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Barclays, Northern, State Street and Vanguard Top List of Mutual Funds Enabling Excessive CEO Pay

New Report Examines Mutual Fund Proxy Voting Patterns on Executive Compensation

Washington, DC — In a report released today, “Compensation Complicity: Mutual Fund Proxy Voting and the Overpaid American CEO,” the American Federation of State, County and Municipal Employees (AFSCME), The Corporate Library and Shareowners.org analyzed mutual fund voting patterns on compensation issues in 2009. The authors found that mutual funds voted in favor of management proposals on changes to executive pay policies at a rate of 84 percent, and ratified executive pay packages at a rate of 77 percent.

“Given the bailout and dismal performance of many companies, investors in mutual funds should be outraged that their assets are being used to ratify CEO pay that in too many cases was undeserved and unearned,” said **AFSCME Pres. Gerald W. McEntee**. “Mutual funds hold over 25 percent of the market capitalization of all U.S. companies, and the ten largest fund families manage more than half of all mutual fund assets. These 800 pound gorillas need to start throwing their weight around to demand that CEOs get paid only when they perform.”

The mutual fund industry’s four greatest “Pay Enablers,” reported as most consistently enabling runaway CEO pay, were Barclays, Northern, State Street and Vanguard. According to the authors’ analysis, Barclays was the most enabling, supporting management compensation proposals 96 percent of the time, while its support for shareholder proposals was under 2 percent. The merger of Barclays and BlackRock last year created a mutual fund family with unprecedented power to constrain runaway pay; however, the combined voting record of the merged firms ranks as near the most “Pay Enabling,” along with mutual fund giant Vanguard.

Schwab, BNY Mellon, Dreyfus, Fifth Third and Legg Mason were the funds most likely to vote to rein in pay. These “Pay Constrainers” voted for shareholder proposals designed to tie executive compensation to long-term performance at an average rate of 91 percent. These funds also voted against members of board compensation committees at companies with pay problems at a higher rate than other funds.

The average level of mutual fund support for management proposals on compensation issues was 84 percent, unchanged from 2008. The average level of support for the categories of compensation-related shareholder proposals was 56 percent, a significant increase from the 40 percent in 2008. Mutual funds were less willing to vote against directors over compensation issues, increasing the average level of support for certain directors from 48 percent in 2008 to 50 percent in 2009. Mutual funds supported management-sponsored Say on Pay proposals at a rate of 77 percent.

“Shareowners.org is pleased to be part of this effort to inform all owners, including the retail shareowner market about mutual fund voting patterns on pay issues,” said **Shareowners.org director Tracy Stewart**. “The mutual fund industry plays a critical role in protecting retirement security. Retail investors choosing mutual funds for their 401(k)s and pension assets need to understand how these assets are being affected by mutual fund policies and proxy voting decisions.” Stewart added, “Shareowners.org is glad to educate investors about the proxy voting records of mutual funds on CEO pay, and tools such as those available at proxydemocracy.org make this task much easier.”

“In spite of surveys showing a majority of institutional investors find CEO pay excessive, mutual funds on the whole remained supportive of management positions,” noted **Beth Young, Senior Research Associate at The Corporate Library**, “although the overall support for shareholder proposals to reform compensation practices did increase.” Ms. Young added, “The wide disparity among funds in voting on compensation proposals indicates that some fund families employ a hands-on approach, while others take a decidedly more passive role in voting on executive compensation issues.”

“Compensation Complicity: Mutual Fund Proxy Voting and the Overpaid American CEO” examined the voting records of 25 of the largest mainstream mutual fund families on executive compensation-related proposals at corporate annual meetings from July 1, 2008, to June 30, 2009. The report ranked the fund families according to how they voted in director elections, on management compensation proposals, and on shareholder compensation-related proposals in several different categories including shareholder advisory votes on CEO pay, equity-holding requirements and limiting severance payments.

The Report offers two action recommendations:

1. Retail investors in mutual funds should critically evaluate how their mutual funds vote on pay issues and hold those funds accountable for votes that enable pay abuses. New tools such as those available at proxydemocracy.org make this task much easier.
2. Investors should consider shifting their investments to fund families with more responsible practices and records, provided the fee and performance characteristics of the funds are comparable.

This is the fourth report produced by The Corporate Library and AFSCME examining mutual fund proxy voting patterns and CEO pay. Now in its 11th year, The Corporate Library is the leading independent source for corporate governance and executive compensation research and risk analysis. A copy of the report is available in The Corporate Library's online store at www.thecorporatelibrary.com. AFSCME is the largest union for workers in public service with 1.6 million members nationwide. AFSCME members' retirement assets are invested by public pension systems, with combined assets totaling more than \$1 trillion. For the third time, this report is also being co-sponsored by Shareowners.org, a nonprofit organization dedicated to educating and promoting patient, long-term investment strategies for retail investors and the financial institutions that serve them. A copy of the report is also available on shareowners.org.

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