | 3.5% | 3 |
| Shareholder Proposals | 2.6% | 97.4% | | 17 |
| Option Expensing | 6.1% | 93.9% | | 17 |
| Performance-Based Options | | 100% | | 14 (tied) |
| Severance | | 100% | | 18 |
| Management Proposals at A-rated | 77.0% | 23.0% | | |
| Management Proposals at F-rated | 65.6% | 34.4% | | |

Management proposals at A- and F-rated companies: Putnam voted for management proposals *more* at A-rated companies than at F-rated companies.

# Smith Barney Asset Management (Citigroup)

# Composite Rank: 12

Smith Barney ranked number 12 (tied with T. Rowe Price). Smith Barney Funds ranked 16th in voting against management proposals but ranked sixth for supporting shareholder proposals. Smith Barney Funds ranked 12th for voting counter to management's vote recommendations.

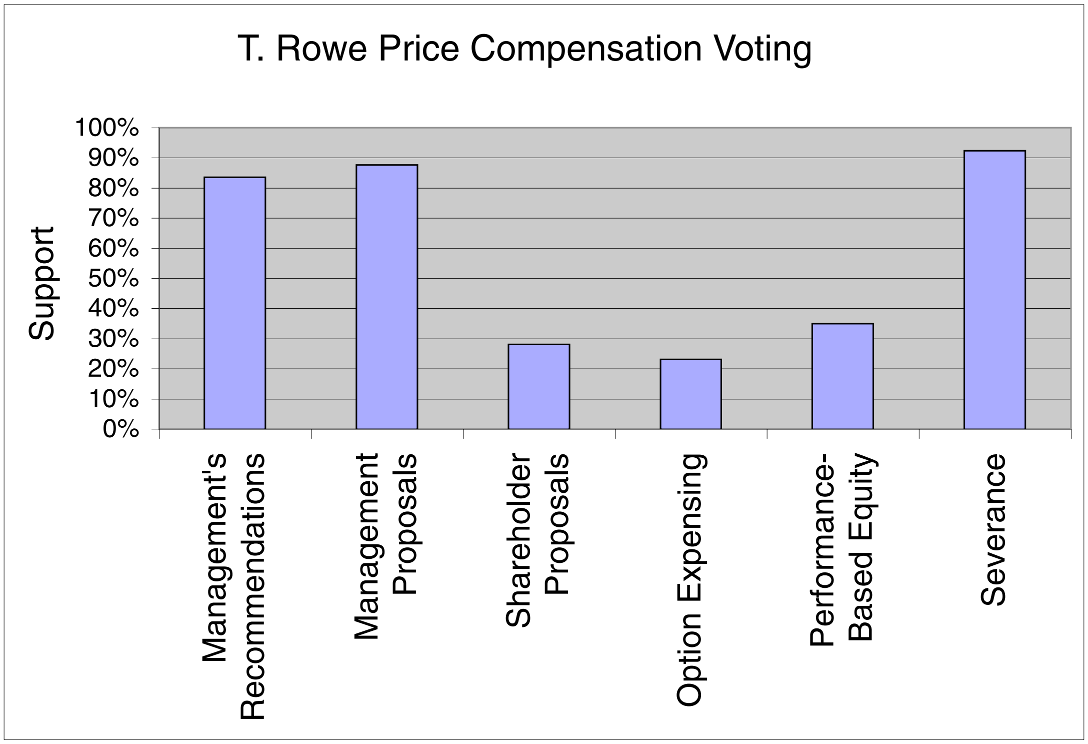



| Voting Category | For | Against | Abstain | Category Rank |
|---|---|---|---|---|
| Management's Recommendations | 81.8% | 15.3% | 2.9% | 12 |
| Management Proposals | 91.1% | 6.0% | 2.9% | 16 |
| Shareholder Proposals | 31.0% | 66.1% | 2.9% | 6 |
| Option Expensing | 82.6% | 11.6% | 5.8% | 11 |
| Performance-Based Options | 39.7% | 56.2% | 4.1% | 5 |
| Severance | 83.3% | 16.7% | | 8 |
| Management Proposals at A-rated | 97.3% | 2.7% | | |
| Management Proposals at F-rated | 84.5% | 15.5% | | |

Management proposals at A- and F-rated companies: Smith Barney voted for management proposals *more* at A-rated companies than at F-rated companies.

# T. Rowe Price Group Composite Rank: 12

T. Rowe Price is ranked number 12 (tied with Smith Barney). T. Rowe Price Funds ranked 13th for voting against management proposals, ranked seventh for supporting shareholder proposals and ranked 14th for voting counter to management's vote recommendations. T. Rowe Price funds voted against option expensing nearly 70 percent of the time.



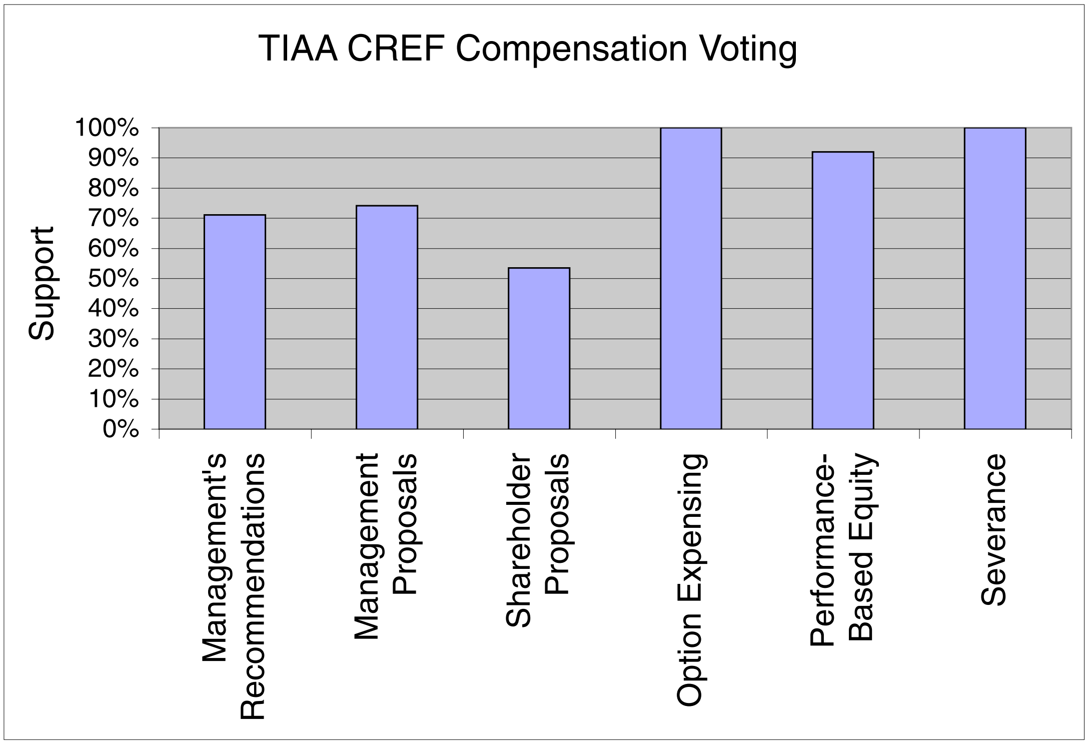

| Voting Category | For | Against | Abstain | Category Rank |
|---|---|---|---|---|
| Management's Recommendations | 83.6% | 16.0% | 0.5% | 14 |
| Management Proposals | 87.6% | 12.4% | | 13 |
| Shareholder Proposals | 28.1% | 69.8% | 2.2% | 7 |
| Option Expensing | 23.1% | 69.2% | 7.7% | 15 |
| Performance-Based Options | 35.0% | 65.0% | | 6 |
| Severance | 92.3% | 7.7% | | 6 |
| Management Proposals at A-rated | 80.7% | 19.3% | | |
| Management Proposals at F-rated | 85.7% | 14.3% | | |

Management proposals at A- and F-rated companies: T. Rowe Price voted for management proposals *more* at F-rated companies than at A-rated companies.

# TIAA-CREF Asset Management

# Composite Rank: 2

TIAA-CREF ranked as the second-best Pay Constrainer on compensation issues, making it one of the few mutual funds families that aggressively vote onpay proposals. TIAA-CREF Funds were sixth most likely to vote against management proposals, ranked first for supporting shareholder proposals, and ranked fifth for voting counter to management's vote recommendations. TIAA-CREF ranked first for supporting expensing options, performance-based equity and severance agreement proposals.

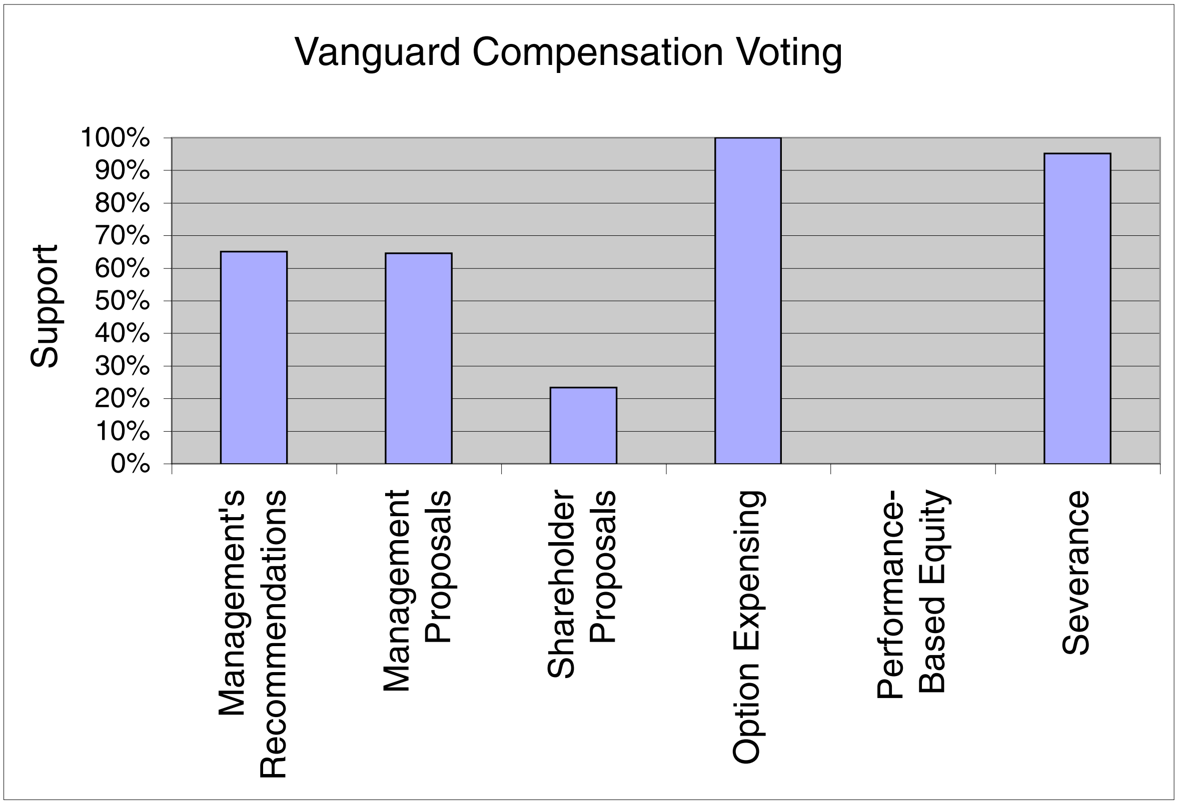



| Voting Category | For | Against | Abstain | Category Rank |
|---|---|---|---|---|
| Management's Recommendations | 71.0% | 28.6% | 0.3% | 5 |
| Management Proposals | 74.1% | 25.6% | 0.3% | 6 |
| Shareholder Proposals | 53.4% | 45.5% | 1.1% | 1 |
| Option Expensing | 100% | | | 1 (tied) |
| Performance-Based Options | 91.3% | 4.0% | 4.8% | 1 |
| Severance | 100% | | | 1 (tied) |
| Management Proposals at A-rated | 77.6% | 22.4% | | |
| Management Proposals at F-rated | 79.3% | 20.7% | | |

Management proposals at A- and F-rated companies: TIAA-CREF voted for management proposals at F-and A-rated companies with substantially the same frequency.

# Vanguard Group Composite Rank: 4

Vanguard ranked fourth overall, making it a Pay Constrainer. Vanguard Funds ranked third for voting against management proposals. However, they were below average for supporting shareholder proposals, ranking 11th. Vanguard opposed all performance-based shareholder proposals.




| Voting Category | For | Against | Abstain | CategoryRank |
|---|---|---|---|---|
| Management's Recommendations | 65.1% | 34.4% | 0.5% | 3 |
| Management Proposals | 64.6% | 35.4% | | 4 |
| Shareholder Proposals | 23.4% | 70.8% | 5.8% | 11 |
| Option Expensing | 100% | | | 1(T) |
| Performance-Based Options | | 100% | | 14(T) |
| Severance | 95.2% | 4.8% | | 3 |
| Management Proposals at A-rated | 69.8% | 30.2% | | |
| Management Proposals at F-rated | 80.7% | 19.3% | | |

Management proposals at A- and F-rated companies: Vanguard voted for management proposals *more* at F-rated companies than at A-rated companies.