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**Contact:**  
**Timothy Smith (617) 726-7155**  
**([tsmith@bostontrust.com](mailto:tsmith@bostontrust.com))**  
**Cheryl Kelly (AFSCME), (202) 429-1145**  
**[ckelly@afscme.org](mailto:ckelly@afscme.org)**

## **INVESTORS ISSUE CALL FOR ANNUAL VOTE ON EXECUTIVE PAY**

**BOSTON, MA** – January 31 – Today 39 institutional investors, representing more than \$830 billion in assets, issued a public call for companies to support an annual advisory vote on executive compensation in their spring proxy statements and for investors to vote for annual “Say on Pay” votes.

The Dodd-Frank Wall Street Reform and Consumer Protection Act calls for a mandatory Say on Pay vote at all 2011 annual meetings. At the same time, shareowners will also vote on the frequency of the vote to determine whether the vote should occur every one, two or three years.

The investor statement argues that an annual frequency vote for Say on Pay provides maximum accountability, is the standard in all other major markets and encourages companies to communicate effectively with shareowners.

A December Towers Watson poll found that a majority of surveyed companies favored annual Say on Pay votes. Companies that have issued their proxies to date have been split in their recommendations, largely favoring either annual or three year votes. During the first frequency vote last week at an S&P 500 company, Monsanto investors rejected management’s recommendation for a vote every three years, voting overwhelmingly for an annual advisory vote on executive compensation.

“Unchecked and unapproved CEO pay directly contributed to the financial crisis,” said Gerald W. McEntee, President of AFSCME, which was the first sponsor of a shareholder resolution promoting an advisory vote on pay. “Companies with problematic pay practices or a history of ignoring shareholders will be seeking fewer votes. That’s why shareowners need to vote for annual say on executive pay.”

Timothy Smith, Senior Vice President of Walden Asset Management stated, “This will be a unique proxy season on executive compensation. Addressing excesses and problems with executive compensation requires a vote each and every year rather than occasional accountability every three years. Say on Pay votes have already stimulated re-thinking by Board Compensation Committees on various perks and controversial pay formulas. The discipline of an annual vote will encourage Boards to be more responsive and accountable on compensation.”

Large institutional investors including CalPERS, the New York State Common Retirement Fund, NYCERS, F&C Asset Management (U.K.), Hermes (U.K.), the General Board of Pension and Health Benefits of the United Methodist Church, Calvert Asset Management, Pax World and Amalgamated Bank have signed the public statement in favor of an annual vote on executive

pay. The statement was coordinated by Walden Asset Management, AFSCME and the Treasurer's Office of the State of Connecticut

Influential proxy advisor Institutional Shareholder Services announced it will recommend that shareholders vote for the annual advisory votes, noting annual votes "provide the most consistent and clear communication channel for shareholder concerns about companies' executive pay programs."

Major mutual funds which have announced they will support the annual frequency and or whose proxy voting guidelines support an annual standard include Vanguard, State Street, Fidelity and Putnam.

The public statement as a whole follows.

## PUBLIC STATEMENT ON ANNUAL SAY ON PAY

January 2011

As investors with a deep concern about executive pay, we are appealing to Boards of Directors to recommend an annual advisory vote on executive compensation and to investors to vote for the annual vote choice.

The Dodd-Frank Wall Street Reform and Consumer Protection Act, signed into law by the President Obama in July 2010, requires that public companies hold an advisory vote on executive pay (popularly known as "Say on Pay") in 2011 and that shareholders vote on whether future Say on Pay votes will be held annually, biennially or every three years.

Over the past several years, concerned shareowners, through letters and votes on shareholder resolutions, already have demonstrated clear support for an annual advisory vote on executive compensation. We believe that Boards of Directors should recommend an annual vote to shareowners and those investors should vote this proxy season for the annual Say on Pay choice.

We believe an annual vote on executive compensation is in the best interest of companies and their investors for a number of reasons.

**1) Shareholders expect and are accustomed to annual accountability:** Executive compensation is too important of an issue for only biennial or triennial consideration. Corporate governance best practice already supports an annual ratification of company auditors and the annual election of directors. Since the board compensation committee makes its decisions yearly regarding salary, discretionary bonuses, severance, etc., an annual shareholder vote is central to proper shareholder oversight. Also a routine positive vote on pay each year affirms to the board that it has presented a clear and convincing case to investors.

As investors we also believe shareholders would not find an annual compensation vote burdensome. Shareholders already vote each year on a number of issues, including election of directors and ratification of auditors. There have also been Say on Pay votes for several years, including hundreds of banks receiving TARP funds, and most investors have already set up a system whereby companies deserving extra attention on compensation matters are prioritized for

review and action. Investors also currently vote for the Board members on the Compensation Committee, discerning whether a No vote should be cast because of compensation concerns in a routine annual exercise.

Likewise, many companies have not found an annual advisory vote on compensation to be a burden but rather a routine process providing constructive dialogue with investors.

**2) An annual advisory vote is widespread standard practice in countries that require such votes:** Shareholders in Australia, France, The Netherlands, Norway, Spain, Sweden and the United Kingdom all vote annually on compensation matters. No other major developed country that provides for advisory votes on pay employs a biennial or triennial standard.

**3) A biennial or triennial vote would result in less accountability and transparency:** Companies that make less popular compensation decisions immediately after a biennial or triennial vote know that shareholders must wait two or three years to voice a corrective opinion.

Compensation is not a static process: The Compensation Committee makes some decisions every year, such as setting performance targets or awarding compensation that is not tied directly to performance (such as salaries, employment agreement approvals, discretionary bonuses, “golden hello’s” and severance). There should be an opportunity to vote whenever the Compensation Committee has acted.

**4) A number of companies have stated they feel an annual vote makes Say on Pay more routine:** It allows regular feedback rather than waiting for 2 or 3 years to see if they “fixed” a problem investors identified.

**5) A biennial or triennial vote might result in more adversarial shareholder action:** If an advisory vote occurs only every two or three years, disenchanted shareholders would be unable to express their concerns annually regarding company pay practices and may have to rely on tools such as letter writing, the filing of shareholder resolutions and voting against compensation committee nominees in the off years.

Thus we urge company Boards to support an annual vote as best practice and investors to rally behind holding an Advisory Vote each year.

Timothy Smith  
Senior Vice President  
Walden Asset Management  
One Beacon Street  
Boston, MA 02108

Anne Simpson  
Senior Portfolio Manager  
CalPERS  
400 Q St., Lincoln Plaza North  
Sacramento, CA 95811

Gerald W. McEntee  
President  
AFSCME  
1625 L Street, NW  
Washington, DC 20036

Thomas P. DiNapoli  
New York State Comptroller  
New York State Common  
Retirement Fund  
110 State Street, 15<sup>th</sup> floor  
Albany, NY 12236

John Liu  
New York City Comptroller  
One Centre Street, Municipal Building  
New York, NY 10007

Daniel F. Pedrotty  
Director  
AFL-CIO Office of Investment  
815 16<sup>th</sup> Street, NW  
Washington, DC 20006

Vidette Bullock Mixon  
Director, Corporate Relations  
General Board of Pension & Health Benefits  
United Methodist Church  
1901 Chestnut Avenue  
Glenview, IL 60025

Elizabeth E. McGeveran  
Senior Vice President  
Governance & Sustainable Investment  
F & C Asset Management  
265 Franklin Street, #1600  
Boston, MA 02110

Shelley Alpern  
Director  
ESG Research & Shareholder Advocacy  
Trillium Asset Management  
711 Atlantic Avenue  
Boston, MA 02111

George Gay  
Chief Executive Officer  
First Affirmative Financial Network LLC  
5475 Mark Dabbling Blvd., Suite 108  
Colorado Springs, CO 80918

Daniel Stranahan  
Chair, Finance Committee  
The Needmor Fund  
2123 West Webster Avenue  
Chicago, IL 60647

Denise L. Nappier  
Treasurer  
State of Connecticut  
55 Elm Street  
Hartford, CT 06106

Daniel P. Nielsen  
Director  
Socially Responsible Investment Svs  
20 N. Wacker Drive, Suite 2000  
Chicago, IL 60606

Susan Makos  
Director of Social Responsibility  
Mercy Investment Services  
St. Louis, MO 63131

Steve Abrecht  
Chair  
SEIU Master Trust  
11 Dupont Circle, Suite 900  
Washington, DC 20036

Colin Melvin  
Chief Executive Officer  
Hermes Equity Ownership Services  
Lloyd Chambers  
1 Portsoken Street  
London, UK E1 8HZ

Stephen Viederman  
The Christopher Reynolds Foundation  
135 East 83<sup>rd</sup> Street, 15A  
New York, NY 10028

Lauren Webster  
Chief Financial Officer  
Tides Foundation  
The Presideo  
San Francisco, CA 94129

Scott Zdrazil  
Director of Corporate Governance  
Amalgamated Bank  
275 Seventh Avenue  
New York, NY 10001

Constance Brooks  
Executive Director  
Friends Fiduciary Corporation  
1650 Arch Street, Suite 1904  
Philadelphia, PA 19103

Sandra M. Wessel  
Treasurer / Director Finance  
The Home Missioners of America  
P. O. Box 46518  
Cincinnati, OH 45246

Charlotte Talbert  
Executive Director  
The Max and Anna Levinson Foundation  
P. O. Box 6309  
Santa Fe, NM 87502

Laura Berry  
Executive Director  
Interfaith Center on  
Corporate Responsibility  
475 Riverside Drive, Suite 1842  
New York, NY 10115

Mike Lapham  
Responsible Wealth Project Director  
A project of United for a Fair Economy  
29 Winter Street, 2<sup>nd</sup> floor  
Boston, MA 02108

Michael Lent  
Chief Investment Officer & Partner  
VERIS Wealth Partners  
90 Broad Street, 24<sup>th</sup> floor  
New York, NY 10004

George Kohl  
Senior Director  
Communication Workers of America  
501 Third Street, N.W.  
Washington, DC 20001

D. Michael Langford  
National President  
Utility Workers Union of America, AFL-CIO  
815 16<sup>th</sup> Street, N.W.,  
Washington, DC 20006

Stu Dalheim  
Director Shareholder Advocacy  
Calvert Asset Management  
4550 Montgomery Avenue  
Bethesda, MD 20814

Rain Fried  
President  
Clean Yield Asset Management  
16 Beaver Meadow Road  
Norwich, VT 05055

Julie Gorte  
SVP for Sustainable Investing  
Pax World Management LLC  
30 Penhallow Street  
Portsmouth, NH 03801

Barbara Jennings, CSJ  
Coordinator  
Midwest Coalition for  
Responsible Investment  
6400 Minnesota Avenue  
St. Louis, MO 63111

Lauren Campos  
Director Shareholder Activities  
The Nathan Cummings Foundation  
475 10<sup>th</sup> Avenue  
New York, NY 10018

Timothy Brennan  
Treasurer & CFO  
Unitarian Universalist Association  
of Congregations  
25 Beacon Street  
Boston, MA 02108

Michele Sola  
Director  
Manhattan Country School  
7 East 96<sup>th</sup> Street  
New York, NY 10128

Sister Patricia O'Brien  
Sisters of Notre Dame de Namur  
351 Broadway  
Everett, MA 02149

Dawn Wolfe  
Associate Director  
ESG Research  
Boston Common Asset Management  
84 State Street  
Boston, MA 02110

Congregation Sisters of St. Agnes  
Leadership Team  
Fond du Lac, WI

Judy Bryon  
Director  
Northwest Coalition for  
Responsible Investment  
1216 NE 65<sup>th</sup> Street  
Seattle, WA 98115

Steve O'Neil  
Marianists International  
211 East 43<sup>rd</sup> Street, Room 504  
New York, NY 10017