Learned: How Funds Vote on Proxy Proposals

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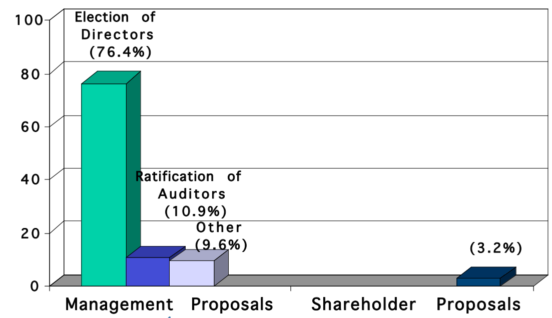
Recently, the Investment Company Institute released the broadest study ever conducted on proxy voting by registered investment companies (“Funds”), covering more than 3.5 million proxy votes cast by 160 of the largest fund families. The study focused on Fund voting for management and shareholder proposals at Russell 3000 companies with annual meetings from July 1, 2006 to June 30, 2007, examining the impact on almost 20,000 proposals.

Common Management and Shareholder Proposals

- Election of directors and ratification of auditors constituted 87% of the proposals reviewed, whereas shareholder proposals only accounted for 3%. The remaining consisted of other proposals by management, almost two-thirds of which involved seeking approval for new or amended equity-based incentive plans.
- The percentage of shareholder proposals may appear low, which is likely due to the broad spectrum of companies included in the Russell 3000 as compared to the experience of larger companies in the S&P 500, for example. In addition, approximately 40% of shareholder proposals are never voted on by shareholders through a combination of two reasons: permissible exclusion by the SEC Staff under Rule 14a-8 and negotiated withdrawal with proponents.
- The topics of shareholder proposals were almost evenly divided among social and environmental issues, compensation-related matters and those pertaining to the structure and election of boards (which included majority voting, cumulative voting and seeking an independent chair for the board). Proposals related to classified boards were included in the anti-takeover category.



Composition of Other Management Proxy Proposals

65% - compensation-related
11% - capitalization
8% - anti-takeover-related

Composition of Shareholder Proxy Proposals

31% - social/environmental
28% - compensation-related
25% - structure and board elections
15% - anti-takeover-related

- The study notes that individuals and labor unions submitted 61% of the shareholder proposals. While 89 individuals were the proponents of over 200 proposals, just 5 of them accounted for half of those proposals, covering a wide range of issues. Three of 9 labor unions dominated half of the proposals submitted by unions, which tended to focus on board structure or executive compensation. These 5 individuals and 3 labor unions, unnamed in the study, submitted a total of one-third of the 600 shareholder proposals.

Proxy Voting Records

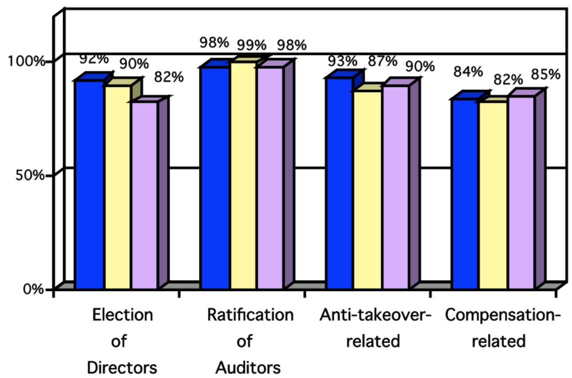
- Reflecting that Funds generally do not simply “rubber stamp” management’s voting recommendations in proxy statements, the study emphasized that Funds vote in favor of shareholder proposals 38% of the time, even though corporate boards overwhelmingly tend to recommend that shareholders vote against such proposals.
- Since only Funds are required to disclose their proxy voting records, the study was unable to compare the results of votes cast by other institutional investors such as labor unions, pension funds, hedge funds and endowments. Instead, the study reviewed the Funds’ voting records against the recommendations made by the two primary US proxy advisory services—RiskMetrics’ ISS Division and Glass Lewis.

- Regarding management proposals, the Funds' voting records were fairly consistent with ISS and Glass Lewis recommendations. The divergence in voting occurred with respect to shareholder proposals. Funds are much more likely to support anti-takeover-related proposals, such as eliminating or putting to a shareholder vote classified boards or poison pills, and rarely support proposals related to social and environmental issues (unless the particular Fund voting has a socially responsible mandate).

Management Proposals Voted or Recommended in Favor

Overall

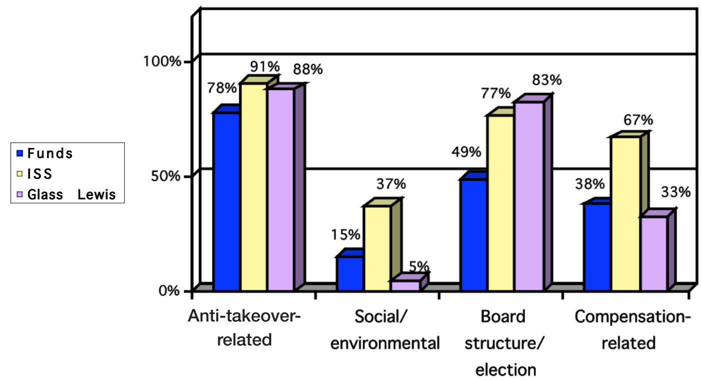
Funds - 92.2%
ISS - 90%
Glass Lewis - 82%



Shareholder Proposals Voted or Recommended in Favor

Overall

Funds - 38%
ISS - 64%
Glass Lewis - 47%



Proxy Voting Processes

- A Fund's adviser typically has the responsibility to cast a Fund's votes. For several years, the SEC's rules have required Funds not only to report their voting results, but also to describe—and make available—the policies and procedures that govern their proxy voting for their holdings in public companies.

- In response to concerns over potential conflicts of interest, most Funds either have adopted pre-determined voting guidelines or follow the recommendations of a proxy advisory service. In addition, most Funds have erected internal organizational barriers and have their board or proxy voting committee weigh in to resolve any perceived conflicts.

- The study examined the proxy voting guidelines of 35 of the largest Fund families. While proxy voting guidelines are helpful for companies in anticipating how Funds may vote, many topics are subject to a case-by-case analysis and determination, which could include a review of not only the specific terms of the proposal, but also the possible impact on shareholder value, the company's recommendations and even the views of the portfolio managers responsible for the investment. In addition, the guidance provided in proxy voting guidelines varies widely among the Fund families.

- The proxy voting guidelines for most Funds support the directors nominated by a corporate board unless special circumstances exist, such as a failure to attend 75% of meetings. As indicated by the voting results, the majority of the guidelines examined in the study oppose anti-takeover provisions, such as supermajority voting provisions, dual-class stock, classified boards and poison pills. Funds are mixed in their views of certain board structures and election processes, such as cumulative voting and independent chairs, with an almost equal number both "for" and "opposed" or otherwise are reviewed on a case-by-case basis. Most Funds subject social and environmental issues to a case-by-case analysis and tend to vote against shareholder proposals on those issues.