

# FUND VOTES

In-depth analysis of investment fund proxy voting.

## **Large Fund Groups Failed to Support Tighter Pay Practices at Banks named in Bailout Plan: Fund Votes Analysis Shows October 16, 2008**

On October 14 the US government announced that it would inject \$250 billion into the US banking system by buying large stakes in nine banks: Citigroup, JPMorgan Chase, Morgan Stanley, Goldman Sachs Group, Bank of America Corp, Merrill Lynch & Co, Wells Fargo & Co, State Street Corp and Bank of New York Mellon.

Eight of these nine banks were targeted with 'Say-on-Pay' resolutions in the 2008 proxy season.

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

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

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

### **Why Say-on-Pay?**

Shareholder activists argue that tighter pay practices would follow if shareholders could annually cast a vote on an advisory resolution ratify the boards' compensation reports.

There is consensus that the financial crisis resulted from risk taking on the part of financial institutions. These risks are the product of decisions made by senior management. Senior management act in the context of a reward structure and a set of regulations. Much of the commentary on the financial crisis that has brought down Lehman Brothers and forced a number of other large institutions to restructure focuses on the incentive-heavy structure of executive compensation at large US financial institutions – packages that promoted short-termism and neglected performance indicators more relevant to long-term growth.

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

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

Analysis of mutual fund voting data from Fund Votes' proprietary database of investment fund proxy voting shows that fourteen of the 61 fund groups surveyed (including 1700 individual funds) by Fund Votes failed to support even a single 'say-on-pay' resolution at the eight bail-out banks targeted with this resolution in 2008. Twelve opposed all such resolutions and two (Fidelity and Riversource) abstained on all.

Fund groups that failed to support 'say-on-pay' compensation reforms at 'bailout' banks:

- ADVISORS SERIES
- ALLIANCEBERNSTEIN
- AMERICAN CENTURY
- DAVIS
- DODGE & COX
- DWS (DWS SCUDDER)
- FIDELITY\*
- INTEGRITY
- PUTNAM
- RIVERSOURCE (AXP)\*
- STATE STREET
- STEWARD
- VANGUARD
- WELLS FARGO

A number of others voted overwhelmingly against these resolutions.

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

Many large fund groups and all of the socially responsible investment groups surveyed supported every such resolution at the eight bail-out banks, these include:

- AFSCME
- AIM
- AMERITAS
- ARTISAN
- BRIDGEWAY
- CALVERT
- COVENTRY
- CREDIT SUISSE
- DOMINI
- DREYFUS
- FIFTH THIRD
- FRANKLIN TEMPLETON
- GREEN CENTURY
- JANUS
- MELLON
- MMA PRAXIS
- NEUBERGER BERMAN
- PARNASSUS
- PAX
- PIONEER
- RUSSELL (FRANK RUSSELL)

- SCHRODER
- SCHWAB
- SIERRA CLUB
- TIAA-CREF
- WALDEN

A summary of the votes by some of the largest institutions shows that individual funds within fund groups often voted in more than one way on the same resolution.

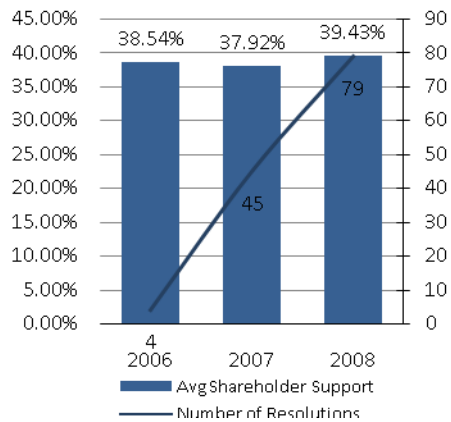
	BANK OF AMERICA CORP	BANK OF NEW YORK MELLON CORP	CITIGROUP INC	GOLDMAN SACHS GROUP INC	J P MORGAN CHASE & CO	MERRILL LYNCH & CO INC	MORGAN STANLEY	WELLS FARGO & CO
<b>AIM</b>	For	For	For	For	For	For	For	Against/For
<b>AMERICAN FEDERATED</b>	Against	Against/For	Against	For	Against	For	For	Against
<b>FIDELITY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

**Background:**

In 2006 the American Federation of State, County and Municipal Employees (AFSCME) filed four resolutions asking that shareholders be given the “opportunity at each annual meeting of shareholders to vote on an advisory resolution... to approve the report of the [compensation committee] set forth in the proxy statement”.

‘Say-on-Pay’ resolutions are aimed at affording shareholders the opportunity to ratify executive compensation practices of the company. The overall average level of support from shareholders on these four resolutions in 2008 was 39.4 percent.

### Shareholder Support for Advisory Vote on Exec. Comp. Resolutions



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

#### The Survey:

The data used in this survey are available for download from the [Fund Votes](#) website. The [full set of institutions surveyed](#), with links to their N-PX filings is also provided at the Fund Votes website (the data drawn for this survey was taken from 2008 N-PX filings).

#### About Fund Votes:

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

Over [12.5 million voting decisions](#) spanning five years of mutual fund disclosures have been indexed against shareholder resolutions and other key data. This data has been used in key industry reports by shareholder activist groups.

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