Mutual Funds, Proxy Voting, and Fiduciary Responsibility:

How Do Funds Rate on Voting Their Proxies and Disclosure Practices?

Social Investment Forum
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Table of Contents

I. Executive Summary

As of August 31, 2004, mutual funds and investment advisors began uniformly disclosing how they vote on a multitude of proxy issues that may impact portfolios. Investment advisors are now required to disclose voting guidelines and voting records to clients upon request. Mutual funds, however, must make such records publicly available, through a new form filed with the Securities and Exchange Commission (SEC), and through other vehicles. This groundbreaking transparency—adopted by the SEC in January 2003 and opposed by most mutual fund executives—allowed the Social Investment Forum to survey and assess voting records and voting policies and procedures for this report that weren't previously disclosed to the public.

The Forum examined proxy information for the ten largest mutual fund families in the U.S. by total net assets (identified here as **Conventional funds**), as well as the top ten socially responsible investing or **SRI fund** families. To provide investors with a sampling of what is happening in the proxy voting arena, we chose to review votes for the following issues, at a variety of companies and industries receiving such investor resolutions:

- **Six Corporate Governance Issues**
  Expensing of stock options, separation of CEO and Chair positions, limiting consulting by auditors, shareholder approval of poison pills, shareholder approval of golden parachutes, and declassifying the board (holding annual elections).

- **Six Social or Environmental Issues**
  Reporting on climate change/climate risk, addressing the HIV/AIDS/Malaria/TB pandemic, supporting labor/vendor standards, sexual orientation nondiscrimination policies, human rights, and sustainability reporting (non-global reporting initiative).

- **Four "Vote-No Campaigns" (Withhold Votes) targeting ill-performing directors**
  Proxies were withheld in substantial numbers at Walt Disney, Federated Department Stores, Kohl's, and MBNA. "Vote No" efforts can be organized campaigns by shareholders, or a reflection of collective "no confidence" in a director or group of directors.

For greater detail on these issues, and what these resolutions proposed, ***click here.***

This report further reviewed funds and fund complexes on a variety of issues:

- Accessibility of fund voting records and guidelines
- Transparency on proxy issues from fund staff and written materials
- Educated proxy voting or independent analysis for case-by-case voting
- Customer service and support related to proxy information requests
- Disregard for social resolutions as an entire class
- Ability to cast votes against directors (withholds)

We did not examine actual conflicts of interest or business relationships between portfolio companies and fund managers or fund executives, but we welcome additional research in this area.

Key Findings

Voting-Related Findings

- **SRI funds are stronger Corporate Governance proponents than Conventional funds.**
  SRI funds as a category support more shareholder-proposed corporate governance resolutions and "Vote No" campaigns than their conventional peers by a 2-to-1 margin. They also tend to support more controversial governance resolutions, like separating the CEO and Chair positions, or limiting nonaudit

services by auditors. SRI funds are also more consistent in their support of popular “plain vanilla” governance issues we examined (poison pills, expensing stock options, golden parachutes, and declassifying the board)—totaling **90%** support for these four issues, opposed to **72%** support by Conventional funds.

- **SRI funds tend to overwhelmingly support social issues on the proxy ballot,** with overall support of 84.6% (and 3.9% abstaining) compared to Conventional funds’ support of 15.1% (and 18% abstaining).

- **Conventional funds do not tend to support social resolutions.** Half of the Conventional fund families—and 20 individual funds in that category—revealed *no votes against management* on social proposals. However, one conventional fund family, Schwab, stood out by supporting half of all social resolutions studied (voting in favor of these proposals 56.3% of the time).

- **SRI funds are twice as likely to withhold votes from directors** of troubled companies than their Conventional peers. SRI funds averaged a 95.2% withhold voting record at the four most targeted companies of the 2004 proxy season. Conventional funds withheld votes only 51.8% of the time.

- **SRI funds are far more likely to support the governance issues of separation of CEO and Chairman** (83.3% support versus 12.7% for Conventional funds), **and limiting consulting by auditors** (66.7% support versus 0% by Conventional funds). They also supported poison pill, golden parachute and expensing options proposals by an average 25% lead over Conventional funds.

- **There are substantial differences in Conventional funds’ support of the six corporate governance resolutions we studied.** Some Conventional funds showed little support for the most popular governance proposals. Federated and Fidelity consistently stood out as voting counter to what peer funds were voting on certain governance issues—and siding with management. At other funds, inconsistencies and case-by-case voting made it difficult to determine where funds stood on an issue—especially when they did not have a clear stance in their guidelines.

- Only one issue in our study—**declassifying the board (holding annual elections)—resulted in an equal number of Conventional and SRI funds voting against management.** Both groups of funds displayed significant support for these resolutions—with SRI funds averaging 85.7% (and 14.3% abstaining) and Conventional funds averaging 86.3% against management.

Fund Specific Findings

- **Conventional funds with the strongest records of supporting governance proposals** (each averaging more than 56% support) include Citigroup Asset Management, Dreyfus Corp., Franklin Templeton, Merrill Lynch, and Schwab.

- **One conventional fund complex studied, Federated Funds,** voted most frequently with management of all the funds studied. Also, its guidelines stated that it would vote *against all shareholder proposals* not recommended by management. But that fund family’s votes, cast at Coca-Cola on addressing the HIV/AIDS pandemic (a social resolution), were against the proposal—even though management recommended voting for it. Federated funds were the only ones to vote against management on this issue.

- **For Conventional funds supporting social or environmental issues, PIMCO, Schwab and Vanguard stand out.** PIMCO and Schwab had much higher levels of voting against management on these resolutions—meaning they supported the proposals put forward by investors, while Vanguard tended to abstain on almost all social votes for all funds in that family studied. Social and environmental proposals comprise about one-third of all resolutions filed by shareholders each year. Merrill Lynch, Citigroup Asset Management, and Dreyfus Corp. were the only other complexes that supported any social proposals.

Disclosure-Related Findings

- **SRI funds as a group tend to have more in-depth proxy guidelines.** Many SRI funds use their guidelines to educate their fund owners on critical issues up for a vote. Others provide detailed information about what resolutions they would support, and about what circumstances would trigger a case-by-case analysis of the vote, but there are many funds—including SRI ones—that had room for improvement on voting disclosures in their guidelines.

- In the past year, **there has been improvement in Conventional fund voting guidelines,** though there is still ample room for additional disclosure in this area. Some of the best guidelines overall categorized resolutions into classes (for example: executive compensation proposals, shareholder rights, social issues, etc.), with detailed descriptions of the issues and an explanation of the fund's vote that were both clear and comprehensible to the lay reader. Additionally, Conventional fund families have become more forthcoming with the proxy information on their Web sites, in many cases making guidelines and votes easier to find, or linking them directly from the homepage.

- **Conventional funds do a very poor job providing detailed discussions of their social or environmental voting stances in their guidelines.** There were a few exceptions, with some funds' guidelines detailing the circumstances that might trigger support for a social proposal. Some funds defaulted to Institutional Shareholder Services' guidelines.

- **Most funds' customer service options (both Conventional and SRI) fall short in answering basic questions related to proxy voting and disclosures linked to the rule itself.** Some SRI funds have an advantage here because of their small staff size (it is therefore a bit easier to reach the right person), but with funds of any substantial size, the information requested was very difficult to locate. Questions about the rule or proxy disclosures in general were met with highly inconsistent customer service across most funds. Many funds could not answer basic questions, or gave out incorrect information.

For recommended Best Practices related to voting and guidelines disclosures, please see Chapter V, page 27.

II. Background on Mutual Fund Voting Disclosure

Shareholders in U.S. public companies typically have voting rights associated with holding stock. These rights allow investors to vote at annual meetings and special meetings, on issues ranging from the election of directors, to ratifying auditors, to certain compensation agreements, social and environmental policy issues, mergers and acquisitions, and key governance concerns. But when investors own companies indirectly through their mutual funds, they do not retain these voting rights. They must rely on the fund's management team to cast proxy voting ballots (also known as "proxies") on their behalf. It is the fund company or advisor's duty, as acting fiduciary, to vote all proxies in the best interest of these fund owners.

Several years ago, a number of institutional and individual investors complained that their mutual funds would not disclose how they were voting on a fund owner's behalf. These investors cited a lack of disclosure in the markets, and questioned whether certain funds were acting as responsible fiduciaries in the casting of proxy ballots. They found that some funds were charged with automatically voting with management to obtain favor with the company, and possibly, to be awarded consulting contracts for 401(k) or other services.

A member of the Social Investment Forum, Domini Social Investments, filed a rulemaking petition with the Securities and Exchange Commission (SEC) in November 2001, requesting a rule mandating voting disclosure from all mutual funds, so investors could better monitor mutual fund voting practices and policies. Such disclosures could also be used to discover conflicts of interest in the voting of fiduciaries. The International Brotherhood of Electrical Workers pension fund and the Teamsters pension filed similar rulemaking petitions with the SEC at that time.

The Social Investment Forum (the national membership association for Socially Responsible Investing professionals in the U.S.) had been monitoring mutual funds' proxy voting for several years, and was consistently engaged in the SEC's rulemaking in 2002. The Forum wrote to the SEC in support of the proposed rule, as did many of our members. Our comment letter can be found at http://www.sec.gov/rules/proposed/s73802/tihsmith1.htm.[1]

After escalating media coverage of the issue, and thousands of letters of investor support, the Commission proposed a rule (File No. S7-36-02) on September 20, 2002 mandating that U.S. mutual funds disclose their proxy votes and voting policies and procedures. A companion rule, File No S7-38-02, required this same information from registered investment advisors.

Before the rule change, Social Investment Forum members were the first fund families in the nation to voluntarily make proxy disclosures. At the time of the proposed rule, all U.S. fund companies that disclosed their guidelines and their voting records publicly were members of the Forum. These members had already concluded that voting proxies was a fiduciary duty, and because of this, their votes and policies should clearly be disclosed to fund and advisor clients. The Forum further supported the Commission's proposal because our members believed that proxy votes were an asset to be used in the best interest of fund participants, and that engaged proxy voting helped maximize the value of fund investments.

These SRI fund companies also demonstrated

1. Or go to: http://www.sec.gov, then "Proposed Rules," then "Archived Rules" for year 2002, then "Third Quarter," and then Sept. 20, 2002, and readers can scroll through all 8,000+ comment letters.

that voting disclosures could be done quickly, and with little expense to fund owners, while providing added information that can highlight whether funds are voting in clients' best interests.

At the time of the SEC's proposed rule, most of the nation's largest mutual fund families did not disclose their proxy votes, procedures, or guidelines, as a matter of policy. When fund investors called to ask about proxy votes, they were denied the information pertaining to their investments.[2] This was critical because mutual funds, owning a 20 percent stake in the equity markets during that time, had enormous potential to raise the bar on corporate governance at U.S. companies.

Proxy voting is also the primary forum through which shareowners participate in the governance of corporations, and through which corporate management seeks affirmation and approval of existing and new policies from shareowners. It seemed critical that funds weigh-in on crucial governance reforms—especially given the level of scandal infecting the markets. And although mutual funds as an industry had yet to be subject to "scandal scrutiny," many institutional investors cited potential and existing conflicts of interest as a main reason to pass the rule.

Investors also noted that it is important to not only look at how a fund is voting, but who is doing the voting, and what internal checks and balances have been created to make sure that fund advisors and proxy voting committees keep fund investors' best interests in mind.

Before 2002, the Employee Retirement Income Security Act of 1974 (ERISA) already considered proxy voting to be a fiduciary duty. ERISA guidelines indicated that voting rights attached to stocks were considered plan assets that must be managed in the best interests of pension plan beneficiaries. The California Public Employees Retirement System (CalPERS)—the nation's largest public pension fund—had already been disclosing its proxy votes publicly since 1999, as had Domini Social Investments, and this rendered the fund industry's main complaint against the rule (that the disclosures would be too great and too costly) moot, since CalPERS owned thousands of companies. For more background on the proposed rule, and industry arguments against it, read the Forum's 2002 comment letter.

Another key argument against voting disclosure was that investors don't ask for it. That did not seem to be the case for socially responsible investors, who not only requested such information, but commented on the rule in record numbers. Increasingly, investors were understanding the importance of the proxy vote, and wanted clarity on how funds voted on their behalf. Likewise, many funds had internal policies and databases for keeping track of their proxy votes—it was simply a matter of releasing that information to fund investors themselves. And because corporate governance policies have become important in recent years in the mix of materials reviewed by investors, how funds were casting votes became part of the evaluation to differentiate between fund complexes, on top of fees, fund strategies, and other considerations.

The proposed rule received more comments than any other rule in the SEC's history at that point (more than 8,000 letters), with an overwhelming majority of those comments in favor of better voting disclosure. The rule surpassed even Regulation FD (Fair Disclosure) a few years earlier, which drew the attention of roughly 6,000 commenters. The companion rule for investment advisors to disclose proxy information received an additional 4,000 comments. In January 2003, the SEC Commissioners supported the rule four to one, with Commissioner Paul Atkins voting against and raising concerns over the politicization of votes if they were made public. It was scheduled to take effect by August 2004.

2. *Several clients of SIF members and our colleagues who were investors in Fidelity, Vanguard, and T. Rowe Price tested this assumption during the period in question.*

The finalized fund rule has three key components:

- **Disclosure of proxy votes for each fund,** using a new form N-PX, publicly available on the SEC's EDGAR Web site. The SEC also recommended that funds post such information on their own Web sites, though they are not obligated to do so.

- **Disclosure of funds' guidelines** and processes for voting on corporate resolutions and other proxy items. Information on where to find such policies must be printed in the fund's Statement of Additional Information (SAI). Funds were also encouraged to make the policies more publicly available (for example, on the fund's Web site and other printed materials). The policies and procedures could also be obtained by anyone calling a toll-free number of the fund.

- **Disclosure of conflicts of interest** in the proxy-voting process, and how the proxy voter resolved them.

While the industry continued to fight the rule after the SEC's January 2003 vote, the rule ultimately passed, and gave both open- and closed-end funds until August 31, 2004 to report proxy votes for the period July 1, 2003 until June 30, 2004.

More About Mutual Fund Investors

According to the most recent analysis from the Investment Company Institute (the trade association of the U.S. mutual fund industry), since 1984, U.S. fund assets have climbed from less than $300 billion to $7.6 trillion as of June 2004. Meanwhile, the number of households owning these funds rose from 10.2 million to 53.9 million during that time. This represents 92.3 million individual fund owners.[3]

And according to ICI's latest *Profile of Mutual Fund Shareholders*, 97% "indicate they own funds because of the reputation of the fund companies."[4] Yet the scandals afflicting the fund industry have taken their toll on investors, and funds should be more proactive in solidifying the trust of fund owners. According to ICI's 2004 *Shareholder Sentiment of the Mutual Fund Industry*, "more than half indicated that news of the scandal had caused them to have a lower opinion of the fund industry than previously."[5] Furthermore, more than half of all shareholders cite the reputation of fund companies as a very important factor in owning funds. In fact, 22% more fund owners said reputation outranked fees and expenses as important factors in owning funds.[6] These numbers highlight how important reputation, fund trust, disclosure records, ethical guidelines, and related issues are to fund owners—including potential and future fund owners. That seems all the more reason for fund complexes to have rigorous policy analysis, ethical standards, conflicts of interest reviews, and best practices for corporate disclosure and transparency.

As of November 2004, $7.9 trillion in assets were in mutual funds. Of that, $4.22 trillion were in equities, while $504 billion were in balanced (or hybrid) funds.[7] This study attempts to provide a sampling of proxy voting disclosures and practices involving this $4.7 trillion in investment clout. This study analyzes 45 funds from 20 fund complexes in these categories.

3. Investment Company Institute, Profile of Mutual Fund Shareholders, Fall 2004, pg 1.

4. Ibid, pg. 6.

5. Investment Company Institute Fundamentals, Research in Brief, Vol. 13, No. 4, Oct 2004, pg. 3.

6. Ibid, pg. 4.

7. ICI Trends in Mutual Fund Investing, Nov. 2004, http://www.ici.org/home/trends_11_04.html#TopOfPage.

III. Corporate Governance and Social Issue Voting by Fund Complexes

For this survey, we analyzed voting records for funds individually, as well as averaged scores within fund families related to the 13 issues we examined. We did this at 20 fund families (ten Conventional and ten SRI), spread across 45 funds (30 Conventional and 15 SRI). We chose funds that had a domestic, large-cap focus within each of the 20 fund families because a majority of shareholder resolutions are filed at U.S. large-cap companies. To review the Methodology in detail, click here.

Towards the end of this chapter, you can find Social, Governance, and Withhold voting scores for all 45 funds. For each issue in this chapter, you can also analyze the average scores of each fund family for votes on that issue. To review all details around each fund's votes on any given issue, click here.

To gauge whether funds are voting independently of the companies where proxies are being cast, we chose to examine the percentage scores of funds **VOTING AGAINST MANAGEMENT or WITHHOLDING A VOTE** from a director(s). We predicted during this first year of disclosure that many funds would still be voting in favor of management's position, so it would be easier to distinguish those funds voting against management and in favor of the resolutions being brought before shareholders. A high score of voting against management usually equals a high level of support for investor resolutions. In this report, we only examined shareholder-proposed resolutions, not those put forward by management.

Note: High votes *against management* do not necessarily mean a fund is fulfilling its fiduciary duties. It is merely a good indicator that funds feel empowered enough to vote against companies where they might have some type of business relationship.

In one case (a resolution addressing HIV/AIDS at Coca-Cola), we decided to not include the votes cast *by all funds* into our voting scores because it was an unusual instance where management supported the proposal, almost every fund in the study voted in favor of both management and the resolution, and that tilted the data in a confusing manner. We have recorded those votes in our database though, and explain how funds voted on the resolution in the HIV/AIDS issue area. The resolution was included in our survey because it was a watershed vote on an issue being analyzed in this report (and it received 98% support).

In the charts below, "N/A" means that a fund or fund family did not hold the companies we were studying for that particular issue, and therefore cast no applicable votes.

What We Found

While SRI funds as a group were expected to more strongly support social resolutions, a few Conventional funds revealed significant support for them as well. And on the whole, we anticipated that Conventional funds would have stronger voting records on key corporate governance issues, but that support was outpaced by the SRI funds as a group.

What could not be determined is whether conflicts of interest accompanied these votes. There were a number of inconsistent votes within a fund complex, and this can be attributed to different fund managers, various voting guidelines, case-by-case analysis that determined one company over another was in need of a new policy or better disclosure on that issue, or a potential conflict was occurring. Not enough information is disclosed in the N-PX form or the Web site though to make some of these determinations—particularly if a conflict is present.

In some instances, there was insufficient data on SRI fund voting to make a sound determination of wholesale proxy practices. Our analysis had to rely on a very small data set to draw conclusions. A second study would be helpful to further analyze SRI funds—one in which the resolutions chosen were at companies held by more SRI funds. In looking at large cap-focused U.S. equity funds (where shareholders largely file resolutions), many SRI funds were too small (for the total number of companies held) to meet the list of 40 voting items we were examining—several SRI funds only had 20 to 40 holdings in the entire fund.

Also, a number of funds seemed to defer to Institutional Shareholder Services or other third-party agents in voting, the research for voting, setting guidelines, or settling conflicts. Additional research on how this impacts voting across the board would also be useful.

Corporate Governance Issues

Expensing of Stock Options

WE EXAMINED THE PROXY VOTES AT:
eBay
Intel Corp.
Wells Fargo & Co.

THE RESOLUTIONS ASK the Board to establish a policy of expensing options in the company's annual income statement, or, in the case of Wells Fargo, to cease using options unless the costs are included in such statements.

ITEMS TO NOTE:

- All SRI Funds in the study supported the expensing of options.
- PIMCO's PEA Growth Fund voted contrary to the other two PIMCO funds and opposed these resolutions.
- Federated, Fidelity and PIMCO were the only fund families to cast any votes on the expensing of options with management.

Expensing Stock Options

	Social Funds	Conventional Funds
Voted with management	0%	27.8%
Voted against management	100%	72.2%
Abstained	0%	0%

Fund Complex Voting Averages:

CONVENTIONAL FUNDS	VOTED AGAINST MANAGEMENT
American Funds	100%
Citigroup AM/Smith Barney	100%
Dreyfus	100%
Federated	0%
Fidelity	0%
Franklin Templeton	100%
Merrill Lynch	100%
PIMCO*	33%
Schwab	100%
Vanguard Group	100%
Average Votes Against Mgmt.	**72.2%**

**(Capital Appreciation against mgmt.; PEA Growth with mgmt.)*

SRI FUNDS	VOTED AGAINST MANAGEMENT
Calvert Group	100%
CAM/Smith Barney Social Aw.	100%
Citizens Funds	100%
Domini Social Invs.	100%
Dreyfus Premier Third Century	100%
Grantham Mayo (GMO) Tobacco Free	100%
MMA Praxis	100%
New Covenant	100%
Parnassus	100%
Pax World	100%
Average Votes Against Mgmt.	**100%**

Click here to review the actual votes cast for this issue.
Click here to examine each fund's or fund complex's records for and against management.

Declassify the Board (Annual Elections)

WE EXAMINED THE PROXY VOTES AT:
Gillette Co.
Morgan Stanley
Procter & Gamble

THE RESOLUTIONS ASK the Board to take steps to declassify the election of directors by ensuring that future directors are elected annually, and not by classes that have staggered elections. Declassification would be phased-in and would not affect unexpired terms of directors. The resolved clauses filed at Gillette, Morgan Stanley, and Procter & Gamble are basically the same.

ITEMS TO NOTE:

- Federated funds were the only funds to oppose declassifying the board.
- New Covenant Growth Fund was the only fund to abstain on this issue. In our study, very rarely did any fund abstain on a governance issue.
- All funds supporting these resolutions did so 100% of the time.
- This issue revealed the closest voting average against management between the two groups of funds, with less than 1% difference between SRI and Conventional fund support.
- This was also the only issue where Conventional funds surpassed SRI funds in votes against management.

Declassify the Board

	Social Funds	Conventional Funds
Voted with management	0%	13.7%
Voted against management	85.7%	86.3%
Abstained	14.3%	0%

Fund Complex Voting Averages:

CONVENTIONAL FUNDS	VOTED AGAINST MANAGEMENT
American Funds	100%
Citigroup AM/Smith Barney	100%
Dreyfus	100%
Federated	0%
Fidelity	100%
Franklin Templeton	100%
Merrill Lynch	100%
PIMCO	100%
Schwab	100%
Vanguard Group	100%
Average Votes Against Mgmt.	**86.3%**

SRI FUNDS	VOTED AGAINST MANAGEMENT
Calvert Group	100%
CAM/Smith Barney Social Aw.	100%
Citizens Funds	100%
Domini Social Invs.	100%
Dreyfus Premier Third Century	N/A
Grantham Mayo (GMO) Tobacco Free	100%
MMA Praxis	100%
New Covenant	0%[a]
Parnassus	N/A
Pax World	100%
Average Votes Against Mgmt.	**85.7%**

a Abstained 100%

Click here to review the actual votes cast for this issue.
Click here to examine each fund's or fund complex's records for and against management.

Shareholder Approval of Poison Pills

WE EXAMINED THE PROXY VOTES AT:
AT & T Corp.
PG & E Corp.
Staples

THE RESOLUTIONS ASK that Directors increase shareholder voting rights and submit the adoption, maintenance, or extension of any poison pill (rights plan) to a shareholder vote. Also, once such a proposal is adopted, dilution or removal of this proposal should be submitted to a shareholder vote at the earliest possible election.

(A "poison pill" is a strategy used by corporations to discourage a hostile takeover by another company by attempting to make its stock less attractive to the acquirer. There are two types of pills: a "flip-in" allows existing shareholders (except the acquirer) to buy more shares at a discount, while a "flip-over" allows stockholders to buy the acquirer's shares at a discounted price after the merger.)

ITEMS TO NOTE:

- SRI funds voted 100% in favor of shareholder approval of poison pills.
- Vanguard funds stand out on this issue. All three funds voted with management on poison pills.
- American Funds' Washington Mutual Investors fund broke rank with the other two funds and sided with management at AT&T. Its other two were 100% in support of shareholder approval of pills.

Poison Pills	Social Funds	Conventional Funds
Voted with management	0%	24.2%
Voted against management	100%	75.8%
Abstained	0%	0%

Notes: 17 of 45 funds had no relevant votes. Extremely high on conventional side-13 funds did not cast votes on proposals studied.

Fund Complex Voting Averages:

CONVENTIONAL FUNDS	VOTED AGAINST MANAGEMENT
American Funds*	66.7%
Citigroup AM/Smith Barney	100%
Dreyfus	100%
Federated	100%
Fidelity	100%
Franklin Templeton	100%
Merrill Lynch	100%
PIMCO	N/A
Schwab	100%
Vanguard Group	0%
Average Votes Against Mgmt.	**75.8%**

*(WA Mutual w/ mgmt at AT&T)

SRI FUNDS	VOTED AGAINST MANAGEMENT
Calvert Group	100%
CAM/Smith Barney Social Aw.	N/A
Citizens Funds	100%
Domini Social Invs.	100%
Dreyfus Premier Third Century	100%
Grantham Mayo (GMO) Tobacco Free	100%
MMA Praxis	100%
New Covenant	100%
Parnassus	N/A
Pax World	100%
Average Votes Against Mgmt.	**100%**

Click here to review the actual votes cast for this issue.
Click here to examine each fund's or fund complex's records for and against management.

Shareholder Approval of Golden Parachutes

WE EXAMINED THE PROXY VOTES AT:
General Motors Corp.
Home Depot
Kroger

THE RESOLUTIONS ASK for shareholder approval of severance agreements that qualify as "golden parachutes." They do not seek to eliminate golden parachutes altogether. The differences in these resolutions (including the ratio or percent of salary that would define a golden parachute based on beliefs of the filer) are more clearly spelled out in **Appendix B—Details of the Proxy Resolutions,** in this study. For GM, it's greater than 200% of salary. For Kroger, it's greater than two times base salary. For Home Depot, it's greater than 2.99 times salary.

ITEMS TO NOTE:

- There was inconsistency between SRI and Conventional funds within the same complex. Many funds voted differently at Kroger than they did the other two proposals.
- For SRI funds, three complexes voted with management at Kroger only; all five others voted 100% against management.
- There were a number of instances where funds did not disclose their votes properly on the N-PX or web-based forms.
- On the Conventional fund side, three fund complexes voted 100% *with management* (American Funds, Fidelity, and Franklin Templeton); meanwhile two fund complexes voted 100% *against management* (Citigroup Asset Mgmt. and PIMCO).

Golden Parachutes	Social Funds	Conventional Funds
Voted with management	25%	47.1%
Voted against management	75%	52.9%
Abstained	0%	0%

Notes: There were five instances where the vote was not captured properly on the web chart or N-PX. This applied to four conventional funds and one SRI fund. There were inconsistencies across many funds on this issue, usually at Kroger. Fifteen of the 45 funds did not have applicable votes to study, which reduced the study universe by one-third.

Fund Complex Voting Averages:

CONVENTIONAL FUNDS	VOTED AGAINST MANAGEMENT
American Funds	0%[a]
Cigroup AM/Smith Barney	100%
Dreyfus	40%[b]
Federated	71.4%[c]
Fidelity	0%[d]
Franklin Templeton	0%[e]
Merrill Lynch	N/A[b]
PIMCO	100%
Schwab	66.7%[c]
Vanguard Group	40%[e]
Average Votes Against Mgmt.	**52.9%**

a (one vote not listed); b (one vote not listed on voting chart); c (voted with mgmt. at Kroger only); d (voted with mgmt. at Home Depot); e (voted with mgmt. at GM)

SRI FUNDS	VOTED AGAINST MANAGEMENT
Calvert Group	100%
CAM/Smith Barney Social Aw.	100%
Citizens Funds	50%[a]
Domini Social Invs.	50%[a]
Dreyfus Premier Third Century	100%
Grantham Mayo (GMO) Tobacco Free	50%[a]
MMA Praxis	N/A
New Covenant	100%
Parnassus	100%
Pax World	N/A[b]
Average Votes Against Mgmt.	**75%**

a (voted w/ mgmt at Kroger only); b (sold shares and didn't cast vote)

Click here to review the actual votes cast for this issue.
Click here to examine each fund's or fund complex's records for and against management.

Limit Consulting by Auditors

WE EXAMINED THE PROXY VOTES AT:
American Electric Power
JP Morgan Chase & Co.
Lockheed Martin Corp.

THE RESOLUTIONS ASK the companies to adopt a policy stating the auditor will perform only “audit” and “audit-related” work, and not perform services generating “tax fees” and “all other fees” as categorized by the SEC. The three resolutions were very similar.

SPECIAL NOTE ON RESOLUTION FOCUS: These resolutions were controversial since they called for a zero-tolerance policy on the auditor doing non-audit work and many institutional investors have a ratio they have put forward as acceptable non-audit work (10%, 25%, 50%, etc.). Some funds and investors found this prescription too restrictive, and while they were concerned about the possible conflicts of interest involving the auditor, they did not support this remedy. Some funds may choose to vote against these resolutions, but might withhold votes from directors on audit committees if they allow the auditors to violate the formula around the proportion of fees.

ITEMS TO NOTE:

- ALL Conventional funds voted in favor of management on this issue. This is very unusual because even with social votes, there was no instance where Conventional funds voted entirely with management.
- Four SRI fund complexes voted AGAINST management on this issue.
- Funds were all or nothing. There were no inconsistencies between proxy votes within a fund family.
- Two SRI fund complexes sided with management on the issue.

Limit Consulting by Auditors

	Social Funds	Conventional Funds
Voted with management	33.3%	100%
Voted against management	66.7%	0%
Abstained	0%	0%

Notes: Roughly one-third of funds did not have any votes to study on this issue: six conventional and eight SRI funds.

Fund Complex Voting Averages:

CONVENTIONAL FUNDS	VOTED AGAINST MANAGEMENT
American Funds*	0%
Citigroup AM/Smith Barney	0%
Dreyfus	0%
Federated	0%
Fidelity	0%
Franklin Templeton	0%
Merrill Lynch	0%
PIMCO	0%
Schwab	0%
Vanguard Group	0%
Average Votes Against Mgmt.	**0%**

*(one vote not listed)

SRI FUNDS	VOTED AGAINST MANAGEMENT
Calvert Group	100%
CAM/Smith Barney Social Aw.	N/A
Citizens Funds	100%
Domini Social Invs.	100%
Dreyfus Premier Third Century	N/A
Grantham Mayo (GMO) Tobacco Free	0%
MMA Praxis	0%
New Covenant	100%
Parnassus	N/A
Pax World	N/A
Average Votes Against Mgmt.	**66.7%**

Click here to review the actual votes cast for this issue.
Click here to examine each fund’s or fund complex’s records for and against management.

Separating the CEO and Chairman Positions

WE EXAMINED THE PROXY VOTES AT:
Citigroup
General Electric
Safeway

THE RESOLUTIONS ASK that either: the Board adopt a policy requiring that the Chairman of the Board serve in that capacity only, and have no management duties, or, that an independent director (as defined by CII or NYSE) serve as Chairman. The three resolutions were somewhat similar, but noted different definitions of "independence."

ITEMS TO NOTE:

- Only one Conventional fund supported separation 100%—the Franklin Templeton Franklin Capital Growth fund.
- One SRI fund (Dreyfus Premier Third Century) supported management on this issue.
- Many Conventional funds' votes against management on this issue can be attributed to the Safeway controversy. At Safeway, a turbulent vote occurred because of a worker strike and a "vote no" campaign against the company's CEO. A special note was made on our **Master Voting Chart (Appendix D)** when funds voted either for this resolution but supported the CEO, or they voted against this resolution but withheld their vote from the CEO.

Separating the CEO & Chairman Positions	Social Funds	Conventional Funds
Voted with management	16.7%	87.3%
Voted against management	83.3%	12.7%
Abstained	0%	0%

Notes: Safeway vote was controversial. Some notes on the outcomes are listed below. To see more detail, please visit Appendix D.

Fund Complex Voting Averages:

CONVENTIONAL FUNDS	VOTED AGAINST MANAGEMENT
American Funds	0%[a]
Citigroup AM/Smith Barney	0%[a]
Dreyfus	14.3%[b]
Federated	0%
Fidelity	0%
Franklin Templeton	100%
Merrill Lynch	0%[a]
PIMCO	16.7%[b]
Schwab	33.3%[b]
Vanguard Group	0%
Average Votes Against Mgmt.	**12.7%**

a (cast no votes at Safeway); b (exception was at Safeway)

SRI FUNDS	VOTED AGAINST MANAGEMENT
Calvert Group	N/A
CAM/Smith Barney Social Aw.	N/A
Citizens Funds	100%
Domini Social Invs.	100%
Dreyfus Premier Third Century	0%
Grantham Mayo (GMO) Tobacco Free	33.3%[a]
MMA Praxis	100%
New Covenant	100%
Parnassus	N/A
Pax World	N/A
Average Votes Against Mgmt.	**83.3%**

a (exception was at Safeway)

Click here to review the actual votes cast for this issue.
Click here to examine each fund's or fund complex's records for and against management.

Social & Environmental Issues

Sexual Orientation Nondiscrimination Policies

WE EXAMINED THE PROXY VOTES AT:
Alltel Corp.
ExxonMobil Corp.
Fifth Third Bancorp (mgmt. made no recommendation on this vote)

THE RESOLUTIONS ASK that each company amend its equal opportunity policy to prohibit discrimination based on sexual orientation, and for the company to implement this policy. The three resolutions were almost identical.

SPECIAL NOTE: At Fifth Third Bancorp, management took the unusual step of making no recommendation for or against the proposal. The company said it would implement whatever decision was made by a majority of shareholders for that vote. Because of this, many funds could not agree on how to disclose their vote in relation to management's position. Some reported that their vote regarding the resolution was a vote "for management," "against management," "unknown," "none," or blank. Many funds counted their vote for the proposal as a vote against management, and a number reported their vote against the proposal as a vote for management. So for consistency's sake, in the tallies for this report, *we counted all fund votes in favor of the resolution as a vote against management*.

ITEMS TO NOTE:
- No SRI funds sided with management on this issue.
- Conventional funds were a mixed bag, with one-third voting against management and one-fifth abstaining.
- The Dreyfus S&P 500 Index abstained at Fifth Third (recording its vote cast as "none") while the Dreyfus Fund Inc. supported the resolution at Fifth Third.
- Citigroup Asset Mgmt., Merrill Lynch, and Schwab supported this issue 100%.
- Meanwhile, one SRI fund abstained—the New Covenant Growth fund.
- Four Conventional funds sided with management, and Vanguard abstained entirely.

Sexual Orientation Nondiscrimination Policies

	Social Funds	Conventional Funds
Voted with management	0%	46.5%
Voted against management	83.3%	32.6%
Abstained	16.7%	20.9%

Notes: The Fifth Third vote was unique. We reported and tallied all votes for the resolution as a vote against management, even though management made no recommendation one way or the other.

Fund Complex Voting Averages:

CONVENTIONAL FUNDS	VOTED AGAINST MANAGEMENT
American Funds	0%
Citigroup AM/Smith Barney	100%
Dreyfus	16.7%
Federated	0%
Fidelity	0%
Franklin Templeton	0%
Merrill Lynch	100%
PIMCO	N/A
Schwab	100%
Vanguard Group	0%[a]
Average Votes Against Mgmt.	**32.6%**[b]

a (100% abstain); b (20.9% abstain)

SRI FUNDS	VOTED AGAINST MANAGEMENT
Calvert Group	100%
CAM/Smith Barney Social Aw.	100%
Citizens Funds	100%
Domini Social Invs.	100%
Dreyfus Premier Third Century	N/A
Grantham Mayo (GMO) Tobacco Free	N/A
MMA Praxis	N/A
New Covenant	0%[a]
Parnassus	N/A
Pax World	N/A
Average Votes Against Mgmt.	**83.3%**[b]

a (100% abstain); b (w/ 16.7% abstain)

Click here to review the actual votes cast for this issue.
Click here to examine each fund's or fund complex's records for and against management.

Sustainability Reporting (non-GRI)

WE EXAMINED THE PROXY VOTES AT:
Cooper Industries Ltd.
Wal-Mart Stores
Yum! Brands Inc.

THE RESOLUTIONS ASK the Board to prepare a Sustainability Report. Supporting Statements suggested that the company include definitions of sustainability, a review of current policies and practices, and a summary of long-term sustainability plans. These resolutions did not mandate reporting based on the Global Reporting Initiative. With the exception of some minor wording differences in Yum's proposal, the three companies' resolved clauses are identical.

ITEMS TO NOTE:

- Strong support from SRI funds on this issue, with 100% voting against management.
- Conventional funds' votes against management or abstentions on this issue equaled 47%, a significant number not voting in line with management.
- Schwab voted 100% against management, the only Conventional fund complex to do so.
- One Dreyfus fund, the S&P 500, supported the resolution at Cooper Industries only.

Sustainability Reporting	Social Funds	Conventional Funds
Voted with management	0%	52.9%
Voted against management	100%	29.4%
Abstained	0%	17.6%

Fund Complex Voting Averages:

CONVENTIONAL FUNDS	VOTED AGAINST MANAGEMENT
American Funds	0%
Citigroup AM/Smith Barney	N/A
Dreyfus	20%
Federated	0%
Fidelity	0%
Franklin Templeton	0%
Merrill Lynch	N/A
PIMCO	0%
Schwab	100%
Vanguard Group	0%[a]
Average Votes Against Mgmt.	**29.4%**[b]

a (100% abstain); b (17.6% abstain)

SRI FUNDS	VOTED AGAINST MANAGEMENT
Calvert Group	100%
CAM/Smith Barney Social Aw.	N/A
Citizens Funds	100%
Domini Social Invs.	100%
Dreyfus Premier Third Century	N/A
Grantham Mayo (GMO) Tobacco Free	N/A
MMA Praxis	100%
New Covenant	100%
Parnassus	N/A
Pax World	N/A
Average Votes Against Mgmt.	**100%**

Click here to review the actual votes cast for this issue.
Click here to examine each fund's or fund complex's records for and against management.

ILO/Vendor Standards

WE EXAMINED THE PROXY VOTES AT:
Colgate-Palmolive Co.
Delphi Corp.
E. I. Du Pont de Nemours

THE RESOLUTIONS ASK companies to adopt some form of International Labor Organization (ILO) or other standards for workers, vendors and suppliers, or a mix. The DuPont resolution urges the company to adopt a human rights policy based on ILO's Declaration on Fundamental Principles and Rights at Work. The Delphi proposal asks the company to write a review of its standards for international operations. The Colgate-Palmolive resolution asks the company to fully implement the ILO standards in production facilities and with suppliers (a stronger ask).

ITEMS TO NOTE:

- Schwab showed modest support for these proposals on the Conventional fund side, while all others voted with management or abstained (Vanguard).
- With the exception of Citigroup Asset Management Social Awareness fund, all other SRI funds supported these proposals.

ILO/Vendor Standards	Social Funds	Conventional Funds
Voted with management	9.1%	71.8%
Voted against management	81.8%	7.7%
Abstained	9.1%	20.5%

Fund Complex Voting Averages:

CONVENTIONAL FUNDS	VOTED AGAINST MANAGEMENT
American Funds	0%
Citigroup AM/Smith Barney	0%
Dreyfus	0%
Federated	0%
Fidelity	0%
Franklin Templeton	0%
Merrill Lynch	0%
PIMCO	0%
Schwab	33.3%
Vanguard Group	0%[a]
Average Votes Against Mgmt.	**7.7%**[b]

a (100% abstain); b (with 20.5% abstain)

SRI FUNDS	VOTED AGAINST MANAGEMENT
Calvert Group	100%
CAM/Smith Barney Social Aw.	0%[a]
Citizens Funds	100%
Domini Social Invs.	100%
Dreyfus Premier Third Century	N/A
Grantham Mayo (GMO) Tobacco Free	100%
MMA Praxis	N/A
New Covenant	100%
Parnassus	N/A
Pax World	N/A
Average Votes Against Mgmt.	**81.8%**[b]

a (50% abstain); b (9.1% abstain)

Click here to review the actual votes cast for this issue.
Click here to examine each fund's or fund complex's records for and against management.

Human Rights

WE EXAMINED THE PROXY VOTES AT:
Calpine Co.
(Walt) Disney Co.
Freeport McMoran Copper & Gold

THE THREE RESOLUTIONS REVIEWED here are more distinct than any other issue category we examined. Each resolution deals with a specific human rights issue, with little overlap. So one might expect differences in these votes amongst funds. At Disney, shareholders asked for a review and report on adherence of suppliers (in China) to Disney's code of conduct, to core conventions of the ILO, and to provisions of Chinese labor laws. At Calpine, investors asked the company to cease and desist development in an indigenous community, and to establish a policy on the rights of indigenous peoples. At Freeport McMoran, investors asked management to halt all payments to the Indonesian military and security forces until investigations are complete around brutal attacks against employees there.

ISSUES TO NOTE:

- Only two conventional funds (PIMCO and Schwab) voted against management on this issue at all, while Vanguard abstained.
- This issue showed the weakest support by SRI funds. That is due in some part to the fact that six fund complexes (a majority) did not have applicable votes to study. Of those SRI funds to vote with management on these issues, they did so 100% of the time (Dreyfus and GMO). SRI funds were all or nothing on the issue as a whole—even though the three resolutions were very different (this could suggest that not enough case-by-case analysis is happening on this issue, guidelines were all too vague so they captured everything in this category, or that funds happened to support a wide variety of human rights proposals).

Human Rights	Social Funds	Conventional Funds
Voted with management	40%	69.4%
Voted against management	60%	13.9%
Abstained	0%	16.7%

Fund Complex Voting Averages:

CONVENTIONAL FUNDS	VOTED AGAINST MANAGEMENT
American Funds	0%
Citigroup AM/Smith Barney	0%
Dreyfus	0%
Federated	0%
Fidelity	0%
Franklin Templeton	0%
Merrill Lynch	0%
PIMCO	66.7%
Schwab	42.9%
Vanguard Group	0%[a]
Average Votes Against Mgmt.	**13.9%**[b]

a (100% abstain); b (16.7% abstain)

SRI FUNDS	VOTED AGAINST MANAGEMENT
Calvert Group	N/A
CAM/Smith Barney Social Aw.	N/A
Citizens Funds	100%
Domini Social Invs.	100%
Dreyfus Premier 3rd Century	0%
Grantham Mayo (GMO)	0%
MMA Praxis	N/A
New Covenant	N/A
Parnassus	N/A
Pax World	N/A
Average Votes Against Mgmt.	**60%**

Click here to review the actual votes cast for this issue.
Click here to examine each fund's or fund complex's records for and against management.

HIV/AIDS, TB, and Malaria Pandemics

WE EXAMINED THE PROXY VOTES AT:
ChevronTexaco Corp.
Coca-Cola Co.
(management recommended support of the resolution)
Pfizer Inc.

THE RESOLUTIONS ASK for disclosure on the effects of HIV/AIDS, tuberculosis, and malaria pandemics on each company's business strategy. The proposal at Coca-Cola was slightly different in that it also asked the company to report its best practices in this area.

IMPORTANT NOTE: **The votes at Coca-Cola were not counted in the percentages cast for, against, or abstaining from management** in this report because management ended up agreeing with the merits of the proposal, and recommended a vote in favor of it. This meant that where some funds may have voted against other proposals worded almost identically, they ended up supporting this one and casting votes "with management," thus skewing the results slightly. The resolution received 97.9% support, the highest voting support for any social resolution in the U.S.

ITEMS TO NOTE:

- Federated was the only complex in this study to vote against the proposal at Coca-Cola (and against management there). While funds may have voted with management on similarly worded resolutions at the other issuers, funds were almost unanimous in supporting the Coke proposal, since management did take the unusual step of supporting it.
- Two SRI funds voted against these resolutions (Dreyfus and GMO), while others supported them 100%.
- Only one Conventional fund (PIMCO) supported these resolutions beyond Coca-Cola. Vanguard abstained on all votes except Coke, where it voted in favor of the resolution.

HIV/AIDS, TB, Malaria Pandemics	Social Funds	Conventional Funds
Voted with management	15.4%	83.7%
Voted against management	84.6%	2.3%
Abstained	0%	14%

Notes: Coca-Cola resolution votes were not counted, but recorded only in the discussion of this issue's votes and in the disclosure chart of all votes studied. All funds voted in favor of the resolution at Coke—with management—except for Federated Funds.

Fund Complex Voting Averages:

CONVENTIONAL FUNDS	VOTED AGAINST MANAGEMENT
American Funds	0%
Citigroup AM/Smith Barney	0%
Dreyfus	0%
Federated	0%[a]
Fidelity	0%
Franklin Templeton	0%
Merrill Lynch	0%
PIMCO	50%
Schwab	0%
Vanguard Group	0%[b]
Average Votes Against Mgmt.	**2.3%**[c]

a (also voted against proposal at Coke); b (100% abstain); c (14% abstain)

SRI FUNDS	VOTED AGAINST MANAGEMENT
Calvert Group	100%
CAM/Smith Barney Social Aw.	100%
Citizens Funds	100%
Domini Social Invs.	N/A
Dreyfus Premier Third Century	0%
Grantham Mayo (GMO) Tobacco Free	0%
MMA Praxis	100%
New Covenant	100%
Parnassus	100%
Pax World	N/A
Average Votes Against Mgmt.	**84.6%**

Click here to review the actual votes cast for this issue.
Click here to examine each fund's or fund complex's records for and against management.

Climate Risk/Climate Change

WE EXAMINED THE PROXY VOTES AT:
Anadarko Petroleum
ExxonMobil Corp.
Ford Motor Co.

THE RESOLUTIONS ASK for information about company responses to public and regulatory pressure around lowering greenhouse gas emissions (GHGs) at Ford and Anadarko. Additionally at Ford, investors wanted performance and projected data of GHG emissions from the company's products plus a plan for lowering emissions, as well as how the company will ensure competitive positioning related to GHG scenarios. At ExxonMobil, investors sought an explanation of the data used by the company to justify its position on climate change and climate science, including the company's key differences with that of global scientific bodies that have an opposite opinion of climate change projections.

ITEMS TO NOTE:

- Only one Conventional fund supported some of these resolutions—Schwab—with Vanguard again abstaining.
- Only one SRI fund voted with management on climate change—the GMO Tobacco Free Core fund.

Climate Risk/Climate Change	Social Funds	Conventional Funds
Voted with management	9.1%	75%
Voted against management	90.9%	6.8%
Abstained	0%	18.2%

Fund Complex Voting Averages:

CONVENTIONAL FUNDS	VOTED AGAINST MANAGEMENT
American Funds	0%
Citigroup AM/Smith Barney	0%
Dreyfus	0%
Federated	0%
Fidelity	0%
Franklin Templeton	0%
Merrill Lynch	0%
PIMCO	N/A
Schwab	37.5%
Vanguard Group	0%[a]
Average Votes Against Mgmt.	**6.8%**[b]

a (100% abstain); b (18.2% abstain)

SRI FUNDS	VOTED AGAINST MANAGEMENT
Calvert Group	N/A
CAM/Smith Barney Social Aw.	N/A
Citizens Funds	100%
Domini Social Invs.	100%
Dreyfus Premier Third Century	100%
Grantham Mayo (GMO) Tobacco Free	0%
MMA Praxis	100%
New Covenant	100%
Parnassus	N/A
Pax World	N/A
Average Votes Against Mgmt.	**90.9%**

Click here to review the actual votes cast for this issue.
Click here to examine each fund's or fund complex's records for and against management.

Vote No Campaigns/Withhold Votes From Directors

WE EXAMINED THE WITHHOLD VOTES AT:
Walt Disney Co.
Federated Department Stores
Kohl's
MBNA

THERE WERE NO RESOLUTIONS FILED in this category. Instead, we reviewed the four companies that received the highest withheld votes during the reporting period, according to data from Institutional Shareholder Services. We studied whether funds voted in favor of a director or slate of directors, or whether they withheld a vote from one or more directors on the board of a company that was targeted by a shareholder campaign, or unpopular at the time of voting because of governance concerns.

ITEMS TO NOTE: (please see the list of fund complexes on the next page for more details)

- There was significant "withheld vote" activity by SRI funds as a group, with over 95% withholding from board members.
- Conventional funds showed stronger support in this category than expected, with more funds withholding votes than supporting directors. Three Conventional funds withheld votes 100% of the time (Franklin Templeton, PIMCO, and Schwab) while Vanguard revealed a strong 75% withheld vote (though it voted for all at Disney).
- Six SRI funds withheld votes 100% of the time.
- There was a high level of inconsistency in the voting. Funds varied as to whom they would support or withhold from.
- Dreyfus and the Dreyfus (SRI) Premier Third Century Fund stand out here for supporting all directors. Merrill Lynch also voted in favor of directors at Disney, and didn't own other issuers.

Vote No Campaigns/ Withhold Votes From Directors

	Social Funds	Conventional Funds
Voted in support of directors	4.8%	48.2%
Withheld vote	95.2%	51.8%

Notes: Withhold votes could be for one or more directors on that board. In most cases, both Conventional and SRI funds withheld votes from several directors at once. Social funds were more likely to withhold votes from all directors for the four companies we studied. Especially contentious was the Disney election.

Individual Findings: each summary includes the votes at all four companies

CONVENTIONAL FUNDS	WITHHELD	SPECIAL NOTES
American Funds	20%	*withheld Eisner; supported all directors at others*
Citigroup AM/Smith Barney	50%	*inconsistent on Disney (Apprec. and Lg. Cap)*
Dreyfus	0%	*voted 100% for all directors*
Federated	33.3%	*withheld all at Disney; supported all directors at others*
Fidelity	16.7%	*withheld all at Disney; supported all directors at others*
Franklin Templeton	100%	*withheld Eisner; didn't own others*
Merrill Lynch	0%	*voted for all directors at Disney; didn't own others*
PIMCO	100%	*withheld from all directors at all companies*
Schwab	100%	*withheld from all directors at all companies*
Vanguard Group	75%	*voted for all at Disney; withheld at all other companies*
Subtotal	**51.8%**	

SRI FUNDS	Withheld	Special Notes
Calvert Group	100%	*withheld from all directors at all companies*
CAM/Smith Barney Social Aw.	N/A	*owned no companies*
Citizens Funds	100%	*withheld from all directors at all companies*
Domini Social Invs.	100%	*withheld from all companies*
Dreyfus Premier Third Century	0%	*voted for all at Disney*
Grantham Mayo Tobacco Free	100%	*withheld from all companies*
MMA Praxis	100%	*withheld from all directors at all companies*
New Covenant	100%	*withheld from all companies*
Parnassus	N/A	*owned no companies*
Pax World	N/A	*owned no companies*
Subtotal	**95.2%**	

Click here to review the actual votes cast for these elections.

Click here to examine each fund's or fund complex's records "for" or "withheld" from the Board.

The Overall Picture

While we were not surprised to find that SRI funds supported social resolutions more often than Conventional funds (by about a 6-to-1 ratio of the funds in this study), we also found that SRI funds as a group also surpassed Conventional funds by roughly a 2-to-1 margin in both withhold votes and governance voting.

When we aggregated **all votes against management and the withhold votes from directors, four fund complexes (all of them Conventional funds) had averaged votes of less than 25%.** Surprisingly, three of those four are the three largest fund families in America. Fidelity, Vanguard, American, and Federated were least likely to vote against management, with Federated having only 16.7% of its votes *against* management. With SRI funds, two complexes had lower scores than their SRI peers as a group—Dreyfus (with 50% withheld or against management) and Grantham Mayo (with 52.9% withheld or against management).

Of SRI funds, **three complexes voted against management 100% of the time—**Calvert, Parnassus, and Pax. With Pax and Parnassus, those results are not surprising because the total voting data from those funds was very small (only three votes total for Pax and five for Parnassus). But with Calvert, 24 votes were cast among three funds, voting on both social and governance issues. Among Conventional funds, only **two complexes had averaged votes withheld or against management of over 50%** —Schwab with 65.5% and PIMCO with 51.9%. Citigroup Asset Management was a close third with 45.8%.

It is notable that nine funds voted mostly with management overall, despite the fact that four of the six corporate governance resolutions were considered "plain vanilla" topics, and the four vote-no campaigns had widespread investor support behind them.

The following funds sided with management more than 80% of the time:

- American Funds Investment Company of America
- American Funds Washington Mutual Investors Fund
- Dreyfus Appreciation
- Federated American Leaders Fund
- Federated Capital Appreciation Fund
- Federated Max-Cap Index Fund
- Fidelity Growth and Income Fund
- Fidelity Magellan
- Franklin Income Fund

In comparing SRI funds to Conventional funds as a category, there were some substantial differences in voting practices too:

Corporate Governance Overview:

All Governance Resolutions	Social Funds	Conventional Funds
Voted with management	10.53%	51.28%
Voted against management	87.37%	48.72%
Abstained	2.11%	0%

Notes: Interesting to note that no Conventional funds abstained on any governance votes.

- **SRI funds supported governance issues more robustly than Conventional funds** did by at least a 22% lead—with the exception of **Declassifying the Board,** where there was a virtual tie.
- SRI funds voted **100% in support of Expensing Options** (compared to 72.2% for Conventional peers).
- SRI funds voted **100% in favor of Shareholder Approval of Poison Pills** (compared to 75.8% for Conventional funds).
- SRI funds supported Limiting Consulting by Auditors by 66.7%, and **no Conventional funds supported these resolutions.**

- SRI funds only voted **with management 10.5% of the time on governance concerns.**
- **Conventional funds only stood out on Declassifying the Board**—where they voted against management .6% more often than SRI funds.
- **Only one fund complex, New Covenant (SRI), abstained** on any governance issue.

Social Issues Overview:

All Social Resolutions		
	Social Funds	Conventional Funds
Voted with management	11.54%	66.95%
Voted against management	84.62%	15.06%
Abstained	3.85%	17.99%

Notes: Remember that the Coca-Cola votes on HIV/AIDS are not included in this tally, and that votes for the resolution at Fifth Third on sexual orientation nondiscrimination were counted as votes against management, even though Fifth Third took no position on the vote.

- **SRI funds voted strongly in favor of HIV resolutions** (with ratio of 43:1)—even though **all Conventional funds *except* Federated** supported the same resolution at Coca-Cola (not counted in our charts).
- **SRI funds voted strongly in favor of climate change** resolutions (by a 13:1 ratio), with one of the clearest business cases for risk on a social proposal being made for climate change.
- **SRI funds supported sustainability resolutions 100%** of the time, compared to 29% for Conventional funds. This was the only social issue that SRI funds supported wholesale.
- **Conventional funds' strongest support for social proposals** pertained to Sexual Orientation Nondiscrimination, followed by Sustainability Reporting, and then Human Rights (where SRI funds' support was the weakest).
- **Conventional funds' overall support of social resolutions was modest but encouraging, with one-third not supporting management** (voting against management or abstaining) on social or environmental issues.
- **When management supported a social proposal—or made no recommendation at all—Conventional funds seemed more inclined to support it**—and the votes recorded in this report show above average support for the two resolutions where this was the case: Coca-Cola (with only three funds out of 45 voting against the resolution), and Fifth Third Bancorp (where four funds voted against the proposal).

Individual Fund Scorecard

At right is a tally of each fund's votes against management, abstentions, and withholding votes from directors, with Grand Total Scores to the far right. For simplicity's sake in this chart, percentages have been rounded to one-tenth of a percent.

	Social Issue % Votes Vs. Mgmt	Social Issue % Abstentions	Corp. Gov. % Votes Vs. Mgmt	Corp. Gov. % Abstention	% Votes W/held from Directors	TOTAL % Votes Vs. or withheld
Conventional Funds						
American Funds Growth Fund of America	0.0%	0.0%	57.1%	0.0%	33.3%	31.3%
American Funds Investment Company of America	0.0%	0.0%	40.0%	0.0%	0.0%	19.0%
American Funds Washington Mutual Investors Fund	0.0%	0.0%	33.3%	0.0%	—	20.0%
Citigroup AM/Smith Barney Aggressive Growth	0.0%	0.0%	100.0%	0.0%	—	50.0%
Citigroup AM/Smith Barney Appreciation	33.3%	0.0%	60.0%	0.0%	100.0%	50.0%
Citigroup AM/Smith Barney Large Cap Growth	0.0%	0.0%	75.0%	0.0%	0.0%	37.5%
Dreyfus Appreciation	0.0%	0.0%	40.0%	0.0%	—	16.7%
Dreyfus Fund Incorporated	10.0%	0.0%	54.5%	0.0%	0.0%	29.2%
Dreyfus S&P 500 Index	5.9%	5.9%	61.1%	0.0%	0.0%	30.8%
Federated American Leaders Fund	0.0%	0.0%	33.3%	0.0%	33.3%	18.8%
Federated Capital Appreciation Fund	0.0%	0.0%	23.1%	0.0%	50.0%	17.4%
Federated Max-Cap Index Fund	0.0%	0.0%	27.8%	0.0%	25.0%	15.4%
Fidelity Contrafund	0.0%	0.0%	40.0%	0.0%	0.0%	23.5%
Fidelity Growth and Income Fund	0.0%	0.0%	40.0%	0.0%	0.0%	18.2%
Fidelity Magellan	0.0%	0.0%	30.8%	0.0%	25.0%	18.5%
Franklin Growth A	0.0%	0.0%	50.0%	0.0%	100.0%	40.0%
Franklin Income Fund	0.0%	0.0%	20.0%	0.0%	—	14.3%
Franklin Templeton Franklin Capital Growth	0.0%	0.0%	85.7%	0.0%	100.0%	46.7%
Merrill Lynch Balanced Capital	20.0%	0.0%	40.0%	0.0%	0.0%	27.3%
Merrill Lynch Basic Value	16.7%	0.0%	75.0%	0.0%	0.0%	36.4%
Merrill Lynch Fundamental Growth	0.0%	0.0%	60.0%	0.0%	—	50.0%
PIMCO CCM Capital Appreciation	33.3%	0.0%	60.0%	0.0%	100.0%	63.6%
PIMCO PEA Growth Fund	66.7%	0.0%	33.3%	0.0%	100.0%	50.0%
PIMCO PEA Value Fund	0.0%	0.0%	40.0%	0.0%	—	33.3%
Schwab 1000 Fund (Inv and Sel)	60.0%	0.0%	66.7%	0.0%	100.0%	66.7%
Schwab MarketTrack Growth	52.9%	0.0%	66.7%	0.0%	100.0%	64.1%
Schwab S&P 500 (Inv and Sel)	56.3%	0.0%	66.7%	0.0%	100.0%	65.8%
Vanguard 500 Index (incl. Institutional Index Fund)	0.0%	100.0%	41.2%	0.0%	75.0%	26.3%
Vanguard Total Stock Market Index	0.0%	100.0%	41.2%	0.0%	75.0%	26.3%
Vanguard Wellington Fund	0.0%	100.0%	40.0%	0.0%	—	15.4%
SRI Funds						
Calvert Large Cap Growth Fund	100.0%	0.0%	100.0%	0.0%	100.0%	100.0%
Calvert Social Investment Balanced Fund	100.0%	0.0%	100.0%	0.0%	100.0%	100.0%
Calvert Social Investment Equity Fund	100.0%	0.0%	100.0%	0.0%	100.0%	100.0%
Citi AM/Smith Barney Social Awareness Fund	50.0%	25.0%	100.0%	0.0%	—	77.8%
Citizens Core Growth Fund	100.0%	0.0%	90.0%	0.0%	100.0%	95.0%
Citizens Value Fund	100.0%	0.0%	90.0%	0.0%	100.0%	94.7%
Domini Social Equity Fund	100.0%	0.0%	90.9%	0.0%	100.0%	94.7%
Dreyfus Premier Third Century Fund	33.3%	0.0%	75.0%	0.0%	0.0%	50.0%
Grantham Mayo (GMO) Tobacco Free Fund	25.0%	0.0%	54.5%	0.0%	100.0%	52.9%
MMA Praxis Core Stock	100.0%	0.0%	100.0%	0.0%	100.0%	100.0%
MMA Praxis Value Index	100.0%	0.0%	83.3%	0.0%	100.0%	90.9%
New Covenant Growth Fund	88.9%	11.1%	84.6%	15.4%	100.0%	88.0%
Parnassus Equity Income Fund	100.0%	0.0%	100.0%	0.0%	—	100.0%
Parnassus Fund	100.0%	0.0%	100.0%	0.0%	—	100.0%
Pax World Balanced Fund	—	—	100.0%	0.0%	—	100.0%

IV. Fund Voting Policies and Procedures: An Analysis

From June 2004 through December 2004, we analyzed, at various times, the Web sites and other fund materials for the families in our study. The SEC rule did not mandate that funds should disclose proxy materials on their sites, but this was highly recommended. Funds needed to relay how investors could obtain the guidelines in the fund's Statement of Additional Information (SAI), provide a toll-free number to request proxy information, and disclose votes through the N-PX on EDGAR. Funds were also required to disclose policies and procedures related to voting, and conflict-of-interest policies.

Our researchers and volunteers called the funds and reviewed their Web sites. Our analysis focused on four key items related to policies and disclosures:

- The ease for investors of finding proxy voting guidelines on funds' Web sites.
- The ease of finding the actual votes cast.
- The quality and breadth of the proxy voting guidelines.
- Conflicts of interest policies and whether they only included legal boilerplate.

To see details for each fund family on the spectrum of issues we investigated, **please visit Appendix C: Notes and Analysis of Fund Policies and Procedures.**

Highlights

Funds, as either Conventional or SRI groups, excelled in various areas. Some had great proxy voting guidelines, but the document might have been difficult to find. Others had easy to find materials, but not much detail once you read them. A few best practices were also found related to voting disclosures.

Vanguard helped investors wade through the tidal wave of proxy information with a succinct voting summary chart that highlighted how many times the funds voted, how many votes were for and against management or abstaining, and even detailed information on social votes. This was considered extremely useful by the volunteers who reviewed the proxy disclosures but who were not very familiar with the proxy voting process.

Additionally, a number of funds detailed information on international proxy voting, but there was scant mention of special issues like share lending—which might confuse investors examining a fund's votes, since no vote would be cast at those companies the fund owned during the voting period.

Schwab's disclosures featured information on material business relationships the company has, but that valuable information was not linked to any specific voting information.

A number of fund families—including some of the most vocal families in opposition to the disclosure rule—had fairly thought-out guidelines (for example: Vanguard, Fidelity, and American). There was an overall tendency by Conventional funds however—even those with detailed and complex guidelines on governance issues—to forego any substantial discussion of social issues up for a vote. This is an area of voting guidance that needs improvement, for the simple reason that so many votes cast by funds are now social or environmental in nature (roughly one-third of resolutions filed each year).

A large portion of SRI funds had exceptional guidelines that were highly detailed on dozens of proxy issues. Many of these funds were the first funds in the U.S. to voluntarily disclose their voting guidelines (before the SEC rule mandated this), hence, they have several more years of practice drafting guidelines across issues. Domini mentioned over 90 separate issues it cast votes on, and detailed when case-by-case analysis was appropriate. Calvert, Pax, and GMO (using ISS guidelines) also had extensive voting guidelines.

Parnassus stands out as having by far the easiest to find proxy information. Large icons on almost every Web page clearly show viewers where to find votes and guidelines. During the examination period, several Conventional funds made clear progress too in their disclosures: Dreyfus, Federated, and Schwab are a few. Federated never listed its guidelines as a separate document on its Web site during our tracking period. Investors needed to open the SAI on its Web site to find the two-page section, which several of our volunteers did not find without guidance. All other funds had separate documents for proxy guidelines on their sites.

A few funds—like American and Citizens—also led investors to proxy information in numerous ways on their Web sites—with sometimes five different entry points. This made it a lot easier for the average investor unfamiliar with these documents to find the votes and guidelines.

Other best practices included:

- Fidelity offered investors an FAQ on proxy-related questions.
- Domini, Calvert, and Vanguard reported to fund trustees on a quarterly or regular basis on the voting.
- Citigroup Asset Management, Domini, Schwab, and GMO disclosed the types of conflicts that can occur.
- GMO and Domini had clear criteria for voting against board members (withhelds).
- Domini's Web site allowed investors to ask questions related to proxy voting concerns.
- Merrill Lynch mentioned share-lending.

Below is a chart of fund families that stand out in various categories we analyzed.

Issue	Leaders	Needs Improvement
QUALITY OF PROXY GUIDELINES	Domini Calvert Group Pax MMA Praxis Grantham Mayo (uses ISS) Schwab (uses ISS)	Federated Dreyfus (C and SRI) Citigroup Asset Mgmt (C and SRI) Merrill Lynch
EASE OF FINDING PROXY GUIDELINES	Dreyfus (C and SRI funds) Franklin Templeton Vanguard Parnassus (excellent) Citizens Funds Domini MMA Praxis New Covenant American Funds	Merrill Lynch Federated Citigroup Asset Mgmt (C and SRI)
EASE OF FINDING PROXY VOTES	Dreyfus (C and SRI funds) Franklin Templeton Vanguard Citizens Funds Parnassus (excellent) MMA Praxis New Covenant Domini Pax American Funds	Merrill Lynch Grantham Mayo (GMO) Citigroup Asset Mgmt (C and SRI)

V. Best Practices and Areas for Improvement

Best Practices

In our review of accessibility of votes, levels of disclosure, methods of disclosure, customer service, data organization, and comprehensiveness and understandability of disclosures, several practices rose to the top as valuable to individual investors and third parties interested in analyzing the voting data. We recommend the following procedures and improvements across funds, and would ask the SEC to review these findings for possible clarifications or amendments to the rule. The item that most clearly needed attention was the lack of standardization for the disclosures—they were scattered throughout fund sites, presented in varying ways, and extremely difficult to find (in some cases) on the SEC's EDGAR site. This is the top priority for correction and improvement if this information is to be used by the general public and across platforms.

BEST PRACTICE: DISCLOSURE STANDARDIZATION

Funds should disclose fund voting and policy guidelines in a clear and consistent manner on the fund complex's Web site, in a standardized, easily downloadable format, in a consistent place on the site. Funds differ to large degrees in how they disclose their proxy information. Each fund should have a link to its N-PX on the fund family Web site. Voting disclosures should be consistent between the Web site chart and the N-PX filing, unless doing real-time reporting of votes. Materials were found in non-intuitive places on the sites. Some guidelines were not with the voting charts. Consistency is sorely needed to make this rule work for the largest number of investors possible. We recommend one location for proxy information: put a link in the ABOUT US navigation, since most funds have these sections on their sites.

BEST PRACTICE: SUMMARY CHARTS

Funds should report to shareholders and mutual fund boards a summary of voting activity on a quarterly basis, as exemplified by funds like Domini and Vanguard. Domini currently provides summary reports to its fund board, and Vanguard features a chart summary of its votes, their outcomes, how many times it opposed management, and critical issues that came before the fund complex. This is an excellent way to distill the most important information for fund shareowners who might be overwhelmed by the data, and a practical way to make sure fund boards are reading and understanding the most critical voting information before them. Complexes should summarize voting information (per fund and as an aggregate) in a chart featured on their Web sites, for fund investors. See Vanguard chart for details.

BEST PRACTICE: ITEMIZE ISSUES TO BE VOTED ON

Funds should itemize both the corporate governance and social issues that regularly come to a vote, and specifically how the fund will vote on such issues—and under which circumstances the fund may consider voting against such proposals. This allows institutional and individual investors to know exactly how the fund is thinking of casting its vote. The boilerplate still appearing on many complexes' guidelines is unacceptable and not useful to investors.

BEST PRACTICE: DISCLOSING MATERIAL RELATIONSHIPS

Funds should disclose when they have a *material* relationship with a company where they are casting proxy ballots. We found no funds currently doing so on a voluntary basis. This suggestion arises because of the inadequate language in funds' "conflicts of interest" policies that seems vague given the nature and depth of the fund scandals that have occurred. Conflicts of interest due to related business with companies where the proxy is being voted is the primary reason why this rule was enacted. But votes alone do not give investors enough information to determine if a conflict is occurring, or being resolved. We are highlighting "material" relationship, and think this could easily be done by placing an asterisk or other symbol next to the vote for that fund. Footnotes could help clarify the issue/situation, attached to the N-PX or on the fund's Web site.

BEST PRACTICE: NOTATIONS FOR IRREGULAR ENTRIES OR VOTES

Funds should include footnotes or detailed information on the N-PX or its Web site chart for irregular voting entries. For example, some funds held a company, but did not cast a vote at the meeting. A footnote or code explaining why would be very helpful to investors. Reasons for this include: fund bought the shares too late to vote the proxy; fund had the shares during reporting period, but sold right before voting time; fund lent the shares and was not able to cast a vote; etc.

Also, companies might have irregular positions, like when corporate management supports a shareholder proposal, or a company takes no position at all (examples of both are included in this study). Simply disclosing whether a fund voted for or against management may not suffice. For example, at Fifth Third Bancorp, which gave no recommendation on the vote, funds described their position as "for management," "against management," "none," "unknown," or simply left the item blank. Several funds counted their abstentions as votes against management. Funds should be reporting votes in a uniform manner, and could do so with greater clarity from the SEC.

BEST PRACTICE: ARTICULATE WHEN FUNDS HAVE DIFFERENT GUIDELINES

Funds should disclose voting guidelines for each fund on the fund complex's Web site. If funds have different guidelines, fund families should note this clearly, along with the reasons why [i.e., various fund managers have voting control, different guidelines for social and conventional funds within same complex, etc].

BEST PRACTICE: GUIDELINES' DISCUSSION OF SOCIAL/ENVIRONMENTAL ISSUES

Because social and environmental resolutions now account for about one-third of all resolutions filed each year, it is poor disclosure to NOT mention such issues in a fund's proxy guidelines. Many funds still do not address social issues up for a shareholder vote, and many more address such issues with just one sentence or paragraph for the entire category, regardless of the various financial implications of the proposals (for example, a disclosure proposal versus a policy amendment). Fiduciary duty is not being fulfilled when this happens because many social or environmental issues can deeply impact a firm's bottom line—especially its intangible assets. And a small but growing number of these proposals are generating 50 percent or more support from shareowners.

BEST PRACTICE: MENTION OF INTERNATIONAL PROXY VOTING

Funds should mention international proxy voting and the problems associated with exercising international voting rights in their guidelines, if they own such companies.

BEST PRACTICE: REVISING/UPDATING GUIDELINES ON REGULAR BASIS

Funds should update and revise their guidelines annually, and make this transparent to their shareholders. Every year, new issues come up for a vote, yet many funds' guidelines do not reflect these critical new decisions or the potential controversy surrounding them. Policies and procedures should also be updated to reflect new and emerging regulations that impact the fund's voting decisions.

BEST PRACTICE: MORE DISCLOSURE OF BOARD DIRECTORSHIPS

Disclosure of board directorships should go beyond the SAI (Statement of Additional Information). Each fund should disclose which other corporate boards, fund boards, or proxy committees members serve on. This should be published on an annual basis at the end of the guidelines or conflict of interest section, or noted where votes are cast at companies where such a director relationship exists.

BEST PRACTICE: DISCLOSE PROXY COMMITTEE MEMBERS CLEARLY

There should be clear articulation in the guidelines of who makes up the proxy committee, if one exists, and how these representatives are chosen. In the absence of a committee, there should be a clear description of who is making the proxy voting decisions, as well as who is responsible for creating or changing the proxy guidelines.

BEST PRACTICE: DISCLOSE THIRD-PARTY RESEARCH AFFILIATES

It would be useful to know what third-party resources are used by the fund for research or voting recommendations, or other proxy-related services pertinent to the vote.

Areas for Recommended Improvement

NEED TEMPLATE AND WEB STANDARDIZATION FOR PROXY MATERIALS

Fund complexes vary widely in their online placement of their proxy information. The funds' Web locations for proxy materials are as diverse as the funds themselves. Complexes need more consistency in their classification and description of proxy voting information. For example, some funds place their proxy votes under their "About Us" heading. Others place their votes under the "corporate governance" or "SRI" headings. Still others classify their proxy information as relevant to individual investors, while others list it only on their "Institutional Investor" Web pages. Unless a link appears on a fund family's homepage, it can take the typical investor an unreasonable amount of time to find relevant voting information. Investors should demand that funds make proxy information easy to find and clearly understandable—no legal boilerplate (leave that for the footnotes).

We further recommend that the SEC provide a more defined template than the current N-PX form, so that all proxy decisions and other related data are more consistently presented. Furthermore, this data should be searchable through EDGAR. We encourage the SEC to develop EDGAR's retrieval capabilities to enable searches by fund and by vote. Volunteers asked to locate fund votes using EDGAR had difficulties when the funds were listed under dissimilar-named management companies or other affiliated parties. Some funds listed **ALL** N-PX data in the same document, meaning proxy information was 1,500 pages or longer. Others itemized the data by each fund. A number of improvements could be made to EDGAR to ameliorate retrieval of this information.

PROVIDE ADEQUATE CUSTOMER SERVICE TRAINING

Most funds' customer service agents were not helpful in answering basic proxy voting-related questions. They often confused a fund's proxy voting guidelines or vote charts with proxies mailed to fund shareholders for the fund corporation itself. Others simply did not know what proxy voting was, or passed callers on to multiple employees, many of whom also could not answer proxy-related questions. Guidelines or other information that were requested from several funds took weeks to ship, if at all, with Federated as the most unresponsive company. A one-page FAQ for phone representatives and all customer service agents should be adequate to have them answering most proxy questions. (One agent even went so far as to insist that the public is not allowed to have such voting information.)

IMPROVE CONFLICTS OF INTEREST POLICIES

All funds should have a robust discussion about how they will deal with conflicts of interest when they arise. Most funds in our study have very sparse sections addressing conflicts of interest, and very few had conflict policies that satisfied the authors.

DISCLOSE MATERIAL BUSINESS RELATIONSHIPS WITH INVESTOR BASE

We highly recommend that mutual funds either voluntarily, or through SEC mandate, disclose on the N-PX form material business relationships they have with a company where they are casting a proxy vote. This would simply be an added column to N-PX, with a brief explanation of the type of contract or relationship (formal or informal) that exists.

DISCUSS CRITICAL ISSUES OR VOTES WITH INVESTOR BASE

In reports back to shareowners, funds should feel more comfortable discussing critical issues that came before them, or votes that were difficult during the proxy voting season. In particular, quarterly reports and newsletters to fund owners are an opportune time to educate investors about emerging proxy issues that may impact their investments—everything from withhold votes to stock options accounting, climate risk, and reincorporation strategies.

DISCUSS INTERNATIONAL PROXY VOTING

We recommend that policy guidelines discuss with investors issues or difficulties around international proxy voting. Most investors will be unaware of the many problems that can and do occur when casting international ballots, and we feel they will be more understanding if funds address this issue head-on, and are very transparent about when voting a foreign proxy was not in the best interest of the fund.

DISCUSS SHARE LENDING

When funds own a company where a proxy is not voted because the shares have been lent during voting time, we recommend that funds footnote this, and mention their practices around "share lending and control of voting" in their guidelines.

CLARIFY CASE-BY-CASE OR INCONSISTENT VOTES

When case-by-case voting does reflect inconsistent votes across holdings with similar resolutions, funds or fund managers need to be very clear about why that vote differed from the others.

VI. Methodology

This study was designed to report out on the proxy voting guidelines and practices of some of the largest mutual fund companies in the United States, as well as the largest socially responsible investing funds. Votes were analyzed on a range of social and corporate governance issues, as well as the most visible withhold vote campaigns for directors. The goal of this study was to provide a broad sampling of voting across many issues and companies, by both large Conventional fund complexes holding those equities and a sampling of Socially Responsible (SRI) mutual funds casting votes at the same issuers.

Determining the List of Mutual Funds to Explore:

The new rules proposed by the SEC to mandate mutual fund public voting disclosure apply to approximately 4,200 funds operating in the U.S. Funds with assets under $5 million were exempt from the rule, as were funds that did not cast votes on proxy decisions, like certain bond and fixed income funds.

It was beyond the scope of this report to analyze the voting behavior of all 4,200 eligible funds. Instead, we focused on the fund families with the largest total net assets in two categories: Conventional fund families and SRI fund families, since they are both potential industry leaders in terms of best practice, and as a group, one set was supportive of the fund rule, and the other strongly opposed its passing. To create diversity within the pool of top funds (and to ensure that our sample pulled from numerous fund families), we selected the top three, large-cap, domestic equity focused funds or hybrid (balanced) funds from the top ten mutual fund families as reported by Strategic Insight (which featured the broadest accounting of funds that included closed- and open-ended fund assets). Hybrid funds were included if equity investment represented a majority percentage of holdings in that mixed fund. We included both closed- and open-ended funds in our search, because both continue to cast proxy votes for the issuers of securities. In determining the total assets for each fund complex to make the top ten, all investments were considered—bond, real estate investments, equities, fixed income, etc. If a fund complex-like Ariel Mutual Funds (SRI)—appeared in the top ten list of either Conventional or SRI fund families, but did not offer a large-cap, domestic-focused fund, it was eliminated. Share classes of the same fund were collapsed and treated as one fund to study.

We chose this spectrum of funds because merely looking at a list of the largest-asset equity funds resulted in a list of funds coming from the same three or four fund families, for the most part. We surmised, from earlier studies of fund proxy guidelines, that most fund complexes would vote similarly across the funds in their family, thus rendering data that is duplicative in many charts. By selecting a list of the top ten complexes in two distinct categories, organized by the top three equity large cap funds (by total assets across share classes) within those families, we would gather data and voting summaries representing a much broader list of fund complexes, while still adequately representing fund asset leverage in the resolution voting of corporations. While the assets of our list of top 30 Conventional funds is smaller than simply selecting a list of the largest 30 equity funds alone, it represents a better sampling of the activities of the U.S. fund universe. We chose a maximum of three funds within those families to examine several things:

1. What the proxy voting guidelines, policies, and procedures of these funds say about their voting priorities.
2. Whether different funds within a family, holding the same equity, voted differently or counter to one another. We then looked for any obvious reasons for differing votes (e.g., fund managers having sole discretion to vote

proxies within that fund—as opposed to a fund advisory committee that retained voting authority; or the potential for a committee or fund manager to vote contrary to the voting guidelines at a particular company).

3. Whether each of these funds had the same proxy policies guiding them.
4. Conflict of interest policies.
5. The level of ease and transparency funds provided in making their votes public, as well as their voting guidelines and procedures.
6. Whether funds supported popular, well-supported shareholder proposals in a number of categories.
7. Whether funds were willing to withhold a vote against one or more directors at a troubled company.

Determining the List of Top Three Funds by Assets Within Each Fund Complex

Once the top ten fund complexes were determined on the Conventional and SRI side by Strategic Insight data, we then used Morningstar data[8] to look at the assets and types of funds within each complex. Bond funds and other non-equity-based funds were eliminated from the list, as were small-cap and mid-cap-focused funds. Equity balanced funds were included as long as large-cap equity investments represented the majority of investment type within that fund. Share classes of the same fund name were condensed into one fund asset total for the purpose of this report, and those assets combined. The top three funds from this "collapsed asset" complex list were then chosen. The funds included could be open- or closed-end funds.

Determining the List of SRI Mutual Funds

Because socially responsible mutual funds were the first to voluntarily disclose their voting policies and proxy votes publicly, we decided to include a list of SRI funds with this study as an interesting and relevant comparison of practices, policies, procedures, and voting records themselves, to determine if any significant differences could be found between the voting practices of SRI and non-SRI funds. SRI fund complexes were considered for the list if they were considered SRI funds by Strategic Insight—the same source for identifying the largest Conventional funds. SRI funds are foremost characterized by the act of screening investments on social, workplace, or environmental issues, being involved in social shareholder activism or community investing, and marketing oneself as a "socially responsible fund." The list was further verified by in-house data from the Social Investment Forum and Morningstar. Some of the featured SRI funds are SIF members, some are not.

For SRI funds, not all complexes had three large-cap equity funds; therefore, we included as many pertinent funds, up to three, that these families offered. For both SRI and Conventional funds, the focus on large-cap equity funds and equity-balanced funds arose because most resolutions voted on for the issues we have chosen to highlight were at large-cap companies.

Determining the List of Resolutions and Companies to Examine

The Forum examined the total number of shareholder-proposed resolutions filed and voted on from July 1, 2003 to June 30, 2004, reviewing AFL-CIO and affiliated labor fund filing records, Interfaith Center on Corporate Responsibility filing records, and data from the Investor Responsibility Research Center and the Social Investment Forum. This included all resolutions filed at U.S. companies during the reporting period, including those filed by individual investors and resolutions included by management. This study included a balance of six corporate governance issues and six social/environmental issues. These issues captured both controversial and highly supported resolution topics.

Issues included: expensing options, shareholder approval of poison pills, shareholder approval of golden parachutes, declassifying the board (holding annual elections), separating the

8. *Morningstar data stream was available publicly through Yahoo Finance.*

CEO and Chair, limiting consulting by auditors, sustainability reporting, climate risk, addressing the HIV/AIDS, TB and Malaria pandemics, support of the ILO/vendor standards, sexual orientation non-discrimination policies, and human rights.

We also included several "vote no" campaigns against directors at companies with the highest withhold votes. According to Institutional Shareholder Services (ISS), these were Kohl's, Walt Disney, Federated Department Stores, and MBNA at the time of our analysis.

We then looked at the following criteria to determine which resolutions and companies to choose, to provide an adequate sampling:

1. The resolutions could be binding or non-binding.
2. The resolution could be supported or not supported by management.
3. The resolutions must appear on the proxy to be voted during the examination period.
4. To choose three resolutions under each issue category.
5. To not replicate companies in the list, when possible.
6. To provide a list of companies under each category that represented different sectors—like banking and finance, energy and utilities, consumer goods and electronics, biotech and health, food and agriculture, etc., to create a better sampling effect.
7. To include companies from the S&P 500 in each list of three within a category.
8. To choose large-cap over mid- to small-cap companies, since the bulk of resolutions are at large-cap issuers, and the funds chosen represented large-cap companies in the bulk of their holdings.
9. To attempt, when possible, to choose companies that received similar or identical resolutions for the issue being decided.

Rating System for Fund Disclosure and Accessibility:

In Appendix C, we have assessed individual funds and fund families on their level of voting transparency, the ease of finding the proxy information, and other factors regarding both access to policies and procedures and guidelines, and public access to the votes themselves—and whether this information is displayed in a way that makes sense for the typical investor. The Forum looked at the following factors in determining the level of funds' disclosures and votes featured in this report:

1. Ease/difficulty of finding policies, procedures, guidelines, or votes on the fund company Web site, SAI, or other sources.
2. Timeliness of receiving requested materials via mail or email.
3. Difficulty of finding the contact person for answering questions related to policies or voting records.
4. Chain of command for voting decisions, or voting decision structures. Are they clear to investors?
5. Robustness of policies, procedures, and voting guidelines. Does the fund describe how the guidelines were determined? Does the fund adequately explain how to deal with conflicts of interest? Do managers/advisors have to provide justification for their votes if voting discretion is theirs alone? How are issues dealt with that are not articulated in the guidelines?
6. Is research on voting matters coming from independent sources or third parties?
7. Do the guidelines specify voting guidance on corporate governance AND social issues?
8. Do the guidelines meet the requirements set forth by the SEC's new rule?
9. Were votes inline with what a majority of investors were supporting at that company?
10. Were funds voting against resolutions that were typically seen as a baseline for good governance or SRI policy?
11. How especially did funds vote on items that

merited support, or abstentions, from the targeted corporate management?

12. When were funds voting far outside the norm of their peers in their fund family category?

Timeframe and Cutoff Dates for Reporting and Disclosures:

We chose July 31, 2004 for the cutoff date for the calculation of assets and ranking of mutual funds in both the SRI and Conventional fund categories. All resolution voting matters were for the period of July 1, 2003 until June 30, 2004—the voting period for the N-PX form filed by all funds with the SEC, and the vote disclosure timeframe set forth by the SEC.

Fund policies, procedures, and other related matters were reviewed at various times between June 1, 2004 and December 15, 2004. If changes were found at fund sites or with fund documents during that time, they were updated. It was not unusual for funds to make repeated changes to this information during this short timeframe. Fund votes were recorded during September 2004, after the mandated deadline of August 31.

CONVENTIONAL

Appendix A:
Funds and Fund Complexes Featured in This Study

FUNDS (30)

American Funds (Capital Research & Management Corp.)
Growth Fund of America
Investment Company of America
Washington Mutual Investors Fund

Citigroup Asset Management
Smith Barney Aggressive Growth
Smith Barney Appreciation
Smith Barney Large Cap Growth

Dreyfus Corporation (subsidiary of Mellon Financial)
Appreciation Fund
Dreyfus Fund Incorporated
S&P 500 Index

Federated Investors
American Leaders Fund
Capital Appreciation Fund
Max-Cap Index Fund

Fidelity Investments (FMR)
Contrafund
Growth & Income Fund
Magellan Fund

Franklin Templeton
Franklin Growth A
Franklin Income Fund
Franklin Capital Growth

Merrill Lynch
Balanced Capital Fund
Basic Value Fund
Fundamental Growth Fund

Pacific Investment Management Co. (PIMCO)
CCM Capital Appreciation Fund
PEA Growth Fund
PEA Value Fund

Charles Schwab
1000 Fund
MarketTrack Growth
S&P 500

The Vanguard Group
500 Index (includes Institutional Index Fund)
Total Stock Market Index
Wellington Fund

SRI FUNDS (15)

Calvert Group
Large Cap Growth Fund
Social Investment Balanced Fund
Social Investment Equity Fund

Citigroup Asset Management
Smith Barney Social Awareness Fund

Citizens Advisors
Core Growth Fund
Value Fund

Domini Social Investments
Social Equity Fund

Dreyfus Corp.
Premier Third Century Fund

Grantham Mayo (GMO)
Tobacco Free Core Fund

MMA Praxis
Praxis Core Stock
Praxis Value Index

New Covenant
Growth Fund

Parnassus Funds
Equity Income Fund
The Parnassus Fund

Pax World Funds
Balanced Fund

Appendix B:
Information and Text of Resolutions Examined in This Report

To access the PDF file, click here:
http://www.socialinvest.org/areas/research/votingpractices/appendixB.pdf

Appendix C:
Notes and Analysis of Policies and Procedures

To access the Excel file, click here:
http://www.socialinvest.org/areas/research/votingpractices/appendixC.xls

Appendix D:
Table of Actual Votes Recorded by Funds

To access the Excel file, click here:
http://www.socialinvest.org/areas/research/votingpractices/appendixD.xls

Appendix E:
Scores for Fund and Fund Complex Voting Across All Issues

To access the Excel file, click here:
http://www.socialinvest.org/areas/research/votingpractices/appendixE.xls

Appendix F:
Summary of Related Proxy Voting Studies

Would Mutual Funds Bite the Hand That Feeds Them? Business Ties and Proxy Voting
By Gerald F. Davis and E. Han Kim, University of Michigan Stephen M. Ross School of Business
February 15, 2005
Addresses conflicts of interest in voting by mutual funds.
Contact: (734)647-4737 and 764-2282.

Unexamined Risk: How Mutual Funds Vote on Global Warming Shareholder Resolutions
By Doug Cogan, Investor Responsibility Research Center & CERES
December 2004
Addresses fund voting on climate change resolutions.
www.ceres.org

Mutual Protection: Why Mutual Funds Should Embrace Disclosure of Corporate Political Contributions
By Susannah Goodman, Common Cause
February 2005
www.commoncause.org

Analysis and Implications of the New Proxy Voting Rules for Mutual Funds
Financial Executives Research Foundation
By Burton Rothberg and Steven Lilien, Zicklin School of Business of Baruch College, CUNY
2004
www.ferf.org

Behind the Curtain: How the 10 Largest Mutual Fund Families Voted when Presented with 12 Opportunities to Curb CEO Pay Abuses in 2004
By the AFL-CIO
September 2004
www.aflcio.org/corporateamerica/capital/toolbox

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