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AllianceBernstein, Ameriprise, Barclays and Columbia Top List of Mutual Funds Supporting Excessive CEO Pay

New Report Examines Mutual Fund Proxy Voting Patterns on CEO Salaries

Washington, DC — A new report reveals that mutual funds have contributed to excessive executive compensation by voting in favor of management proposals that increase executive pay packages and voting against shareholder proposals that seek to align pay with performance. In the wake of outrage over the millions of dollars financial firms such as AIG and Merrill Lynch have distributed to top executives despite poor performance, the report makes several recommendations, including a call for the Securities and Exchange Commission to require mutual funds to distribute a Plain English report on proxy voting to investors.

In a report released today, “Compensation Accomplices: Mutual Funds and the Overpaid American CEO,” the American Federation of State, County and Municipal Employees (AFSCME), The Corporate Library and the Shareowner Education Network (SEN) analyzed mutual fund voting patterns on compensation issues in 2007 and 2008. The report found that mutual funds are increasingly supportive, as a group, of management positions on proposals dealing with executive pay.

“Given the performance of many companies, investors in mutual funds should be outraged that their assets are being used to prop up CEO pay that is too often undeserved and unearned,” said AFSCME International President Gerald W. McEntee. “The worst ranked funds are accomplices in the overpayment of CEOs. They should be protecting the assets of their clients by demanding that CEOs get paid for performance, rather than supporting runaway pay.”

The mutual fund industry’s four consistently worst “pay enablers,” judged most complicit in consistently enabling runaway CEO pay, are AllianceBernstein, Ameriprise Financial, Barclays Global Investors and Columbia Management. According to the AFSCME/The Corporate Library/Shareholder Education Network analysis, AllianceBernstein was the worst offender, supporting management compensation proposals over 90 percent of the time while its support for shareholder proposals decreased to 2 percent.

Templeton, T. Rowe Price and Schwab consistently came out at the top of the ratings as most likely to vote to constrain pay. These funds voted for shareholder proposals designed to constrain executive compensation at an average of 78 percent. They also voted against directors on compensation committees at pay offending companies at a higher rate than other funds.

The report found that the average level of support for management proposals on compensation issues was 82 percent in 2007 and 84 percent in 2008, a steady increase from 75.8 percent in 2006. The average level of support for the categories of compensation-related shareholder proposals was 42 percent in 2007 and 40 percent in 2008, a significant decrease from the 46.5 percent in 2006. Mutual funds did show they were more willing to withhold votes from directors over compensation issues, increasing the average level of withheld support for certain directors from 42 percent in 2007 to 52 percent in 2008.

“The Shareowner Education Network is pleased to be part of this effort to inform the retail shareholder market about mutual fund voting patterns on pay issues,” said Shareowner Education Network director John Wilcox. “The mutual fund industry plays a critical role in protecting the retirement security of America’s citizens. Retail investors choosing mutual funds for their 401Ks and pension assets need to understand how these assets are being affected by mutual fund policies and proxy voting decisions.” Wilcox added, “One of the first projects we are undertaking for the SEN website is to give public access to the proxy voting records of mutual funds on CEO pay and provide a link to register concerns.”

“It was surprising to see mutual funds becoming more supportive of management positions, given the uproar over outsized executive pay and distorted incentives,” noted Beth Young, Senior Research Associate at The Corporate Library, “though one bright spot was the willingness of mutual funds to withhold votes from directors associated with irresponsible compensation practices.” Ms. Young added, “Despite hints that the SEC might require more standardized formatting of the N-PX filings, that has not come to pass, making it much more difficult than it should be to extract and analyze this data. The SEC should take action to make this important information more accessible to investors by requiring mutual funds to issue a plain English report on their corporate governance philosophy and voting record each year.”

“Compensation Accomplices: Mutual Funds and the Overpaid American CEO” examined the voting records of 26 of the largest mainstream mutual fund families on executive compensation-related proposals at corporate annual meetings from July 1, 2006 to June 30, 2007 and from July 1, 2007 to June 30, 2008. The report used data that the mutual funds are required to disclose to the Securities and Exchange Commission in their N-PX filing. 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 performance-based equity compensation, shareholder advisory votes on CEO pay, and caps on severance payments.

The Report offers four action recommendations:

1. Mutual funds that are the "pay enablers" should revise their proxy voting policies to ensure that they promote responsible compensation programs.
2. Mutual funds should have clear mechanisms for establishing and communicating their view of pay to compensation committee directors.
3. Retail investors in mutual funds should evaluate how their mutual funds vote on pay issues and hold those funds accountable for votes that enable pay abuses.
4. The SEC should require funds to distribute a Plain English report on proxy voting to their investors and revise and improve the N-PX data disclosure.

This is the third report produced by The Corporate Library and AFSCME examining mutual fund proxy voting patterns and CEO pay. Now in its tenth 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 second time, this report is also being co-sponsored by the Shareowner Education Network, a nonprofit organization dedicated to educating and promoting patient, long-term investment strategies for retail investors and the financial institutions that serve them. An interactive copy of the report is available on SEN's website at www.shareowners.org.

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