



**A Survey of Canadian Mutual Funds on  
Proxy Voting**

**By**

**The Social Investment Organization**

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INSTITUTIONAL SHAREHOLDER SERVICES

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Voting.pdf](http://www.socialinvestment.ca/documents/ProxyVoting.pdf)

## Executive Summary

In August 31, 2006, mutual funds in Canada were required, for the first time, to publicly report their proxy voting policies and to disclose their proxy voting records. This requirement was the result of a change in securities regulation proposed by the Canadian Securities Administrators (CSA) and implemented throughout the country by the provincial and territorial securities regulators. The proxy voting requirement was only one part of a broader regulatory requirement contained in *National Instrument 81-106: Investment Fund Continuous Disclosure*. The rule change went into effect in March 2004 and the first period for which funds were required to disclose their proxy voting records was from July 1, 2005 to June 30, 2006.

The Social Investment Organization (SIO) and other socially responsible investment organizations and investment funds advocated for this change in regulation. These efforts were informed by a belief that voting represents an important asset and that unitholders have a right to know how mutual funds are casting their votes.

The increased transparency brought about by National Instrument 81-106 has given the opportunity for the SIO to survey and assess investment fund families with respect to their voting records and their proxy voting policies.

This study examines proxy information of Canada's 20 largest mutual fund families in addition to all of Canada's Socially Responsible Investment (SRI) funds. Specifically, proxy voting policies were analyzed and compared and the voting records of funds and fund families were evaluated across a range of environmental, social and governance (ESG) issues.

A number of questions guided this analysis. First, the SIO wanted to evaluate the degree to which

mutual funds were in compliance with the new disclosure rules.

Secondly, we wanted to see the levels of support given to the various ESG shareholder resolutions we selected. These resolutions are nearly all concerned with shareholder value despite the fact that they are generally opposed by management. From nearly a thousand proposals, we selected those that we believe to be most credible and generally should be supported by investors. We wanted to see which mutual funds were most deliberately executing their fiduciary duty.

Finally, we wanted to see if there were notable differences between fund family policies and voting behavior, and more specifically, if there were notable differences between conventional fund families and socially responsible investment (SRI) fund families. This work built on a similar study undertaken by the US-based Social Investment Forum that evaluated proxy voting policies and records for US funds for the reporting period ending June 30, 2004.

All together, the SIO looked at 57 shareholder resolutions and six withhold votes at 990 individual funds within 27 fund families. This represents the most comprehensive study of mutual fund proxy voting in Canada. Of the 990 funds evaluated, 55 individual funds, from nine fund families, were defined as SRI funds. Only three fund families exclusively managed SRI funds, **The Ethical Funds Company, Meritas Mutual Funds, and Inhance Investment Management**. Unlike the US study, this study examined the votes in Canadian, US and international jurisdictions.

Investor resolutions were examined in six key areas: corporate governance, employee relations, environment, human rights and social issues.

## Key Findings

### General Voting-Related Highlights

- The investor proposals selected received a combined 34% support from the 990 funds examined. This is comparable to findings in the US, undertaken by the Corporate Library that found an average of 37% support from over 700 funds.
- Conventional (non-SRI) funds gave a combined 31% support to the proposals selected.
- In each issue area, conventional funds, *en masse*, voted with management and against investor resolutions the majority of the time.
- With only one resolution receiving the support of management (a proposal at Amgen Inc. to report on political donations) and three instances where management did not make a recommendation (relating to dual class share structures at **Quebecor World** and **Ericsson LM Telephone** and a proposal to adopt a wood procurement policy at **Stora Enso Oyj**) the mutual funds examined voted with management 67% of the time.
- With 41% overall support, proposals relating to climate change received greater support from all funds than did other environmental proposals.
- Corporate governance proposals received 30% overall support.
- The six companies which were selected to evaluate withhold votes (**Biovail Corporation**, **Clear Channel Communications**, **FirstEnergy Corp.**, **Home Depot Inc.**, **Occidental**

**Petroleum Corp.**, and **Office Depot Inc.**) were not held widely enough by the funds under examination to make meaningful conclusions.

### SRI & Conventional Fund-Related Findings

- SRI funds gave a combined 79% support to the proposals selected.
- SRI funds voted against management 51% more often than did conventional funds on the selected proposals.
- The greatest discrepancy between conventional funds and SRI funds is in the area of employee relations.
- The greatest congruence between SRI funds and conventional funds is in the area of disclosure of corporate political donations.
- In each issue area, SRI funds voted more frequently than did conventional funds for the selected resolutions.

### Fund Specific Highlights

- Three conventional funds, **AIC Limited**, **Counsel Group of Funds**, and **Fidelity Investments** did not lodge any votes against management and in support of shareholder resolutions
- Of the conventional fund families, **AIM Trimark Investments**, **Guardian Group of Funds**, **National Bank Financial** and **RBC Asset Management** are notable for voting against management and in support of the selected shareholder resolutions over 50% of the time.
- The three fund families that deal exclusively in SRI funds have the most notable records for supporting shareholder

proposals, each averaging over 60% support. In all of **Inhance Investment's** funds there was not one vote in support of management among the subset of shareholder proposals reviewed by this study. **The Ethical Funds Company** voted against management 94% of the time.

- Within fund families it is often the case that individual funds vote differently on identical shareholder resolutions.

### Policy Related Findings

- Just over half the fund families (14 of 27) publicly disclose their full proxy voting guidelines, including the three SRI fund families (**Ethical Funds, Inhance, and Meritas**)
- Meeting the minimum requirement of National Instrument 81-106 *Investment Fund Continuous Disclosure*, 13 fund families only report summaries of their proxy voting guidelines with a reference for unitholders to contact the company for a copy of the full guidelines.
- Only four fund families have specific guidance on a range of social and environmental proxy voting issues. Guidelines at other funds say in their guidelines or summary document that social and environmental resolutions are dealt with on a case by case basis or get no mention at all.
- Of the four fund families that have specific social and environmental guidance within their guidelines, three are the SRI families that deal exclusively in SRI funds. The only conventional fund family to have such guidelines is **Desjardins Funds**.

### Proxy Voting Disclosure

- In compliance with Continuous Disclosure requirements, all the mutual funds report, on their Web sites, proxy votes for the year ending June 30 2006.
- The usability of proxy voting records varied greatly. The best reporters (**Ethical Funds, Desjardins, RBC Asset Management, and Scotia Securities**) have databases where fund holdings and related votes can be searched by company name. This allows the user to easily see the full list of funds that hold a particular security. Other databases require that individual funds be looked at individually for specific security holdings and related votes. Eight funds did not have interactive databases but reported their voting records in PDF format.
- The most notable finding in this area is that 15 fund families are not in compliance with the *Continuous Disclosure* requirement that each proxy vote include a brief identification of the matter to be voted on at the meeting. For these funds, shareholder resolutions are sometimes or consistently referred to as "Shareholder Proposal" with the accompanying shareholder proposal number. Given the shareholder proposal numbers are sometimes recorded differently for different funds, it is exceedingly difficult to see how funds have voted.
- The 12 funds that do report in full compliance with National Instrument 81-106 *Investment Fund Continuous Disclosure* are: **Inhance, Ethical Funds, Acuity Funds, Meritas Mutual Funds, National Bank Financial, RBC Asset Management, Desjardins, Brandes Investment Partners, Scotia Securities,**

**Franklin Templeton Investments,  
Philips Hager & North, and TD Asset  
Management.**

## Introduction

Shareholders typically have voting rights associated with holding stock. These rights allow investors to vote at annual and special meeting on routine matters, such as the election of directors and ratifying auditors, but also on proposals that are brought forth from shareholders, addressing a range of environmental, social and governance (ESG) issues.

Investors in mutual funds do not have these same rights. Their ownership of corporate securities is indirect and they must rely on the fund's management to vote proxy voting ballots on their behalf.

The SIO believes that this special duty of mutual funds carries great responsibility as managers must vote their proxies in the best interests of their unitholders. Despite this responsibility, prior to the recent regulatory changes, mutual funds did not report to their unitholders, or other interested parties, how they actually carried out this duty by disclosing their proxy voting records. The only exceptions to this were socially responsible investment funds, **The Ethical Funds Company**, (which was the first fund company in Canada to disclose its proxy voting record) and **Meritas Mutual Funds**.

Many investors were concerned about this lack of disclosure and questioned if fund managers were truly acting in the best interests of unitholders and adequately fulfilling their fiduciary duty. While voting might be straightforward on many routine matters, it is a key area of concern how funds are voting on ESG issues being brought before companies' management teams. Given that almost all shareholder proposals are opposed by management, the question becomes, do fund managers reflexively vote on the side of management, out of indifference or a lack of effort, or are resolutions evaluated on their own merits?

Responding to these concerns, and following changes in the US (where the SEC mandated proxy voting disclosure from mutual funds in 2004) the SIO, with its members and other concerned investors, recommended mandatory disclosure rules to the Canadian Securities Administrators.

These efforts were informed by a belief that unitholders have a right to know how mutual funds are casting their votes and that such openness would improve accountability.

After a comment period, where 56 individual submissions were made, the CSA implemented National Instrument 81-106: *Investment Fund Continuous Disclosure* in March 2004. The first period for which funds were required to disclose their proxy voting records was from June 30, 2005 to June 30, 2006. This study examines these records in the first year in which they have been available.

The new rules also required that investment funds establish and disclose policies and procedures on how they vote their proxies.

These rule changes have allowed investors, for the first time, to evaluate the degree to which mutual funds are carrying out their fiduciary duty and responding to shareholder proposals that address critical environmental, social and governance issues.

This study compares proxy voting policies and voting records of Canada's largest mutual fund families across a variety of critical investor issues.

## Voting Records by Issue Area and Fund Family

In this study, we examined the proxy voting records of 990 individual funds (within 27 fund families) across 57 shareholder resolutions. These resolutions, selected through a process of broad

consultation, represent proposals across a range of issues, highlighting real risk to shareholder value.

This broad and comprehensive sampling provides a clear picture of how various issues are supported or not by Canada's largest mutual fund companies and by Canadian SRI funds. This study also reveals differences between fund families with respect to their overall support for various ESG issues.

There is a growing realization of the materiality of ESG issues and it is important to identify those fund companies that routinely or regularly vote with management and against shareholder proposals and those fund companies that show a more considered response to the range of proposals being brought before owners.

As observed in the Social Investment Forum's *Mutual Fund Proxy Voting and Fiduciary Responsibility* report, high votes against management do not necessarily mean a fund is fulfilling its fiduciary duties. It is, though, a good indicator that funds are carefully considering shareholder proposals instead of giving unexamined or reflexive support.

In the sections that follow, the data is presented in two main ways. First, overall support for the key issue areas and sub-issue areas are presented with a comparison between conventional and SRI funds. In the large issue areas (governance, and combined social and environmental issues), individual fund families are compared to one another with respect to their overall level of support for these issues.

## Overall Fund Family Support for Shareholder Resolutions

Fund Family	Support - %
Inhance Investment Management Inc.	100.00
The Ethical Funds Company	93.94
Acuity Funds Ltd. (SRI Funds Only)	77.78
Meritas Mutual Funds	66.67
National Bank Financial	57.41
AIM Trimark Investments	57.14
Guardian Group of Funds Ltd.	54.17
RBC Asset Management Inc.	50.51
Mavrix Fund Management (1 SRI Fund)	50.00
CIBC Asset Management	42.22
Desjardins Funds/Desj. SRI Funds	40.58/50.00
Brandes Investment Partners	33.33
BMO Investments Inc.	33.33
IA Clarington Investments	32.00
Manulife Investments	31.82
Scotia Securities Inc.	28.83
Mackenzie Financial Corporation/SRI	23.08/NA
Franklin Templeton Investments	22.73
Investors Group/SRI Fund	22.67/22.22
Philips Hager & North Ltd./SRI Funds	21.65/47.61
TD Asset Management Inc.	17.50
MD Management Limited	14.29
AGF Management Limited	12.50
Dynamic Mutual Funds	5.26
AIC Limited	0
Counsel Group of Funds	0
Fidelity Investments Canada Limited	0

NA indicates insufficient votes (fewer than five) on which to meaningfully evaluate a funds' voting record.

## Corporate Governance Issues

Corporate Governance refers broadly to the rules or processes by which businesses are directed and controlled. Best practices in corporate governance ensure that boards of directors and management are properly serving the interests of the company's owners, its shareholders. This has long been an area where the concerns of social investors overlap with more conventional investors. While there are clear fiduciary arguments for strong governance, proper oversight and controls also help ensure that companies behave responsibly and ethically.

The corporate governance issues selected for evaluation in this study include:

- dual class shares
- executive compensation
- golden parachute agreements
- independence of the chair
- poison pills
- majority voting
- nominating committee

## Results

In total, we evaluated voting on 21 corporate governance proxy resolutions. We could not make conclusions about nominating committee votes as none of the mutual funds held companies where these proposals were submitted.

Corporate Governance - All Funds	
Total individual votes for:	131
Total individual votes against:	308
Total Support (%):	30%

	Corporate Governance – Split	
	SRI Funds	Conventional Funds
Voted in Support	63%	27%

Fund Family	% Support for Governance
The Ethical Funds Company	100
Acuity Funds Ltd. (SRI Funds Only)	60
TD Asset Management Inc.	50
Philips Hager & North/SRI Funds	48/43
National Bank Financial	45
RBC Asset Management Inc.	41
Desjardins Funds/SRI Fund	40/50
Franklin Templeton Investments	36
Scotia Securities Inc.	35
IA Clarington Investments	33
Manulife Investments	20
BMO Investments Inc.	19
Investors Group/SRI Fund	19/33
Brandes Investment Partners	17
CIBC Asset Management	15
Guardian Group of Funds Ltd.	11
MD Management Limited	8
AGF Management Limited	6
Mackenzie Financial –SRI Fund	0/NA
Fidelity Investments Canada	0
Dynamic Mutual Funds	0
AIC Limited	0
Mavrix Fund Management (SRI Fund)	NA
AIM Trimark Investments	NA
Inhance Investment	NA
Meritas Mutual Funds	NA
Counsel Group of Funds	NA

NA indicates insufficient votes (fewer than five) on which to meaningfully evaluate a funds' voting record.

### Issues of Note:

- The table on page 14 clearly shows that SRI funds supported the selected governance proposals at a much higher rate.
- Four fund families, Mackenzie, Fidelity, Dynamic, and AIC showed no support for corporate governance proposals.

### Dual Class Shares

Dual class capitalization refers to the existence of a second class of common stock with either superior or inferior voting rights. This is an area of concern to shareholders because it limits the voting rights of certain owners of the company.

Proxy votes were examined at two companies in this area, **Ericsson LM Telephone** and **Quebecor World**. Both proposals called for the dual class share structure to be put to a vote (where securities holders would be given equal voting rights.)

### Results

Dual Class Shares - All Funds	
Total individual votes for:	16
Total individual votes against:	0
Total Support (%):	100%

Dual Class Shares – Split		
	SRI Funds	Conventional Funds
Voted in Support	NA%	100%

### Issues of Note:

- There is obvious support for this issue among conventional funds.
- It is assumed SRI funds would also strongly support similar proposals but none of the 55 SRI funds held stock in any of the three companies where these proposals were filed. This may indicate that SRI funds are less likely to invest in companies with dual class share structures.

## Executive and Director Compensation

This issue is rooted in a concern over excessive compensation given to executives and directors. Four proxy votes were evaluated in this study, two in Japan, at Chubu Electric Power, one in the U.S. at Merrill Lynch and one in Canada at the Royal Bank of Canada. The Japanese proposals asked for disclosure of director compensation. The Royal Bank proposal uniquely asked that increases in executive compensation be sent to shareholders for approval and the Merrill Lynch proposal asked for a review of executive compensation.

## Results

Executive Compensation - All Funds	
Total individual votes for:	20
Total individual votes against:	122
Total Support (%):	14%

Executive Compensation – Split		
	SRI Funds	Conventional Funds
Voted in Support	56%	8%

## Issues of Note:

- Somewhat surprisingly, there is little support for limitations on executive and director compensation within conventional funds.
- The results in this area are limited by the fact that no funds held **Chubu Electric** and holdings of the other Japanese corporation, **Sony Corp.** were thin.

## Golden Parachutes

Investor proposals in this issue stem from a concern over excessive compensation promised or given to executives when there is a change in ownership of the company and they lose their position.

We looked at three proposals in this area, two in the U.S., at **Coca-Cola Company** and **McDonald's Corp.** and one at a Canadian company, the **National Bank of Canada**. Each proposal sought to terminate or limit Golden Parachute agreements.

### Results

Golden Parachute - All Funds	
Total individual votes for:	19
Total individual votes against:	66
Total Support (%):	22.3%

Golden Parachute – Split		
	SRI Funds	Conventional Funds
Voted in Support	75%	20%

### Issues of Note:

- Like other corporate governance issues, with the exception of dual class share structures, there appears to be much greater support for these proposals from SRI funds than from conventional funds
- Interestingly, the proposals at Coca-Cola and McDonald's received a majority of support from both conventional and SRI funds. This result though was dwarfed by the overwhelming votes against the National Bank proposal, which was a company more widely held by the funds than the U.S. companies.

## Independence of Chair of the Board

This issue is related to separating the chair of the board position from management positions to ensure the board can effectively and independently oversee management's performance.

In this study, we looked at three proposals, all at U.S. companies, **Exxon Mobil Corp**, **Monsanto Company** and **Pfizer Inc.**, calling for the separation of chief executive officers from their board chair positions.

### Results

Independence of Chair - All Funds	
Total individual votes for:	40
Total individual votes against:	24
Total Support (%):	62.5%

Independence of Chair – Split		
	SRI Funds	Conventional Funds
Voted in Support	100%	62%

### Issues of Note:

- Like dual class share structures, this issue garners a majority of support from mutual fund companies in Canada
- The 100% support given to this issue from mutual funds is somewhat misleading as there was only one vote recorded for all the 55 SRI mutual funds evaluated.
- The proposals at both **Exxon** and **Pfizer** received majority support from the funds studied.

**Poison Pills**

Proposals to repeal or allow shareholders to vote on poison pills have been an area of concern for investors for a long time. Poison pills often involve issuing stock purchase rights that can be exercised during a hostile takeover in an effort to give a company time to seek more attractive offers or to impose prohibitive price conditions that make a takeover unattractive.

Some poison pills are seen by investors as a legitimate way to seek a better price during hostile takeover negotiations. However, shareholder activists often view poison pills as a way to protect management and directors, preventing a company’s sale, to the detriment of shareholders.

Votes to redeem or vote on poison pills were evaluated at **Comcast**, **Hilton Hotels**, and **JP Morgan Chase**.

**Results**

Poison Pills - All Funds	
Total individual votes for:	16
Total individual votes against:	57
Total Support (%):	21.9%

Poison Pills – Split		
	SRI Funds	Conventional Funds
Voted in Support	75%	19%

**Issues of Note:**

- Mutual funds gave majority support to the resolutions at both **Comcast** and the **Hilton Hotels**.
- The proposal at **JP Morgan Chase** likely failed because the company already had a policy requiring shareholder votes on the

adoption of poison pills. This proposal only sought to close perceived loopholes.

**Majority Voting**

Proposals in this area are generally asking companies to change their election bylaws to require that a board director nominee receive support from the majority of votes cast in order to be elected. Most current systems, based on a “plurality” approach, allow directors to win their seats with only one affirmative vote.

Four proposals were evaluated in this area, one in Canada, at **Abitibi-Consolidated Inc.**, two in the U.S., at **Analog Devices Inc.** and **General Electric Co.**, and one in France, at **Total SA**.

**Results**

Majority Voting - All Funds	
Total individual votes for:	20
Total individual votes against:	39
Total Support (%):	33.9%

Majority Voting – Split		
	SRI Funds	Conventional Funds
Voted in Support	NA	33.9%

**Issues of Note:**

- There was great variability in the support received by the four different proposals, but only one, at Analog Devices received a majority of support
- No comparisons can be made between conventional funds and SRI funds as none of the 55 SRI funds held the four companies under review.

## Social & Environmental Issues

The SRI community has long been concerned with issues such as community and employee relations, human rights and environmental sustainability. Indeed, it is from the SRI community that the vast majority of social and environmental shareholder resolutions are submitted. While some conventional fund companies also show good levels of support for these resolutions, many still routinely vote against such proposals.

The social and environmental issues selected for evaluation in this study include:

- employee relations
- general environmental issues (e.g. operations in biologically sensitive areas and sustainability reporting)
- climate change
- human rights
- general social issues (e.g. community relations, and product safety) and,
- political contributions

## Results

In total, we evaluated voting on 30 social and environmental proxy resolutions. Support for these proposals is presented issue by issue, comparing SRI funds and conventional funds. Also, fund family performance is presented for combined social and environmental voting.

Social & Environmental - All Funds	
Total individual votes for:	286
Total individual votes against:	480
Total Support (%):	37%

Social and Environment – Split		
	SRI Funds	Conventional Funds
Voted in Support	88%	33%

Fund Family	% Support for Social & Environmental
Meritas Mutual Funds	100
The Ethical Funds Company	92
Guardian Group of Funds Ltd.	80
CIBC Asset Management	79
National Bank Financial	72
RBC Asset Management Inc.	59
Brandes Investment Partners	55
BMO Investments Inc.	44
Desjardins Funds/SRI Fund	43/NA
Manulife Investments	38
IA Clarington Investments	31
Mackenzie Financial/SRI Fund	29/NA
Scotia Securities Inc.	27
Investors Group	25/NA
MD Management Limited	19
AGF Management Limited	17
TD Asset Management Inc.	11
Dynamic Mutual Funds	10
Franklin Templeton Investments	9
Philips Hager & North/SRI Funds	8/67
Fidelity Investments Canada	3
AIC Limited	0
Counsel Group of Funds	0
Acuity Funds Ltd. (SRI Funds Only)	NA
AIM Trimark Investments	NA
Inhance Investment	NA
Mavrix Fund Management (SRI Fund)	NA

NA indicates insufficient votes (fewer than five) on which to meaningfully evaluate a funds' voting record.

**Issues of Note:**

- As with the area of governance, SRI funds support shareholder resolutions at a much higher rate.
- Interestingly, five conventional funds, **Guardian Group of Funds Ltd., CIBC Asset Management, National Bank Financial, RBC Asset Management Inc.,** and **Brandes Investment Partners** supported a majority of social and environmental resolutions.

**Employee Issues**

Employee issues are those that arise from the relationship between companies and their employees or employment conditions among company suppliers. Typical employee issues over which investors are concerned are health and safety practices, labour rights, benefits and compensation, and employment equity.

We evaluated five proposals in this area: one at **Exxon Mobil**, asking the company to include sexual orientation in its non-discrimination policy, one at **Home Depot** asking the company to report on diversity within its workforce and affirmative action policies, one at **Time Warner** to develop and enforce a vendor code of conduct, one at **Total SA** in France to include an employee shareholder on the board of directors and a unique proposal at **Wal Mart** to report on executive compensation relative to the lowest-paid employees.

**Results**

<b>Employee Issues - All Funds</b>	
Total individual votes for:	26
Total individual votes against:	80
Total Support (%):	25%

	<b>Employee Issues – Split</b>	
	<b>SRI Funds</b>	<b>Conventional Funds</b>
Voted in Support	100%	17%

**Issues of Note:**

- This area shows the greatest disparity in voting between SRI funds and conventional funds.
- Next to general environmental issues, this area received the lowest overall support from mutual funds.
- The proposal at Exxon Mobil was the only one to receive a majority of support from the funds evaluated in this report.

## Climate Change

Climate change is one area where there has been a great discussion among SRI fund managers and conventional fund managers. While there are clear ethical dimensions to this issue, all investors are seeing the growing financial risk of investing in companies that are ill-prepared for a carbon constrained economy.

Four proposals were evaluated, all requiring that companies report on various aspects of climate change, at **Bed Bath & Beyond**, to report on energy efficiency, at **Dominion Resources** and **Ultra Petroleum**, to report overall emissions and reduction strategies, and at **Ford Motor Company** to report on its lobbying against more stringent government regulation on fuel economy standards.

### Results

Climate Change - All Funds	
Total individual votes for:	7
Total individual votes against:	10
Total Support (%):	41%

Climate Change – Split		
	SRI Funds	Conventional Funds
Voted in Support	100%	38%

### Issues of Note:

- Despite the high level of concern for this issue among investors at large, conventional mutual funds gave only modestly more support to this issue than their average support (31%) for all social, environmental and governance issues.
- The 100% given by SRI funds on this issue is somewhat misleading because only one fund, The Ethical Funds Company’s Ethical Growth Fund owned a company where a climate change

proposal was submitted. It is perhaps the case that SRI funds generally avoid investment in companies with poor climate change performance.

## General Environmental Issues

In this report, we looked at 10 general environmental proposals, including: a proposal at **Avon Products** related to the toxicity of its products; one at **Dupont** to phase out use of toxic Perfluorooctanoic acids (PFOA’s); two related to reporting environmental performance, one at **Kellogg Co.** and one at **Royal Dutch Shell**; two proposals related to environmental liabilities overseas, one at **Chevron Corporation** for historic operations in Ecuador and one at **Coca-Cola** for ongoing operations in India; two proposals relating to drilling in biologically sensitive areas, one at **Chevron** and one at **ConocoPhillips**; and one proposal, at **Stora Enso** in Finland, to adopt a wood procurement policy.

### Results

General Environmental Issues - All Funds	
Total individual votes for:	21
Total individual votes against:	92
Total Support (%):	19%

General Environmental Issues – Split		
	SRI Funds	Conventional Funds
Voted in Support	88%	13%

### Issues of Note:

- Compared to all the issues evaluated in this report, general environmental issues received the lowest levels of support, entirely due to low support from conventional funds.

- Only two proposals, at **ConocoPhillips** and at **Dupont** came close to registering a majority of votes.

### Human Rights

With companies operating in many undemocratic regions of the world, sometimes in zones of conflict, corporations are increasingly being asked to ensure that their operations are in no way complicit with human rights abuses. Shareholder proposals in this area largely focus on monitoring and reporting aspects of human rights performance and the adoption of human rights proposals.

In this study, we evaluated six human rights shareholder resolutions: three related to adopting human rights policies, at **Bombardier**, **Chevron**, and **FirstGroup**, and three focused on reporting exposure to human rights issues, at **Nortel Networks** and **Power Corporation**, related to their business ties to China and Tibet, and at **Coca-Cola Company**, related to its operations in Colombia.

### Results

Human Rights - All Funds	
Total individual votes for:	69
Total individual votes against:	77
Total Support (%):	47%

	Human Rights – Split	
	SRI Funds	Conventional Funds
Voted in Support	82%	44%

### Issues of Note:

- While SRI funds clearly gave more support to these proposals than did conventional funds, conventional funds gave their highest level of support to this issue compared to any evaluated in this report.
- The high level of support in this area can largely be explained by strong support for the resolutions at **Bombardier**, **Nortel Networks** and **Power Corporation**. All companies are widely held by the funds under examination and each proposal received a majority of votes in favor.

### Political Contributions

While many companies view contributions to political parties as part of the democratic process, many investors are concerned that these donations are often seen as an inducement for future beneficial treatment. There are obvious risks to companies’ reputations if they are perceived to be influencing the political process through cash donations. This concern has led to numerous shareholder proposals asking companies, mostly in the US, to report on their political donations. Federal laws restricting corporate donations in Canada have made this less of an issue in this country.

In this study, we evaluated proposals requiring companies to publicly report their political contributions at six U.S. companies, **Home Depot Inc.**, **JP Morgan Chase & Co.**, **Verizon Communications**, **Wal-mart**, **Amgen inc.**, and **Charles Schwab Corp.**

### Results

Political Contributions - All Funds	
Total individual votes for:	78
Total individual votes against:	107
Total Support (%):	42%

Political Contributions – Split		
	SRI Funds	Conventional Funds
Voted in Support	75%	41%

#### Issues of Note:

- This area shows the greatest congruence between SRI funds and conventional funds.
- The only proposal that received a majority of support was at **Amgen** where management uniquely recommended shareholders vote in support of the resolution.

#### General Social Issues

Shareholder proposals, concerned with such things as community relations and product safety, are grouped here as general social issues. These issues primarily relate to fair and ethical treatment of individuals, communities, and society at large and are seen by investors as important issues to the bottom line.

In this study, we evaluated five investor resolutions all dealing with fairly disparate social issues. One, at **Alcan Inc.** asking the company to commission an independent social impact assessment at a project in India, one at **Dow Chemical Company**, to evaluate links between its products and asthma, one at **Gilead Sciences**, to report the impacts HIV/AIDS, TB, and malaria pandemics will have on the company, one at **Loblaw Companies**, to prepare a report on labeling genetically modified food, and one at **Lockheed Martin**, to report on depleted uranium weapons components.

#### Results

General Social Issues - All Funds	
Total individual votes for:	85
Total individual votes against:	114
Total Support (%):	43%

Political Contributions – Split		
	SRI Funds	Conventional Funds
Voted in Support	94%	38%

#### Issues of Note:

- As with all issues studied in this report, SRI funds have much stronger support than do conventional funds
- One proposal, at Alcan, received resounding overall support, with 65% of votes in favor of the resolution.

## Policy and Disclosure Analysis

All the individual mutual funds and mutual fund families were in compliance with National Instrument 81-106: *Investment Fund Continuous Disclosure* in that they publicly reported a summary of their proxy voting guidelines. Many funds went beyond this requirement and disclosed their guidelines in their entirety. For the remainder, full guidelines are only made available upon request by unitholders (as stipulated in the *Continuous Disclosure* rules). While all the funds' proxy voting guidelines included fairly comprehensive guidance on corporate governance issues, only a select few fund families, **Inhance, The Ethical Funds Company, Meritas, and Desjardins** included specific guidance on a comprehensive range of social and environmental proxy voting issues. **Desjardins** stands out as the only conventional fund family that includes such guidance in its proxy voting guidelines.

### Fund Families that Disclose Full Proxy Voting Guidelines

- Acuity Funds Ltd.
- AIM Trimark Investments
- Desjardins Funds
- Dynamic Mutual Funds
- The Ethical Funds Company
- Franklin Templeton Investments
- Guardian Group of Funds Ltd.
- Inhance Investment
- Investors Group
- Manulife Investments
- Mavrix Fund Management
- Meritas Mutual Funds
- National Bank Financial
- Philips Hager & North Ltd.

### Fund Families that Only Disclose Summary of Proxy Voting Guidelines

- AGF Management Limited
- AIC Limited
- BMO Investments Inc.
- Brandes Investment Partners
- CIBC Asset Management
- Counsel Group of Funds
- Fidelity Investments Canada
- IA Clarington Investments
- Mackenzie Financial Corporation
- MD Management Limited
- RBC Asset Management Inc.
- Scotia Securities Inc.
- TD Asset Management Inc.

### Proxy Voting Guidelines with Comprehensive Guidance on Social and Environmental Issues

- Desjardins Funds
- The Ethical Funds Company
- Inhance Investment
- Meritas Mutual Funds

### Issues of Note:

- For those proxy voting guidelines that were only reported as a summary, it was impossible to tell the degree to which they included guidance on social and environmental issues.
- While four funds (noted above) included comprehensive guidance on social and environmental issues, some funds, such as

**Acuity's** funds did include brief and summary guidance on these issues

- **The Ethical Funds Company** stands out as having the most comprehensive guidance on social and environmental issues, with a clear presentation of most issues in these areas that go to vote.

## Reporting of Voting Record

The *Investment Fund Continuous Disclosure* rules require that investment funds annually report their proxy voting records. Included in this is a requirement that funds report “a brief identification of the matter or matters to be voted on at the meeting”. This was one area where the SIO found significant non-compliance. In fact, exactly half of the fund families did not disclose this information. Where a summary was not presented, proxy voting items were simply referred to as “Shareholder Proposal” with the accompanying shareholder proposal number. This makes it very difficult for readers to know what issue the fund actually voted on.

## Fund Families with Full Proxy Vote Descriptions

- Acuity Funds Ltd.
- Brandes Investment Partners
- Desjardins Funds
- The Ethical Funds Company
- Franklin Templeton Investments
- Investors Group
- Meritas Mutual Funds
- National Bank Financial
- Philips Hager & North Ltd.
- RBC Asset Management Inc.
- Scotia Securities Inc.
- TD Asset Management Inc.

## Fund Families without Full Proxy Vote Descriptions

- AGF Management Limited
- AIC Limited
- AIM Trimark Investments
- BMO Investments Inc.
- CIBC Asset Management
- Counsel Group of Funds

- Dynamic Mutual Funds
- Fidelity Investments Canada
- Guardian Group of Funds Ltd.
- IA Clarington Investments
- Mackenzie Financial Corporation
- Manulife Investments
- Mavrix Fund Management
- MD Management Limited

## Other Proxy Voting Disclosure Issues

While most funds reported their proxy voting records through a searchable database, eight fund families recorded their votes in PDF documents. While there was no specific requirement in the *Investment Fund Continuous Disclosure* rules as to how to report proxy voting records on a Website, the ease of using the online searchable databases greatly varied. Four fund families deserve special recognition for having the most flexible and user-friendly interfaces: **Desjardins Funds, The Ethical Funds Company, RBC Asset Management Inc., and Scotia Securities Inc.** All of these databases allow a user to search proxy records by company name or by specific fund. Most other databases require that a user search company proxy vote records on a fund by fund basis. Without knowing which funds hold which companies, this makes it extremely laborious to find voting records on particular companies.

**The Ethical Funds Company** deserves another special mention as it was the only fund to include a rationale, explaining its voting position on each proxy vote it made.

## Conclusion

The results of this survey support the view that Canadian mutual funds are not doing everything in their power to vote their proxies with care and diligence. Overall results of this survey show that Canadian mutual funds vote with management 67 per cent of the time. This general lack of support for proxy voting is not seen among funds in the socially responsible investment industry.

The results of this study cast doubt on the voting diligence of Canadian mutual fund companies. The shareholder proposals selected for this study represent a sample of the most carefully-selected proposals, and represent issues of broad interest to the investing public. The fact that fund companies routinely vote with management and against these proposals is a testament to the fact that Canadian mutual fund companies could do much more in fulfilling their proxy voting obligations to their investors.

That said, the relatively high levels of support for climate change and human rights issues is encouraging. Also, it is encouraging that a few large conventional fund families are showing relatively strong support for a range of environmental, social and governance issues.

It is difficult to discern exactly why some fund families give consistently little support to shareholder resolutions. However, the SIO believes it is likely the result of three main factors:

- 1) Weak proxy voting guidelines that fail to highlight the importance that shareholder resolutions have on financial risk and return, and fiduciary duty.
- 2) An implicit fund philosophy deferring to corporate management on proxy voting issues.
- 3) A failure of senior mutual fund family executives to communicate to fund managers the importance of critically evaluating shareholder proposals.

## Recommendations

In addition to improved scrutiny on shareholder proposals, there are three major areas where the SIO recommends improvement in proxy voting disclosure.

### Proxy Voting Guidelines

National Instrument 81-106: *Investment Fund Continuous Disclosure*, as written by the Canadian Securities Administrators (CSA) does not require mutual funds to publicly disclose complete proxy voting guidelines, but only a summary. The SIO recommends that the *Continuous Disclosure* rules be amended so as to require that full proxy voting guidelines be publicly reported and included on fund company Websites. As it stands, unitholders can request copies of full voting guidelines. Full disclosure would not only make guidelines more easily accessible to this group of investors, but to all potential investors and other interested parties.

The SIO also believes it is important to have public discussion and debate on proxy voting guidelines. The only way this would be possible is through full disclosure of each company's guidelines.

### Compliance

As noted in this study, the proxy voting records of many funds do not include brief descriptions of the shareholder resolutions on which they are voting. This is contrary to the requirements of the

*Continuous Disclosure* rules. The SIO recommends that the provincial and territorial securities regulators enforce the full requirements of National Instrument 81-106 so that investors can accurately and efficiently assess mutual funds' proxy voting practices.

### **Standardized Reporting Requirement**

As it stands, there are no specific guidelines as to how mutual funds must report their proxy voting records. As noted in this study, there are great differences in reporting practices, with some more useable than others.

The SIO recommends that all mutual funds be required to maintain Web databases that are fully searchable by fund name and security name, as is the case with **Desjardins Funds, The Ethical Funds Company, RBC Asset Management Inc., and Scotia Securities Inc.**

## Methodology

The aim of this study was to report on the proxy voting guidelines and voting practices for Canada's largest mutual fund companies and SRI fund families. Votes were analyzed on a range of environmental, social, and governance issues, as well as some notable withhold vote campaigns for board directors. Unfortunately, the six companies identified as significant in terms of withhold vote campaigns were very thinly held by the mutual fund companies under examination and for this reason no meaningful conclusion was possible.

The goal of this study was to see how mutual funds were complying with the new *Continuous Disclosure* rules and to provide a sampling of voting behavior across a range of issues important to mainstream and socially responsible investors. We were interested to see the level of overall support given to shareholder resolutions but we also wanted to see the voting differences between fund families and in particular, conventional and SRI funds.

### Mutual Fund Selection

SRI funds were identified by using the Social Investment Organization's (SIO) database. These funds are well known to the SIO and include all funds managed by its three members that exclusively offer SRI funds, **The Ethical Funds Company**, **Inhance Investment Management Inc.**, and **Meritas Mutual Funds**. Also included are five funds sponsored by SIO-member **Acuity Funds**, one fund sponsored by SIO-member **Desjardins**, two funds sponsored by SIO-member **Phillips Hager & North**, one fund sponsored by SIO-member **Mavrix Fund Management**, and one fund sponsored by a non-member, **Investors Group**. Some SIO-member funds were excluded from the study either because they did not hold any of the companies included in the selection of shareholder

proposals, or they do not fall under the *Continuous Disclosure* rules (as in insurance funds). In total we analyzed the proxy voting records of 55 SRI funds.

For conventional funds, we identified the top 20 mutual fund families by assets as of September 2006. In the end, we had 23 conventional fund families as IGM Financial, Canada's largest fund family, is actually comprised of three individual fund families, **Investors Group**, **Mackenzie Financial Corporation**, and **Counsel Group of Funds**.

For conventional funds the initial intention was to only look at the top three funds managed by each fund family, but it quickly became apparent that our data would be extremely limited as those funds would not hold many of the companies for which we were evaluating resolutions. For this reason, we decided to include all funds of each family provided its assets were above \$50 million. In total, we analyzed the proxy voting records of 935 conventional funds.

### Chart: Mutual Fund Families by Assets

Company	Assets \$(000) –Sept. 2006
IGM Financial Inc.	
Investors Group <sup>1</sup>	53,992,830
Mackenzie Financial Corporation <sup>1</sup>	43,389,489
Counsel Group of Funds	1,529,725
RBC Asset Management Inc.	66,326,751
TD Asset Management Inc.	47,285,405
CIBC Asset Management	46,165,750
AIM Trimark Investments	44,875,948
Fidelity Investments Canada Limited	36,108,336
BMO Investments Inc.	27,355,770
AGF Management Limited	24,581,189
Franklin Templeton Investments	23,601,148
Phillips Hager & North Ltd. <sup>1</sup>	17,247,156
Dynamic Mutual Funds	16,518,239
Scotia Securities Inc.	15,325,021
MD Management Limited	11,505,522
AIC Limited	8,216,069
Manulife Investments	8,198,741
Fonds Desjardins <sup>1</sup>	7,847,856
National Bank Mutual Funds	7,432,414
IA Clarington Investments	6,117,154
Guardian Group of Funds Ltd.	5,975,553
Brandes Investment Partners	5,008,380
The Ethical Funds Company <sup>2</sup>	1,874,868
Meritas Mutual Funds <sup>2</sup>	124,056
Inhance Investment Management <sup>2</sup>	101,000
Acuity Funds <sup>3</sup>	12,500
Mavrix Sierra Equity Fund <sup>3</sup>	5,063

Source: The Investment Funds Institute Of Canada and Fund Company Web sites.

<sup>1</sup> Conventional fund families with individual SRI fund offering

<sup>2</sup> SRI fund family

<sup>3</sup> SRI fund or funds separated from conventional fund family.

### Shareholder Resolution Selection

Using data provided by Institutional Shareholder Services (ISS), the SIO evaluated a comprehensive list of international shareholder proposals filed and voted on from June 30, 2005 to June 30, 2006. While the vast number of proposals were submitted at US and Canadian companies, we also reviewed resolutions at international companies to capture the full spectrum of voting practices. From this list a number of criteria were used to identify proposals in five key areas: corporate governance, employee relations, environment, human rights, and social issues. Within these five core areas, particular focus was brought on climate change within the environment area and political donations in the area of social issues. Of course, many proposals overlap with a number of different issue areas; for example, a proposal to link executive compensation to environmental performance is both a governance and environment concern. To the extent possible we put proposals with the issue area that is most aligned with our understanding of the interests of the filer. In the example above, we considered this an environmental proposal and it would seem that environmental protection was the primary underlying concern to the filer.

The criteria established to select proxy votes were established through consultation with ISS and other investment organizations with proxy voting expertise. Organizations consulted include Bâtirente, the Canadian Coalition for Good Governance, The Ethical Funds Company, F&C Investments, Jantzi Research Inc., KLD Research & Analytics Inc. and the US Social Investment Forum.

### Selection Criteria:

1. Resolutions must be those that were actually voted on and for which results were made available.
2. Resolutions chosen were restricted to those at companies with large market-capitalization assumed to be widely held by Canadian mutual funds.
3. Resolutions were restricted to those from reputable filers with a credible history in the investment and socially responsible investment communities.
4. Resolutions chosen represent important issues for social and conventional investors.
5. Given the predominance of governance resolutions and their importance to investors, a large proportion of resolutions (approximately one third) related to governance issues.
6. Withhold votes were examined where there are notable withhold vote campaigns.
7. Resolutions from a range of financial jurisdictions (Canadian, US, and international) were chosen, representing issues most important to those markets.
8. To the extent possible, several resolutions for each issue were chosen to give an accurate picture of how mutual funds are voting.
9. Shareholder resolutions were required to pass a test of reasonableness.

The number of shareholder resolutions that passed all these criteria was very small, especially in the international arena. In the US and Canada there were almost 700 shareholder resolutions filed and voted on for the reporting period under examination, but there were less than 200 for all other countries combined. International proposals were also more likely to fail the established selection criteria and this

led to fewer international proposals selected for this study. It is interesting to note many more shareholder resolutions are submitted than actually go to vote. In many cases, proposals are withdrawn after a company commits to meeting certain terms addressed in the proposal. In Canada, for example, while 71 shareholder proposals were submitted, only 40 went to vote.

Three companies selected, **Chubu Electric Power** of Japan (where an executive compensation resolution was submitted) and **Fortum Oyg** and **Metso Corp.** of Finland were not held by any of the funds evaluated in this report. Similarly, all six companies where there were campaigns to withhold votes from directors were so thinly held by the funds that we were not able to derive meaningful results. In total, votes for 57 shareholder resolutions were analyzed.

For a complete list of proxy resolutions and voting results, see Appendix A.

## Appendix A:

Issues Area	Company	Country	Investor Resolution	For	Against	% Support
<b>Corporate Governance</b>						
<i>Dual Class Shares</i>						
	Ericsson LM Telephone	Sweden	Submit Dual Class Capital Structure to Shareholder Vote	3	0	100
	Quebecor World Inc.	Canada	Submit Dual Class Capital Structure to Shareholder Vote Every Three Years	13	0	100
<i>Executive Compensation</i>						
	Chubu Electric Power	Japan	Amend articles to require disclosure of individual director compensation levels	0	0	NA
	Merrill Lynch & Co. Inc.	U.S.	Review Executive Compensation	8	10	44.44
	Royal Bank of Canada	Canada	Shareholder approval for increases in executive compensation	6	110	5.17
	Sony Corp.	Japan	Amend Articles to Require Disclosure of Individual Director Compensation Levels	6	2	75
<i>Golden Parachute</i>						
	Coca-Cola Company	U.S.	Golden Parachute	6	1	85.71
	McDonald's Corp	U.S.	Golden Parachute	8	4	66.67
	National Bank of Canada	Canada	Terminate golden parachute			
<i>Governance Other</i>						
	Fortum Oyg	Finland	Establish Nomination committee	NA	NA	NA
	Metso Corp	Finland	Establish Nomination committee	NA	NA	NA
<i>Independent Chair</i>						
	Exxon Mobil Corp	U.S.	Separate Chairman and CEO Positions	16	7	69.57
	Monsanto Company	U.S.	Separate Chairman and CEO Positions	1	5	16.67
	Pfizer Inc.	U.S.	Separate Chairman and CEO Positions	23	12	65.71
<i>Poison Pill</i>						
	Comcast Corp.	U.S.	Redeem or vote on poison pill	13	3	81.25
	Hilton Hotels Corp.	U.S.	Redeem or vote on poison pill	2	1	66.67
	JP Morgan Chase	U.S.	Redeem or vote on poison pill	1	53	1.85
<i>Majority Vote</i>						
	Abitibi-Consolidated Inc.	Canada	Provide Shareholders With the Opportunity to Vote For or/Against Each Director	5	7	41.67
	Analog Devices Inc.	U.S.	Majority voting for directors	9	2	81.82
	General Electric Co.	U.S.	Majority vote to elect directors	3	27	10
	Total SA	France	Amend Article 11 to Require a Majority of Independent Directors on Board	3	3	50

<b>Employee Relations</b>						
	Exxon Mobil Corp.	U.S.	Amend non-discrimination policy to include sexual orientation	13	11	54.17
	Home Depot Inc.	U.S.	Report on Equal Employment Opportunity	16	7	69.57
	Time Warner Inc.	U.S.	Monitor/Adopt ILO conventions	3	7	30
	Total SA	France	Grant a Second Board Mandate to an Employee Shareholder Representative	0	6	0
	Wal-mart	U.S.	Report on Executive compensation relative to lowest-paid employees	2	41	4.65
<b>Environment</b>						
<i>General Environment</i>						
	Avon Products Inc.	U.S.	Review/Reduce toxicity of products	2	7	22.22
	Chevron Corp.	U.S.	Report on Environmental Impact of Drilling in Sensitive Areas	0	16	0
	Chevron Corp.	U.S.	Report on Remediation Expenses in Ecuador	1	20	4.76
	Coca-Cola Company	U.S.	Report on Environmental Liabilities in India	3	11	21.43
	ConocoPhillips	U.S.	Report Damage Resulting From Drilling Inside the National Petroleum Reserve	9	9	50
	E.I. DuPont de Nemours	U.S.	Report on "the feasibility of an expeditious phase-out of the use" of PFOA	3	4	42.86
	Ford Motor Company	U.S.	Link exec. Compensation to environmental performance	0	4	0
	Kellogg Co.	U.S.	Sustainability Report	0	4	0
	Royal Dutch Shell PLC	U.K.	Report on Social and Environment Impact Assessment	3	14	17.65
	Stora Enso Oyj	Finland	Wood procurement policy	0	3	0
<i>Climate Change</i>						
	Bed Bath & Beyond Inc.	U.S.	Report on Energy Efficiency	2	2	50
	Dominion Resources Inc.	U.S.	Report on and reduce GHG emission	1	2	33.33
	Ford Motor Company	U.S.	Report Influence on Government Regulation of Fuel Economy Standards	0	4	0
	Ultra Petroleum Corp.	U.S.	Prepare a climate change report	4	3	57.14
<b>Human Rights</b>						
	Bombardier Inc.	Canada	Draft and Adopt a Human Rights Policy	5	3	62.5
	Chevron Corp.	U.S.	Adopt a Human Rights Policy	5	11	31.25
	Coca-Cola Company	U.S.	Sponsor Independent Inquiry into Operations in Columbia	1	13	7.14
	FirstGroup PLC	U.K.	Company-wide workplace human rights policy	0	0	NA
	Nortel Networks Corp.	Canada	Prepare a Report on Human Rights in China and Tibet and ind. Assessment	30	22	57.69
	Power Corporation	Canada	Prepare a Report on Human Rights in China and Tibet	28	28	50
<b>Social Issues</b>						
<i>General Social</i>						

	Alcan Inc.	Canada	Indep. Committee to Issue Recomm. on Impact Assessment of project in Kashipur	68	36	65.38
	Dow Chemical Company	U.S.	Evaluate Potential Links Between Company Products and Asthma	0	4	0
	Gilead Sciences Inc.	U.S.	Report on Impact of HIV/AIDS, TB, and Malaria Pandemics	11	15	42.31
	Loblaw Companies Ltd.	Canada	Report to Shareholders on Food Labeling	6	44	12
	Lockheed Martin Corp.	U.S.	Report on Depleted Uranium Weapons Components	0	15	0
<i>Political Contributions</i>						
	Home Depot Inc.	U.S.	Report on Political Contributions	9	17	34.62
	JP Morgan Chase & Co.	U.S.	Report on Political Contributions	20	35	36.36
	Verizon Communications	U.S.	Report on Political Contributions	12	16	42.86
	Wal-mart	U.S.	Report on Political Contributions	12	31	27.91
	Amgen Inc.	U.S.	Report on Political Contributions	25	5	83.33
	Charles Schwab Corp.	U.S.	Report on Political Contribution	0	3	0